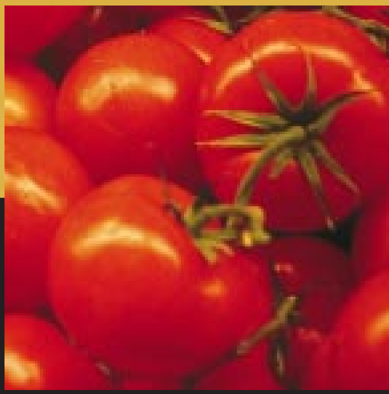
Annual Report 2000

Hingham Institution for Savings



Investing in the heart and soul of the community.


HINGHAM
INSTITUTION
FOR SAVINGS
ESTABLISHED 1834

President's Letter

Dear Shareholders:

The end of the millennium was marked by much-publicized apprehension over date change risks, a resounding reversal of the "irrational exuberance" in dot.com stocks and the beginning of a long-anticipated slowdown in the general economy. At Hingham, we remained focused on our twin goals of providing excellent banking products and extraordinary service quality to our customers while at the same time providing strong returns for our stockholders. This annual report describes the great success achieved toward each of these goals.

Net income for the year ended December 31, 2000 was $4,227,000 or $2.07 per share ($2.06 diluted) as compared to $3,246,000 or $1.65 per share ($1.62 diluted) in 1999. This represents a 30% increase in earnings. The Bank's return on equity increased from 13.07% in 1999 to 15.17% in 2000. Its return on assets increased from 1.19% in 1999 to 1.35% in 2000. This success allowed us to increase the dividends declared to stockholders by 17% over those of 1999. These results were produced by accelerating growth patterns in the Bank's balance sheet, continued expense control efforts and effective tax planning.

Deposits increased by $31,996,000 or 17% in 2000 compared to a $14,773,000 or 8% increase in 1999.

The Bank achieved a similar increase in its loan portfolio of $36,881,000 or 16% as compared to a $24,913,000 or 12% increase in 1999. Loan originations increased from $87,391,000 in 1999 to $92,260,000 in 2000.

These results confirm our position as one of the fastest growing and most profitable financial institutions in our marketplace. Our management group and staff have acted together to take advantage of our franchise in the attractive coastal cities and towns of the South Shore and the desire of families and businesses for access to a competent, community-based banking alternative.

Asset quality also continued to improve from an already high level. At year end 2000, nonperforming loans totaled a mere 0.03% of total assets as compared to an already low 0.33% at year end 1999.

The Bank's cost control efforts also resulted in one of the best efficiency ratios of Massachusetts banks: 48% versus an approximate 63% for all state-chartered banks.

Total assets as of December 31, 2000 were $337,881,000 as compared to $291,183,000 at December 31, 1999. Stockholders' equity increased from $26,181,000 on December 31, 1999 to $29,501,000 on December 31, 2000 with a concomitant increase in book value per share from $12.83 to $14.46 on December 31, 2000.

These statistics reflect the careful, day-to-day implementation of operational improvements and product developments that are necessary to deliver on our promise of excellence. They can only be achieved with the focused efforts of a talented and dedicated group of managers and staff.

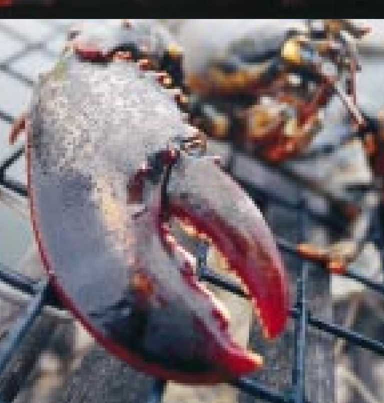
The capital markets, in their recently renewed interest in "value" investing, are again showing appreciation for the stock of a company that has produced consistent and increasing levels of core earnings.

On behalf of the Board and myself, I thank all who have participated in these efforts.

Very truly yours,

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

Working in and for the South Shore



A true community bank is one that is actively involved in improving the lives of everyone it touches. At Hingham Institution for Savings, we nurture this sense of community by helping families and businesses fulfill their dreams and realize their goals. In addition, we work with many not-for-profit organizations whose altruism also plays a vital role in our area's well being.

We take a great deal of satisfaction, too, in noting that more and more people throughout the South Shore are rediscovering the benefits of doing business with a smaller community bank. Our customers enjoy prompt, courteous service from friendly tellers who know them by name. The bank's officers empathize with the particular needs of businesses, large and small, and demonstrate this commitment by performing courtesies that everyone appreciates, like returning phone calls.

Being helpful and considerate is second nature to us. It's the way we've been doing business for over one hundred-and-sixty years. At the same time, we offer a range of banking services that meet the complex financial needs of today's customers. These include a wide choice of loans and mortgages at highly competitive rates, as well as the convenience of online banking and ATMs located conveniently throughout the South Shore. Just as importantly, we generally don't sell the servicing of our mortgages to strangers – companies that are out of town, or even out of state.

Our commercial loan officers are fully conversant with the economic climate of the South Shore. After all, they live and work here. So, along with carefully crafted financing, they provide sound professional advice that is invaluable to any growing business.

We believe that you cannot improve a community by being dispassionate about it. At Hingham, we strive every day to stay involved and play our part. Invariably, our customers find that while we are very good bankers, we are also very good neighbors.

Herb Jason has fished out of Cohasset Harbor for over seventy years, through fair weather and foul. Today, with the help of his grandson, he continues to haul lobster traps with an energy that belies his age. Naturally, Herb has a soft spot for those whose livelihood depends on the sea. This past year, the bank was delighted to assist Herb in building a memorial to the first Minots Ledge Lighthouse keepers who perished during a storm in 1851. We share Herb's affinity for the sea and are proud to offer banking services that meet the needs of the men and women who make their livelihood along our shoreline.

Our
well seasoned
"old salt"

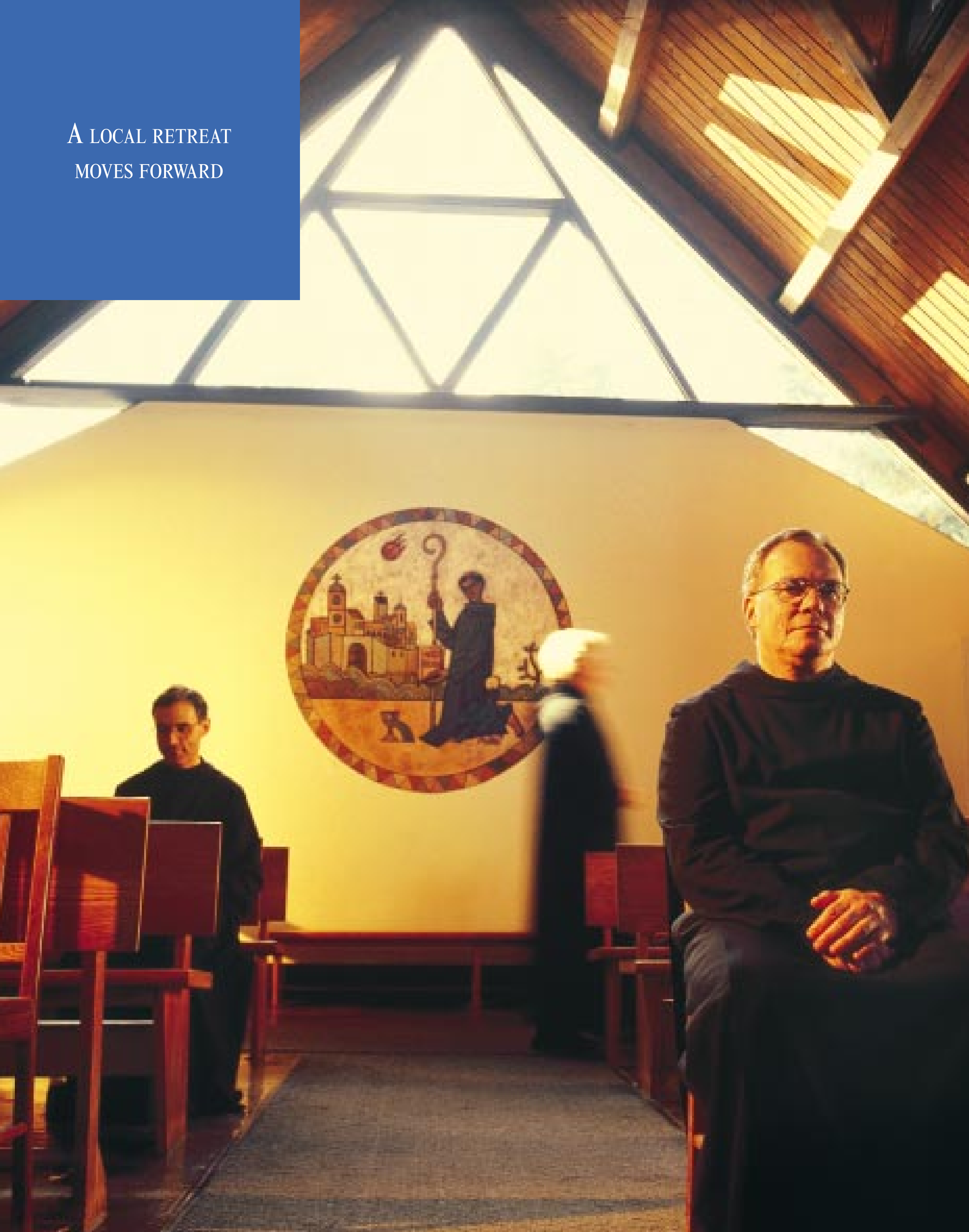
A GROWING CONCERN

For many years, the Hartstone Flower and Garden Center has delighted customers throughout our community with charming bouquets, imaginative arrangements and handsome plants. However, the bloom was off the rose when it came to the quality of service the florists were receiving from their large bank. This changed in 1999 when we opened our Weymouth office. Hartstone quickly became a customer. They now benefit from a level of personal attention and flexible banking services that a small business needs in order to thrive in times of intense competition. Today, Hartstone trusts us to handle their banking needs as their business continues to blossom throughout the South Shore.

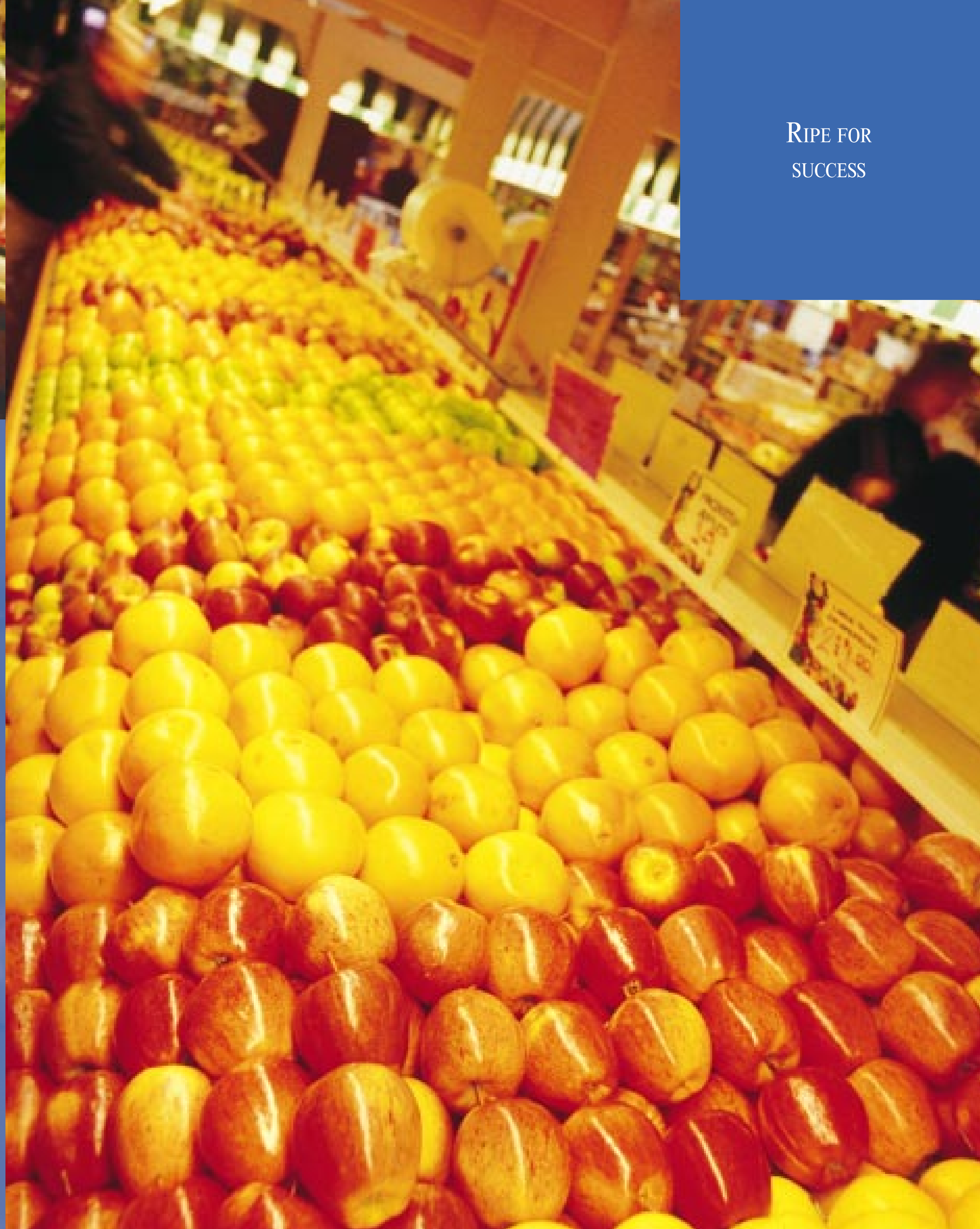
A TASTE FOR FINE DINING

One lament of many of us on the South Shore has been the dearth of fine eating establishments in the local area. By opening Tosca's, Stars, and the Fireking Baking Company on Hingham Harbor, owner Ed Kane has gone a long way to rectifying that situation. Since 1993, the bank has enjoyed an excellent working relationship with the restaurateur, providing both financing and various depository services. We are gratified that by helping the restaurants, we are also contributing to the quality of social interaction throughout our community.

A LOCAL RETREAT MOVES FORWARD



In the hustle and bustle of our hectic lives, Glastonbury Abbey provides a haven of calm and tranquility. Our association with the Benedictine monks in Hingham dates back almost forty years. Most recently, the bank was instrumental in the financing of a new 5,000 square foot conference center whose primary use will be daylong retreats. In addition to Glastonbury, in recent years we have provided professional advice and financing for Saint Stephen’s Parish in Cohasset, Congregation Sha’Aray Shalom, the Montessori School in Hingham, Derby Academy, and Thayer House, an assisted-living residence operated by the Society of Friends. Over the years, the bank has acted on the belief that a worthy organization is well worth the extra effort.



Ripe for success

Don and Rita Mignosa's Fruit Centers do a healthy business in Hingham and Milton, MA. Both centers' popularity demonstrates their customers' appreciation for quality produce coupled with friendly service. For several years, this expanding multigenerational firm has used the bank for financing, depository services and daily operating cash requirements. Not only do we handle the banking needs of the Mignosa family, but also the needs of many of their employees. In short, the Mignosas provide our community with a staple diet of fresh produce, while we provide them with the pick of the crop in banking services.

Senior Officers

Standing (left to right):
Shawn T. Sullivan, Vice President-Commercial Lending; Peter R. Smollett, Vice President-Commercial Lending; Michael J. Sinclair, Vice President-Retail Lending; Edward P. Zec, Vice President; Thomas I. Chew, Vice President-Branch Operations.

Seated (left to right):
Deborah J. Jackson, Senior Vice President and Treasurer; Robert H. Gaughen, Jr., President and Chief Executive Officer; William M. Donovan, Jr., Vice President-Administration.

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.

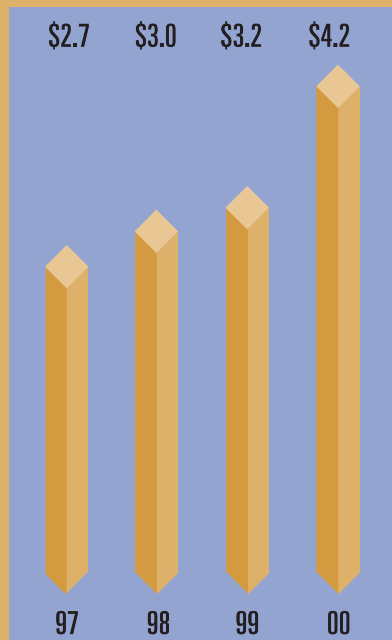
James R. White

Geoffrey C. Wilkinson, Sr.

Jacqueline M. Youngworth

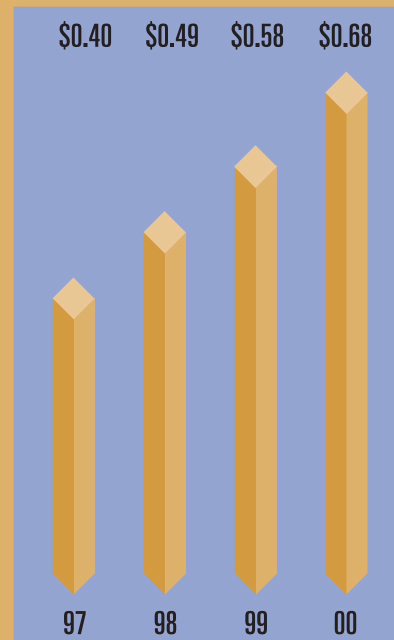
Financial Highlights

Net Income
(in millions)



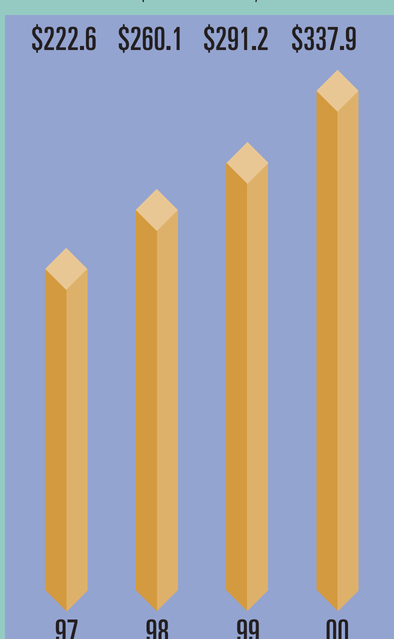
A **30%** growth in earnings was achieved through continued strong loan originations, expense control and the implementation of a new tax strategy.

Dividends Declared
(per share)



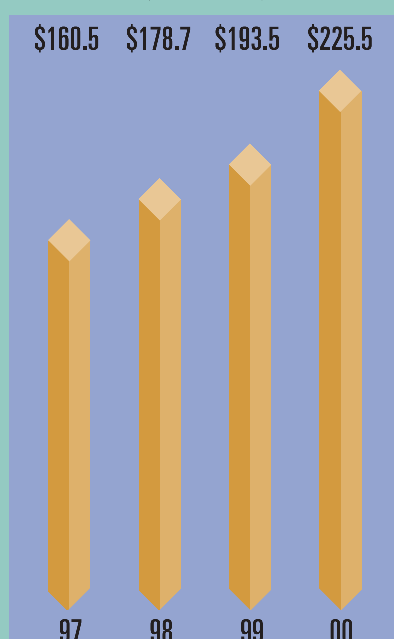
Steady growth in earnings has resulted in steady growth in dividends. The Bank declared its sixth consecutive special dividend in 2000.

Assets
(in millions)



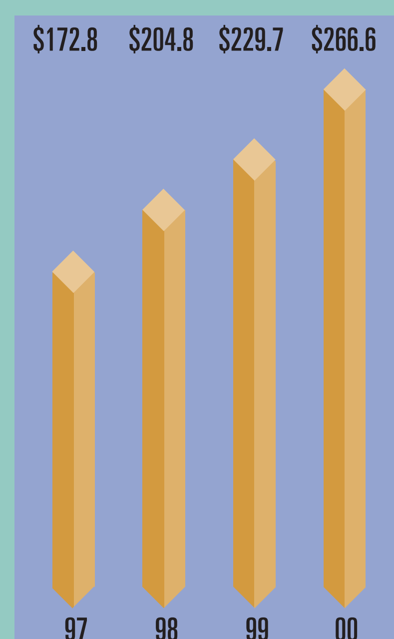
The Bank's asset base grew **16%** in 2000. Loan growth continues to drive growth in assets.

Deposits
(in millions)



Merger activity among the Bank's competitors helped boost deposit growth to a record **17%**.

Loans
(in millions)



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

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,				
	2000	1999	1998	1997	1996
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 337,881	$ 291,183	$ 260,076	$ 222,584	$ 201,586
Securities available for sale	39,440	35,532	28,235	35,369	32,321
Loans:					
Residential mortgage	124,175	108,999	95,629	83,522	79,418
Commercial mortgage	128,892	114,513	102,660	84,932	67,008
Construction, net	13,259	6,395	6,985	4,857	5,421
Other	2,285	1,592	1,219	1,209	938
Allowance for loan losses	2,272	1,976	1,729	1,560	1,393
Deposits	225,510	193,514	178,741	160,506	150,015
Federal Home Loan Bank advances	77,887	68,445	55,000	38,147	29,754
Other borrowed funds	204	248	56	319	188
Stockholders' equity	29,501	26,181	23,676	21,377	19,212

	Years Ended December 31,				
	2000	1999	1998	1997	1996
			(In Thousands, Except Per Share Amounts)		
Income Statement Data:					
Total interest and dividend income	$ 23,897	$ 20,259	$ 18,161	$ 16,405	$ 13,962
Total interest expense	12,105	9,968	9,223	8,160	6,956
Net interest income	11,792	10,291	8,938	8,245	7,006
Provision for loan losses	284	200	151	174	107
Other income	907	734	742	653	614
Operating expenses	6,068	5,540	4,716	4,458	4,066
Income before income taxes	6,347	5,285	4,813	4,266	3,447
Income tax provision	2,120	2,039	1,811	1,607	1,403
Net income	$ 4,227	$ 3,246	$ 3,002	$ 2,659	$ 2,044
Earnings per common share:					
Basic	$ 2.07	$ 1.65	$ 1.53	$ 1.36	$ 1.05
Diluted	$ 2.06	$ 1.62	$ 1.49	$ 1.33	$ 1.04
Financial Ratios:					
Return on average assets	1.35%	1.19%	1.26%	1.26%	1.10%
Return on average equity	15.17	13.07	13.18	13.00	11.06
Average equity to average assets	8.91	9.07	9.59	9.67	9.94
Interest rate spread	3.28	3.38	3.35	3.48	3.37
Net yield on average earning assets	3.88	3.88	3.88	4.02	3.90
Dividend payout ratio (basic)	32.85	35.15	32.03	29.41	28.57
Cash dividends declared per common share	$ 0.68	$ 0.58	$ 0.49	$ 0.40	$ 0.30

Founded in 1834, Hingham Institution for Savings has served the local community for more than 166 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 2000, 1999, and 1998

RESULTS OF OPERATIONS

For the year ended December 31, 2000, the Bank earned $4.2 million as compared to $3.2 million in 1999 and $3.0 million in 1998. On a per-common-share basis, the Bank earned $2.07 in 2000, $1.65 in 1999, and $1.53 in 1998. On a dilutive basis, which assumes that certain stock options have been exercised, earnings per common share were $2.06 in 2000, $1.62 in 1999, and $1.49 in 1998.

Growth in earnings in each of the three years was achieved primarily from growth in earning assets. In particular, loan originations were $92.3 million in 2000 as compared to $87.4 million in 1999 and $81.4 million in 1998. Contributing to earnings growth were steady increases in customer service fees on deposits in each of the three years which resulted from an increase in the volume of fee-based transactions accompanied by an increase in the number of accounts. In 2000, the Bank employed a tax-saving strategy, by forming a real estate investment trust, which further enhanced earnings.

Partially offsetting improvements in earnings were increases in expenses in each of the three years, 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. In 2000, the Bank also incurred costs pursuant to the establishment of the real estate investment trust. Despite increased expenses, the Bank's efficiency ratio, which measures the percent of net operating revenues consumed by operating expenses, decreased to 47.8% for 2000 as compared to 50.3% for 1999 and 49.3% for 1998.

Net Interest Income

The Bank reported $11.8 million in net interest income for 2000 as compared to $10.3 million in 1999 and $8.9 million in 1998. This positive trend was primarily the result of continued growth in loans. Outstanding loans averaged $252.2 million for 2000 as compared to $219.7 million for 1999 and $186.2 million for 1998.

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,					
	2000 Compared to 1999 Increase (Decrease)			1999 Compared to 1998 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 2,662	$ 282	$ 2,944	$ 2,723	$ (631)	$ 2,092
Investment securities	402	181	583	(138)	(22)	(160)
Interest-bearing deposits	(22)	133	111	191	(25)	166
Total interest and dividend income	3,042	596	3,638	2,776	(678)	2,098
Interest expense:						
Deposits	959	222	1,181	640	(564)	76
Borrowed funds	605	351	956	802	(133)	669
Total interest expense	1,564	573	2,137	1,442	(697)	745
Net interest income	$ 1,478	$ 23	$ 1,501	$ 1,334	$ 19	$ 1,353

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

	Years Ended December 31,								
	2000			1999			1998		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 250,757	$ 20,546	8.19%	$ 218,408	$ 17,617	8.07%	$ 184,924	$ 15,524	8.39%
Commercial loans	333	34	10.21	210	24	11.43	260	32	12.31
Other loans	1,113	97	8.72	1,087	93	8.56	988	86	8.70
Total loans (1) (2)	252,203	20,677	8.20	219,705	17,734	8.07	186,172	15,642	8.40
Investment securities (3) (4)	41,634	2,599	6.24	35,031	2,016	5.75	37,431	2,176	5.81
Interest-bearing deposits	9,933	621	6.25	10,362	509	4.91	6,510	343	5.27
Total earning assets	303,770	23,897	7.87	265,098	20,259	7.64	230,113	18,161	7.89
Other assets	8,902			8,646			7,447		
Total assets	$ 312,672			$ 273,744			$ 237,560		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW (5)	$ 15,933	$ 79	0.50	$ 15,025	115	0.77	$ 14,012	158	1.13
Money market deposits	22,698	582	2.56	24,049	638	2.65	20,641	595	2.88
Regular	38,439	773	2.01	35,788	763	2.13	32,712	806	2.46
Term certificates	115,522	6,395	5.54	98,408	5,132	5.22	89,747	5,013	5.59
Total interest-bearing deposits	192,592	7,829	4.07	173,270	6,648	3.84	157,112	6,572	4.18
Borrowed funds	71,295	4,276	6.00	60,859	3,320	5.46	46,260	2,651	5.73
Total interest-bearing liabilities	263,887	12,105	4.59	234,129	9,968	4.26	203,372	9,223	4.54
Demand deposits	18,834			13,438			10,216		
Other liabilities	2,090			1,339			1,200		
Stockholders' equity	27,861			24,838			22,772		
Total liabilities and stockholders' equity	$ 312,672			$ 273,744			$ 237,560		
Net interest income		$ 11,792			$ 10,291			$ 8,938	
Weighted average rate spread			3.28%			3.38%			3.35%
Net yield on average earning assets (6)			3.88%			3.88%			3.88%

(1) Before 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 loans, installment and commercial loans, the investment portfolio, and interest-bearing deposits. The Bank earned an average yield of 7.9% on these assets in 2000 as compared to 7.6% in 1999 and 7.9% in 1998. For 2000, 1999, and 1998, interest income totaled $23.9 million, $20.3 million, and $18.2 million, respectively. Average total earning assets increased $38.7 million, or 15%, in 2000 over 1999 and $35.0 million, or 15%, in 1999 over 1998. 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 2000 and 1999. As a result, interest expense, which is incurred on certificates of deposit, NOW, regular, and money market deposit accounts, increased in these years. When comparing 2000 with 1999, the average rate paid on deposits increased 23 basis points as a result of increased market rates and competition for term deposits. When comparing 1999 to 1998, the average rate paid on deposits decreased by 34 basis points primarily as a result of the lowering of the rates on core and term deposit products.

Interest expense on borrowings continued to rise during 2000 resulting primarily from an increase in Federal Home Loan Bank (FHLB) advances which the Bank employed to fund a portion of its loan growth. In addition, the average rate paid on borrowings increased to 6.0% in 2000 from 5.5% in 1999 due to an increase in market interest rates. When comparing 1999 with 1998, the average rate decreased 27 basis points resulting from lower market interest rates. Also during 2000, 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.

Market interest rates declined significantly in early 2001 in response to the aggressive loosening posture of the Federal Reserve Bank. We anticipate that this will be a positive turn of events for the Bank in the near short-term, particularly due to the downward repricing of a significant portion of the Bank's FHLB advances that mature in 2001.

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 2000 was $284,000 as compared to $200,000 in 1999 and $151,000 in 1998. Increases in the provision for loan losses are attributable to increases in the size of the loan portfolio. As a percentage of the gross loan portfolio, the allowance for loan losses remained relatively constant at 0.85% for 2000, 0.85% for 1999, and 0.84% for 1998. In each of the last three years, recoveries of previously charged-off loans exceeded loans charged off.

Other Income

The most significant component of other income was fees earned on customer accounts with $686,000 reported for 2000, $536,000 for 1999, and $441,000 for 1998. The growth in customer service fee income in each of the three years was derived from the growth in core deposit accounts and increased debit card issuance and usage. When comparing 2000 with 1999, the number of core deposit accounts increased 11% and, when comparing 1999 to 1998, there was an 8% increase. Debit cards outstanding at December 31, 2000 increased 38% over December 31, 1999 while the increase in 1999 over 1998 was 23%.

Other income is also comprised of net gains or losses on sales of securities and loans. Generally, the Bank holds securities and loans until their maturity. 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 2000.

Operating Expenses

As a percentage of average total assets, expenses remained at a low 1.9% for 2000 as compared to 2.0% in each of 1999 and 1998.

Salaries and employee benefits were the largest component of operating expenses at $3.4 million for 2000, $3.1 million for 1999, and $2.7 million for 1998. In 1999, salary expenses increased primarily due to the establishment of the new South Weymouth branch. Annual merit-based raises have also contributed to the increase in salary expenses.

Occupancy and equipment expenses increased over the three years. In 1999, the increase was the result of the addition of the new South Weymouth branch.

All other operating expenses including data processing, deposit insurance, legal, and other combined were $2.0 million for 2000, $1.7 million for 1999, and $1.4 million for 1998. The Bank has successfully controlled these expenses despite significant asset growth and increased account and transaction volumes over the three years.

Income Taxes

The Bank's effective tax rate for 2000 was 33.4% as compared to 38.6% and 37.6% for 1999 and 1998, respectively. In the year 2000, the Bank established a real estate investment trust as part of a tax saving strategy. As a result, taxes for 2000 were reduced by more than $300,000. Similar tax savings are anticipated in future periods.

COMPARISON OF THE YEARS 2000 AND 1999

BALANCE SHEET ANALYSIS

The Bank had total assets of $337.9 million at December 31, 2000, an increase of $46.7 million, or 16%, from the $291.2 million level at year-end 1999.

Loans

At December 31, 2000, the Bank reported net loans of $266.6 million, or 79% of total assets. Comparably at December 31, 1999, net loans were $229.7 million, or 79% of total assets. This growth of $36.9 million, or 16%, was achieved through the origination of $92.3 million in mortgage and other loan products. A stringent underwriting policy continues to complement this lending strategy. At December 31, 2000 and 1999, mortgage loans accounted for 99% of gross loans with commercial and multi-family mortgages representing approximately 50% of the mortgage portfolio in each of 2000 and 1999.

The Bank's lending strategy during 2000 and 1999 has been to generally 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 and construction loans.

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2000 and 1999, the allowance had a balance of $2.3 million and $2.0 million, respectively. The allowance is maintained at a level believed to be 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 credited to the allowance when received. For 2000, there were $15,000 in recoveries of previously charged-off loans and $3,000 in loan charge-offs. There were $48,000 in recoveries and $1,000 in loan charge-offs in 1999.

Non-accrual loans totaled $93,000, or 0.03% of total assets, at December 31, 2000 as compared to $947,000, or 0.33% of total assets, at year-end 1999. There was no foreclosed real estate held during 2000 or 1999.

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

At December 31,	2000	1999
	(In Thousands)	
Residential mortgages (1)	$ 93	$ 135
Commercial mortgages	—	803
Installment loans	—	9
Total non-accrual loans	$ 93	$ 947

(1) Includes home equity loans.

Securities

The purpose of the Bank's securities portfolio is to supplement the Bank's lending activities by generating income, by providing liquidity through the receipt of principal and interest payments, and for use as collateral to obtain borrowed funds. At December 31, 2000, the portfolio was comprised of agency, mortgage-backed, and equity issues for a total of $39.4 million, or 12% of total assets, as compared to $35.5 million, or 12% of total assets, at year-end 1999. At December 31, 2000, approximately 91% of the securities in the portfolio were issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies and, as such, carry a relatively low risk-weighting under Federal Deposit Insurance Corporation ("FDIC") risk-based capital guidelines. The remaining 9% was comprised of common and preferred stocks. At December 31, 1999, there were no equity securities in the portfolio.

At December 31, 2000, 85% 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. Approximately 8% of the portfolio was comprised of equity securities, of which $2.8 million were bank or government agency-issued preferred stock and nearly $600,000 were bank-issued common stock. The remaining 7%, or $2.6 million, was comprised of mortgage-backed securities, a decline of $2.1 million from the $4.7 million held at December 31, 1999. 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 2000 and 1999, the entire securities 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 gain on the investment portfolio amounted to $257,000, net of tax effects, at December 31, 2000 as compared to an unrealized loss of $228,000 at year-end 1999, reflecting an improvement in market conditions. The fair value of securities fluctuates with the movement of interest rates. Generally, during periods of falling interest rates, the fair values increase whereas the opposite may hold true during a rising interest rate environment.

Deposits

At December 31, 2000, the Bank held a total of $225.5 million in deposits, an increase of $32.0 million, or 17%, from the $193.5 million in deposits at year-end 1999. Core deposits, comprised of regular, NOW, money market, and demand deposit accounts, were $101.2 million at December 31, 2000 as compared to $88.4 million at year-end 1999, an increase of $12.8 million, or 14%. Certificates of deposit were $124.4 million, or 55% of total deposits, at December 31, 2000 as compared to $105.2 million, or 54% of total deposits, at year-end 1999, an increase of $19.2 million.

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 product, rate, and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, automated teller machines, debit cards, and telephone banking. In 2000, the Bank introduced PCBANK24, its internet banking product, which further expands the product line to meet depositor needs.

The Bank has been successful in attracting new deposits from customers displaced and inconvenienced by merger activity. Generally, these customers have become dissatisfied with post-merger service levels, product offerings, and fees and have sought out community-based institutions which can provide stability and quality customer service.

Deposits are insured in full through the combination of the Federal Deposit Insurance Corporation (FDIC) and the Deposit Insurance Fund of Massachusetts (DIF). Generally, deposit accounts are insured up to $100,000 by the FDIC and deposit balances in excess of $100,000 are insured by the DIF. Providing DIF insurance has become a competitive advantage for the Bank as the mid-sized to regional banks cannot offer this coverage.

Borrowings

The Bank had $77.9 million in FHLB advances at December 31, 2000 as compared to $68.4 million at year-end 1999. The Bank borrowed an additional $9.4 million in 2000 to partially 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 $25.5 million, or 33%, 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, 2000 and 1999, there were $204,000 and $248,000, 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 $140.2 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 securities issued by U.S. Government agencies. Upon specific approval from the FHLB, the Bank may also pledge other mortgages or the Bank's investment in its real estate investment trust subsidiary as collateral to secure as much as $35.3 million in additional borrowings. At December 31, 2000, the Bank had $77.9 million in advances outstanding.

The Bank can also enter into repurchase agreement transactions should the need for additional liquidity arise. At December 31, 2000, the Bank had no repurchase agreements outstanding.

At December 31, 2000, the Bank had capital of $29.5 million, or 8.7% of total assets, as compared to $26.2 million, or 9.0%, at December 31, 1999. 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, 2000, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $257,000. In comparison, at year-end 1999, capital was decreased by $228,000.

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 2000 and 1999.

During 2000, the Bank declared common dividends of $0.68 per share which included a $0.14 per share special dividend declared in the fourth quarter. In comparison, in 1999, the Bank declared common dividends of $0.58 per share which included a $0.12 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per common share into earnings per share, was 32.9% for 2000 as compared to 35.2% for 1999.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America 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.

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 3.27% increase in cumulative 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 1.13% increase in cumulative 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 2000, there was a shift in the composition of the loan portfolio. Adjustable-rate loans increased by $52.3 million, bringing total adjustable-rate loans to 57% of total loans at year-end 2000 as compared to 43% at year-end 1999. Incremental borrowings, used to fund loan growth, were taken with shorter-term maturities. Further, certificate of deposit customers continued to show a preference for products with shorter-term maturities. As a result, the Bank's one-year negative gap position at December 31, 2000 was approximately 21% of assets and 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 rates 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 tables reflect management's assumptions about the repricing characteristics of such deposits.

December 31, 2000

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:							
Securities, at cost	$ 29,727	$ 13,146	$ 6,202	$ 989	$ —	$ —	$ 50,064
	6.06%	6.19%	6.40%	6.25%	—%	—%	6.14%
Loans:							
Fixed rate	$ 16,325	$ 12,131	$ 14,079	$ 12,461	$ 14,560	$ 47,064	$ 116,620
	8.11%	8.08%	8.02%	8.00%	7.69%	8.00%	7.99%
Adjustable rate	$ 59,601	$ 19,704	$ 30,044	$ 17,443	$ 14,535	$ 10,664	$ 151,991
	9.19%	8.47%	8.64%	8.29%	8.39%	8.55%	8.76%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 15,463	$ 15,468	$ 15,468	$ 7,702	$ 7,701	$ 14,743	$ 76,545
	2.31%	2.31%	2.31%	2.00%	2.00%	0.53%	1.91%
Term certificates	$ 104,693	$ 16,860	$ 1,271	$ 934	$ 592	$ —	$ 124,350
	5.91%	5.95%	5.43%	5.15%	5.42%	—%	5.91%
Borrowed funds	$ 56,704	$ 1,000	$ 1,500	$ —	$ 3,000	$ 15,887	$ 78,091
	6.18%	5.83%	5.36%	—%	5.97%	5.84%	6.09%

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:							
Securities, 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%
Borrowed funds	$ 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%

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, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Boston, Massachusetts
January 25, 2001

Consolidated Balance Sheets

ASSETS

	December 31, 2000	December 31, 1999
	(In Thousands)	
Cash and due from banks	$ 6,989	$ 6,236
Interest-bearing deposits	14,243	9,755
Cash and cash equivalents	21,232	15,991
Securities available for sale, at fair value	39,440	35,532
Federal Home Loan Bank stock, at cost	4,019	3,423
Loans, net of allowance for loan losses of $2,272,000 in 2000 and $1,976,000 in 1999	266,568	229,687
Banking premises and equipment, net	3,178	3,397
Accrued interest receivable	2,057	1,642
Deferred income tax asset, net	988	1,172
Other assets	399	339
	$ 337,881	$ 291,183

LIABILITIES AND STOCKHOLDERS' EQUITY

	2000	1999
Deposits	$ 225,510	$ 193,514
Federal Home Loan Bank advances	77,887	68,445
Other borrowed funds	204	248
Mortgagors' escrow accounts	1,052	870
Accrued interest payable	414	358
Other liabilities	3,313	1,567
Total liabilities	308,380	265,002
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 shares issued and outstanding	2,041	2,041
Additional paid-in capital	8,809	8,809
Undivided profits	18,394	15,559
Accumulated other comprehensive income (loss)	257	(228)
Total stockholders' equity	29,501	26,181
	$ 337,881	$ 291,183

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,		
	2000	1999	1998
	(In Thousands, Except Per Share Data)		
Interest and dividend income:			
Loans	$ 20,677	$ 17,734	$ 15,642
Investment securities	2,599	2,016	2,176
Interest-bearing deposits	621	509	343
Total interest and dividend income	23,897	20,259	18,161
Interest expense:			
Deposits	7,829	6,648	6,572
Borrowed funds	4,276	3,320	2,651
Total interest expense	12,105	9,968	9,223
Net interest income	11,792	10,291	8,938
Provision for loan losses	284	200	151
Net interest income, after provision for loan losses	11,508	10,091	8,787
Other income:			
Customer service fees on deposits	686	536	441
Gain on sales of securities available for sale, net	—	11	48
Gain on sale of loans	—	—	58
Other	221	187	195
Total other income	907	734	742
Operating expenses:			
Salaries and employee benefits	3,367	3,120	2,711
Data processing	501	398	332
Occupancy and equipment	711	689	573
Legal	31	(1)	16
Other	1,458	1,334	1,084
Total operating expenses	6,068	5,540	4,716
Income before income taxes	6,347	5,285	4,813
Income tax provision	2,120	2,039	1,811
Net income	$ 4,227	$ 3,246	$ 3,002
Earnings per common share:			
Basic	$ 2.07	$ 1.65	$ 1.53
Diluted	$ 2.06	$ 1.62	$ 1.49

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2000, 1999, and 1998

	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
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-common ($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-common($0.58 per share)	—	—	(1,158)	—	(1,158)
Balance at December 31, 1999	2,041	8,809	15,559	(228)	26,181
Comprehensive income:					
Net income	—	—	4,227	—	4,227
Change in net unrealized gain (loss) on securities available for sale, net of tax effect	—	—	—	485	485
Total comprehensive income					4,712
Cash dividends declared-common($0.68 per share)	—	—	(1,392)	—	(1,392)
Balance at December 31, 2000	$ 2,041	$ 8,809	$ 18,394	$ 257	$ 29,501

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2000	1999	1998
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 4,227	$ 3,246	$ 3,002
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	284	200	151
Amortization of securities, net	(18)	54	117
Amortization of deferred loan origination costs (fees), net	48	(10)	(27)
Depreciation	370	358	283
Gain on sales of securities available for sale, net	—	(11)	(48)
Gain on sale of loans	—	—	(58)
Deferred tax benefit	(108)	(32)	(18)
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(475)	(340)	(60)
Accrued interest payable and other liabilities	1,719	98	135
Net cash provided by operating activities	6,047	3,563	3,477
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	—	2,012	5,047
Maturities, prepayments and calls	10,146	12,205	15,328
Purchases	(13,259)	(22,082)	(13,091)
Loans originated, net of payments received	(37,213)	(25,103)	(35,128)
Proceeds from sale of loans	—	—	3,127
Increase in Federal Home Loan Bank stock	(596)	(673)	(850)
Additions to banking premises and equipment	(151)	(582)	(823)
Net cash used in investing activities	(41,073)	(34,223)	(26,390)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Concluded)

	Years Ended December 31,		
	2000	1999	1998
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits, net	$ 31,996	$ 14,773	$ 18,235
Increase in mortgagors' escrow accounts	182	233	186
Proceeds from stock options exercised	—	515	82
Cash dividends paid on common stock	(1,309)	(1,080)	(875)
Net proceeds (repayments) of borrowings with maturities of less than three months	3,456	192	(410)
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	80,500	54,500	53,500
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(74,558)	(41,055)	(36,500)
Net cash provided by financing activities	40,267	28,078	34,218
Net increase (decrease) in cash and cash equivalents	5,241	(2,582)	11,305
Cash and cash equivalents at beginning of year	15,991	18,573	7,268
Cash and cash equivalents at end of year	$ 21,232	$ 15,991	$ 18,573
Supplementary information:			
Interest paid on deposit accounts	$ 7,827	$ 6,668	$ 6,559
Interest paid on borrowed funds	4,223	3,250	2,561
Income taxes paid, net of refunds	742	1,874	1,941

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2000, 1999, and 1998

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 Capital Corporation, a real estate investment trust ("REIT"), and Hingham Securities Corporation, which holds title to certain securities availabe for sale. Hingham Securities Corporation was dissolved during 2000. All intercompany accounts and transactions have been eliminated in consolidation. The minority interest of $46,000 pertaining to preferred stock issued by the REIT is included in other liabilities.

Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 six 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.

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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

Certain amounts have been reclassified in the 1999 and 1998 consolidated financial statements to conform to the 2000 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 reflected at fair value, with unrealized gains and losses, after tax effects, 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 a method which approximates the interest method over the terms of the securities. 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 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.

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 becoming 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.

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. Impaired loans are generally maintained on a non-accrual basis. 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.

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.

The allowance consists of allocated and general loss components. The allocated loss component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers non-classified loans and is based on an estimated range of possible losses reflective of historical loss experience and qualitative factors.

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 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

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 common share

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect 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, 2000, 1999, and 1998, options applicable to 23,500 shares, 4,500 shares, and 1,500 shares, respectively, were antidilutive and excluded from the diluted earnings per share computations.

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

	Years Ended December 31,		
	2000	**1999**	**1998**
		(In Thousands)	
Average number of common shares outstanding	2,041	1,966	1,959
Effect of dilutive options	14	41	53
Average number of common shares outstanding used to calculate diluted earnings per common share	2,055	2,007	2,012

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 and related tax effects are as follows:

	Years Ended December 31,		
	2000	1999	1998
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 777	$ (514)	$ 267
Reclassification adjustment for gains realized in income	—	(11)	(48)
Net unrealized gains (losses)	777	(525)	219
Tax effect	(292)	210	(82)
Net-of-tax amount	$ 485	$ (315)	$ 137

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, 2000 and 1999, cash and due from banks included $200,000 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, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Debt securities:				
U.S. Government and federal agency obligations	$ 33,133	$ 278	$ (24)	$ 33,387
Mortgage-backed - FHLMC	1,359	1	(19)	1,341
Mortgage-backed - FNMA	1,329	3	(24)	1,308
Total debt securities	35,821	282	(67)	36,036
Equity securities	3,233	171	—	3,404
Total securities available for sale	$ 39,054	$ 453	$ (67)	$ 39,440

	December 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Debt securities:				
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

At December 31, 2000 and 1999, the Bank had pledged U.S. Government obligations with a fair value of $1,102,000 and $1,098,000, respectively, 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, 2000 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	$ 11,990	$ 11,972
Over 1 year to 5 years	20,143	20,415
Over 5 to 10 years	1,000	1,000
	33,133	33,387
Mortgage-backed securities:		
Within 1 year	223	222
Over 1 year to 5 years	62	62
Over 5 years to 10 years	158	161
Over 10 years	2,245	2,204
	2,688	2,649
Total debt securities	$ 35,821	$ 36,036

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, respectively, 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 2000.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2000	December 31, 1999
	(In Thousands)	
Mortgage loans:		
Residential	$ 113,673	$ 99,657
Commercial	126,175	112,132
Construction	13,259	6,395
Equity lines of credit	10,502	9,342
Second mortgages	2,717	2,381
Total mortgage loans	266,326	229,907
Other loans:		
Personal installment	1,796	1,229
Commercial	373	282
Revolving credit	116	81
Total other loans	2,285	1,592
Total loans	268,611	231,499
Allowance for loan losses	(2,272)	(1,976)
Net deferred loan origination costs	229	164
Loans, net	$ 266,568	$ 229,687

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 $4,041,000, $4,637,000, and $6,230,000 at December 31, 2000, 1999, and 1998, 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, 2000	1999	1998
	(In Thousands)		
Balance at beginning of year	$ 1,976	$ 1,729	$ 1,560
Provision for loan losses	284	200	151
Loans charged off	(3)	(1)	—
Recoveries on loans previously charged off	15	48	18
Balance at end of year	$ 2,272	$ 1,976	$ 1,729

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

	December 31, 2000	1999
	(In Thousands)	
Impaired loans without a valuation allowance	$ 93	$ 805
Non-accrual loans	$ 93	$ 947

	Years Ended December 31, 2000	1999	1998
	(In Thousands)		
Average investment in impaired loans	$ 211	$ 537	$ 413
Interest income recognized on impaired loans	$ 50	$ 23	$ 61
Interest income recognized on a cash basis on impaired loans	$ 50	$ 23	$ 61

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, 2000	December 31, 1999
	(In Thousands)	
Banking premises:		
Land	$ 683	$ 683
Buildings	3,069	3,032
Equipment	2,259	2,147
	6,011	5,862
Less accumulated depreciation	(2,833)	(2,465)
	$ 3,178	$ 3,397

Depreciation expense for the years ended December 31, 2000, 1999, and 1998 amounted to $370,000, $358,000, and $283,000, respectively.

6. DEPOSITS

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

	December 31, 2000	December 31, 1999
	(In Thousands)	
Regular	$ 38,801	$ 36,200
Money market deposits	23,001	23,050
NOW	14,743	14,254
Demand	24,615	14,852
Total non-certificate accounts	101,160	88,356
Term certificates less than $100,000	89,296	77,664
Term certificates of $100,000 or more	35,054	27,494
Total certificate accounts	124,350	105,158
Total deposits	$ 225,510	$ 193,514

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 2000 Amount	2000 Weighted Average Rate	December 31, 1999 Amount	1999 Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 104,693	5.91%	$ 86,306	5.16%
Over 1 year to 2 years	16,860	5.95	14,303	5.26
Over 2 years to 3 years	1,271	5.43	2,598	5.28
Over 3 years to 5 years	1,526	5.25	1,951	5.26
	$ 124,350	5.91%	$ 105,158	5.18%

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2000	1999	1998
	(In Thousands)		
Regular	$ 773	$ 763	$ 806
Money market deposits	582	638	595
NOW	79	115	158
Term certificates	6,395	5,132	5,013
	$ 7,829	$ 6,648	$ 6,572

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, 2000 Amount	2000 Weighted Average Rate	December 31, 1999 Amount	1999 Weighted Average Rate
	(Dollars in Thousands)			
2000	$ —	—%	$ 36,000	5.59%
2001	48,000	6.40	12,000	5.83
2002	1,000	5.83	1,000	5.83
2003	1,500	5.36	1,500	5.36
2004	—	—	3,000	5.58
2005	3,000	5.97	—	—
Thereafter	24,387	5.56	14,945	5.38
	$ 77,887	6.09%	$ 68,445	5.58%

All borrowings from the Federal Home Loan Bank of Boston are secured by 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 U. S. Government and federal agency securities . Expected maturities may differ from contractual maturities because certain borrowings, aggregating $25.5 million at December 31, 2000, 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, 2000.

8. INCOME TAXES

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

	Years Ended December 31, 2000	1999	1998
		(In Thousands)	
Current tax provision:			
Federal	$ 2,257	$ 1,694	$ 1,548
State	(29)	377	281
	2,228	2,071	1,829
Deferred tax provision (benefit):			
Federal	(80)	(24)	(15)
State	(28)	(8)	30
	(108)	(32)	15
Change in valuation reserve	—	—	(33)
	(108)	(32)	(18)
	$ 2,120	$ 2,039	$ 1,811

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, 2000	1999	1998
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	(0.6)	4.6	3.8
Other, net	—	—	(0.2)
Effective tax rates	33.4%	38.6%	37.6%

INCOME TAXES (continued)

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

	December 31, 2000	December 31, 1999
	(In Thousands)	
Deferred tax assets:		
Federal	$ 980	$ 1,047
State	338	360
	1,318	1,407
Deferred tax liabilities:		
Federal	(283)	(179)
State	(47)	(56)
	(330)	(235)
Net deferred tax asset	$ 988	$ 1,172

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

	December 31, 2000	December 31, 1999
	(In Thousands)	
Allowance for loan losses	$ 885	$ 782
Employee benefits	212	254
Other accrued expenses	134	153
Fees on loans	(137)	(189)
Net unrealized (gain) loss on securities available for sale	(129)	163
Other	23	9
Net deferred tax asset	$ 988	$ 1,172

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

	Years Ended December 31, 2000	1999	1998
	(In Thousands)		
Balance at beginning of year	$ 1,172	$ 930	$ 994
Deferred tax benefit	108	32	18
Deferred tax effects of net unrealized (gain) loss on securities available for sale	(292)	210	(82)
Balance at end of year	$ 988	$ 1,172	$ 930

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, 2000 and 1999, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2000	1999
	(In Thousands)	
Unused lines of credit	$ 16,284	$ 13,524
Commitments to originate loans:		
Commercial mortgages	11,466	19,444
Residential mortgages	4,039	2,459
Unadvanced funds on construction loans	6,527	3,706
Standby letters of credit	1,088	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, unadvanced construction funds, 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 consolidated 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.

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, 2000 and 1999, that the Bank meets all capital adequacy requirements to which it is subject.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2000 and 1999, 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, the Bank 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, 2000 and 1999 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, 2000						
Total Capital to Risk-Weighted Assets	$31,639	15.63%	$16,195	8.0%	$20,243	10.0%
Tier 1 Capital to Risk-Weighted Assets	29,290	14.47	8,097	4.0	12,146	6.0
Tier 1 Capital to Average Assets	29,290	8.99	13,027	4.0	16,284	5.0
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

11. STOCK OPTION PLANS

At December 31, 2000, 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,		
	2000	1999	1998
Net income:	(In Thousands, Except Per Share Amounts)		
As reported	$4,227	$3,246	$3,002
Pro forma	4,227	3,201	2,993
Earnings per common share:			
As reported	$ 2.07	$ 1.65	$ 1.53
Pro forma	2.07	1.63	1.53
Earnings per common share-assuming dilution for stock options:			
As reported	$ 2.06	$ 1.62	$ 1.49
Pro forma	2.06	1.59	1.49

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.

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,		
	2000	1999	1998
Dividend yield	—	3.64%	1.91%
Expected life	—	10 years	10 years
Expected volatility	—	21.41%	32.83%
Risk-free interest rate	—	5.08%	5.68%

STOCK OPTION PLANS (concluded)

Stock option activity is as follows:

	Years Ended December 31,					
	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	83,500	$ 10.90	138,000	$ 7.91	145,500	$ 7.83
Granted	—	—	22,000	15.14	1,500	23.50
Exercised	—	—	(76,500)	6.73	(9,000)	9.17
Outstanding at end of year	83,500	$ 10.90	83,500	$ 10.90	138,000	$ 7.91
Options exercisable at end of year	83,500	$ 10.90	83,500	$ 10.90	138,000	$ 7.91
Weighted average fair value of options granted during the year		$ —		$ 3.36		$ 9.87

Options outstanding consist of the following:

	December 31,			
	2000		1999	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$23.500	1,500	8	1,500	9
16.000	3,000	9	3,000	10
15.000	19,000	9	19,000	10
12.250	4,500	7	4,500	8
9.167	34,500	6	34,500	7
8.500	18,000	5	18,000	6
5.916	3,000	3	3,000	4
	83,500		83,500	

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,		
	2000	1999	1998
		(In Thousands)	
Service cost - benefits earned during year	$ 205	$ 206	$ 184
Interest cost on projected benefits	147	124	121
Expected return on plan assets	(204)	(170)	(164)
Net amortization and deferral	3	3	3
Amortization of net gain	(71)	(58)	(56)
Net periodic pension cost	$ 80	$ 105	$ 88

EMPLOYEE BENEFIT PLANS (concluded)

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

	Plan Years Ended October 31,	
	2000	1999
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,545	$ 2,132
Actual return on plan assets	381	406
Employer contribution	176	169
Benefits paid	(66)	(162)
Fair value of plan assets at end of year	3,036	2,545
Change in benefit obligation:		
Benefit obligation at beginning of year	1,891	1,841
Service cost	205	206
Interest cost	147	124
Actuarial loss (gain)	36	(118)
Benefits paid	(66)	(162)
Benefit obligation at end of year	2,213	1,891
Funded status	823	654
Unrecognized net actuarial gain	(1,348)	(1,277)
Unrecognized prior service cost	19	21
Accrued pension cost	$ (506)	$ (602)

For the plan years ended October 31, 2000, 1999, and 1998, actuarial assumptions include an assumed discount rate on benefit obligations of 7.75%, 7.75%, and 6.75% and an annual salary increase of 5.50%, 5.50%, 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 three months of continuous service and 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 and 1998, the Bank did not make matching contributions to the Plan. Effective January 1, 2000, the Bank matched contributions up to 1% of an employee's compensation. For the year ended December 31, 2000, expense attributable to the Plan amounted to $21,000.

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank had granted loans to principal officers and directors and their affiliates amounting to $17,000 at December 31, 2000 and $18,000 at December 31, 1999. 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.

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.

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 other 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.

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 advances 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, 2000 and 1999, 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,			
	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 21,232	$ 21,232	$ 15,991	$ 15,991
Securities available for sale	39,440	39,440	35,532	35,532
Federal Home Loan Bank stock	4,019	4,019	3,423	3,423
Loans, net	266,568	267,272	229,687	229,786
Accrued interest receivable	2,057	2,057	1,642	1,642
Financial liabilities:				
Deposits	225,510	225,518	193,514	193,762
Federal Home Loan Bank advances	77,887	77,508	68,445	66,910
Other borrowed funds	204	204	248	248
Accrued interest payable	414	414	358	358

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2000 and 1999 are as follows:

	Years Ended December 31,							
	2000				1999			
	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	$ 6,329	$ 6,130	$ 5,861	$ 5,577	$ 5,355	$ 5,116	$ 4,970	$ 4,818
Interest expense	3,266	3,171	2,917	2,751	2,663	2,477	2,438	2,390
Net interest income	3,063	2,959	2,944	2,826	2,692	2,639	2,532	2,428
Provision for loan losses	90	60	80	54	20	60	60	60
Net interest income, after provision for loan losses	2,973	2,899	2,864	2,772	2,672	2,579	2,472	2,368
Other income	270	214	213	210	216	168	183	167
Operating expenses	1,574	1,498	1,505	1,491	1,475	1,377	1,375	1,313
Income before income taxes	1,669	1,615	1,572	1,491	1,413	1,370	1,280	1,222
Income tax provision	518	555	540	507	543	531	494	471
Net income	$ 1,151	$ 1,060	$ 1,032	$ 984	$ 870	$ 839	$ 786	$ 751
Earnings per common share:								
Basic	$ 0.56	$ 0.52	$ 0.51	$ 0.48	$ 0.44	$ 0.43	$ 0.40	$ 0.38
Diluted	$ 0.56	$ 0.52	$ 0.50	$ 0.48	$ 0.43	$ 0.42	$ 0.39	$ 0.37
Cash dividends declared per common share	$ 0.28(1)	$ 0.14	$ 0.13	$ 0.13	$ 0.24(2)	$ 0.12	$ 0.11	$ 0.11

(1) Includes a special dividend of $0.14 per common share declared on November 21, 2000.

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

Stockholder Information

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(781) 749-2200

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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, 2000, 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, 2000, there were approximately 491 stockholders of record, holding 1,055,891 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
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
2000		
First Quarter	15.63	10.00
Second Quarter	13.50	11.31
Third Quarter	15.63	12.19
Fourth Quarter	17.25	13.88

The closing sale price of the Bank's common stock at December 31, 2000 was $16.75 per share.

HINGHAM
INSTITUTION FOR
SAVINGS
ESTABLISHED 1834

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Member DIF

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