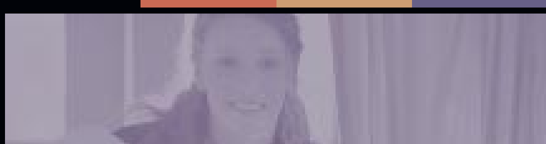
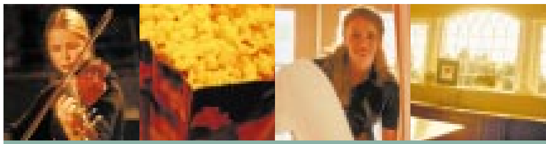
ANNUAL REPORT 2001

Building our community spirit.



HINGHAM INSTITUTION FOR SAVINGS



Thinking and acting **constructively**

A strong, vibrant community is built on a solid foundation of neighbors helping neighbors, and for almost 170 years we have been delighted to lend our support. From financing the construction of multifamily housing, sophisticated entertainment and cultural centers, to single-family homes, we are consistently enthusiastic and forthcoming in our commitment.

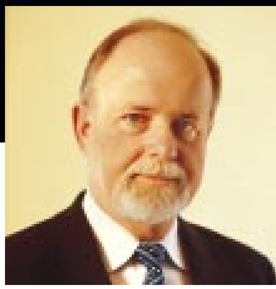
To us, this construction is not simply about bricks and mortar but is more about the positive effect it has on the dreams and aspirations of countless individuals and families.

Today, we continue to build on our reputation as a fair and well-respected community bank serving nearly 30,000 customers throughout the South Shore.

This past year, we introduced one hundred percent financing for qualified first-time home buyers. We also offered a new GoldLink money market account for those seeking to build their nest egg. Our newly introduced Business Online service gives our commercial customers powerful tools for managing their accounts. Additionally, we worked closely with the town's Historic District Commission when constructing our new drive-through to ensure that its design blends unobtrusively with the intrinsic architecture of the neighborhood.

Hingham Institution for Savings has been, and always will be, sympathetic to the needs of its customers and their neighborhoods. By helping to build a better community, we believe we are building a more worthwhile future for all of us.

President's Letter



Dear Shareholders:

Our record performance in 2001 was constructed on the solid footings of clear strategy and patient implementation.

We continued to focus on the fundamentals of our business. Improvements were made in both our online and branch capabilities. Efforts to provide outstanding banking services at good value produced significant increases in business volume. This increase in size and activity produced a 20% increase in net income. Net income for the year ended December 31, 2001 was $5,089,000 or $2.49 per share ($2.46 diluted) as compared to $4,227,000 or $2.07 per share ($2.06 diluted) in 2000.

The Bank's return on equity increased from 15.17% in 2000 to 15.95% in 2001. Its return on assets increased from 1.35% in 2000 to 1.43% in 2001. This success allowed us to again increase dividends declared to stockholders. This year those dividends increased by 12% over those of 2000.

The continued growth of our business is reflected in a 14% increase in total assets, an 11% increase in total deposits, and a 6% increase in total loans over those of December 31, 2000.

Total assets as of December 31, 2001 were $386,181,000 as compared to $337,881,000 at December 31, 2000.

Total loan originations increased from $92,000,000 in 2000 to $105,000,000 in 2001.

Despite the recession in both national and local economies, our asset quality levels remained strong and stable. At year end, we had absolutely no nonperforming loans and no foreclosed property. This is clear testimony to careful underwriting practices developed over years of strong growth.

Our cost control efforts also continued to produce one of the best efficiency ratios among our peers. We continue to spend less while producing more. This past year, investors recognized these achievements. Our stock price showed an approximate 41% increase in value from year end 2000.

The diligent efforts and good judgment of our Board, management, and staff produced the impressive results described in this report. Their dedication to our philosophy of steady growth, careful lending, and efficient operation bodes well for the future of our bank. All remain committed to the persistent attention to detail necessary to continue our momentum.

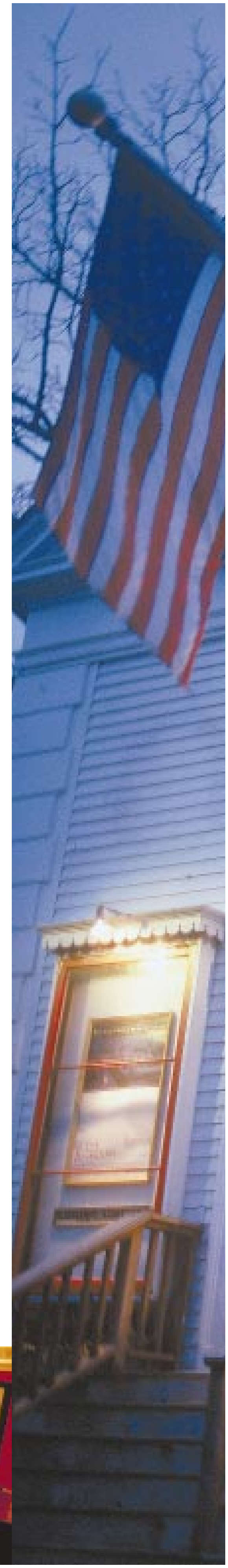
We thank the shareholders for their support and assistance in our efforts.

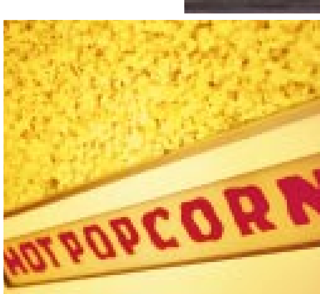
Very truly yours,

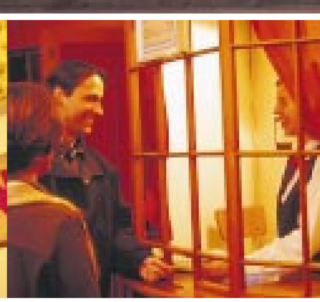
Robert H. Gaughen, Jr.
President

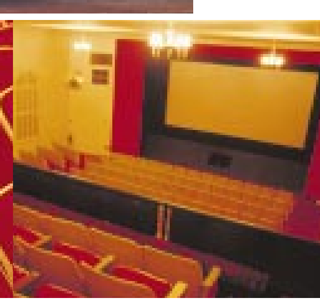
Creating a
star attraction

Worlds apart from the stadium seating and digital sound at the new Patriot Cinema multiplex at Hanover Mall is the Loring Theatre, a genteel historical gem of a cinema in downtown Hingham. Yet they are related. Both are owned and managed by the Scott family. The bank worked closely with David Scott, treasurer of Patriot Cinemas, to help with the new venture. In 1845, we were also instrumental in the building of the original Loring Theatre, working with a group of ladies who saw the need for a hall for meetings and lectures. The bank has been proud to work for and with Loring Hall over the years, following its evolution through the music hall era, silent films, right up to today's charming picture house. We are equally proud to have supplied construction funding for the new complex, for in so doing we have helped build a quality entertainment complex much needed in the Hanover area. Popcorn-munching patrons will surely agree.

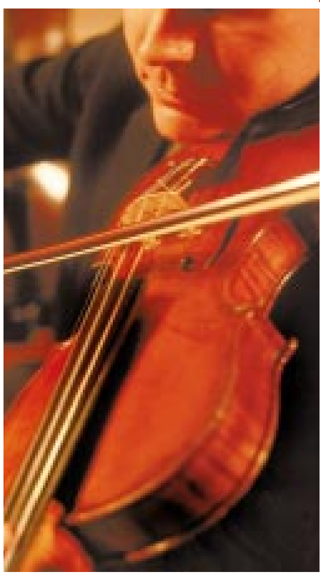









LORING HALL



Cultivating a harmonious relationship

Culture is thriving throughout our area thanks to South Shore Conservatory's commitment to building community access to its performing arts and educational programs. Presently, over 2,900 students from toddlers to senior citizens are drawn to the Conservatory by their love of music, dance and drama.

We, in turn, are delighted to build on our many years of supporting this magnificent community jewel. Since 1996, Hingham Institution for Savings has contributed $25,000 in sponsorships to "Evening Under the Stars."

The proceeds from this series of fun, outdoor summer concerts provide Conservatory scholarships for students with financial needs. In addition, the bank has pledged $15,000 toward the Conservatory's fund drive, entitled the "Enriching Lives Through the Arts" campaign. It's a cause we heartily applaud.

Our commitment to improving local resources is also demonstrated by recent substantial support for the South Shore Art Center, the Hull Summer Concerts, and the capital campaigns for Derby Academy and the Cohasset and Hingham libraries.

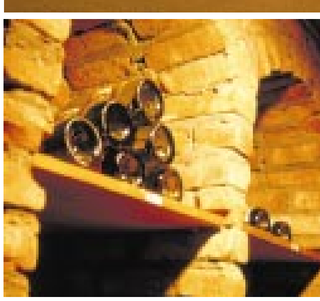
Providing a **warm welcome**

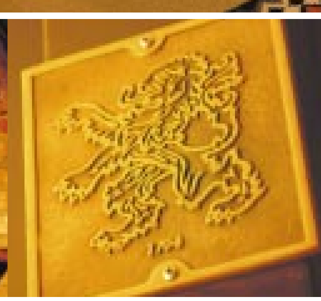
With its five working fireplaces, a European-style restaurant featuring modern New England cuisine, and world-class facilities, the Red Lion Inn in Cohasset has built an enviable reputation as an exciting resort. Its commercial beginnings were more modest but probably no less a welcome sight to weary travelers. In the 1700's, the Inn was a stagecoach stop.

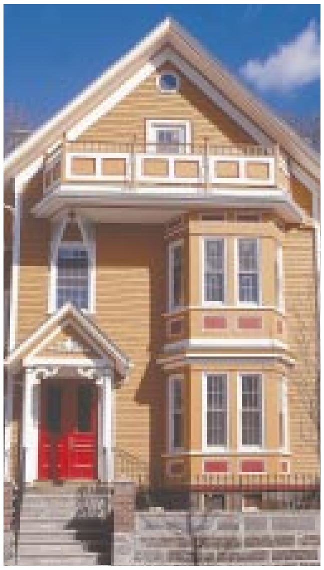
The bank had already built a strong professional and deposit relationship with the property owners before extensive renovation began. We assisted with financing for the work and are delighted at the quality results.

Today, the Red Lion Inn attracts tourists, employs local residents, and conducts business with area merchants. Just as important, everyone can experience a restaurant, bistro, bakery, and overnight and function rooms that are close to home and far from ordinary.

In other South Shore neighborhoods, we helped with other exciting projects. With our assistance, two new restaurants, Bridgeman's and Calypso, are contributing to Hull's rebirth. Marshfield's new Fairview Inn is a Victorian masterpiece. Each brings the bright promise of renewed vitality.





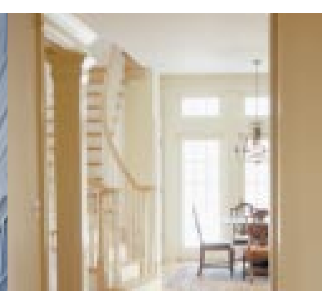


Realizing the American dream

What does it take to rehab a multifamily house on a rundown Boston street besides hard work by a skilled construction crew? It takes the cooperation of a bank committed to the belief that when you revitalize a neighborhood, you are rebuilding a community. For the past two years, the bank has worked successfully on several building projects with Perry Sam, a first-generation American and the general contractor for this triple-decker renovation on Hancock Street in Dorchester. The results have been truly inspiring. As Mr. Sam does his work, other homes throughout the area are being restored. Neighborhoods are experiencing a renewed vitality and pride, while less privileged are finding decent, affordable housing and enjoying their share of the American dream. This year we provided 125 commercial and investment property loans totaling over $50 million in funding. We are proud to be playing our part.

Introducing
new neighbors

Most people work hard to own their homes, while others also work hard to build them. The Giblin family in Hingham rolled up their sleeves and became self-contractors in their own construction project. With financing from the bank, the new house was a major success. It is hardly surprising that we worked closely with the Giblins. After all, the bank has been helping aspiring homeowners since 1834. Whether it is a home improvement loan, home equity line, or first-time home buyer loan, we service all of our mortgages locally. This means that if our customers have a question, they know they can stop by and speak with us in person. It is all part of our commitment to working with our neighbors to build a more attractive community for all of us.

Senior Officers

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

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

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.

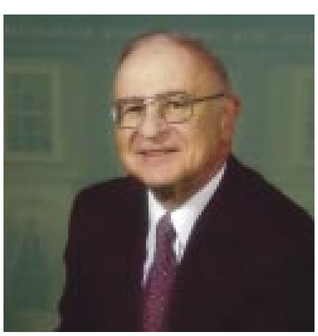
Robert A. Lane, Esq.

Warren B. Noble

Stacey M. Page

Joseph A. Ribaudo, C.P.A.
nominee

Edward L. Sparda



Donald M. Tardiff, M.D.

James R. White

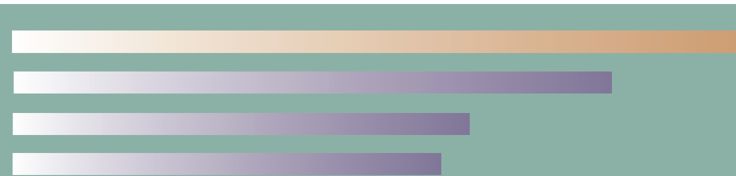
Geoffrey C. Wilkinson, Sr.

Jacqueline M. Youngworth

Financial Highlights

NET INCOME
(in millions)

The Bank achieved a strong **20%** growth in net income in 2001. Expenses were kept under control at a low **1.8%** of average total assets, or an efficiency ratio of **45.7%**.



01	$5.1
00	$4.2
99	$3.2
98	$3.0

DIVIDENDS DECLARED
(per share)

Steady growth in earnings has continued to result in steady growth in dividends. The Bank declared its seventh consecutive special dividend in 2001.

01	$0.76
00	$0.68
99	$0.58
98	$0.49

ASSETS
(in millions)

The Bank posted its seventh consecutive year of double-digit asset growth with **14%** in 2001.

01	$386.2
00	$337.9
99	$291.2
98	$260.1

DEPOSITS
(in millions)

The Bank attracted more than **$24.5** million in new funds as customers moved to the safety of FDIC/DIF insured Bank deposits.

01	$250.0
00	$225.5
99	$193.5
98	$178.7

LOANS
(in millions)

Loan growth of **6%** was achieved in 2001 over 2000, despite record prepayment activity.

01	$282.4
00	$266.6
99	$229.7
98	$204.8

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,				
	2001	2000	1999	1998	1997
	(In Thousands)				
Balance Sheet Data:					
Total assets	$ 386,181	$ 337,881	$ 291,183	$ 260,076	$ 222,584
Securities available for sale	49,619	39,440	35,532	28,235	35,369
Loans:					
Residential mortgage	130,723	124,175	108,999	95,629	83,522
Commercial mortgage	142,200	128,892	114,513	102,660	84,932
Construction, net	10,855	13,259	6,395	6,985	4,857
Other	894	2,285	1,592	1,219	1,209
Allowance for loan losses	2,510	2,272	1,976	1,729	1,560
Deposits	249,970	225,510	193,514	178,741	160,506
Federal Home Loan Bank advances	96,827	77,887	68,445	55,000	38,147
Other borrowed funds	134	204	248	56	319
Stockholders' equity	33,537	29,501	26,181	23,676	21,377

	Years Ended December 31,				
	2001	2000	1999	1998	1997
	(In Thousands, Except Per Share Amounts)				
Income Statement Data:					
Total interest and dividend income	$ 26,041	$ 23,946	$ 20,259	$ 18,161	$ 16,405
Total interest expense	12,571	12,105	9,968	9,223	8,160
Net interest income	13,470	11,841	10,291	8,938	8,245
Provision for loan losses	240	284	200	151	174
Other income	1,025	858	734	742	653
Operating expenses	6,567	6,068	5,540	4,716	4,458
Income before income taxes	7,688	6,347	5,285	4,813	4,266
Income tax provision	2,599	2,120	2,039	1,811	1,607
Net income	$ 5,089	$ 4,227	$ 3,246	$ 3,002	$ 2,659
Earnings per common share:					
Basic	$ 2.49	$ 2.07	$ 1.65	$ 1.53	$ 1.36
Diluted	$ 2.46	$ 2.06	$ 1.62	$ 1.49	$ 1.33
Financial Ratios:					
Return on average assets	1.43%	1.35%	1.19%	1.26%	1.26%
Return on average equity	15.95	15.17	13.07	13.18	13.00
Average equity to average assets	8.98	8.91	9.07	9.59	9.67
Interest rate spread	3.31	3.29	3.38	3.35	3.48
Net yield on average earning assets	3.90	3.90	3.88	3.88	4.02
Dividend payout ratio (basic)	30.52	32.85	35.15	32.03	29.41
Cash dividends declared per common share	$ 0.76	$ 0.68	$ 0.58	$ 0.49	$ 0.40

Management's Discussion and Analysis

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

COMPARISON OF THE YEARS 2001, 2000, and 1999

RESULTS OF OPERATIONS

For the year ended December 31, 2001, the Bank earned $5.1 million as compared to $4.2 million in 2000 and $3.2 million in 1999. On a per-share basis, the Bank earned $2.49 in 2001, $2.07 in 2000, and $1.65 in 1999. On a dilutive basis, which assumes that certain stock options have been exercised, earnings per share were $2.46 in 2001, $2.06 in 2000, and $1.62 in 1999.

Growth in earnings in each of the three periods was achieved primarily from growth in earning assets. In particular, loan originations were $105.0 million in 2001, as compared to $92.3 million in 2000 and $87.4 million in 1999, which resulted in net loan growth of $15.8 million, $36.9 million, and $24.9 million for 2001, 2000, and 1999, respectively. Contributing to earnings growth were steady increases in customer service fees on deposits in each of the three periods which resulted from an increase in the volume of fee-based transactions accompanied by an increase in the number of accounts. Also contributing to the growth in earnings for 2001 was a $134,000 gain on sale of securities. Further, in 2001 and 2000, the Bank employed a tax-saving strategy by forming a real estate investment trust which enhanced earnings.

Partially offsetting improvements in earnings were increases in expenses in each of the three periods, resulting primarily from increased salaries and employee benefits expenses, and increased occupancy and equipment expenses. In 2000, the Bank also incurred costs pursuant to the establishment of a 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 steadily to 45.7% for 2001 as compared to 47.8% for 2000 and 50.3% for 1999.

Net Interest Income

During 2001, actions by the Federal Reserve Bank resulted in the lowering of the federal funds and discount interest rates on ten separate occasions for a total decrease of 425 basis points over the year. The Prime rate dropped from 9.0% at year end 2000 to 4.75% at year end 2001. Despite the significant declines in market interest rates, the Bank posted increased net interest income for the year 2001.

The Bank reported $13.5 million in net interest income for 2001 as compared to $11.8 million in 2000 and $10.3 million in 1999. This positive trend was primarily the result of continued growth in loans. Outstanding loans averaged $280.7 million for 2001 as compared to $252.2 million for 2000 and $219.7 million for 1999. Loans were the most significant component of assets, accounting for more than 80% of average total earning assets in each of the past three years.

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,					
	2001 Compared to 2000 Increase (Decrease)			2000 Compared to 1999 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 2,313	$ (246)	$ 2,067	$ 2,667	$ 325	$ 2,992
Securities	133	(169)	(36)	402	181	583
Interest-bearing deposits and certificates of deposit	446	(382)	64	(22)	134	112
Total interest and dividend income	2,892	(797)	2,095	3,047	640	3,687
Interest expense:						
Deposits	821	(505)	316	959	222	1,181
Borrowed funds	671	(521)	150	605	351	956
Total interest expense	1,492	(1,026)	466	1,564	573	2,137
Net interest income	$ 1,400	$ 229	$ 1,629	$ 1,483	$ 67	$ 1,550

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

	Years Ended December 31,								
	2001			2000			1999		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
				(Dollars in Thousands)					
Assets:									
Loans:									
Real estate loans	$ 278,655	$ 22,619	8.12%	$ 250,757	$ 20,595	8.21%	$ 218,408	$ 17,617	8.07%
Commercial loans	253	25	9.88	333	34	10.21	210	24	11.43
Other loans	1,742	149	8.55	1,113	97	8.72	1,087	93	8.56
Total loans (1) (2)	280,650	22,793	8.12	252,203	20,726	8.22	219,705	17,734	8.07
Securities (3) (4)	43,826	2,563	5.85	41,634	2,599	6.24	35,031	2,016	5.75
Interest-bearing deposits and certificates of deposit	20,476	685	3.35	9,933	621	6.25	10,362	509	4.91
Total earning assets	344,952	26,041	7.55	303,770	23,946	7.88	265,098	20,259	7.64
Other assets	10,479			8,902			8,646		
Total assets	$ 355,431			$ 312,672			$ 273,744		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW (5)	$ 17,422	86	0.49	$ 15,933	79	0.50	$ 15,025	115	0.77
Money market deposits	26,811	662	2.47	22,698	582	2.56	24,049	638	2.65
Regular	40,646	737	1.81	38,439	773	2.01	35,788	763	2.13
Term certificates	128,105	6,660	5.20	115,522	6,395	5.54	98,408	5,132	5.22
Total interest-bearing deposits	212,984	8,145	3.82	192,592	7,829	4.07	173,270	6,648	3.84
Borrowed funds	83,293	4,426	5.31	71,295	4,276	6.00	60,859	3,320	5.46
Total interest-bearing liabilities	296,277	12,571	4.24	263,887	12,105	4.59	234,129	9,968	4.26
Demand deposits	23,862			18,834			13,438		
Other liabilities	3,381			2,090			1,339		
Stockholders' equity	31,911			27,861			24,838		
Total liabilities and stockholders' equity	$ 355,431			$ 312,672			$ 273,744		
Net interest income		$ 13,470			$ 11,841			$ 10,291	
Weighted average rate spread			3.31%			3.29%			3.38%
Net yield on average earning assets (6)			3.90%			3.90%			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.

Management's Discussion and Analysis

Interest income is derived from residential and commercial mortgages, home equity, installment and commercial loans, the investment portfolio, certificates of deposit, and interest-bearing deposits. The Bank earned an average yield of 7.6% on these assets in 2001 as compared to 7.9% in 2000 and 7.6% in 1999. For 2001, 2000, and 1999, interest income totaled $26.0 million, $23.9 million, and $20.3 million, respectively. Average total earning assets increased $41.2 million, or 14%, in 2001 over 2000 and $38.7 million, or 15%, in 2000 over 1999. The Bank achieved this growth by continuing to focus on real estate lending and decreasing its emphasis on the investment portfolio.

In response to market conditions, the Bank lowered the rates it paid on each of its interest bearing deposit accounts in 2001. During this period, however, the Bank continued to attract new deposit balances. As a result, interest expense, which is incurred on certificates of deposit, NOW, savings, and money market deposit accounts, increased in these periods, while the average rate paid on deposits decreased by 25 basis points. 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.

During 2001, the Bank benefited from lower market interest rates by refinancing $71.0 million in Federal Home Loan Bank (FHLB) advances, most of which were refinanced for longer terms. When comparing 2001 with 2000, the average rate decreased 69 basis points resulting from these lower market interest rates. In addition, the Bank borrowed an additional $19.0 million in advances and, as a result, interest expense increased when comparing 2001 to 2000. 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. The Bank continued its participation as a note option depository for treasury tax and loan deposits which allowed it to borrow short-term funds at a preferred interest rate.

Provision for Loan Losses

The provision for loan losses is based on management's assessment of the adequacy of the allowance for loan losses. Management considers the size of the loan portfolio, the risks associated with certain loan types, and the underlying collateral values of individual loans as well as other factors. The provision for loan losses for 2001 was $240,000 as compared to $284,000 in 2000 and $200,000 in 1999. Changes in the provision for loan losses are attributable to changes in the size of the loan portfolio. As a percentage of the gross loan portfolio, the allowance for loan losses remained relatively constant at 0.88% for 2001 and 0.85% for 2000 and 1999. In 2001, net charge offs were $2,000. In 2000 and 1999, 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 $704,000 reported for 2001, $686,000 for 2000, and $536,000 for 1999. 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 2001 with 2000, the number of core deposit accounts increased 5% and when comparing 2000 to 1999, there was an 11% increase. Debit cards outstanding at December 31, 2001 increased 11% over December 31, 2000, while the increase in 2000 over 1999 was 38%.

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. However, in 2001, the Bank reported a $134,000 gain on sales of securities which resulted primarily from the sale of the Bank's common stock holdings and, in 1999, the Bank reported $11,000 in gains on sales of securities. There were no such sales in 2000.

Operating Expenses

As a percentage of average total assets, expenses decreased steadily to a low 1.8% for 2001, 1.9% for 2000, and 2.0% for 1999.

Salaries and employee benefits were the largest component of operating expenses at $3.7 million for 2001, $3.4 million for 2000, and $3.1 million for 1999. Annual merit-based raises have been driving the increase in salary expenses.

Occupancy and equipment expenses increased over the three periods. During 2001, the Bank installed new computer hardware throughout the organization in order to provide greater functionality, improve processing speed, and facilitate an upgrade to a Windows-based teller operating system.

All other operating expenses including data processing, legal, and other combined were $2.1 million for 2001, $1.9 million for 2000, and $1.7 million for 1999. The Bank has successfully controlled these expenses despite significant asset growth and increased account and transaction volumes over the three periods.

Income Taxes

The Bank's effective tax rate for 2001 was 33.8% as compared to 33.4% and 38.6% for 2000 and 1999, 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 were achieved in 2001 and are anticipated in future periods.

COMPARISON OF THE YEARS 2001 AND 2000

BALANCE SHEET ANALYSIS

The Bank had total assets of $386.2 million at December 31, 2001, an increase of $48.3 million, or 14%, from the $337.9 million level at year end 2000.

Loans

At December 31, 2001, the Bank reported net loans of $282.4 million, or 73% of total assets. Comparably at December 31, 2000, net loans were

$266.6 million, or 79% of total assets. The decline in market rates during 2001 stimulated significant loan refinancing. While the Bank originated $105.0 million in mortgage and other loan products, net loan growth amounted to $15.8 million. In fact, the Bank experienced an overall principal repayment rate of approximately 25% in 2001 as compared to 15% for 2000. Net growth in the loan portfolio is noteworthy, however, in that many of the Bank's peers experienced net declines in their loan portfolios over the same period. At December 31, 2001 and 2000, mortgage loans accounted for more than 99% of gross loans with commercial and multi-family mortgages representing approximately 50% of the mortgage portfolio in each of 2001 and 2000.

The Bank's lending strategy during 2001 and 2000 has continued to provide commercial property, single family, and multi-family loans at an initial fixed rate for three to seven years with an adjustable rate thereafter. Residential mortgages are generally underwritten to conform to Federal National Mortgage Association or Federal Home Loan Mortgage Corporation guidelines. The Bank also offers home equity loans indexed to the prime lending rate and construction loans.

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2001 and 2000, the allowance had a balance of $2.5 million and $2.3 million, respectively. The allowance is maintained at a level adequate to absorb losses. The allowance is reviewed by senior management and the Board of Directors on at least a quarterly basis to determine its adequacy. Factors considered include loan-to-value ratios, underlying collateral values, payment history, and any other available information specific to a loan. Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. Recoveries are recorded as additional reserves when received. For 2001, there were $20,000 in recoveries of previously charged off loans and $22,000 in loan charge offs. There were $15,000 in recoveries and $3,000 in loan charge offs in 2000.

In the face of a recessionary economy, the Bank remarkably reported no non-accrual loans at December 31, 2001 as compared to $93,000 at year end 2000. In the fourth quarter of 2001, the Bank foreclosed and took possession of its first other real estate owned property in more than five years and quickly liquidated it with no loss to principal. As a result, there was no foreclosed real estate held at December 31, 2001 or 2000.

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

At December 31,	2001	2000
	(In Thousands)	
Residential mortgages (1)	$ —	$ 93
Commercial mortgages	—	—
Installment loans	—	—
Total non-accrual loans	$ —	$ 93

(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 and for use as collateral to obtain borrowed funds. At December 31, 2001, the portfolio was comprised of agency, mortgage-backed, and equity issues for a total of $49.6 million, or 13% of total assets, as compared to $39.4 million, or 12% of total assets, at year end 2000. At December 31, 2001 and 2000, the majority of the securities in the portfolio were issued or guaranteed by U.S. Government agencies or U.S. Government sponsored agencies.

At December 31, 2001, 90% 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. Only one issue, representing $2.0 million, is callable at the discretion of the issuer. Approximately 7% of the portfolio was comprised of equity securities, all of which were bank or government agency-issued trust preferred stock. The remaining 3%, or $2.0 million, was comprised of mortgage-backed securities, a decline of $600,000 from the $2.6 million held at December 31, 2000. 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 2001 and 2000, 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, a separate component of stockholders' equity. The unrealized gain on the securities portfolio amounted to $675,000, net of tax effects, at December 31, 2001 as compared to $257,000 at year end 2000, 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, 2001, the Bank held a total of $250.0 million in deposits, an increase of $24.5 million, or 11%, from the $225.5 million in deposits at year end 2000. Core deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $122.4 million at December 31, 2001 as compared to $101.2 million at year end 2000, an increase of $21.2 million, or 21%. Certificates of deposit were $127.6 million, or 51% of total deposits, at December 31, 2001 as compared to $124.4 million, or 55% of total deposits, at year end 2000.

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.

Management's Discussion and Analysis

In 2000, the Bank introduced PCBANK24, its consumer-based internet banking product, and in 2001, the Bank introduced BUSINESS ONLINE, its commercial-based internet banking product. Also in 2001, the Bank introduced GOLDLINK, a premium rate money market deposit vehicle. By year end 2001, the product had attracted more than $7.0 million in deposits.

The economic downturn in 2001 prompted customers to transfer funds from their mutual funds into their Bank deposit accounts. In addition, the Bank has continued to attract 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. During the year 2001, the total number of deposit accounts grew 3% over year-end 2000.

Deposits are insured in full through the combination of the Federal Deposit Insurance Corporation (FDIC) and the Deposit Insurance Fund of Massachusetts (DIF). Generally, separately insured 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 $96.8 million in FHLB advances at December 31, 2001 as compared to $77.9 million at year end 2000. Generally, the borrowings are drawn with a fixed rate and term; however, approximately $29.5 million, or 30%, can be called by the issuer after an initial specified term.

The steep decline in interest rates over the course of 2001 benefited the Bank twofold. First, the average rate paid on borrowings held at year end 2001 dropped to 4.63% from 6.09% at year end 2000. Second, the maturity dates on borrowings were lengthened to extend the positive impact of the lower rates. In fact, approximately 71% of the borrowings had contractual maturities beyond one year at December 31, 2001, as compared to 38% at December 31, 2000.

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, 2001 and 2000, there were $134,000 and $204,000, respectively, in such borrowings.

Liquidity and Capital Resources

The Bank continually assesses its liquidity position by forecasting incoming and outgoing cash flows. In some cases, contractual maturity dates are used to anticipate cash flows. However, when an asset or liability is subject to early repayment or redemption at the discretion of the issuer or customer, cash flows can be difficult to predict. Generally, these prepayment rights are exercised when it is most financially favorable to the issuer or customer.

Approximately 86% of the Bank's investment portfolio is fixed with respect to rate and maturity date. The remaining securities can be called at the discretion of the issuer. Mortgage-backed securities, which comprise 3% of the portfolio, are subject to repayment at the discretion of the underlying borrower. However, due to the negligible balances held in mortgage-backed issues, the Bank is not reliant on these cash flows to meet its liquidity targets.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial mortgages, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion. During the significant decline in market interest rates in 2001, the Bank experienced an overall prepayment rate on its loan portfolio of approximately 25% for 2001 as compared to approximately 15% for 2000.

Core deposit balances can generally be withdrawn from the Bank at anytime. Certificates of deposit, with predefined maturity dates and subject to early redemption penalties, can also be withdrawn. The Bank estimates the volatility of its deposits in light of the general economic climate and recent actual experience. Over the past seven years, deposits have exceeded withdrawals resulting in net cash inflows from depositors.

Approximately 70% of the Bank's borrowings are fixed in term of rate and maturity. The remaining 30%, or $29.5 million, can be called for earlier repayment at the discretion of the issuer. However, in the current economic environment, it is unlikely that these borrowings will be called in the near term.

The Bank also monitors its off-balance sheet items. At December 31, 2001, the Bank had approximately $54.2 million in commitments to extend credit as compared to $39.4 million at December 31, 2000.

The Bank takes each of these issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position at both the 30 day and 90 day horizon, the level of volatile liabilities to earning assets and its loan-to-deposit ratio. At December 31, 2001 and 2000, each measurement was within predefined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the Federal Home Loan Bank of Boston where it is eligible to obtain both short and long-term credit advances. The Bank can borrow up to approximately $171.9 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages, the Bank's investment in securities issued by U.S. government agencies and the qualifying portion of the Bank's investment in its real estate investment trust subsidiary. Upon specific approval from the FHLB, the Bank may also pledge other mortgages as collateral to secure as much as $72.7 million in additional borrowings. At December 31, 2001, the Bank had $96.8 million in advances outstanding.

At December 31, 2001, the Bank had capital of $33.5 million, or 8.7% of total assets, as compared to $29.5 million, or 8.7%, at December 31, 2000. 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, 2001, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $675,000. In comparison, at year end 2000, capital was increased by $257,000.

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 2001 and 2000.

During 2001, the Bank declared common dividends of $0.76 per share which included a $0.16 per share special dividend which was declared in the fourth quarter. In comparison, in 2000, the Bank declared dividends of $0.68 per share which included a $0.14 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, was 30.5% for 2001 as compared to 32.9% for 2000.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with generally accepted accounting principles which generally require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on operations of the Bank is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

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 its simulation model, such as prepayment speeds, balance sheet growth, and deposit elasticity. Generally, rates are assumed to rise, or decline, steadily over a twelve month period, then remain constant over the remaining period. The model assumes a 200 basis point increase and decrease in interest rates where the magnitude of the rate change varies with the term. For example, longer term rates are modeled to rise or decline 168 basis points while shorter term rates are modeled to rise or fall a full 200 basis points.

At December 31, 2001, the model calculated the resultant net interest income in a rising and falling interest rate environment and indicated that net interest income would decline 1.05% and 1.94%, respectively, over a 24-month period. Therefore, 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 2001, the decline in market interest rates prompted loan customers to obtain longer-term fixed-rate loans and adjustable loans with extended rate reset periods. Existing loans experienced higher prepayment speeds. Alternately, certificate of deposit customers showed a preference for savings or transaction-based products or certificates with shorter term maturities. In an effort to balance these consumer preferences and to take advantage of lower market interest rates, incremental borrowings were taken in the longer term sectors. As a result, the Bank's one-year negative gap position at December 31, 2001 was approximately 2% of assets and well within pre-defined limits.

Management's Discussion and Analysis

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 24% depending upon the particular asset category. Generally, adjustable rate loans are indexed to Prime or Treasury rates and can reprice as much as 200 basis points per year and 600 basis points over the life of the loan. Non-certificate deposits do not have contractual maturities. The tables reflect management's assumptions about the repricing characteristics of such deposits.

December 31, 2001

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	$ 50,648	$ 24,074	$ 5,584	$ —	$ —	$ —	$ 80,306
	3.11%	5.35%	5.26%	—%	—%	—%	3.93%
Loans:							
Fixed rate	$ 29,413	$ 21,103	$ 17,891	$ 15,160	$ 11,282	$ 28,425	$ 123,274
	7.76%	7.62%	7.62%	7.52%	7.36%	7.80%	7.66%
Adjustable rate	$ 72,585	$ 35,344	$ 21,650	$ 12,927	$ 15,620	$ 3,272	$ 161,398
	7.46%	8.46%	8.13%	8.32%	8.05%	8.58%	7.92%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 19,787	$ 19,794	$ 19,794	$ 8,679	$ 8,679	$ 17,408	$ 94,141
	1.61%	1.61%	1.61%	1.25%	1.25%	0.41%	1.32%
Term certificates	$ 113,239	$ 9,650	$ 3,125	$ 935	$ 654	$ —	$ 127,603
	4.41%	4.58%	4.57%	4.98%	4.90%	—%	4.43%
Borrowed funds	$ 28,634	$ 14,500	$ 14,500	$ 9,500	$ 1,500	$ 28,327	$ 96,961
	3.73%	4.66%	4.72%	4.90%	4.91%	5.38%	4.63%

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%

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Wolf & Company, P.C.

Boston, Massachusetts
January 24, 2002

Consolidated Balance Sheets

ASSETS

	December 31, 2001	December 31, 2000
	(In Thousands)	
Cash and due from banks	$ 7,417	$ 6,989
Interest-bearing deposits	33,740	14,243
Cash and cash equivalents	41,157	21,232
Certificates of deposit	970	—
Securities available for sale, at fair value	49,619	39,440
Federal Home Loan Bank stock, at cost	4,841	4,019
Loans, net of allowance for loan losses of $2,510,000 in 2001 and $2,272,000 in 2000	282,386	266,568
Banking premises and equipment, net	3,801	3,178
Accrued interest receivable	1,978	2,057
Deferred income tax asset, net	793	988
Other assets	636	399
	$ 386,181	$ 337,881

LIABILITIES AND STOCKHOLDERS' EQUITY

	2001	2000
Deposits	$ 249,970	$ 225,510
Federal Home Loan Bank advances	96,827	77,887
Other borrowed funds	134	204
Mortgagors' escrow accounts	1,088	1,052
Accrued interest payable	404	414
Other liabilities	4,221	3,313
Total liabilities	352,644	308,380
Commitments and contingencies (Note 9)		
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; 2,047,250 and 2,040,750 shares issued and outstanding at December 31, 2001 and 2000, respectively	2,047	2,041
Additional paid-in capital	8,891	8,809
Undivided profits	21,924	18,394
Accumulated other comprehensive income	675	257
Total stockholders' equity	33,537	29,501
	$ 386,181	$ 337,881

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31, 2001	2000	1999
	(In Thousands, Except Per Share Data)		
Interest and dividend income:			
Loans	$ 22,793	$ 20,726	$ 17,734
Securities	2,563	2,599	2,016
Interest-bearing deposits and certificates of deposit	685	621	509
Total interest and dividend income	26,041	23,946	20,259
Interest expense:			
Deposits	8,145	7,829	6,648
Borrowed funds	4,426	4,276	3,320
Total interest expense	12,571	12,105	9,968
Net interest income	13,470	11,841	10,291
Provision for loan losses	240	284	200
Net interest income, after provision for loan losses	13,230	11,557	10,091
Other income:			
Customer service fees on deposits	704	686	536
Gain on sales of securities available for sale	134	—	11
Other	187	172	187
Total other income	1,025	858	734
Operating expenses:			
Salaries and employee benefits	3,740	3,367	3,120
Data processing	551	501	398
Occupancy and equipment	721	711	689
Legal	14	31	(1)
Other	1,541	1,458	1,334
Total operating expenses	6,567	6,068	5,540
Income before income taxes	7,688	6,347	5,285
Income tax provision	2,599	2,120	2,039
Net income	$ 5,089	$ 4,227	$ 3,246
Earnings per common share:			
Basic	$ 2.49	$ 2.07	$ 1.65
Diluted	$ 2.46	$ 2.06	$ 1.62

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2001, 2000, and 1999

	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
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
Comprehensive income:					
Net income	—	—	5,089	—	5,089
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	418	418
Total comprehensive income					5,507
Stock options exercised, after tax effect of $17,000	6	82	—	—	88
Cash dividends declared-common($0.76 per share)	—	—	(1,559)	—	(1,559)
Balance at December 31, 2001	$ 2,047	$ 8,891	$ 21,924	$ 675	$ 33,537

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2001	2000	1999
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 5,089	$ 4,227	$ 3,246
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	240	284	200
Amortization of securities, net	39	(18)	54
Amortization of deferred loan origination costs (fees), net	29	48	(10)
Depreciation	380	370	358
Gain on sales of securities available for sale	(134)	—	(11)
Gain on sale of loans	(2)	—	—
Deferred tax benefit	(24)	(108)	(32)
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(158)	(475)	(340)
Accrued interest payable and other liabilities	852	1,719	98
Net cash provided by operating activities	6,311	6,047	3,563
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	597	—	2,012
Maturities, prepayments and calls	15,784	10,146	12,205
Purchases	(25,828)	(13,259)	(22,082)
Purchase of certificates of deposit	(970)	—	—
Loans originated, net of payments received	(17,168)	(37,213)	(25,103)
Proceeds from sale of loans	1,083	—	—
Increase in Federal Home Loan Bank stock	(822)	(596)	(673)
Additions to banking premises and equipment	(1,003)	(151)	(582)
Net cash used in investing activities	(28,327)	(41,073)	(34,223)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Concluded)

	Years Ended December 31,		
	2001	2000	1999
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits, net	$ 24,460	$ 31,996	$ 14,773
Increase in mortgagors' escrow accounts	36	182	233
Proceeds from stock options exercised	71	—	515
Cash dividends paid on common stock	(1,496)	(1,309)	(1,080)
Net proceeds (repayments) of borrowings with maturities of less than three months	(3,570)	3,456	192
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	88,500	80,500	54,500
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(66,060)	(74,558)	(41,055)
Net cash provided by financing activities	41,941	40,267	28,078
Net increase (decrease) in cash and cash equivalents	19,925	5,241	(2,582)
Cash and cash equivalents at beginning of year	21,232	15,991	18,573
Cash and cash equivalents at end of year	$ 41,157	$ 21,232	$ 15,991
Supplementary information:			
Interest paid on deposit accounts	$ 8,144	$ 7,827	$ 6,668
Interest paid on borrowed funds	4,437	4,223	3,250
Income taxes paid, net of refunds	1,649	742	1,874

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 2001, 2000, and 1999

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 majority-owned subsidiary, Hingham Capital Corporation, a real estate investment trust ("REIT"), formed during 2000 which holds title to certain loans, and its wholly-owned subsidiary, Hingham Securities Corporation, which holds title to certain securities available 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 2000 and 1999 consolidated financial statements to conform to the 2001 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.

Certificates of deposit

Certificates of deposit mature within three years and are carried at cost.

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 securities that are deemed to be other than temporary are reflected in earnings when identified. Gains and losses on disposition of securities are recorded on the trade date and are determined using the specific identification method.

Loans

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and deferred fees or costs on originated loans. Interest income is accrued on the unpaid 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.

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 flow (or collateral value or observable market price) of the impaired loan is 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 subsidiary, Hingham Securities Corporation, file state and consolidated federal income tax returns based on an October 31 year end. Its subsidiary, Hingham Capital Corporation files state and federal income tax returns based on a December 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.

Advertising costs

Advertising costs are expensed as incurred.

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, 2001, 2000, and 1999, options applicable to 1,500 shares, 23,500 shares, and 4,500 shares, respectively, were anti-dilutive and excluded from the diluted earnings per share computations.

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

	Years Ended December 31,		
	2001	**2000**	**1999**
		(In Thousands)	
Average number of common shares outstanding	2,045	2,041	1,966
Effect of dilutive options	26	14	41
Average number of common shares outstanding used to calculate diluted earnings per common share	2,071	2,055	2,007

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 consolidated 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,		
	2001	2000	1999
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 771	$ 777	$ (514)
Reclassification adjustment for gains realized in income	(134)	—	(11)
Net unrealized gains (losses)	637	777	(525)
Tax effect	(219)	(292)	210
Net-of-tax amount	$ 418	$ 485	$ (315)

Subsequent accounting change

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, except for combinations between two or more mutual enterprises for which interpretative guidance will be issued at a later date. With the adoption of SFAS No. 142, effective January 1, 2002, goodwill is no longer subject to amortization over its estimated useful life, but will be subject to at least an annual assessment for impairment by applying a fair value based test. Additionally, under SFAS No. 142, acquired intangible assets (such as core deposit intangibles) should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of intent to do so. Unidentified intangible assets pertaining to branch acquisitions will continue to be amortized as such transactions are outside the scope of SFAS No. 142. Management does not anticipate that the adoption of this Statement will have a material impact on the consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2001 and 2000, 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, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and federal agency obligations	$ 43,684	$ 843	$ (74)	$ 44,453
Mortgage-backed - FHLMC	1,014	—	(6)	1,008
Mortgage-backed - FNMA	898	7	—	905
Total debt securities	45,596	850	(80)	46,366
Equity securities	3,000	255	(2)	3,253
Total securities available for sale	$ 48,596	$1,105	$ (82)	$ 49,619

	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

At December 31, 2001 and 2000, the Bank had pledged U.S. Government obligations with a fair value of $1,149,000 and $1,102,000, 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, 2001 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	$ 12,995	$ 13,205
Over 1 year to 5 years	30,689	31,248
	43,684	44,453
Mortgage-backed securities:		
Within 1 year	7	7
Over 5 years to 10 years	114	120
Over 10 years	1,791	1,786
	1,912	1,913
Total debt securities	$ 45,596	$ 46,366

For the years ended December 31, 2001 and 1999, proceeds from the sale of securities available for sale amounted to $597,000 and $2,012,000, respectively, resulting in gross realized gains of $134,000 and $11,000, respectively, and no gross realized losses. There were no sales of securities during 2000.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2001	December 31, 2000
	(In Thousands)	
Mortgage loans:		
Residential	$ 118,663	$ 113,673
Commercial	140,958	126,175
Construction	10,855	13,259
Equity lines of credit	12,060	10,502
Second mortgages	1,242	2,717
Total mortgage loans	283,778	266,326
Other loans:		
Personal installment	593	1,796
Commercial	176	373
Revolving credit	125	116
Total other loans	894	2,285
Total loans	284,672	268,611
Allowance for loan losses	(2,510)	(2,272)
Net deferred loan origination costs	224	229
Loans, net	$ 282,386	$ 266,568

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 $4,217,000, $4,041,000, and $4,637,000 at December 31, 2001, 2000, and 1999, 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,		
	2001	2000	1999
		(In Thousands)	
Balance at beginning of year	$ 2,272	$ 1,976	$ 1,729
Provision for loan losses	240	284	200
Loans charged off	(22)	(3)	(1)
Recoveries on loans previously charged off	20	15	48
Balance at end of year	$ 2,510	$ 2,272	$ 1,976

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

	December 31,	
	2001	2000
	(In Thousands)	
Impaired loans without a valuation allowance	$ —	$ 93
Non-accrual loans	$ —	$ 93

	Years Ended December 31,		
	2001	2000	1999
		(In Thousands)	
Average investment in impaired loans	$ 155	$ 211	$ 537
Interest income recognized on impaired loans	$ —	$ 50	$ 23
Interest income recognized on a cash basis on impaired loans	$ —	$ 50	$ 23

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 follows:

	December 31, 2001	December 31, 2000
	(In Thousands)	
Banking premises:		
Land	$ 873	$ 683
Buildings	3,549	3,069
Equipment	2,583	2,259
	7,005	6,011
Less accumulated depreciation	(3,204)	(2,833)
	$ 3,801	$ 3,178

Depreciation expense for the years ended December 31, 2001, 2000, and 1999 amounted to $380,000, $370,000, and $358,000, respectively.

6. DEPOSITS

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

	December 31, 2001	December 31, 2000
	(In Thousands)	
Regular	$ 43,611	$ 38,801
Money market deposits	33,122	23,001
NOW	17,408	14,743
Demand	28,226	24,615
Total non-certificate accounts	122,367	101,160
Term certificates less than $100,000	88,371	89,296
Term certificates of $100,000 or more	39,232	35,054
Total certificate accounts	127,603	124,350
Total deposits	$ 249,970	$ 225,510

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31,			
	2001		2000	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 113,239	4.41%	$ 104,693	5.91%
Over 1 year to 2 years	9,650	4.58	16,860	5.95
Over 2 years to 3 years	3,125	4.57	1,271	5.43
Over 3 years to 5 years	1,589	4.95	1,526	5.25
	$ 127,603	4.43%	$ 124,350	5.91%

A summary of interest expense on deposits is as follows:

	Years Ended December 31,		
	2001	2000	1999
	(In Thousands)		
Regular	$ 737	$ 773	$ 763
Money market deposits	662	582	638
NOW	86	79	115
Term certificates	6,660	6,395	5,132
	$ 8,145	$ 7,829	$ 6,648

7. FEDERAL HOME LOAN BANK ADVANCES

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

	December 31,			
	2001		2000	
Maturing During the Year Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
2001	$ —	—%	$ 48,000	6.40%
2002	28,500	3.73	1,000	5.83
2003	14,500	4.66	1,500	5.36
2004	14,500	4.72	—	—
2005	7,500	5.32	3,000	5.97
2006	3,500	4.00	—	—
Thereafter	28,327	5.38	24,387	5.56
	$ 96,827	4.63%	$ 77,887	6.09%

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 $29.5 million at December 31, 2001, 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, 2001.

8. INCOME TAXES

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

	Years Ended December 31, 2001	2000	1999
		(In Thousands)	
Current tax provision (benefit):			
Federal	$ 2,617	$ 2,257	$ 1,694
State	6	(29)	377
	2,623	2,228	2,071
Deferred tax benefit:			
Federal	(18)	(80)	(24)
State	(6)	(28)	(8)
	(24)	(108)	(32)
	$ 2,599	$ 2,120	$ 2,039

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, 2001	2000	1999
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	—	(0.6)	4.6
Other, net	(0.2)	—	—
Effective tax rates	33.8%	33.4%	38.6%

INCOME TAXES (continued)

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

	December 31, 2001	December 31, 2000
	(In Thousands)	
Deferred tax assets:		
Federal	$ 998	$ 980
State	344	338
	1,342	1,318
Deferred tax liabilities:		
Federal	(502)	(283)
State	(47)	(47)
	(549)	(330)
Net deferred tax asset	$ 793	$ 988

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

	December 31, 2001	December 31, 2000
	(In Thousands)	
Allowance for loan losses	$ 991	$ 885
Employee benefits	162	212
Other accrued expenses	97	134
Fees on loans	(146)	(137)
Net unrealized gain on securities available for sale	(348)	(129)
Other	37	23
Net deferred tax asset	$ 793	$ 988

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

	Years Ended December 31, 2001	2000	1999
	(In Thousands)		
Balance at beginning of year	$ 988	$ 1,172	$ 930
Deferred tax benefit	24	108	32
Deferred tax effects of net unrealized (gain) loss on securities available for sale	(219)	(292)	210
Balance at end of year	$ 793	$ 988	$ 1,172

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, 2001 and 2000, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2001	2000
	(In Thousands)	
Unused lines of credit	$ 18,093	$ 16,284
Commitments to originate loans:		
Commercial mortgages	15,598	11,466
Residential mortgages	13,386	4,039
Unadvanced funds on construction loans	6,872	6,527
Standby letters of credit	225	1,088

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 can generally be extended for one year periods. 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, 2001 and 2000, that the Bank meets all capital adequacy requirements to which it is subject.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2001, 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, 2001 and 2000 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, 2001						
Total Capital to Risk-Weighted Assets	$ 35,372	16.16%	$ 17,508	8.0%	$ 21,884	10.0%
Tier 1 Capital to Risk-Weighted Assets	32,862	15.02	8,754	4.0	13,131	6.0
Tier 1 Capital to Average Assets	32,862	8.81	14,926	4.0	18,657	5.0
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

11. STOCK OPTION PLANS

At December 31, 2001, 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,		
	2001	**2000**	**1999**
Net income:	(In Thousands, Except Per Share Amounts)		
As reported	$ 5,089	$4,227	$3,246
Pro forma	5,089	4,227	3,201
Earnings per common share:			
As reported	$ 2.49	$ 2.07	$ 1.65
Pro forma	2.49	2.07	1.63
Earnings per common share-assuming dilution for stock options:			
As reported	$ 2.46	$ 2.06	$ 1.62
Pro forma	2.46	2.06	1.59

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,		
	2001	**2000**	**1999**
Dividend yield	—	—	3.64%
Expected life	—	—	10 years
Expected volatility	—	—	21.41%
Risk-free interest rate	—	—	5.08%

STOCK OPTION PLANS (concluded)

Stock option activity is as follows:

	Years Ended December 31,					
	2001		2000		1999	
	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	83,500	$ 10.90	138,000	$ 7.91
Granted	—	—	—	—	22,000	15.14
Exercised	(6,500)	10.96	—	—	(76,500)	6.73
Outstanding at end of year	77,000	$ 10.90	83,500	$ 10.90	83,500	$ 10.90
Options exercisable at end of year	77,000	$ 10.90	83,500	$ 10.90	83,500	$ 10.90
Weighted average fair value of options granted during the year		$ —		$ —		$ 3.36

Options outstanding consist of the following:

	December 31,			
	2001		2000	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$23.500	1,500	7	1,500	8
16.000	3,000	8	3,000	9
15.000	17,000	8	19,000	9
12.250	4,500	6	4,500	7
9.167	30,000	5	34,500	6
8.500	18,000	4	18,000	5
5.916	3,000	2	3,000	3
	77,000		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,		
	2001	2000	1999
		(In Thousands)	
Service cost - benefits earned during year	$ 226	$ 205	$ 206
Interest cost on projected benefits	171	147	124
Expected return on plan assets	(243)	(204)	(170)
Net amortization and deferral	3	3	3
Amortization of net gain	(84)	(71)	(58)
Net periodic pension cost	$ 73	$ 80	$ 105

EMPLOYEE BENEFIT PLANS (concluded)

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

	Plan Years Ended October 31,	
	2001	**2000**
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 3,036	$ 2,545
Actual return (loss) on plan assets	(340)	381
Employer contribution	194	176
Benefits paid	(29)	(66)
Fair value of plan assets at end of year	2,861	3,036
Change in benefit obligation:		
Benefit obligation at beginning of year	2,213	1,891
Service cost	226	205
Interest cost	171	147
Actuarial loss	116	36
Benefits paid	(29)	(66)
Benefit obligation at end of year	2,697	2,213
Funded status	164	823
Unrecognized net actuarial gain	(564)	(1,348)
Unrecognized prior service cost	16	19
Accrued pension cost	$ (384)	$ (506)

For the plan years ended October 31, 2001, 2000, and 1999, actuarial assumptions include an assumed discount rate on benefit obligations of 7.75%, an annual salary increase of 5.50%, and an expected long-term rate of return on plan assets of 8.00% 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 a participant in the Plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. For the year ended December 31, 1999 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. Effective January 1, 2001, the Bank matched contributions up to 2% of an employee's compensation. For the years ended December 31, 2001 and 2000, expense attributable to the Plan amounted to $46,000 and $21,000, respectively.

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 $15,000 at December 31, 2001 and $17,000 at December 31, 2000. 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.

Certificates of deposit: Fair values for certificates of deposit are based upon quoted market prices.

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, 2001 and 2000, 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,			
	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 41,157	$ 41,157	$ 21,232	$ 21,232
Certificates of deposit	970	970	—	—
Securities available for sale	49,619	49,619	39,440	39,440
Federal Home Loan Bank stock	4,841	4,841	4,019	4,019
Loans, net	282,386	286,613	266,568	267,272
Accrued interest receivable	1,978	1,978	2,057	2,057
Financial liabilities:				
Deposits	249,970	251,498	225,510	225,518
Federal Home Loan Bank advances	96,827	96,174	77,887	77,508
Other borrowed funds	134	134	204	204
Accrued interest payable	404	404	414	414

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2001 and 2000 are as follows:

	Years Ended December 31,							
	2001				2000			
	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	$ 6,422	$ 6,585	$ 6,545	$ 6,489	$ 6,342	$ 6,143	$ 5,865	$ 5,595
Interest expense	2,912	3,146	3,201	3,312	3,266	3,171	2,917	2,751
Net interest income	3,510	3,439	3,344	3,177	3,076	2,972	2,948	2,844
Provision for loan losses	60	60	60	60	90	60	80	54
Net interest income, after provision for loan losses	3,450	3,379	3,284	3,117	2,986	2,912	2,868	2,790
Other income	244	207	217	357	257	201	209	192
Operating expenses	1,681	1,649	1,641	1,596	1,574	1,498	1,505	1,491
Income before income taxes	2,013	1,937	1,860	1,878	1,669	1,615	1,572	1,491
Income tax provision	678	655	631	635	518	555	540	507
Net income	$ 1,335	$ 1,282	$ 1,229	$ 1,243	$ 1,151	$ 1,060	$ 1,032	$ 984
Earnings per common share:								
Basic	$ 0.65	$ 0.63	$ 0.60	$ 0.61	$ 0.56	$ 0.52	$ 0.51	$ 0.48
Diluted	$ 0.64	$ 0.62	$ 0.59	$ 0.60	$ 0.56	$ 0.52	$ 0.50	$ 0.48
Cash dividends declared per common share	$ 0.31(1)	$ 0.15	$ 0.15	$ 0.15	$ 0.28(2)	$ 0.14	$ 0.13	$ 0.13

(1) Includes a special dividend of $0.16 per common share declared on November 20, 2001.

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

Stockholder Information

Hingham Institution for Savings
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(781) 749-2200

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Investor Inquiries
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Vice President - Administration

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Boston, MA 02109

Form 10-K
A copy of the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, 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, 2001, there were approximately 483 stockholders of record, holding 1,038,887 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
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
2001		
First Quarter	19.00	16.50
Second Quarter	21.90	18.50
Third Quarter	27.00	21.55
Fourth Quarter	24.25	22.25

The closing sale price of the Bank's common stock at December 31, 2001 was $23.70 per share.

Branch Offices

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13 Elm Street
Cohasset, MA 02025

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Main Office
55 Main Street
Hingham, MA 02043

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Hingham, MA 02043

Drive-Up
71 Main Street
Hingham, MA 02043

South Hingham
37 Whiting Street
Hingham, MA 02043

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