2004 ANNUAL REPORT

Community banking for generations

Hingham Institution for Savings

A COMMITMENT FOR THE AGES

Since 1834, the bank has helped generations of South Shore residents pursue their dreams and realize their goals. From the WWII generation, to the baby boomers, Gen-X and now Gen-Y, we treat everyone with respect and genuine warmth. Our commitment to helping customers and building our community is reflected in the Bank's innovative products and services.

This year we introduced a unique, highly affordable mortgage program for entry-level homebuyers. We have expanded our line of business banking products with offerings that are well suited for our small business customers. We foster excellence and leadership within our community through active scholarship programs for our next generation.

For the Bank, taking care of business means taking good care of all our customers, from the young to our senior citizens.

Our new full-service branch at Linden Ponds features thoughtful lobby accommodations designed to meet the varied needs of this retirement community. These innovations are a nice complement to our usual high standards of personal service.

Additionally, pride in the community is shown in our respect for our rich heritage. We work closely with entrepreneurs who, while focused on the future, take time to preserve what's best from the past.

We are a local bank making local decisions. This means we can respond quickly to market conditions with new products that yield value, are relevant, well priced, and truly serve our customers. The Bank has a solid understanding of the local business market and makes smart investment decisions that reinforce our standards for quality, profitability, and community preservation.

Our loans are serviced locally. Our call center is staffed by our own Bank personnel. Our emphasis on personal interaction keeps us close to our customers, and sensitive to their needs.

For longer than any of us can remember, the Bank has been an integral part of our community, its residents, and its spirit. We plan to continue on this path for generations to come.

FROM THE PRESIDENT

Dear Fellow Shareholders:

For 171 years, the bank has served generations of South Shore residents, from Daniel Webster and his contemporaries, to today's elementary schoolchildren opening their first savings account.

This past year, we continued this commitment to providing financial assistance to all of our citizens by building relationships with college students, first-time homebuyers, small businesses owners, experienced entrepreneurs, and energetic seniors.

During 2004, increased business with customers from across the generations produced a 13% increase in total assets, a 15% increase in total deposits, and a 16% increase in total loans. Strong growth allowed us to achieve a 9% increase in net income, which, for the year ended December 31, 2004, was $5,824,000 or $2.80 per share as compared to $5,354,000 or $2.58 per share in 2003. These numbers represent a strong return on equity of 13.56%. This is the best return on equity of all 74 state-chartered Savings Banks in Massachusetts for 2004. In fact, we have had the best return on equity of this group in 3 out of the last 4 years.

This performance allowed us to increase dividends declared to stockholders for the 11th consecutive year.

The Bank's asset quality also remained strong. As of December 31, 2004, the Bank had no foreclosed property and only one loan was nonperforming, representing a minimal 0.03% of total assets.

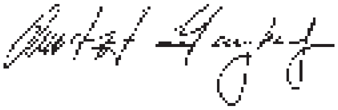
While we achieved enviable earnings, the entire financial industry continued to experience pressure associated with margin compression. Our customer relationships, carefully developed over time, allowed us to mitigate that pressure by significantly increasing the size of our balance sheet.

The Bank actively pursued the execution of a clear strategy, emphasizing quality service, consistent growth, and effective cost control. This focus provided us with the foundation for extraordinary results.

We look forward to continued active involvement with the individuals, families, and organizations that make up our communities. We anticipate that our philosophy of "Simple Banking. Honest Value. Happy Customers." will benefit our shareholders, customers, and employees alike for generations to come.

Thanking you for your support, I am

Very truly yours,



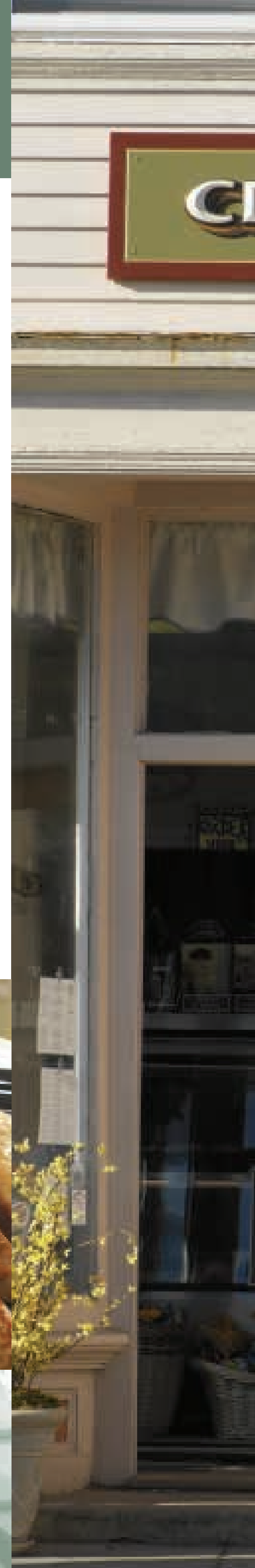
Robert H. Gaughen, Jr.
President

BRINGING BEAR NECESSITIES TO HINGHAM SQUARE

Jim and Brenda Pierotti, proprietors of the Cinnamon Bear Cafe on South Street, demonstrate a deep commitment to both history and community on a daily basis. The cafe's mascot is a fun, life-sized bear. It appears locally at special events, as do Jim and Brenda who participate in many celebrations and fundraisers. The Pierottis bank with us because we share their strong sense of community and personal service. Our business customers can choose from a straightforward product line without high fees, including Business Money Market accounts and CDs. They can manage their accounts with any one of our convenient 24/7 banking options, such as our popular *BusinessOnline* service. As businesses grow, so do our service offerings, with generous employee benefit packages, flexible financing for expansion, and automated banking services. The Pierottis and the Cinnamon Bear Cafe are a welcome addition to Hingham Square, and we consider them the caliber of customer with whom we couldn't bear to part.

"We love Hingham-I've even written a book about it. Community banking is important to us, and we are very pleased with the personal service that we've experienced at Hingham Institution for Savings."

Jim Pierotti
Owner, Cinnamon Bear Cafe

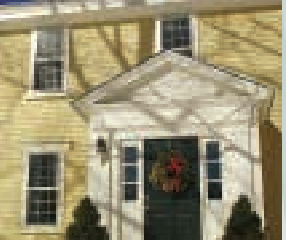


INNAMON BEAR Cafe
Featuring Boar's Head Sandwiches
CINNAMON BEAR Cafe
CINNAMON BEAR Cafe
COLD DRINKS

Mike McGrath and Dawn Jacobs hoped that their first home would be close to family and friends in Quincy. After two months of hunting, they found their ideal three-bedroom Cape Cod style home in a quiet neighborhood of nearby Weymouth. They also found a bank with just the right mortgage. Our 20/20 Mortgage is the brainchild of Hingham Institution for Savings loan officers who live in the areas we serve. They know first-hand the challenges a young couple like Mike and Dawn face in a high-priced housing market. The 20/20 Mortgage provides first-time buyers with an initial fixed rate, forty-year term, with no rate adjustment until the twentieth year. This gives borrowers the lowest possible monthly payment and some financial breathing space as they enjoy their new home. The 20/20 Mortgage is a real eye-opener, as well as a front door opener.

"We got a mortgage we can afford and bought a great house. The innovative loan program from Hingham made it all possible for us. We're thrilled."

Mike McGrath and Dawn Jacobs
First-time homebuyers



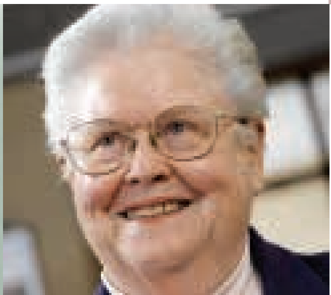
LENDING CHARACTER TO THE COMMUNITY

Over the past ten years the Bank has financed several projects undertaken by the Hastings Companies, a local real estate development firm. Recent Hastings Companies renovations include the Ebenezer Gay House, an elegant Colonial on North Street dating back to 1724, the Daniel Shute Homestead at Main and South Pleasant Streets, and the Langley-Nye Tavern on North Street. Constructed before 1687, the tavern is considered one of the most historically and aesthetically important buildings in Hingham. We're proud to be participating in preservation and revitalization projects such as these. Seasoned lenders with deep roots in the area's business economy run our commercial real estate program. Our impressive record of success can be attributed to a solid understanding of the local real estate market and good judgment, which reinforce our standards for quality and community preservation. These same principles apply to our financing of renovation projects in Boston's South End and Back Bay as well those on the South Shore. Tom Hastings shares our passion for maintaining our historic heritage. After all, like us, he lives and works here.

"The Bank's interest in and understanding of the need to restore the historical landmarks in Hingham Square match my interest in undertaking these projects. This quality in a bank is unique and valuable to the Town."

Tom Hastings
CEO, Hastings Companies

October 18, 2004 marked the opening of our new branch, located at the Linden Ponds retirement community in South Hingham. Our strong standards for quality and service are a good fit with the Erickson development team, industry leaders in creating vibrant retirement communities. Our full-service branch has been specially designed with the Linden Ponds customer in mind. Located at the heart of the Welcome Center, our lobby is open and inviting. Ample seating and sit-down teller stations encourage conversation in an unhurried atmosphere. Customers are treated as guests, and our amenities offer every convenience. Residents stop in often on their way to the pool or any one of more than a hundred activities. They have questions that range from help in switching their accounts to us, to advice on IRAs and CDs or assistance with online banking. As with all of our branches, our upbeat and personable staff is knowledgeable on every aspect of our banking services. Our branch at Linden Ponds is a resounding success, and we are proud to be their neighborhood bank.



"I've banked with Hingham Institution for Savings for more than 50 years, and the good service and smiles are always there to greet me. It's a pleasure doing business with them."

Dorothy Wagstaff
Former Hingham Centre resident and new Linden Ponds resident.

ONBOARD WITH A SCHOLARSHIP FUND

The nation's oldest co-ed maritime college, the Massachusetts Maritime Academy, prepares students for successful careers on land or at sea. The bank is honored to support the student body at Mass. Maritime with the Hingham Institution for Savings Scholarships. These need-based scholarships are typically awarded to four area students. Hingham's commercial connection with the sea dates back to the 1600s and continues through the years. In the 1700s, the town's shipyards, fishing fleets and maritime industries were thriving. In the 19th century, the founders of the bank also established the Hingham, Hull and Downer Landing Steamboat Company to ferry passengers to and from Boston. Seafaring no longer plays a significant role in the local economy, but our Mass. Maritime Scholarships represent support and appreciation for our long maritime heritage. In addition to The Academy, we support learning institutions throughout our community, including Derby Academy, Notre Dame Academy, the South Shore Conservatory of Music, and others.

"We're delighted with the Bank's active participation in our college and the generosity the bank has shown towards our young men and women. They are among Hingham Savings' best investments in the future. We at the academy salute you."

Commodore Richard G. Gurnon
Acting President, Massachusetts Maritime Academy

SENIOR OFFICERS

Top row (left to right):
Shawn T. Sullivan
Vice President-Commercial Lending

Edward P. Zec
Vice President

Michael J. Sinclair
Vice President-Retail Lending

Peter R. Smollett
Vice President-Commercial Lending

Thomas I. Chew
Vice President-Branch Operations

Front row (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

William G. Bowers, Jr.
Vice President-Commercial Lending

Top row (left to right):

Julio R. Hernando, Esq.
Geoffrey C. Wilkinson, Sr.
Howard M. Berger, Esq.
Kevin W. Gaughen, Esq.
Ronald D. Falcione
Robert A. Lane, Esq.

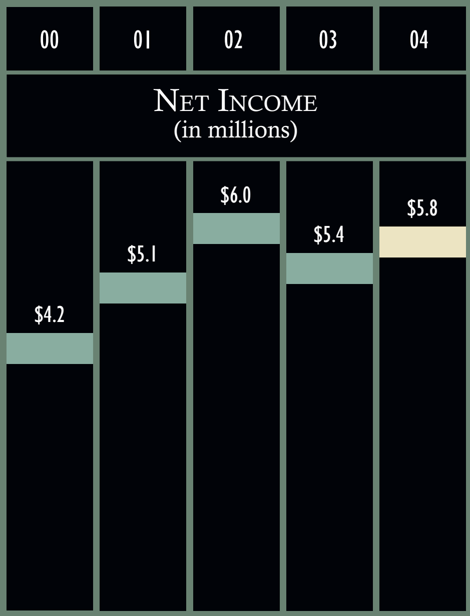
Second row (left to right):

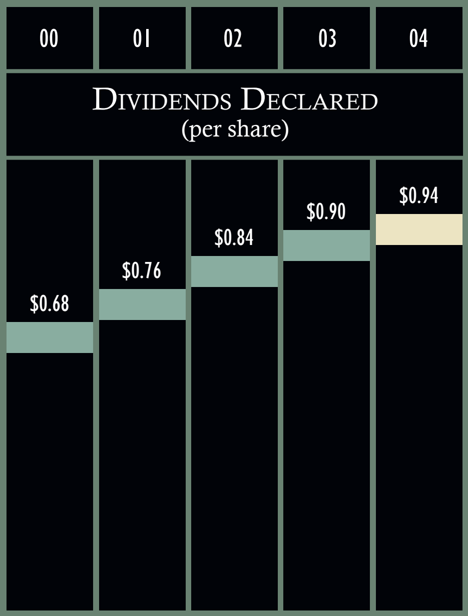
Warren B. Noble
Donald M. Tardiff M.D.
Stacey M. Page
Joseph A. Ribaudo, CPA
James R. White
Marion J. Fahey
Edward L. Sparda

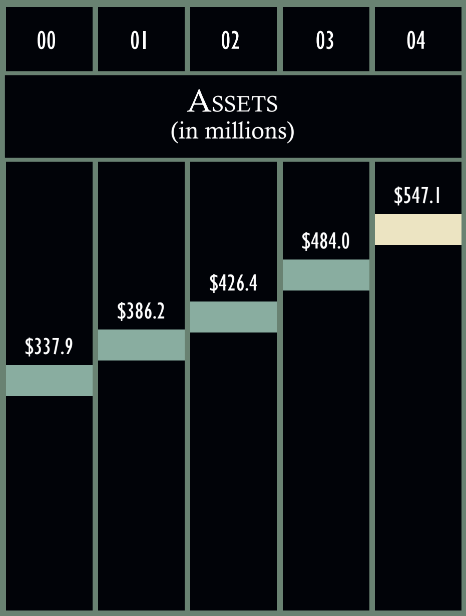
Front row (left to right):

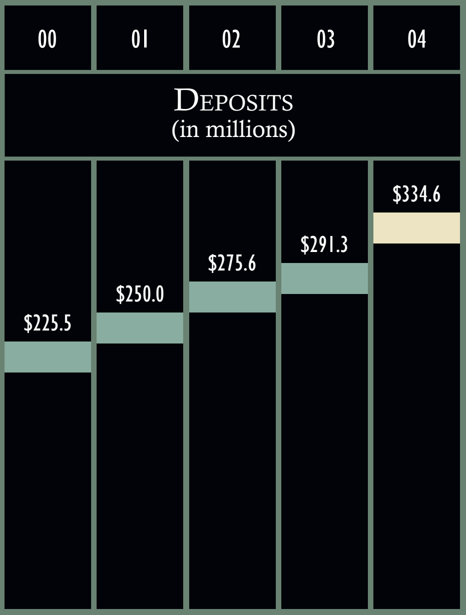
Jacqueline M. Youngworth
Robert H. Gaughen, Jr., Esq.
James V. Consentino

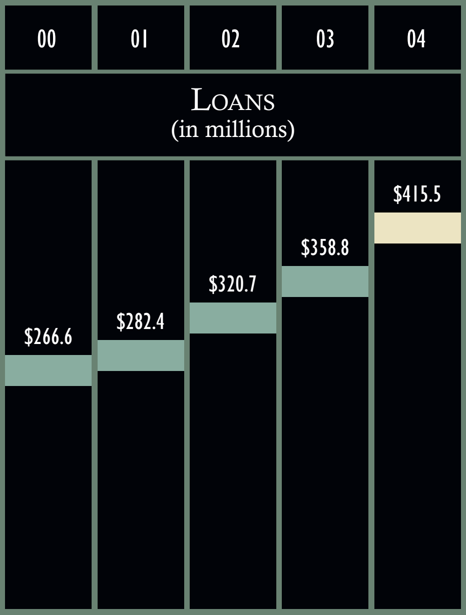
FINANCIAL HIGHLIGHTS











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,				
	2004	2003	2002	2001	2000
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 547,051	$ 483,954	$ 426,430	$ 386,181	$ 337,881
Securities available for sale	85,815	74,007	49,333	49,619	39,440
Loans:					
Residential mortgage	194,552	170,491	153,293	130,723	124,175
Commercial mortgage	203,390	174,077	156,683	142,200	128,892
Construction, net	19,851	15,924	12,482	10,855	13,259
Other	431	923	765	894	2,285
Allowance for loan losses	3,070	2,992	2,810	2,510	2,272
Deposits	334,569	291,313	275,573	249,970	225,510
Federal Home Loan Bank advances	164,668	148,701	106,386	96,827	77,887
Other borrowed funds	—	—	394	134	204
Stockholders' equity	44,323	40,913	38,202	33,537	29,501

	Years Ended December 31,				
	2004	2003	2002	2001	2000
		(In Thousands, Except Per Share Amounts)			
Income Statement Data:					
Total interest and dividend income	$ 26,151	$ 25,558	$ 25,801	$ 26,041	$ 23,946
Total interest expense	9,154	9,035	10,422	12,571	12,105
Net interest income	16,997	16,523	15,379	13,470	11,841
Provision for loan losses	80	182	200	240	284
Other income	1,565	1,753	1,606	1,025	858
Operating expenses	9,185	8,325	7,715	6,567	6,068
Income before income taxes	9,297	9,769	9,070	7,688	6,347
Income tax provision	3,473	4,415	3,090	2,599	2,120
Net income	$ 5,824	$ 5,354	$ 5,980	$ 5,089	$ 4,227
Earnings per common share:					
Basic	$ 2.80	$ 2.58	$ 2.91	$ 2.49	$ 2.07
Diluted	$ 2.77	$ 2.56	$ 2.87	$ 2.46	$ 2.06
Financial Ratios:					
Return on average assets	1.14%	1.18%	1.48%	1.43%	1.35%
Return on average equity	13.56	13.53	16.58	15.95	15.17
Average equity to average assets	8.42	8.75	8.92	8.98	8.91
Interest rate spread	3.20	3.50	3.51	3.31	3.29
Net yield on average earning assets	3.47	3.81	3.94	3.90	3.90
Dividend payout ratio (basic)	33.57	34.88	28.87	30.52	32.85
Efficiency ratio	49.70	46.68	47.10	45.73	47.78
Cash dividends declared per common share	$ 0.94	$ 0.90	$ 0.84	$ 0.76	$ 0.68
Book value per common share	$ 21.29	$ 19.68	$ 18.48	$ 16.38	$ 14.46

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

SIGNIFICANT ACCOUNTING POLICIES; CRITICAL EARNINGS ESTIMATES

The Bank's consolidated financial statements are prepared in conformity with United States generally accepted accounting principles, or "U.S. GAAP," including prevailing practices within the financial services industry. The preparation of consolidated financial statements requires management to make judgments, involving significant estimates and assumptions, in the application of certain of its accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available as of the date of the consolidated financial statements, and changes in this information over time could materially impact amounts reported in the consolidated financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the relatively more significant accounting policy followed by the Bank has been identified by management as the determination of the allowance for loan losses. This policy requires the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying this accounting policy is essential in order to understand our reported financial condition and results of operations. This accounting policy and its application in recent periods is described in more detail in the "Provision for Loan Losses" section of this discussion and analysis and in Note 1 to the Consolidated Financial Statements contained in this annual report.

COMPARISON OF THE YEARS 2004, 2003, and 2002

RESULTS OF OPERATIONS

For the year ended December 31, 2004, the Bank earned $5.8 million as compared to $5.4 million in 2003 and $6.0 million in 2002. On a per-share basis, the Bank earned $2.80 in 2004, $2.58 in 2003, and $2.91 in 2002. On a dilutive basis, which assumes that certain stock options have been exercised, earnings per share were $2.77 in 2004, $2.56 in 2003, and $2.87 in 2002. The increase in earnings in 2004 over 2003 and the decrease in earnings in 2003 over 2002 were due primarily to a retroactive change in Massachusetts state tax laws which reduced 2003 earnings by $0.34 per share ($0.33 per share on a diluted basis). On a pre-tax basis, the Bank's earnings were $9.3 million, $9.8 million and $9.1 million for 2004, 2003 and 2002, respectively. The decrease in pre-tax earnings in 2004 over 2003 was due primarily to increased expenses and a reduction in the gain on sales of securities, offset in part by improvement in net interest income.

Net interest income increased in each of the three years and was achieved primarily from growth in earning assets. In particular, net loan growth of $56.8 million, $38.1 million and $38.3 million for 2004, 2003 and 2002, respectively, resulted from loan originations of $161.6 million in 2004, $204.5 million in 2003 and $158.7 million in 2002. Customer service fees on deposits grew steadily over each of the three years. For 2004 and 2003, there were gains on sales of securities available for sale in the amounts of $80,000 and $441,000, respectively. Included in earnings in 2002 was the $605,000 gain on termination of the Bank's defined benefit pension plan.

Partially offsetting improvements in earnings were increases in expenses in each of the three years, resulting primarily from increased salaries and employee benefits expenses, occupancy and equipment expenses, and data processing expenses. Despite increased expenses, the Bank's efficiency ratio, which measures the percent of net operating revenues consumed by operating expenses, remained below 50.0% for all three years and was 49.7% for 2004 as compared to 46.7% for 2003 and 47.1% for 2002.

Net Interest Income

Market interest rates, which had been at their lowest in nearly forty years, began to rise in the latter half of 2004. As a result, the Bank's net interest margin tightened to 3.47% for 2004 from 3.81% for 2003 and 3.94% for 2002. Despite the declining margin, the Bank reported steady increases in net interest income due to increased loan volume. Historically high mortgage prepayment rates of 2002 and 2003 slowed considerably in 2004. Loan originations declined 21% in 2004 over 2003; however, average loans grew 13% for 2004 and 12% for 2003.

The Bank reported $17.0 million in net interest income for 2004 as compared to $16.5 million in 2003 and $15.4 million in 2002. This positive trend was primarily the result of continued growth in loans which were the most significant component of assets, accounting for approximately 79% of average total earning assets in each of the past three years. Outstanding loans averaged $387.2 million for 2004 as compared to $343.6 million for 2003 and $307.4 million for 2002. Average other earning assets, consisting of securities and short-term investments, grew by $12.0 million in 2004 over 2003 and by $7.7 million in 2003 over 2002.

Interest income is derived from commercial and residential mortgages, home equity, installment and commercial loans, the securities portfolio, and short-term investments. For 2004, 2003 and 2002, interest income totaled $26.2 million, $25.6 million, and $25.8 million, respectively. The Bank achieved these results by continuing its focus on real estate lending. Average total earning assets increased $55.7 million, or 13%, in 2004 over 2003 and $43.9 million, or 11%, in 2003 over 2002. Interest income is also impacted by prepayment penalties which totaled $299,000 for 2004 as compared to $402,000 for 2003 and $242,000 for 2002. The Bank earned an average yield of 5.3% on its assets in 2004 as compared to 5.9% in 2003 and 6.6% in 2002, which reflected lower market rates. Beginning in the third quarter of 2004, and continuing through the first quarter of 2005, market interest rates rose. As a result, adjustable rate mortgages and investments held by the Bank will be positively impacted in future periods.

In response to market conditions of 2002, 2003 and the first half of 2004, the Bank lowered the rates it paid on each of its interest bearing deposit accounts. Despite rising market rates in the latter half of 2004, the Bank held most of its deposits at these low rates. As a result, the average rate paid on certificates of deposit, NOW, savings, and money market deposit accounts decreased a total of 17 basis points in 2004 over 2003 and 75 basis points in 2003 over 2002. Despite the low rates, the Bank continued to attract new deposits as evidenced by the 11% increase in total average deposit balances in 2004 over 2003 and the 9% increase in 2003 over 2002. The Bank's ability to retain these deposits will depend, in part, on offering competitive market interest rates in future periods. In response to such competition, the Bank offered special-term certificates of deposit at rates higher than comparably-termed certificates, in the first quarter of 2005.

Interest expense on borrowed funds increased in each of the past three years due to the increased volume of borrowed funds, partially offset by declines in market rates. The average cost of funding decreased to 3.21% for 2004 as compared to 3.72% for 2003 and 4.49% for 2002. To mitigate the effect of rising market rates, the Bank refinanced most maturing FHLB borrowings to shorter terms. However, the interest expense on borrowings in future periods will be dependent on market interest rates and borrowing terms.

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 loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types, as well as other factors. (Refer to Note 1 to the Consolidated Financial Statements for more details.) The provision for loan losses for 2004 was $80,000 as compared to $182,000 in 2003 and $200,000 in 2002. As a percentage of the gross loan portfolio, the allowance for loan losses declined to 0.73% for 2004, from 0.83% for 2003 and 0.87% for 2002. Generally, the decline in the provision for loan losses over the three years reflects the absence of significant loan charge-offs, low delinquency rates and stability in real estate values.

Other Income

Other income was $1.6 million in 2004, $1.8 million in 2003 and $1.6 million in 2002. Excluding discretionary items, such as the gains on sales of securities in 2004 and 2003 and the gain on termination of the Bank's pension plan in 2002, other income grew steadily in each of the past three years.

Fees earned on customer accounts were $820,000 for 2004, $751,000 for 2003 and $698,000 for 2002. Customer service fee

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,					
	2004 Compared to 2003 Increase (Decrease)			2003 Compared to 2002 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 2,772	$ (2,220)	$ 552	$ 2,555	$(2,481)	$ 74
Securities	461	(398)	63	797	(859)	(62)
Short-term investments and certificates of deposit	(55)	33	(22)	(220)	(35)	(255)
Total interest and dividend income	3,178	(2,585)	593	3,132	(3,375)	(243)
Interest expense:						
Interest-bearing deposits:						
NOW	—	(9)	(9)	2	(25)	(23)
Money market deposits	355	9	364	325	(128)	197
Regular	6	(112)	(106)	70	(306)	(236)
Term certificates	54	(333)	(279)	(298)	(1,062)	(1,360)
Total interest-bearing deposits	415	(445)	(30)	99	(1,521)	(1,422)
Borrowed funds	842	(693)	149	909	(874)	35
Total interest expense	1,257	(1,138)	119	1,008	(2,395)	(1,387)
Net interest income	$ 1,921	$ (1,447)	$ 474	$ 2,124	$ (980)	$ 1,144

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

	Years Ended December 31,								
	2004			2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 386,480	$ 23,561	6.10%	$ 342,785	$ 23,005	6.71%	$ 306,508	$ 22,916	7.48%
Commercial loans	74	9	12.16	100	10	10.00	154	16	10.39
Other loans	671	47	7.00	683	50	7.32	726	59	8.13
Total loans (1) (2)	387,225	23,617	6.10	343,568	23,065	6.71	307,388	22,991	7.48
Securities (3) (4)	86,777	2,307	2.66	70,728	2,244	3.17	52,196	2,306	4.42
Short-term investments and certificates of deposit	15,808	227	1.44	19,837	249	1.26	30,675	504	1.64
Total earning assets	489,810	26,151	5.34	434,133	25,558	5.89	390,259	25,801	6.61
Other assets	20,426			18,207			14,077		
Total assets	$ 510,236			$ 452,340			$ 404,336		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW (5)	$ 19,212	20	0.10	$ 19,291	29	0.15	$ 18,436	52	0.28
Money market deposits	82,128	1,272	1.55	59,179	908	1.53	38,922	711	1.83
Regular	54,391	201	0.37	53,312	307	0.58	46,533	543	1.17
Term certificates	121,907	2,826	2.32	119,796	3,105	2.59	128,908	4,465	3.46
Total interest-bearing deposits	277,638	4,319	1.56	251,578	4,349	1.73	232,799	5,771	2.48
Borrowed funds	150,512	4,835	3.21	125,910	4,686	3.72	103,538	4,651	4.49
Total interest-bearing liabilities	428,150	9,154	2.14	377,488	9,035	2.39	336,337	10,422	3.10
Demand deposits	37,638			33,041			28,046		
Other liabilities	1,495			2,250			3,881		
Stockholders' equity	42,953			39,561			36,072		
Total liabilities and stockholders' equity	$ 510,236			$ 452,340			$ 404,336		
Net interest income		$ 16,997			$ 16,523			$ 15,379	
Weighted average rate spread			3.20%			3.50%			3.51%
Net yield on average earning assets (6)			3.47%			3.81%			3.94%

(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.

income in each of the three years was derived primarily from deposit account transaction fees and ATM/debit card usage fees. The increases resulted primarily from the volume of fee-based transactions and, to a significantly lesser degree, modest increases in the schedule of fees. Partially offsetting improvements in this area was a decline in fees earned on debit card transactions resulting from a settlement arrangement between MasterCard® and retailers in April 2003.

Contributing to other income in each of the three years was the increase in the cash surrender value of life insurance policies. Approximately $7.3 million in such assets were purchased in August 2002 and an additional $2.8 million were purchased in November 2003. Income from these assets is fully excludable from Federal income taxes and contributed $457,000 to other income in 2004, $347,000 in 2003 and $120,000 for 2002.

Other income is also comprised of net gains or losses on sales of investments. Generally, the Bank holds investment securities until their maturity. However, in 2004, the Bank sold $6.0 million in available-for-sale agency securities and reported an $80,000 gain on sales of securities. In 2003, the Bank sold its investment in preferred stocks and reported a $441,000 gain on sales of securities. There were no such sales in 2002.

Operating Expenses

Total operating expenses declined steadily in each of the past three years as a percentage of average total assets, despite increasing in absolute dollars.

Salaries and employee benefits were the largest component of operating expenses at $5.5 million for 2004, $4.8 million for 2003, and $4.4 million for 2002. Contributing to the increase in salaries and employee benefits expenses in each year was the adoption of a Supplemental Employee Retirement Plan for certain Bank officers, which accounted for $508,000 in expense for 2004, $264,000 for 2003 and $87,000 for 2002. The Plan is funded by the after-tax increase in the cash value of life insurance policies, as previously described. For more information about this topic, please refer to Note 12 - Employee Benefit Plans. Annual merit-based salary increases and a modest increase in staff for the Bank's newest branch have also contributed to the increase in this category. In addition, for 2004, salaries and employee benefits expenses increased as a result of the reduction of deferred loan origination expenses, due to the decrease in loan originations.

In May 2002, the Bank terminated its defined benefit pension plan and simultaneously enhanced its 401(k) defined contribution plan retroactive to January 1, 2002. The modifications to the pension plans have allowed the Bank to exercise greater control over pension expenses. For 2004 and 2003, 401(k) defined contribution expenses were $205,000 and $198,000, respectively. For 2002, defined benefit and defined contribution plan expenses were $266,000 and reflected the rising costs of the defined benefit plan prior to its termination and the retroactive enhancement and increased participation in the 401(k) defined contribution plan.

Data processing expenses increased $78,000 in 2004 over 2003 and $75,000 in 2003 over 2002 due primarily to the volume of customer accounts and increased usage of the Bank's internet services.

Occupancy and equipment expenses increased over the three years. In 2004, the Bank opened its seventh office, located within the newly developed Linden Ponds Retirement Community in Hingham, Massachusetts. In 2003, the Bank remodeled its South Hingham branch office and upgraded computer equipment. In 2002, the Bank relocated its Main Office drive-up teller facility to 71 Main Street to provide enhanced customer convenience as well as the addition of office space for administrative staff.

Legal expenses were $18,000 for 2004 as compared to $102,000 and $117,000 for 2003 and 2002, respectively. In 2003, the Bank incurred expenses pertaining to the settlement of the Commonwealth of Massachusetts Department of Revenue ("DOR") tax assessment and the settlement of a Bank-initiated lawsuit to collect a check loss. Legal expenses in 2002 related to one-time expenditures associated with the modifications to the Bank's retirement plans and the assessment appeal to the DOR which pertained to the tax treatment of dividends paid to the Bank by its former real estate investment trust subsidiary.

All other operating expenses were $2.0 million for 2004, $1.9 million for 2003, and $1.8 million for 2002. These expenses include audit fees, advertising, directors' fees, supplies and other items. The increase in 2004 over 2003 is due in part to increased advertising and marketing expenditures. The increase in 2003 over 2002 is primarily attributable to increased internal audit fees, offset in part by the partial collection of a check loss. Increased audit fees are anticipated in 2005 due to compliance with the internal control provisions required by the FDIC Improvement Act.

Income Taxes

The Bank's effective tax rate for 2004, 2003 and 2002 was 37.4%, 45.2% and 34.1%, respectively Included in tax expense for 2003 was $700,000 related to the settlement of a retroactive tax assessment. Excluding this assessment, the Bank's effective tax rate for 2003 was 38.0%.

Beginning in the year 2000 and continuing throughout 2002, the Bank accrued taxes based on the Massachusetts state tax law which allowed for the deduction of 95% of the dividends paid to the Bank by its former real estate investment trust subsidiary. In 2003, the Massachusetts legislature enacted a law which disallowed such deductions, retroactive to tax periods beginning in 1999. The Bank subsequently reached an agreement with the Massachusetts Department of Revenue ("DOR"), whereby the Bank would be liable to the DOR for fifty percent of the cumulative amount of taxes due, which was paid in 2003.

COMPARISON OF THE YEARS 2004 AND 2003

BALANCE SHEET ANALYSIS

The Bank had total assets of $547.1 million at December 31, 2004, an increase of $63.1 million, or 13%, from the $484.0 million level at year end 2003.

Loans

At December 31, 2004, the Bank reported net loans of $415.5 million, or 76% of total assets. Comparably at December 31, 2003, net loans were $358.8 million, or 74% of total assets. In 2004, the Bank originated $161.6 million in mortgage and other loan products which resulted in net loan growth of $56.8 million. Comparably for 2003, the

Bank originated $204.5 million which resulted in net loan growth of $38.1 million. The Bank experienced an overall principal repayment rate of approximately 21% in 2004 as compared to 41% for 2003. At December 31, 2004 and 2003, mortgage loans accounted for more than 99% of gross loans with residential mortgages and home equity loans representing approximately 47% of the mortgage portfolio in both 2004 and 2003, respectively. Commercial mortgages represented 48% of the mortgage portfolio in 2004 and 47% in 2003.

The Bank's lending strategy during 2004 and 2003 has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. During 2004, the Bank launched a new residential loan product called the 20/20 Mortgage. This is a forty-year mortgage with a fixed rate that is subject to change, one time, at the end of the first twenty-year period. Other 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, 2004 and 2003, the allowance had a balance of $3.1 million and $3.0 million, respectively. The allowance is maintained at a level adequate to absorb losses. The allowance is reviewed by senior management on at least a quarterly basis to determine its adequacy. Factors considered include loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types, as well as other factors. (Refer to Note 1 to the Consolidated Financial Statements for more details.) Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. Recoveries are recorded as additional reserves when received. For 2004, there was a single charge-off in the amount of $3,000, of which $1,000 was subsequently recovered. For 2003, there were no loan charge-offs or recoveries.

The Bank reported a single non-accrual loan at December 31, 2004 with an outstanding balance of $170,000, as compared to $172,000 at December 31, 2003. As a percentage of total loans, this non-accrual loan was 0.04% and 0.05% at December 31, 2004 and 2003, respectively.

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, 2004, the portfolio was comprised of agency, mortgage-backed, and a single equity issue for a total of $85.8 million, or 16% of total assets, as compared to $74.0 million, or 15% of total assets, at year end 2003. At December 31, 2004 and 2003, at least 98% of the securities in the portfolio were issued or guaranteed by U.S. Government agencies or U.S. Government sponsored agencies.

At December 31, 2004, 76% of the portfolio consisted of agency bond issues. For the most part, these securities are offered at a fixed rate and term and at spreads above comparable U.S. Treasury issues. Approximately 9% of this portfolio is subject to redemption at dates earlier than the stated maturity at the discretion of the issuer.

Approximately 22%, or $18.8 million, was comprised of mortgage-backed securities, a decrease of $5.7 million over the balances held at December 31, 2003. Mortgage-backed 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.

The portfolio also includes an investment in the CRAFund, a mutual fund which invests in securities which qualify under the Community Reinvestment Act ("CRA") securities test.

At year end 2004 and 2003, the entire investment portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive loss, a separate component of stockholders' equity. The unrealized loss on the investment portfolio amounted to $789,000, net of tax effects, at December 31, 2004 as compared to $265,000 at year end 2003, reflecting a decline in market conditions. The fair value of securities fluctuates with the movement of interest rates. Generally, during periods of rising interest rates, the fair values decrease whereas the opposite may hold true during a falling interest rate environment.

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment which, at December 31, 2004, was $8.5 million, or approximately 5% of the Bank's current borrowings balance. The stock pays a quarterly dividend, as declared by the FHLB board. At December 31, 2004 and 2003, this investment accounted for less than 2% of total Bank assets. The Bank also holds an investment in certificates of deposit issued by other banks. No single certificate exceeds $100,000 and, therefore, all are insured in full by the Federal Deposit Insurance Corporation ("FDIC"). At purchase, the certificates were offered at rates higher than comparably termed agency securities. Collectively, these investments accounted for approximately 1% of total assets at December 31, 2004 and 2003.

Other Assets

The Bank held $11.3 million in Bank-owned life insurance at December 31, 2004 as compared to $10.9 million at December 31, 2003. The increase in 2004 was attributable to the increase in the cash surrender values of the underlying policies. The policies, which insure the lives of certain Bank officers, accrete at a variable rate of interest with minimum stated guaranteed rates.

Deposits

At December 31, 2004, the Bank held a total of $334.6 million in deposits, an increase of $43.3 million, or 15%, from the $291.3 million in deposits at year end 2003. Core deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $205.6 million at December 31, 2004 as compared to $175.4 million at year end 2003, an increase of $30.2 million, or 17%. Core deposits comprised 61% of total deposits at December 31, 2004 as compared to 60% at year end 2003. Certificates of deposit were $128.9 million at December 31, 2004 as compared to $115.9 million at year end 2003.

Primary competition for deposits is 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, telephone banking and internet-based banking for consumers and commercial account holders. The Bank continued its success at raising deposits with its "GoldLink" money market account, which was introduced in 2001. At December 31, 2004, this product accounted for $64.6 million, or 19% of total deposits. Also, in the fourth quarter of 2004, the Bank opened a new branch in the Linden Ponds Retirement Community, which has, thus far, exceeded management's expectations with respect to deposit growth.

In 2004, the Bank also attracted new deposits from customers displaced and inconvenienced by local merger activity. Several community-based institutions in the Bank's market area have been acquired by larger, regional banks. Disruption to customer accounts during these acquisitions provides the Bank with an opportunity to expand its market share.

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 provides a competitive advantage for the Bank as larger banks cannot offer this coverage.

Borrowings

The Bank had $164.7 million in FHLB advances at December 31, 2004 as compared to $148.7 million at year end 2003. In 2004, borrowings helped to finance the growth in the loan portfolio and, to a lesser extent, the growth in the securities portfolio. Generally, the borrowings are drawn with a fixed rate and term; however, approximately $31.5 million, or 19%, can be called by the issuer after an initial specified term and an additional $15.5 million is subject to principal amortization over its stated life. Low market interest rates in the first half of 2004 benefited the Bank by lowering interest expenses. However, as rates rose in the latter half of 2004, interest expense began to climb. The average rate paid on borrowings held at year end 2004 was 3.27%, up from 3.23% at year end 2003.

Liquidity, Capital Resources, Off-Balance Sheet Arrangements and Contractual Obligations

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.

The majority of the U. S. Government and federal agency obligation portfolio, or approximately 72% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. Two securities, or 3%, are subject to redemption, at par, at the discretion of the issuer. Mortgage-backed securities, which comprise 22% of the portfolio, are subject to repayment at the discretion of the underlying borrower. The Bank monitors the trends in prepayment speeds and anticipates how these factors will impact its liquidity targets.

Investment in FHLB stock is illiquid. Certificates of deposit held as an investment are at stated fixed rates and maturity dates.

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 decline in market interest rates in 2003, the Bank experienced an overall prepayment rate on its loan portfolio of approximately 41%. The Bank experienced an overall prepayment rate of 21% on its loan portfolio in 2004.

The proceeds to the Bank under key executive life insurance policies are illiquid during the lives of the executives. Such policies total $11.3 million, or 2% of total assets, at December 31, 2004 as compared to $10.9 million, or 2%, at December 31, 2003.

Core deposit balances can generally be withdrawn from the Bank at any time. 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 10 years, deposits have exceeded withdrawals resulting in net cash inflows from depositors.

Approximately 72% of the Bank's borrowings are fixed in terms of rate and maturity. Approximately 9% of the borrowings amortize over their stated lives. The Bank monitors these scheduled cash outflows. The remaining 19%, or $31.5 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, 2004, the Bank had approximately $67.4 million in commitments to extend credit as compared to $59.8 million at December 31, 2003. See Note 9 to the Consolidated Financial Statements for additional information. No other off-balance sheet arrangements existed at December 31, 2004 or 2003.

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, 2004 and 2003, 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 $265.6 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages, certain multifamily residential property, the Bank's investment in one of its securities corporation subsidiaries and certain commercial mortgages. Upon specific approval from the FHLB, the Bank may also pledge other mortgages or other deposit balances as collateral to secure as much as $30.7 million in additional borrowings. At December 31, 2004, the Bank had $164.7 million in advances outstanding.

At December 31, 2004, the Bank had capital of $44.3 million, or 8.1% of total assets, as compared to $40.9 million, or 8.5%, at December 31, 2003. Total capital is adjusted by the unrealized 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 securities available for sale. At December 31, 2004, the Bank's entire securities portfolio was classified as available for sale which had the effect of decreasing capital by $789,000. In comparison, at year end 2003, capital was decreased by $265,000.

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 2004 and 2003.

During 2004, the Bank declared dividends of $0.94 per share which included a $0.20 per share special dividend which was declared in the fourth quarter. In comparison, in 2003, the Bank declared dividends of $0.90 per share which included a $0.19 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, was 34% for 2004 as compared to 35% for 2003.

IMPACT OF INFLATION AND CHANGING PRICES

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

FORWARD-LOOKING STATEMENTS

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

ASSET/LIABILITY MANAGEMENT

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk, bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee (ALCO) of the Bank. The primary tool used by the Bank in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios.

Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, balance sheet growth, and deposit elasticity. Generally, rates are assumed to rise steadily over a twelve-month period, then remain constant over the remaining period. The model assumes a 100 and 200 basis point increase in interest rates where the magnitude of the rate change varies with the term. For example, in the 200 basis point scenario, longer term rates are modeled to rise 168 basis points and short term rates are modeled to rise 200 basis points. The model estimates that, over a twenty-four month period, net interest income will decrease 4.27% if rates rise 100 basis points and will decrease 9.15% if rates rise 200 basis points.

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

At December 31, 2004, the Bank had the following contractual obligations outstanding:

	Payments Due by Year (In Thousands)				
	Total	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**
Contractual Obligations:					
Federal Home Loan Bank advances	$164,668	$113,394	$17,536	$9,602	$24,136
Certificates of Deposit	$128,923	$96,519	$30,142	$2,262	$ —

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 2004, the high prepayment speeds experienced in 2003 subsided. Fixed rate loans, which were 51% of the loan portfolio at year-end 2003, were 50% at year-end 2004. Conversely, adjustable rate loans increased from 49% to 50%. Interest-bearing non-certificate deposit accounts grew from 54% of total interest-bearing deposits at year-end 2003 to 56% at year-end 2004. Borrowed funds maturing within one year were 69% of total borrowings at December 31, 2004 as compared to 44% at year-end 2003.

The Bank's one-year negative gap position at December 31, 2004 was approximately 17.44% of assets, an increase from the 4.43% at December 31, 2003, and well within pre-defined limits.

The following tables present interest-rate sensitive assets and liabilities categorized by expected maturity (or interest rate adjustment date, if earlier) and weighted average rates. Expected maturities are contractual maturities adjusted for amortization and prepayment of principal. Prepayment speeds range from 0% to 59% 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 volatility of such deposits.

December 31, 2004

Maturing or repricing within:	One Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Thereafter	Total
				(Dollars in Thousands)			
Interest-earning assets:							
Securities, at cost	$ 25,462	$ 35,053	$ 17,203	$ 8,895	$ 1,374	$ 8,785	$ 96,772
	2.07%	2.54%	2.88%	3.00%	3.01%	3.53%	2.62%
Loans:							
Fixed rate	$ 42,874	$ 29,154	$ 22,285	$ 18,948	$ 16,783	$ 80,597	$ 210,641
	6.50%	6.29%	6.14%	6.09%	5.98%	5.75%	6.07%
Adjustable rate	$ 78,546	$ 29,647	$ 25,224	$ 39,305	$ 19,954	$ 14,907	$ 207,583
	5.95%	5.98%	6.10%	5.66%	5.47%	6.20%	5.89%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 41,423	$ 41,441	$ 41,441	$ 10,924	$ 10,924	$ 19,617	$ 165,770
	1.26%	1.26%	1.26%	0.30%	0.30%	0.10%	1.00%
Term certificates	$ 96,519	$ 25,818	$ 4,324	$ 1,147	$ 1,115	$ —	$ 128,923
	2.23%	2.74%	3.39%	3.20%	3.47%	—%	2.39%
Borrowed funds	$ 113,394	$ 9,698	$ 7,838	$ 6,744	$ 2,858	$ 24,136	$ 164,668
	2.73%	3.20%	4.68%	3.86%	3.39%	5.26%	3.27%

December 31, 2003

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	$ 46,972	$ 11,877	$ 11,742	$ 3,473	$ 8,361	$ 11,229	$ 93,654
	3.05%	3.30%	4.62%	3.69%	4.35%	3.69%	3.49%
Loans:							
Fixed rate	$ 47,905	$ 31,171	$ 23,448	$ 17,642	$ 14,492	$ 49,137	$ 183,795
	6.33%	6.43%	6.31%	6.28%	6.16%	5.88%	6.21%
Adjustable rate	$ 63,456	$ 18,761	$ 21,212	$ 23,268	$ 41,669	$ 9,254	$ 177,620
	5.83%	6.46%	6.42%	6.63%	5.72%	6.81%	6.10%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 18,817	$ 18,817	$ 18,817	$ 18,817	$ 18,816	$ 44,538	$ 138,622
	1.20%	1.20%	1.20%	1.20%	1.20%	0.34%	0.93%
Term certificates	$ 89,502	$ 17,443	$ 5,748	$ 2,293	$ 922	$ —	$ 115,908
	2.10%	2.75%	3.30%	3.81%	3.22%	—%	2.30%
Borrowed funds	$ 64,908	$ 34,519	$ 9,698	$ 7,838	$ 6,744	$ 24,994	$ 148,701
	2.15%	3.40%	3.20%	4.68%	3.86%	5.18%	3.23%

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, 2004 and 2003, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

Wolf & Company, P.C.

Boston, Massachusetts
January 19, 2005

ASSETS

	December 31, 2004	December 31, 2003
	(In Thousands)	
Cash and due from banks	$ 6,716	$ 6,345
Short-term investments	6,619	14,504
Cash and cash equivalents	13,335	20,849
Certificates of deposit	5,091	4,986
Securities available for sale, at fair value	85,815	74,007
Federal Home Loan Bank stock, at cost	8,484	7,435
Loans, net of allowance for loan losses of $3,070,000 in 2004 and $2,992,000 in 2003	415,538	358,778
Cash value of life insurance	11,316	10,859
Banking premises and equipment, net	3,551	3,669
Accrued interest receivable	2,125	1,961
Deferred income tax asset, net	1,346	1,036
Other assets	450	374
	$ 547,051	$ 483,954

LIABILITIES AND STOCKHOLDERS' EQUITY

	2004	2003
Deposits	$ 334,569	$ 291,313
Federal Home Loan Bank advances	164,668	148,701
Mortgagors' escrow accounts	1,353	1,248
Accrued interest payable	492	448
Other liabilities	1,646	1,331
Total liabilities	502,728	443,041
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; 2,082,250 and 2,079,250 shares issued and outstanding at December 31, 2004 and 2003, respectively	2,082	2,079
Additional paid-in capital	9,506	9,442
Undivided profits	33,524	29,657
Accumulated other comprehensive loss	(789)	(265)
Total stockholders' equity	44,323	40,913
	$ 547,051	$ 483,954

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2004	2003	2002
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 23,617	$ 23,065	$ 22,991
Debt and trust preferred securities	2,044	2,017	1,977
Equity securities	263	227	329
Short-term investments and certificates of deposit	227	249	504
Total interest and dividend income	26,151	25,558	25,801
Interest expense:			
Deposits	4,319	4,349	5,771
Borrowed funds	4,835	4,686	4,651
Total interest expense	9,154	9,035	10,422
Net interest income	16,997	16,523	15,379
Provision for loan losses	80	182	200
Net interest income, after provision for loan losses	16,917	16,341	15,179
Other income:			
Customer service fees on deposits	820	751	698
Gain on sales of securities available for sale	80	441	—
Gain on termination of pension plan	—	—	605
Increase in cash value of life insurance	457	347	120
Other	208	214	183
Total other income	1,565	1,753	1,606
Operating expenses:			
Salaries and employee benefits	5,472	4,813	4,358
Data processing	779	701	626
Occupancy and equipment	892	846	787
Legal	18	102	117
Other	2,024	1,863	1,827
Total operating expenses	9,185	8,325	7,715
Income before income taxes	9,297	9,769	9,070
Income tax provision	3,473	4,415	3,090
Net income	$ 5,824	$ 5,354	$ 5,980
Earnings per common share:			
Basic	$ 2.80	$ 2.58	$ 2.91
Diluted	$ 2.77	$ 2.56	$ 2.87

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2004, 2003, and 2002

	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 2001	$ 2,047	$ 8,891	$ 21,924	$ 675	$ 33,537
Comprehensive income:					
Net income	—	—	5,980	—	5,980
Net unrealized gain on securities available for sale, net of tax effect	—	—	—	99	99
Total comprehensive income					6,079
Stock options exercised, after tax effect of $121,000	20	297	—	—	317
Cash dividends declared-common($0.84 per share)	—	—	(1,731)	—	(1,731)
Balance at December 31, 2002	2,067	9,188	26,173	774	38,202
Comprehensive income:					
Net income	—	—	5,354	—	5,354
Net unrealized loss on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	(1,039)	(1,039)
Total comprehensive income					4,315
Stock options exercised, after tax effect of $126,000	12	254	—	—	266
Cash dividends declared-common($0.90 per share)	—	—	(1,870)	—	(1,870)
Balance at December 31, 2003	2,079	9,442	29,657	(265)	40,913
Comprehensive income:					
Net income	—	—	5,824	—	5,824
Net unrealized loss on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	(524)	(524)
Total comprehensive income					5,300
Stock options exercised, after tax effect of $37,000	3	64	—	—	67
Cash dividends declared-common ($ 0.94 per share)	—	—	(1,957)	—	(1,957)
Balance at December 31, 2004	$ 2,082	$ 9,506	$ 33,524	$ (789)	$ 44,323

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2004	2003	2002
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 5,824	$ 5,354	$ 5,980
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	80	182	200
Amortization of securities, net	952	728	378
Amortization of deferred loan origination costs, net	75	77	97
Depreciation	461	438	398
Increase in cash value of life insurance	(457)	(347)	(120)
Gain on sales of securities available for sale	(80)	(441)	—
Gain on sale of loans	—	(24)	—
Deferred tax provision	6	69	178
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(240)	54	(33)
Accrued interest payable and other liabilities	353	(2,820)	87
Net cash provided by operating activities	6,974	3,270	7,165
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	6,098	4,440	—
Maturities, prepayments and calls	28,420	26,092	13,429
Purchases	(48,038)	(57,073)	(13,371)
Activity in certificates of deposit:			
Maturities	2,342	485	—
Purchases	(2,447)	(3,531)	(970)
Increase in Federal Home Loan Bank stock	(1,049)	(1,966)	(628)
Loans originated, net of payments received	(56,915)	(39,301)	(38,603)
Proceeds from sale of loans	—	980	—
Payments made for life insurance contracts	—	(2,800)	(7,309)
Additions to banking premises and equipment	(343)	(347)	(382)
Net cash used in investing activities	(71,932)	(73,021)	(47,834)

See accompanying notes to consolidated financial statements.

	Years Ended December 31,		
	2004	2003	2002
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits, net	43,256	15,740	25,603
Increase in mortgagors' escrow accounts	105	51	109
Proceeds from stock options exercised	30	140	196
Cash dividends paid on common stock	(1,914)	(1,823)	(1,644)
Net proceeds from borrowings with maturities of less than three months	13,175	4,606	260
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	94,700	96,800	48,500
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(91,908)	(59,485)	(38,941)
Net cash provided by financing activities	57,444	56,029	34,083
Net change in cash and cash equivalents	(7,514)	(13,722)	(6,586)
Cash and cash equivalents at beginning of year	20,849	34,571	41,157
Cash and cash equivalents at end of year	$ 13,335	$ 20,849	$ 34,571
Supplementary information:			
Interest paid on deposit accounts	$ 4,298	$ 4,339	$ 5,771
Interest paid on borrowed funds	4,812	4,674	4,629
Income taxes paid	3,398	7,174	2,427

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2004, 2003, and 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Hingham Institution for Savings ("Bank") and its wholly-owned subsidiaries, Hingham Securities Corporation II and Hingham Unpledged Securities Corporation which hold title to certain securities available for sale. The Bank's majority-owned subsidiary, Hingham Capital Corporation, a real estate investment trust ("REIT") held title to certain loans, and was liquidated as of December 1, 2003. All intercompany accounts and transactions have been eliminated in consolidation.

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.

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 2003 and 2002 consolidated financial statements to conform to the 2004 presentation.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and interest-bearing deposits.

Short-term investments

Short-term investments mature within ninety days and are carried at cost, which approximates fair value.

Securities available for sale

Securities are classified as available for sale and recorded 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 recognized in interest income using 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 as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on disposition of securities are recorded on the trade date and are determined using the specific identification method.

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and net 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 a loan is 90 days past due 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. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for loan losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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.

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.

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.

Retirement plans

The cost of the defined benefit pension plan was recognized on the net periodic pension cost method over an employee's approximate service period. The aggregate cost method was utilized for funding purposes. See Note 12 regarding termination of the plan in 2002. Supplemental retirement plan costs are recognized over the related service periods.

Stock compensation plans

Statement of Financial Accounting Standards ("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 ("APB") 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.

At December 31, 2004, the Bank has two fixed stock option plans as described in Note 11. 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, the Bank's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	2004	**2003**	**2002**
Net income:	(In Thousands, Except Per Share Amounts)		
As reported	$ 5,824	$ 5,354	$ 5,980
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	—	—	6
Pro forma	$ 5,824	$ 5,354	$ 5,974
Earnings per common share:			
As reported	$ 2.80	$ 2.58	$ 2.91
Pro forma	2.80	2.58	2.90
Earnings per common share-assuming dilution for stock options:			
As reported	$ 2.77	$ 2.56	$ 2.87
Pro forma	2.77	2.56	2.87

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment," which changes the manner in which share-based compensation, such as stock options, will be accounted for by both public and non-public companies, and will be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. For public companies, the cost of employee services received in exchange for equity instruments including options and restricted stock awards generally will be measured at fair value at the grant date. The grant date fair value will be estimated using option-pricing models adjusted for the unique characteristics of those options and instruments, unless observable market prices for the same or similar options are available. The cost will be recognized over the requisite service period, often the vesting period, and will be re-measured subsequently at each reporting date through settlement date.

The changes in accounting will replace existing requirements under SFAS No. 123 and will eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25 which does not require companies to expense options if the exercise price is equal to the trading price at the date of grant. The Bank expects to adopt SFAS No. 123R effective July 1, 2005 on a prospective basis. The proforma amounts disclosed generally reflect the accounting requirements of SFAS No. 123R.

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 year ended December 31, 2002, options applicable to 1,500 shares were anti-dilutive and excluded from the diluted earnings per share computations. There were no anti-dilutive shares at December 31, 2003 and 2004.

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

	Years Ended December 31,		
	2004	**2003**	**2002**
		(In Thousands)	
Average number of common shares outstanding	2,081	2,072	2,058
Effect of dilutive options	20	23	27
Average number of common shares outstanding used to calculate diluted earnings per common share	2,101	2,095	2,085

Comprehensive income (loss)

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 (loss).

The components of other comprehensive income (loss), and related tax effects, are as follows:

	Years Ended December 31,		
	2004	**2003**	**2002**
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ (760)	$ (1,139)	$ 150
Reclassification adjustment for gains realized in income	(80)	(441)	—
Net unrealized gains (losses)	(840)	(1,580)	150
Tax effect	316	541	(51)
Net-of-tax amount	$ (524)	$ (1,039)	$ 99

Advertising costs

Advertising costs are expensed as incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent accounting pronouncements

On September 30, 2004, the FASB issued FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") Issue No. 03-1-1 delaying the effective date of paragraphs 10-20 of EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which provides guidance for determining the meaning of "other-than-temporarily impaired" and its application to certain debt and equity securities within the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Bank can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment which might mean maturity. The delay of the effective date of EITF 03-1 will be superceded concurrent with the final issuance of proposed FSP Issue 03-1-a. Proposed FSP Issue 03-1-a is intended to provide implementation guidance with respect to all securities analyzed for impairment under paragraphs 10-20 of EITF 03-1. Management continues to closely monitor and evaluate how the provisions of EITF 03-1 and proposed FSP Issue 03-1-a will affect the Bank.

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, 2004 and 2003, 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, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and federal agency obligations	$ 65,692	$ —	$ (661)	$ 65,031
Mortgage-backed - FHLMC	7,911	1	(256)	7,656
Mortgage-backed - FNMA	11,459	1	(334)	11,126
Total debt securities	85,062	2	(1,251)	83,813
Equity securities	2,000	2	—	2,002
Total securities available for sale	$ 87,062	$ 4	$ (1,251)	$ 85,815

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and federal agency obligations	$ 49,178	$ 215	$ (136)	$ 49,257
Mortgage-backed - FHLMC	9,366	3	(244)	9,125
Mortgage-backed - FNMA	15,620	3	(248)	15,375
Total debt securities	74,164	221	(628)	73,757
Equity securities	250	—	—	250
Total securities available for sale	$ 74,414	$ 221	$ (628)	$ 74,007

At December 31, 2004 and 2003, debt securities with a fair value of $83,813,000 and $73,757,000, respectively, were pledged to secure Federal Home Loan Bank advances. See Note 7.

SECURITIES AVAILABLE FOR SALE (continued)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2004 are shown below. Expected maturities will differ from contractual maturities because of prepayments and scheduled payments on mortgage-backed securities. Further, certain obligors have the right to call bonds and obligations without prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Bonds and obligations:		
Within 1 year	$ 11,126	$ 11,045
Over 1 year to 5 years	54,566	53,986
	65,692	65,031
Mortgage-backed securities:		
Over 1 year to 5 years	21	22
Over 5 years to 10 years	18,173	17,585
Over 10 years	1,176	1,175
	19,370	18,782
Total debt securities	$ 85,062	$ 83,813

For the years ended December 31, 2004 and 2003, proceeds from the sale of securities available for sale amounted to $6,098,000 and $4,440,000, respectively, resulting in gross realized gains of $80,000 and $441,000, respectively, and no gross realized losses. There were no sales of securities during 2002.

Information pertaining to securities with gross unrealized losses at December 31, 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and federal agency obligations	$ (388)	$ 45,701	$ (273)	$ 19,330
Mortgage-backed - FHLMC	—	—	(256)	7,493
Mortgage-backed - FNMA	—	—	(334)	11,002
Total temporarily impaired securities	$ (388)	$ 45,701	$ (863)	$ 37,825

At December 31, 2004, certain debt securities have unrealized losses, with aggregate depreciation of less than 2% from the Bank's amortized cost basis. These unrealized losses relate to both U.S. Government and federal agency obligations and mortgage-backed securities and result from changes in the bond market since their purchase. As management has the ability to hold debt securities until maturity, no declines are deemed to be other than temporary.

SECURITIES AVAILABLE FOR SALE (concluded)

Information pertaining to securities with gross unrealized losses at December 31, 2003, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and federal agency obligations	$ (136)	$ 24,819	$ —	$ —
Mortgage-backed - FHLMC	(241)	8,608	(3)	292
Mortgage-backed - FNMA	(248)	15,312	—	—
Total temporarily impaired securities	$ (625)	$ 48,739	$ (3)	$ 292

At December 31, 2003, certain debt securities have unrealized losses, with aggregate depreciation of less than 2% from the Bank's amortized cost basis. These unrealized losses relate principally to mortgage-backed securities and result from changes in the bond market since their purchase. As management has the ability to hold debt securities until maturity, no declines are deemed to be other than temporary.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2004	December 31, 2003
	(In Thousands)	
Mortgage loans:		
Residential	$ 175,775	$ 155,683
Commercial	199,168	170,116
Construction	19,851	15,924
Equity lines of credit	18,777	14,808
Second mortgages	4,222	3,961
Total mortgage loans	417,793	360,492
Other loans:		
Personal installment	198	712
Commercial	66	76
Revolving credit	167	135
Total other loans	431	923
Total loans	418,224	361,415
Allowance for loan losses	(3,070)	(2,992)
Net deferred loan origination costs	384	355
Loans, net	$ 415,538	$ 358,778

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 $1,493,000, $1,918,000 and $2,198,000 at December 31, 2004, 2003 and 2002, 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,		
	2004	2003	2002
		(In Thousands)	
Balance at beginning of year	$ 2,992	$ 2,810	$ 2,510
Provision for loan losses	80	182	200
Loans charged off	(3)	—	—
Recoveries on loans previously charged off	1	—	100
Balance at end of year	$ 3,070	$ 2,992	$ 2,810

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

	December 31,	
	2004	2003
	(In Thousands)	
Impaired loans without a valuation allowance	$ 170	$ 172
Non-accrual loans (including impaired loans)	$ 170	$ 172
Loans past due 90 days or more and still accruing	$ —	$ —

	Years Ended December 31,		
	2004	2003	2002
		(In Thousands)	
Average investment in impaired loans	$ 304	$ 286	$ 93
Interest income recognized on impaired loans	$ 30	$ 32	$ —
Interest income recognized on a cash basis on impaired loans	$ 30	$ 32	$ —

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, 2004	December 31, 2003
	(In Thousands)	
Banking premises:		
Land	$ 871	$ 873
Buildings	3,757	3,719
Equipment	2,263	2,021
	6,891	6,613
Less accumulated depreciation	(3,340)	(2,944)
	$ 3,551	$ 3,669

Depreciation expense for the years ended December 31, 2004, 2003, and 2002 amounted to $461,000, $438,000, and $398,000, respectively.

6. DEPOSITS

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

	December 31, 2004	December 31, 2003
	(In Thousands)	
Regular	$ 55,018	$ 53,055
Money market deposits	91,135	67,393
NOW	19,617	18,174
Demand	39,876	36,783
Total non-certificate accounts	205,646	175,405
Term certificates less than $100,000	86,291	79,601
Term certificates of $100,000 or more	42,632	36,307
Total certificate accounts	128,923	115,908
Total deposits	$ 334,569	$ 291,313

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 2004 Amount	December 31, 2004 Weighted Average Rate	December 31, 2003 Amount	December 31, 2003 Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 96,519	2.23%	$ 89,502	2.10%
Over 1 year to 2 years	25,818	2.74	17,443	2.75
Over 2 years to 3 years	4,324	3.39	5,748	3.30
Over 3 years to 5 years	2,262	3.33	3,215	3.64
	$ 128,923	2.39%	$ 115,908	2.30%

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2004	2003	2002
	(In Thousands)		
Regular	$ 201	$ 307	$ 543
Money market deposits	1,272	908	711
NOW	20	29	52
Term certificates	2,826	3,105	4,465
	$ 4,319	$ 4,349	$ 5,771

7. FEDERAL HOME LOAN BANK ADVANCES

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

Maturing During the Year Ending December 31,	December 31, 2004 Amount	December 31, 2004 Weighted Average Rate	December 31, 2003 Amount	December 31, 2003 Weighted Average Rate
	(Dollars in Thousands)			
2004	$ —	—%	$ 59,500	2.16%
2005	107,875	2.75	29,000	3.67
2006[1]	11,675	2.85	15,377	2.59
2007	6,000	5.35	6,000	5.35
2008[2]	8,938	3.36	9,904	3.24
2009	2,000	3.58	—	—
Thereafter[3]	28,180	4.93	28,920	4.87
	$ 164,668	3.27%	$ 148,701	3.23 %

All borrowings from the Federal Home Loan Bank of Boston are at a fixed rate and are secured by a blanket lien on "qualified collateral" defined principally as 75% of the carrying value of first mortgage loans on certain owner-occupied residential property, 50% of the carrying value of first mortgage loans on certain non-owner occupied residential property, 65% of the carrying value of first mortgage loans on certain multi-family residential property, 50% of the carrying value of loans on certain commercial property and 90% of the fair value of U.S. Government and federal agency securities held in Hingham Securities Corporation II. Expected maturities may differ from contractual maturities because certain borrowings, aggregating $31.5 million at December 31, 2004, 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, 2004.

(1) At December 31, 2004 includes amortizing advances of $5,338,000 due in June, 2006 and $837,000 due in November, 2006, requiring monthly principal and interest of $285,000 and $36,000, respectively.

(2) At December 31, 2004 includes amortizing advance of $3,638,000 due in June, 2008 , requiring monthly principal and interest of $88,000.

(3) At December 31, 2004 includes amortizing advances of $4,061,000 due in June, 2010 and $1,619,000 due in November, 2018, requiring monthly principal and interest of $65,000 and $14,000, respectively.

8. INCOME TAXES

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

	Years Ended December 31,		
	2004	2003	2002
		(In Thousands)	
Current tax provision:			
Federal	$ 2,764	$ 2,529	$ 2,902
State	703	1,817	10
	3,467	4,346	2,912
Deferred tax provision:			
Federal	2	51	152
State	4	18	26
	6	69	178
Total provision	$ 3,473	$ 4,415	$ 3,090

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,		
	2004	2003	2002
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	5.0	5.4	0.3
Settlement with Commonwealth of Massachusetts, net of federal tax benefit	—	7.0	—
Other, net	(1.6)	(1.2)	(0.2)
Effective tax rate	37.4%	45.2%	34.1%

INCOME TAXES (continued)

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

	December 31, 2004	December 31, 2003
	(In Thousands)	
Deferred tax assets:		
Federal	$ 1,429	$ 1,119
State	357	344
	1,786	1,463
Deferred tax liabilities:		
Federal	(348)	(341)
State	(92)	(86)
	(440)	(427)
Net deferred tax asset	$ 1,346	$ 1,036

The tax effects of each type of income and expense item that give rise to deferred tax assets (liabilities) are as follows:

	December 31, 2004	December 31, 2003
	(In Thousands)	
Allowance for loan losses	$ 1,184	$ 1,151
Other accrued expenses	20	41
Fees on loans	(285)	(261)
Net unrealized loss on securities available for sale	458	142
Other	(31)	(37)
Net deferred tax asset	$ 1,346	$ 1,036

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

	Years Ended December 31, 2004	2003	2002
	(In Thousands)		
Balance at beginning of year	$ 1,036	$ 564	$ 793
Deferred tax provision	(6)	(69)	(178)
Deferred tax effects of net unrealized (gain) loss on securities available for sale	316	541	(51)
Balance at end of year	$ 1,346	$ 1,036	$ 564

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 year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred tax liability of $1,550,000 has not been provided.

REIT Tax Assessment

Beginning in the year 2000 and continuing throughout 2002, the Bank accrued taxes based on the Massachusetts state tax law which allowed for the deduction of 95% of the dividends paid to the Bank by its real estate investment trust subsidiary. In March 2003, the Massachusetts legislature enacted a law which disallows such deductions, retroactive to tax periods beginning in 1999. As a result, the Bank accrued an additional state tax liability of $2,072,000 in the first quarter of 2003, the cumulative effect of the new tax law, and recorded the Federal tax benefit related to such state taxes in the amount of approximately $700,000.

In June 2003, the Bank reached an agreement with the Massachusetts Department of Revenue (“DOR”), whereby the Bank would be liable to the DOR for fifty percent of the contested cumulative amount of taxes due. On June 23, 2003, the Bank paid $1,036,000 to the DOR in full and final satisfaction of taxes due related to its REIT and accordingly recorded a reversal of the remaining $1,036,000 tax it had expensed in the first quarter of 2003. The Bank also recorded a reversal of the related Federal tax benefit in the amount of approximately $350,000.

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.

At December 31, 2004 and 2003, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2004	2003
	(In Thousands)	
Unused lines of credit	$34,799	$32,996
Commitments to originate loans:		
Commercial mortgages	18,637	11,947
Residential mortgages	5,175	5,197
Unadvanced funds on construction loans	8,747	9,668
Standby letters of credit	—	18

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.

COMMITMENTS AND CONTINGENCIES (concluded)

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 legal claims

Other 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, 2004 and 2003, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, 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, 2004 and 2003 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, 2004						
Total Capital to Risk-Weighted Assets	$48,182	14.05%	$27,433	8.0%	$34,291	10.0%
Tier 1 Capital to Risk-Weighted Assets	45,112	13.16	13,716	4.0	20,575	6.0
Tier 1 Capital to Average Assets	45,112	8.37	21,564	4.0	26,955	5.0
December 31, 2003						
Total Capital to Risk-Weighted Assets	$ 44,170	14.91%	$ 23,704	8.0%	$ 29,630	10.0%
Tier 1 Capital to Risk-Weighted Assets	41,178	13.90	11,852	4.0	17,778	6.0
Tier 1 Capital to Average Assets	41,178	8.58	19,200	4.0	24,000	5.0

11. STOCK OPTION PLANS

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 of Directors may determine. A total of 187,500 shares of common stock were reserved for issuance pursuant to the 1988 plan and a total of 90,000 shares of common stock were reserved for issuance pursuant to the 1996 plan. Both "incentive options" and "non-qualified options" could 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. At December 31, 2004, there were 12,500 shares remaining available for future issuance under the 1996 plan and no shares remaining under the 1988 plan.

Stock option activity is as follows:

	Years Ended December 31,					
	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	46,500	$11.78	58,500	$ 11.75	77,000	$ 10.90
Granted	—	—	—	—	1,500	29.54
Exercised	(3,000)	9.97	(12,000)	11.66	(20,000)	9.79
Outstanding at end of year	43,500	$11.90	46,500	$ 11.78	58,500	$ 11.75
Options exercisable at end of year	43,500	$11.90	46,500	$ 11.78	58,500	$ 11.75
Weighted average fair value of options granted during the year		$ —		$ —		$ 6.45

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,		
	2004	2003	2002
Dividend yield	—	—	2.71%
Expected life	—	—	10 years
Expected volatility	—	—	13.87%
Risk-free interest rate	—	—	5.21%

Options outstanding consist of the following:

	December 31,			
	2004		2003	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$29.540	1,500	7	1,500	8
23.500	1,500	4	1,500	5
15.000	12,500	5	12,500	6
12.250	—	—	1,000	4
9.167	19,000	2	20,000	3
8.500	9,000	1	10,000	2
	43,500		46,500	

12. EMPLOYEE BENEFIT PLANS

Pension Plan

Prior to May 31, 2002, the Bank had a defined pension plan (the "Plan") covering all of its eligible officers and employees. On May 31, 2002, the Bank terminated the Plan and amended the Plan to reallocate excess assets of the Plan to provide additional benefits to its participants and to the Bank. For the year ended December 31, 2002, a gain on termination of the Plan of $605,000 was recorded. Net periodic pension cost for the fourteen months ended December 31, 2002 amounted to $86,000.

401(k) Plan

The Bank has a 401(k) Plan whereby each employee having completed at least three months of continuous service beginning with date of employment, becomes a participant in the Plan. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. Effective January 1, 2002, the Bank contributed 3% of an employee's compensation, regardless of the employee's contribution. Effective May 1, 2002, the Bank's matching contribution policy is to contribute $0.50 for each dollar contributed by the employee up to a maximum matching contribution equal to 3% of the employee's yearly compensation. Matching contributions vest to the employee after two years, or at age 62, if earlier. For the years ended December 31, 2004, 2003 and 2002, expense attributable to the Plan amounted to $205,000, $198,000 and $162,000, respectively.

Supplemental Employee Benefit Plans

The Bank has supplemental employee retirement plans which were established in 2002 for the benefit of certain senior executives. Benefits commence at age sixty-two, or in the case of one executive, at such earlier time as he may retire, and are to be paid monthly over twenty years. In connection with these plans, the Bank purchased life insurance policies amounting to $7,309,000 in 2002 and $2,800,000 in 2003 and contributed them to a Rabbi Trust. In 2003, the Bank discontinued funding the President's split dollar life insurance policy and substituted additional contributions to the President's existing supplemental employee retirement plan. Simultaneously with the discontinuance of funding the split dollar policy, ownership of such policy was transferred from the President to the Bank. The value of these combined policies is $11,316,000 and $10,859,000 at December 31, 2004 and 2003, respectively and is included in cash value of life insurance on the consolidated balance sheet. In accordance with the agreements, a secular trust was established for each executive into which the Bank makes annual contributions which become the property of the executive. Expense related to these plans amounted to $501,000, $264,000 and $87,000 for the years ended December 31, 2004, 2003 and 2002, 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 $9,000 at December 31, 2004 and $11,000 at December 31, 2003. 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.

Mortgagors' escrow accounts: The carrying amounts of mortgagors' escrow accounts 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, 2004 and 2003, 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,			
	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 13,335	$ 13,335	$ 20,849	$ 20,849
Certificates of deposit	5,091	5,078	4,986	5,007
Securities available for sale	85,815	85,815	74,007	74,007
Federal Home Loan Bank stock	8,484	8,484	7,435	7,435
Loans, net	415,538	417,431	358,778	361,560
Accrued interest receivable	2,125	2,125	1,961	1,961
Financial liabilities:				
Deposits	334,569	335,319	291,313	292,104
Federal Home Loan Bank advances	164,668	166,126	148,701	152,593
Mortgagors' escrow accounts	1,353	1,353	1,248	1,248
Accrued interest payable	492	492	448	448

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2004 and 2003 are as follows:

	Years Ended December 31,							
	2004				2003			
	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	$ 6,906	$ 6,609	$ 6,359	$ 6,277	$ 6,358	$ 6,508	$ 6,363	$ 6,329
Interest expense	2,455	2,325	2,188	2,186	2,208	2,250	2,190	2,387
Net interest income	4,451	4,284	4,171	4,091	4,150	4,258	4,173	3,942
Provision (credit) for loan losses	41	(8)	24	23	47	45	45	45
Net interest income, after provision (credit) for loan losses	4,410	4,292	4,147	4,068	4,103	4,213	4,128	3,897
Other income	400	364	356	445	378	300	335	740[(2)]
Operating expenses	2,354	2,253	2,283	2,295	2,096	2,030	2,120	2,079
Income before income taxes	2,456	2,403	2,220	2,218	2,385	2,483	2,343	2,558
Income tax provision	926	904	828	815	891	950	213[(3)]	2,361[(3)]
Net income	$ 1,530	$ 1,499	$ 1,392	$ 1,403	$ 1,494	$ 1,533	$ 2,130	$ 197
Earnings per common share:								
Basic	$ 0.73	$ 0.72	$ 0.67	$ 0.68	$ 0.72	$ 0.74	$ 1.03	$ 0.10
Diluted	$ 0.73	$ 0.71	$ 0.66	$ 0.67	$ 0.71	$ 0.73	$ 1.02	$ 0.09
Cash dividends declared per common share	$ 0.39[(1)]	$ 0.19	$ 0.18	$ 0.18	$ 0.37[(4)]	$ 0.18	$ 0.18	$ 0.17

(1) Includes a special dividend of $0.20 per common share declared on November 24, 2004.

(2) Includes $439,000 gain on sale of securities.

(3) Includes impact of MA REIT tax legislation.

(4) Includes a special dividend of $0.19 per common share declared on November 20, 2003.

STOCKHOLDER INFORMATION

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Form 10-K
A copy of the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, 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, 2004, there were approximately 443 stockholders of record, holding 997,065 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
2003		
First Quarter	$ 31.95	$ 29.50
Second Quarter	36.25	32.00
Third Quarter	40.05	35.00
Fourth Quarter	44.00	35.82
2004		
First Quarter	44.97	39.00
Second Quarter	42.00	39.50
Third Quarter	42.50	40.50
Fourth Quarter	43.90	39.50

The closing sale price of the Bank's common stock at December 31, 2004 was $43.90 per share.

HINGHAM INSTITUTION FOR SAVINGS

ESTABLISHED 1834

BRANCH OFFICES

Cohasset
13 Elm Street
Cohasset, MA 02025

Hingham
Main Office
55 Main Street
Hingham, MA 02043

Loan Center
49 Main Street
Hingham, MA 02043

Drive-Up
71 Main Street
Hingham, MA 02043

South Hingham
37 Whiting Street
South Hingham, MA 02043

Linden Ponds
300 Linden Ponds Way
South Hingham, MA 02043
(serving Linden Ponds residents and employees)

Hull
401 Nantasket Avenue
Hull, MA 02045

Scituate
400 Gannett Road
North Scituate, MA 02066

South Weymouth
32 Pleasant Street
South Weymouth, MA 02190

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