Hingham Institution for Savings

Annual Report 2006

down the street

across town

into the city

the finest in community banking

The heart of a community bank

The neighborhoods we have served since 1834 both define and inspire us. They connect us to the things we find meaningful, and are at the heart of who we are as a community bank. We live and work in these neighborhoods, and each is distinct in character. The people and businesses you will see in this Annual Report represent the special qualities of community that we see every day in our customers. In Hingham, a restorer works patiently to maintain the historic integrity of antique homes. At a village landmark in Cohasset, a shop owner's business evolves to best serve his customers. In Hull, longtime restaurant partners bring new life to one of the best waterfront views in town. And in Boston's South End, a busy commercial property and shop owner makes time to volunteer on the board of a local business organization.

This year, we opened a branch in Boston to meet the needs of our expanding market. Our foray into this South End community appears on the surface to be a very different direction for us. However, beneath the elegant brownstones and ironwork, we found a neighborhood spirit as strong as any we've served. We have connected with a diverse public that has warmly welcomed us. We've even been nicknamed "The Happy Bank."

While some of our customers have banked with us for decades, others have just discovered us. Initially, they come for our innovative products, competitive rates and convenient services. It's our exceptional customer service, fairness and integrity that earn us their loyalty, from our flagship office in Hingham Square to our newest Boston branch.

We celebrate a shared history with the people we serve. We've listened to their dreams, lent our advice, cheered them on, and helped them grow. We proudly support their neighborhoods. Each year we have the pleasure of looking back and taking stock of all we have accomplished together, and looking forward to a future that is every bit as bright. Down the street, across town, and into the city, it is our privilege to bring you the finest in community banking.

Dear Shareholder:

The core values and purpose guiding our Bank for more than 173 years have again brought us success in 2006. In the face of a challenging interest rate environment and intense competition, we have consistently shown a balanced perspective and restraint that have rewarded us with both stability and growth.

Although the entire industry experienced pressures associated with margin compression and a flat or inverted yield curve, we continued to generate double-digit growth in both deposits and loans. At year-end, we had a 10% increase in total assets, a 12% increase in total deposits, and a 10% increase in total loans over those of December 31, 2005. Net income for the year ended December 31, 2006 was $4,640,000 or $2.19 per share ($2.19 basic) as compared to $6,171,000 or $2.92 per share ($2.95 basic) in 2005.

Against a background of increasing foreclosure rates, our loan portfolio performance remained pristine. As of December 31, 2006, the Bank had no foreclosed property and only two nonperforming loans representing a minimal 0.02% of total assets. The Bank's return on average equity for 2006 was 9.18%, and the return on average assets was 0.71%. Total assets as of December 31, 2006 were $691,652,000 as compared to $628,251,000 at December 31, 2005. Stockholders' equity increased from $48,458,000 on December 31, 2005 to $51,818,000 on December 31, 2006 with a concomitant increase in book value per share from $23.01 on December 31, 2005 to $24.47 on December 31, 2006.

We have continued to expand and improve upon our organization. We recognized a business growth opportunity in Boston's South End, where we opened a branch in October of 2006. To date, our newest branch's performance is well ahead of projections. On the South Shore, we have made improvements to our Hull branch, with interior remodeling of our customer contact area, a third drive through lane with ATM, and expanded parking facilities. Our customer community has responded positively to these upgrades, creating new growth in both retail and business deposits.

We have improved our systems to maximize efficiency. Residential and Commercial Loan processing have been streamlined with state-of-the-art software systems, and we have leveraged technology to allow online Residential Mortgage applications 24 hours a day. Tools such as these have made us more accessible, increased capacity, and allowed us greater flexibility in serving our customers. All of these improvements have been achieved while maintaining tight control over operating expenses.

We expect to face additional challenges in 2007 and remain confident. Our Hingham Savings community of Directors, Management and Staff is a winning combination of people who bring leadership, dedication, technology and focus to our shared objectives. We will carry on our tradition of providing the finest in community banking, with integrity and teamwork. Together, we'll enjoy the rewards of our success.

Very truly yours,

Robert H. Gaughen, Jr.
President and CEO

A view with integrity

When Mr. Bouve designed his family's home on Cottage Street back in the 1800s, he made certain that a sweeping view of Hingham Harbor would be visible from every one of the rooms. Today, Hingham native Terry Granahan (seated) is restoring the harbor side home to its original splendor, preserving the stained glass windows, fireplaces, and of course, a view of the Harbor that is one of the finest in town. Terry got his start in real estate 20 years ago when he purchased and renovated an old home in Vermont as a rental investment. Over time, his business grew to include many other properties, such as restorations in Charlestown, East Boston, and Hingham. Terry is inspired by the historic nature of the homes he restores and he consults regularly with the Hingham Historic Commission on maintaining their integrity. Real estate is a sideline for Terry, as he works full-time as Senior Director of Principal Gifts at Boston College's Office of Development. Persuasive and upbeat, Terry is quick to contact Loan Officer Shawn Sullivan when he has a new project in mind. From our perspective we admire his dedication, and Hingham Savings is proud to have financed several of his restoration projects.




The gift of a village landmark

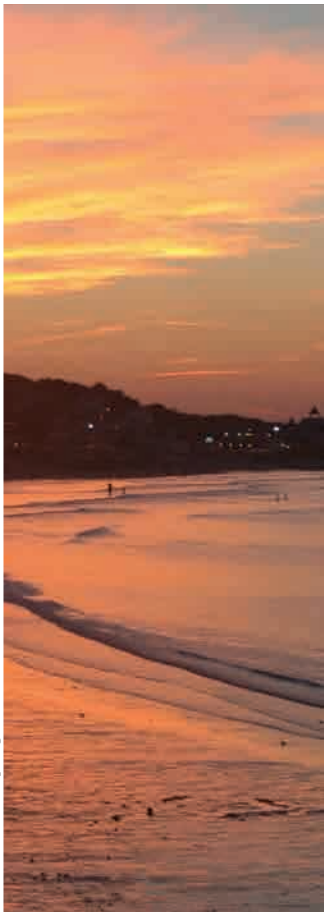
It's early in the day at Fleming's lighting and home accesories shop, and Frank Smith has already taken his fourth customer call. Stationed at his command post behind an ancient wooden countertop, he flips through worn binders and catalogs until he finds just the item in question. It's clear that his customers depend on him. A Cohasset Village landmark, the shop is housed in a 1700s building and is a well-regarded resource for designers and homeowners alike. Originally founded by the Fleming family in 1931, Frank and his wife Joy have grown the business to include original lamp creations, full home lighting consulting, silver and brass restoration, and one-of-a-kind pieces from local and regional artists.

Frank attributes his success to flexibility, strong connection with the people he serves, and a stable reputation -- qualities he also values in doing business with Hingham Savings where he has banked since 1983. Branch Manager Joanne Reynolds has seen Frank's business with us grow to include business checking and savings, personal banking, and most recently, a commercial loan. Hingham Savings is pleased to bring unique business checking and loan products to our small business customers, who appreciate our flexible commercial real estate loan options.

Strong partnership brings an ocean side revival

With a string of successful eating establishments such as Hingham Bay Club and DiNero's Restaurant under his belt, Frank Plotner is a hands-on entrepreneur who values connection with the things that matter. A lifetime of restaurant work from Boston to the South Shore has taught him that open conversation, good food and a great view is a recipe for success. Frank's latest venture is the Ocean Club, on the site of the original "Ledges" at Hull's Nantasket Beach. The Caribbean décor is warm, the service upbeat, and throughout the restaurant there are unlimited views of the water. Going on its second summer in the popular beach area, the Ocean Club promises to be a great success.

He credits his success to a strong working relationship with his business partner John Martin, who has worked with him for over 10 years. Frank also relies on a direct connection with his banker, and he often calls Loan Officer Peter Smollett to discuss thoughts or advice on new business endeavors. Earning the trust of our business customers is a privilege, and we are pleased that Frank's relationship with Hingham Savings has grown to include business banking, commercial loans, and personal deposit accounts.

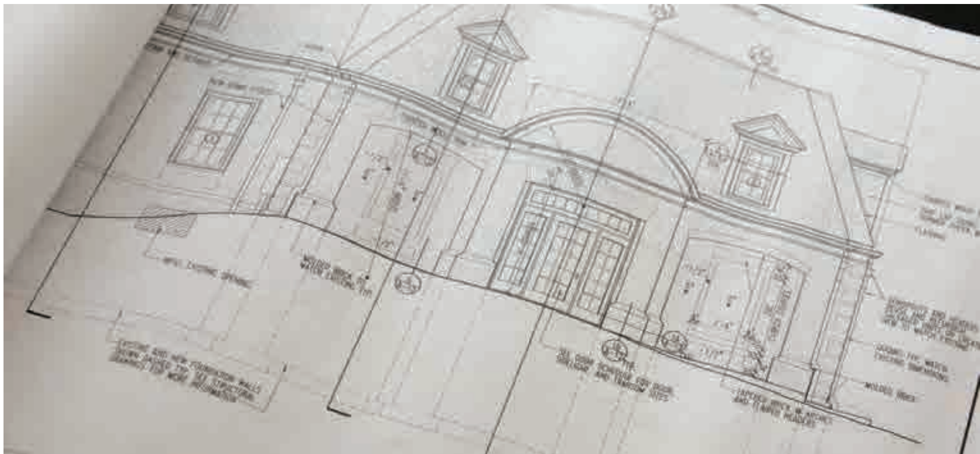


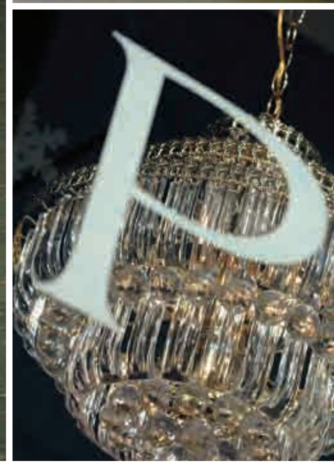
Photoartbymidge.com

A restoration with rewards for all

A beautiful smile is the reward of a successful dental restoration process, and making that possible is something Dr. Virginia Shahinian finds inspirational. She and husband Dr Rustam DeVitre have been prosthodontists, specialists in restorative dentistry, for more than 25 years. Their general practices in Hingham and Boston have a combined client base of well over 3,000 patients. In this field, getting the exact color and shape of a new tooth is an art, requiring an exacting process and the facilities to support it. That's why they are expanding their practice, on the site of the former Hingham Police Station. The new facility is planned to utilize state-of-the-art technology, with an in-house lab and fully equipped offices.

Bringing this historic location up to code required careful coordination among several parties. The doctors credit Loan Officer Janice Spiess and architects Roth & Seelen for their clear communication, attention to detail and keeping the project on course. Helping our clients manage their construction projects is a specialty at Hingham Savings and we find their successful completion truly rewarding. The opening of their new offices will bring smiles all around.





Taking root in the heart of a city neighborhood.

Hingham Savings has had a warm welcome from the South End community. Christine Marholin has a long history of successful real estate ventures throughout Massachusetts, and tells us she found "the best neighborhood on earth" in the South End eight years ago. She is an active board member of the South End Business Alliance, and owns several retail office condos in the South End, including her own Posh on Tremont Street, a home furnishings and accessories shop. Started on a whim six years ago, the shop has become a neighborhood fixture and a frequent stop for residents looking for special gift items. Christine was drawn to our bank by our competitive loan rates and flexible terms. She stayed because we make banking so easy. She calls us "The Happy Bank", and we're glad to hear it.

We have a deep commitment to the institutions that help make the South End community special. The South End/Lower Roxbury Open Space Land Trust is one such organization, responsible for transforming the neighborhood's available open space to award-winning community gardens and pocket parks. Their Annual Garden Tour is now in its 13th year, and we look forward to continuing our sponsorship of this worthwhile effort.

Ben Watkins, Boston

Senior Officers

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

William M. Donovan Jr.
Vice President
Administration

Deborah J. Jackson
Senior Vice President
and Treasurer

William G. Bowers, Jr.
Vice President
Commercial Lending

Thomas I. Chew
Vice President
Branch Operations

Shawn T. Sullivan
Vice President
Commercial Lending

Peter R. Smollett
Vice President
Commercial Lending

Michael J. Sinclair
Vice President
Retail Lending

Edward P. Zec
Vice President

Board of Directors

Howard M. Berger, Esq.

James V. Consentino

Marion J. Fahey

Ronald D. Falcione

Kevin W. Gaughen, Esq.

Robert H. Gaughen, Jr., Esq.

Julio R. Hernando, Esq.

Robert A. Lane, Esq.

Warren B. Noble

Stacey M. Page

Joseph A. Ribaudo, CPA

Edward L. Sparda

Donald M. Tardiff M.D.

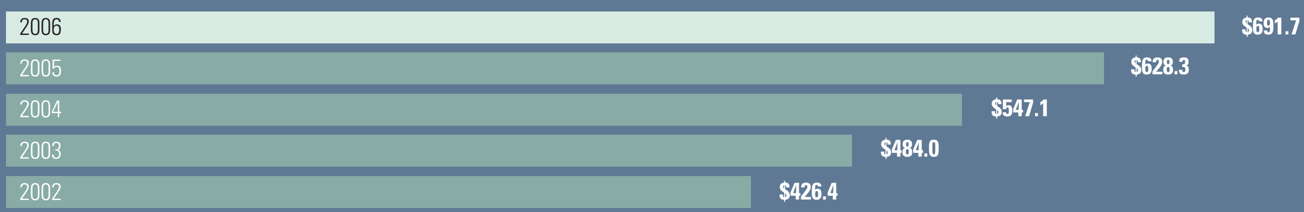
James R. White

Geoffrey C. Wilkinson, Sr.

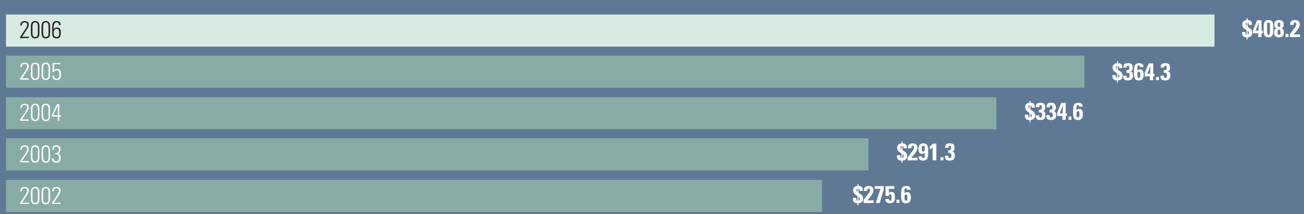
Jacqueline M. Youngworth

Financial Highlights

Assets (in millions)

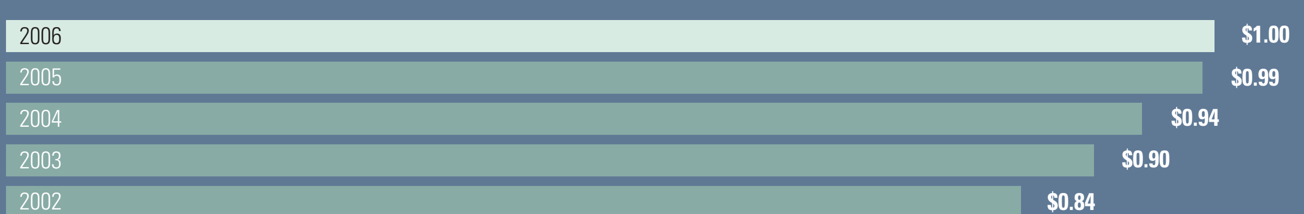


Deposits (in millions)

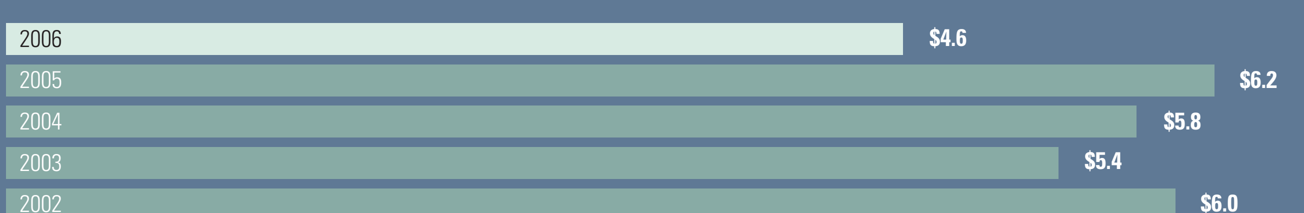


Loans (in millions)

Dividends Declared (per share)



Net Income (in millions)



Selected Consolidated Financial Data

The following information does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere herein.

	At December 31,				
	2006	2005	2004	2003	2002
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 691,652	$ 628,251	$ 547,051	$ 483,954	$ 426,430
Securities available for sale	94,732	91,513	85,815	74,007	49,333
Loans:					
Residential mortgage	254,073	233,138	194,552	170,491	153,293
Commercial mortgage	267,917	238,408	203,390	174,077	156,683
Construction, net	19,426	18,982	19,851	15,924	12,482
Other	811	481	431	923	765
Allowance for loan losses	3,603	3,316	3,070	2,992	2,810
Deposits	408,190	364,295	334,569	291,313	275,573
Federal Home Loan Bank advances	227,576	211,816	164,668	148,701	106,386
Other borrowed funds	—	—	—	—	394
Stockholders' equity	51,818	48,458	44,323	40,913	38,202

	Years Ended December 31,				
	2006	2005	2004	2003	2002
			(In Thousands, Except Per Share Amounts)		
Income Statement Data:					
Total interest and dividend income	$ 37,089	$ 30,418	$ 26,151	$ 25,558	$ 25,801
Total interest expense	21,212	12,389	9,154	9,035	10,422
Net interest income	15,877	18,029	16,997	16,523	15,379
Provision for loan losses	287	244	80	182	200
Other income	1,693	1,598	1,565	1,753	1,606
Operating expenses	10,116	9,520	9,185	8,325	7,715
Income before income taxes	7,167	9,863	9,297	9,769	9,070
Income tax provision	2,527	3,692	3,473	4,415	3,090
Net income	$ 4,640	$ 6,171	$ 5,824	$ 5,354	$ 5,980
Earnings per common share:					
Basic	$ 2.19	$ 2.95	$ 2.80	$ 2.58	$ 2.91
Diluted	$ 2.19	$ 2.92	$ 2.77	$ 2.56	$ 2.87
Financial Ratios:					
Return on average assets	0.71%	1.07%	1.14%	1.18%	1.48%
Return on average equity	9.18	13.20	13.56	13.53	16.58
Average equity to average assets	7.72	8.08	8.42	8.75	8.92
Interest rate spread	2.08	2.91	3.20	3.50	3.51
Net yield on average earning assets	2.51	3.24	3.47	3.81	3.94
Dividend payout ratio (basic)	45.66	33.56	33.57	34.88	28.87
Efficiency ratio	57.58	48.50	49.70	46.68	47.10
Cash dividends declared per common share	$ 1.00	$ 0.99	$ 0.94	$ 0.90	$ 0.84
Book value per common share	$ 24.47	$ 23.01	$ 21.29	$ 19.68	$ 18.48

Management's Discussion and Analysis

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 accounting principles generally accepted in the United States of America, 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 most 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 the Bank's 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 2006, 2005, and 2004

RESULTS OF OPERATIONS

For the year ended December 31, 2006, the Bank earned $4.6 million as compared to $6.2 million in 2005 and $5.8 million in 2004. On a basic, per-share basis, the Bank earned $2.19 in 2006, $2.95 in 2005, and $2.80 in 2004. On a dilutive basis, earnings per share were $2.19 in 2006, $2.92 in 2005, and $2.77 in 2004. The decrease in earnings for 2006 over 2005 was primarily attributable to a 73 basis point decline in the net interest margin. The increase in earnings in 2005 over 2004 was due primarily to improvements in net interest income, resulting primarily from 15% growth in the average loan portfolio over the two periods.

Net interest income decreased in 2006 as compared to 2005 due to a 71% increase in interest expenses over the two years. Increased deposit interest expenses were incurred in 2006 due to a 112 basis point increase in average interest rates paid on deposits which reflects rising market interest rates and a shift in consumer preferences toward higher-cost deposit products as well as a 10% increase in average deposit volume. Increased borrowing interest expenses were incurred in 2006 due to the rise in market rates and the 25% increase in the average volume of borrowings. Partially offsetting increased interest expenses was a 22% increase in interest and dividend income derived primarily from growth in earning assets accompanied by a 40 basis point increase in the average yield on earning assets which reflected higher market interest rates. Increases in net interest income in 2005 as compared to 2004 were achieved primarily from growth in earning assets.

The Bank observed steady increases in non-interest income in each of the past three years and accounted for 24%, 16% and 17% of pretax income for the years 2006, 2005 and 2004, respectively. Increased expenses were reported for each of these three years in the categories of salaries and employee benefits expenses and occupancy and equipment expenses. However, the Bank has been successful at managing its data processing expenses, which have declined steadily in each of the three years despite increased processing volumes. Combined, the net increase in expenses resulted in an efficiency ratio of 58%, 49% and 50% for the years 2006, 2005 and 2004, respectively.

Net Interest Income

The Bank reported $15.9 million in net interest income for 2006 as compared to $18.0 million in 2005 and $17.0 million in 2004. Market interest rates, which had been at their lowest in nearly forty years, began to rise in the latter half of 2004 and continued to rise throughout 2005 until June of 2006. As a result, the Bank's net interest margin tightened to 2.51% for 2006 from 3.24% for 2005 and 3.47% for 2004. Despite the declining margin, the Bank reported steady increases in interest income due to increased loan volume. Average loans increased 16% for 2006, 15% for 2005 and 13% for 2004.

Interest income is derived from commercial and residential mortgages, home equity, installment and commercial loans, the securities portfolio and short-term investments. For 2006, 2005 and 2004, interest income totaled $37.1 million, $30.4 million and $26.2 million, respectively. This positive trend was primarily the result of continued growth in loans which were the most significant component of assets, accounting for approximately 82% of average total earning assets in 2006, 80% in 2005 and 79% in 2004. Outstanding loans averaged $517.9 million for 2006 as compared to $447.1 million for 2005 and $387.2 million for 2004. Average total earning assets increased $76.2 million, or 14%, in 2006 over 2005 and $67.3 million, or 14%, in 2005 over 2004. The Bank earned an average yield of 5.9% on its assets in 2006 as compared to 5.5% in 2005 and 5.3% in 2004, which reflected market conditions. As a result of rising market interest rates, many adjustable rate mortgages, short-term investments and short-term securities held by the Bank were positively impacted.

Interest expense paid on deposits increased by $4.5 million in 2006 over 2005 and by $1.5 million in 2005 over 2004. In response to market conditions, the Bank increased the rates it paid on the more volatile of its interest-bearing deposit accounts while core deposit rates were largely unaffected. As a result, the average rate paid on certificates of deposit increased by 138 basis points in 2006 over 2005 and by 53 basis points in 2005 over 2004. The average rate paid for money market accounts increased by 19 basis points for 2006 over 2005 and by 12 basis points in 2005 over 2004. Certificates of deposit were 60% of total deposits at year end 2006 as compared to 48% at year end 2005, which reflects the shift in preference of existing customers as well as growth from new customers. Total average interest-bearing deposit balances increased by 10% in 2006 over 2005 and by 12% in 2005 over 2004. The Bank's ability to retain these deposits will depend, in part, on offering competitive market interest rates in future periods.

Interest expense on borrowed funds increased in each of the past three years due to increased market rates and increased volume of borrowed funds. The average cost was 5.01% for 2006 as compared to 3.75% for 2005 and 3.21% for 2004. In 2006, the Bank capitalized on the inversion in the interest rate yield curve and refinanced a portion of its borrowings to in excess of one year. For that reason, 60% of outstanding borrowings are scheduled to mature in 2007 as compared to 80% of outstanding borrowings which matured in 2006. 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 well as other factors such as local economic trends, market conditions and credit concentrations. (Refer to Note 1 to the Consolidated Financial Statements for more details.) Thus far, the decline observed in the local housing market has not resulted in increased non-performing loans. The Bank continues to closely monitor loans past due greater than 30 days, which have risen to 1.9% of total loans at December 31, 2006 as compared to 1.5% at December 31, 2005.The provision for loan losses for 2006 was $287,000 as compared to $244,000 in 2005 and $80,000 in 2004, reflecting growth in the loan portfolio. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.66% for 2006, 0.67% for 2005 and 0.73% for 2004. Generally, the decline in this ratio over the three years reflects the absence of significant loan charge-offs, low delinquency rates and strong underwriting standards.

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,					
	2006 Compared to 2005 Increase (Decrease)			2005 Compared to 2004 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 4,432	$ 982	$ 5,414	$ 3,637	$ (52)	$ 3,585
Securities	176	924	1,100	364	269	633
Short-term investments and certificates of deposit	(8)	165	157	(97)	146	49
Total interest and dividend income	4,600	2,071	6,671	3,904	363	4,267
Interest expense:						
Interest-bearing deposits:						
NOW	(1)	1	—	4	(1)	3
Money market deposits	(437)	144	(293)	9	97	106
Regular	(16)	(3)	(19)	(1)	(62)	(63)
Term certificates	2,219	2,543	4,762	751	725	1,476
Total interest-bearing deposits	1,765	2,685	4,450	763	759	1,522
Borrowed funds	1,840	2,533	4,373	844	869	1,713
Total interest expense	3,605	5,218	8,823	1,607	1,628	3,235
Net interest income	$ 995	$ (3,147)	$ (2,152)	$ 2,297	$ (1,265)	$ 1,032

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

	Years Ended December 31,								
	2006			2005			2004		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 517,121	$ 32,551	6.29%	$ 446,674	$ 27,161	6.08%	$ 386,480	$ 23,561	6.10%
Commercial loans	71	9	12.68	65	8	12.31	74	9	12.16
Other loans	703	56	7.97	393	33	8.40	671	47	7.00
Total loans (1) (2)	517,895	32,616	6.30	447,132	27,202	6.08	387,225	23,617	6.10
Securities (3) (4)	105,344	4,040	3.84	99,657	2,940	2.95	86,777	2,307	2.66
Short-term investments and certificates of deposit	10,054	433	4.31	10,349	276	2.67	15,808	227	1.44
Total interest-earning assets	633,293	37,089	5.86	557,138	30,418	5.46	489,810	26,151	5.34
Other assets	21,640			21,104			20,426		
Total assets	$ 654,933			$ 578,242			$ 510,236		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW (5)	$ 22,751	23	0.10	$ 23,723	23	0.10	$ 19,212	20	0.10
Money market deposits	58,456	1,085	1.86	82,708	1,378	1.67	82,128	1,272	1.55
Regular	47,633	119	0.25	54,124	138	0.25	54,391	201	0.37
Term certificates	214,406	9,064	4.23	150,875	4,302	2.85	121,907	2,826	2.32
Total interest-bearing deposits	343,246	10,291	3.00	311,430	5,841	1.88	277,638	4,319	1.56
Borrowed funds	217,792	10,921	5.01	174,806	6,548	3.75	150,512	4,835	3.21
Total interest-bearing liabilities	561,038	21,212	3.78	486,236	12,389	2.55	428,150	9,154	2.14
Demand deposits	41,426			43,565			37,638		
Other liabilities	1,937			1,695			1,495		
Stockholders' equity	50,532			46,746			42,935		
Total liabilities and stockholders' equity	$ 654,933			$ 578,242			$ 510,236		
Net interest income		$ 15,877			$ 18,029			$ 16,997	
Weighted average rate spread			2.08%			2.91%			3.20%
Net yield on average earning assets (6)			2.51%			3.24%			3.47%

(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.

Other Income

Other income was $1.7 million in 2006 and $1.6 million for 2005 and 2004.

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 $6.1 million for 2006, $5.8 million for 2005, and $5.5 million for 2004. Annual merit-based salary increases, which averaged approximately 5% in each of 2006 and 2005, accounted for the majority of the increase in each year. The Bank added three employees in 2004 to staff the new Linden Ponds branch and four employees in 2006 to staff the new Boston branch, which also contributed to the increase in this category. Also 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 $553,000 in expense for 2006, $526,000 for 2005 and $501,000 for 2004. The expense is offset by the after-tax increase in the cash value of life insurance policies, as previously described. (Refer to Note 12 to the Consolidated Financial Statements for more details.) For 2006, 2005 and 2004, 401(k) defined contribution expenses were $219,000, $216,000 and $205,000, respectively. In 2006, the Bank adopted a post-retirement health care plan for certain Bank officers and accrued a charge of $35,000 against current income, reflecting an estimate of such future expenses. Despite the adoption of this plan, health care benefits, including medical and dental, were relatively flat in 2006, after rising 15% in 2005 over 2004. Deferrable salary expenses, related to loan originations, decreased in 2006 over 2005 due to a decline in loan origination volumes.

Data processing expenses decreased in each of the three years, primarily due to renegotiated contract terms with third-party data processors and despite increases in the volume of customer accounts and transactions.

Occupancy and equipment expenses increased 10% in 2006 over 2005 and 6% in 2005 over 2004. In 2006, the Bank opened its eighth office in Boston's South End and, in late 2004, the Bank opened an office located within the Linden Ponds Retirement Community in Hingham, Massachusetts. Combined, these branches accounted for 12% of occupancy expenses during 2006. Of the costs incurred in the establishment of the Boston branch, approximately $60,000 in rents were expensed in 2006 and approximately $300,000 in leasehold improvements were capitalized.

All other operating expenses were $2.2 million for 2006 and $2.0 million for each of 2005 and 2004. These expenses include audit fees, advertising, directors' fees, supplies, legal fees and other items. In 2006, there were increased advertising, supplies and postage expenses related to the new Boston office. The Bank also incurred additional internal audit expenses to strengthen commercial lending internal controls. In addition, in 2006, the Bank incurred $49,000 in losses due to robberies, fraudulent checks and fraudulent debit card transactions, an increase of $40,000 from those incurred in 2005. Increasing occurrences of information security breaches at merchants and their card processors may lead to additional, unrecoverable debit card losses at the Bank. In 2005, there were increases in internal audit fees, director fees, contributions and project development expenses related to a former branch location. Legal expenses were $19,000 for each of 2006 and 2005 as compared to $18,000 for 2004.

Income Taxes

The Bank's effective tax rate for 2006 was 35.3%, and 37.4% for 2005 and 2004. The decrease in the effective tax rate in 2006 is attributable to the higher percentage of income taxed at lower state tax rates accompanied by a modest increase in tax exempt income. The Bank's investment securities are held in Massachusetts security corporations whose earnings are taxed at lower state rates.

COMPARISON OF THE YEARS 2006 AND 2005

BALANCE SHEET ANALYSIS

The Bank had total assets of $691.7 million at December 31, 2006, an increase of $63.4 million, or 10%, from the $628.3 million level at year end 2005.

Loans

At December 31, 2006 and 2005, the Bank reported net loans of $539.1 million and $488.1 million, respectively, or 78% of total assets. In 2006, the Bank originated $131.6 million in mortgage and other loan products which resulted in net loan growth of $51.0 million. Comparably for 2005, the Bank originated $175.1 million which resulted in net loan growth of $72.6 million. Contributing to the net loan growth in 2006 was a decline in the overall principal repayment rate, which was approximately 13% in 2006 as compared to 20% for 2005. At December 31, 2006 and 2005, 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 2006 and 48% in 2005. Commercial mortgages represented 49% of the mortgage portfolio in 2006 and 49% in 2005.

The Bank's lending strategy during 2006 and 2005 has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Commercial mortgages increased by 12% in 2006. 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. At December 31, 2006, the outstanding balance of 20/20 Mortgages was $70.2 million, or approximately 28% of the residential loan portfolio. 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, 2006 and 2005, the allowance had a balance of $3.6 million and $3.3 million, respectively. The allowance is maintained at a level which the Bank believes is 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 such as local economic trends, real estate market conditions and credit concentrations. (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 2006, there were no loan charge-offs or recoveries. For 2005, there were no loan charge-offs and $2,000 in recoveries.

The Bank reported two non-accrual loans at December 31, 2006 with a combined outstanding balance of $166,000 as compared to $168,000 at December 31, 2005. As a percentage of total loans, these non-accrual loans were 0.03% at December 31, 2006 and 2005.

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, 2006, the portfolio was comprised of debt and mortgage-backed securities issued by government-sponsored enterprises and a single equity issue for a total of $94.7 million, or 14% of total assets, as compared to $91.5 million, or 15% of total assets, at year end 2005. At December 31, 2006 and 2005, 98% of the securities in the portfolio were issued or guaranteed by government-sponsored enterprises.

At December 31, 2006, 85% of the portfolio consisted of 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 20% of this portfolio is subject to redemption at dates earlier than the stated maturity at the discretion of the issuer.

At December 31, 2006, approximately 13% of the portfolio, or $12.0 million, was comprised of mortgage-backed securities, a decrease of $2.3 million over the balances held at December 31, 2005. 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. This investment accounted for 2% of the investment portfolio at December 31, 2006 and 2005.

At year end 2006 and 2005, 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 $691,000, net of tax effects, at December 31, 2006 as compared to $1.3 million at year end 2005, reflecting the maturity in 2006 of securities which carried lower than current market rates. 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, 2006, was $12.0 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, 2006 and 2005, 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"). Collectively, these certificates accounted for less than 1% of total assets at December 31, 2006 and 2005.

Other Assets

The Bank held $12.2 million in Bank-owned life insurance at December 31, 2006 as compared to $11.8 million at December 31, 2005. The increase in 2006 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, 2006, the Bank held a total of $408.2 million in deposits, an increase of $43.9 million, or 12%, from the $364.3 million in deposits at year end 2005. Core deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $163.4 million at December 31, 2006 as compared to $188.9 million at year end 2005, a decrease of $25.5 million, or 13%. The decline in core deposits was observed in all categories, but was most pronounced in money market accounts, which alone decreased by $19.8 million. Core deposits comprised 40% of total deposits at December 31, 2006 as compared to 52% at year end 2005. Certificates of deposit were $244.8 million at December 31, 2006 as compared to $175.4 million at year end 2005. Generally, during periods of rising interest rates, consumers transfer their balances from core account products to higher-yielding certificates of deposit.

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. In the fourth quarter of 2006, the Bank opened a new branch in the South End of Boston, which has, thus far, met management's expectations with respect to deposit growth.

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. Retirement accounts are afforded

FDIC protection for balances up to $250,000. Providing DIF insurance provides an advantage for the Bank as some competitors cannot offer this coverage.

Borrowings

The Bank had $227.6 million in FHLB advances at December 31, 2006 as compared to $211.8 million at year end 2005. In 2006, borrowings helped to finance the growth in the loan portfolio. Generally, the borrowings are drawn with a fixed rate and term; however, approximately $24.5 million, or 11%, can be called by the issuer after an initial specified term, an additional $5.8 million is subject to principal amortization over its stated life and $20.0 million is subject to a monthly rate adjustment. At December 31, 2006, nearly 60% of all borrowings will mature within one year as compared to 80% at December 31, 2005. The average rate paid on borrowings held at year end 2006 was 5.16%, up from 4.35% at year end 2005, reflecting rising market interest rates.

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 debt securities issued by government-sponsored enterprises, or approximately 68% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. Eleven securities, or 17%, are subject to redemption, at par, at the discretion of the issuer. Mortgage-backed securities, which comprise 13% 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. The Bank experienced an overall prepayment rate of 13% on its loan portfolio in 2006 as compared to 20% in 2005.

The proceeds to the Bank under key executive life insurance policies are illiquid during the lives of the executives. Such policies total $12.2 million, or 2% of total assets, at December 31, 2006 as compared to $11.8 million, or 2%, at December 31, 2005.

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 86% of the Bank's borrowings are fixed in terms of maturity. Approximately 3% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 11%, or $24.5 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, 2006, the Bank had approximately $66.3 million in commitments to extend credit as compared to $71.3 million at December 31, 2005. Refer to Note 9 to Consolidated Financial Statements for more details. No other off-balance sheet arrangements existed at December 31, 2006 or 2005.

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 and the level of volatile liabilities to earning assets. At December 31, 2006 and 2005, each measurement was within predefined Bank guidelines. The loan-to-deposit ratio slightly exceeded the Bank's tolerance at December 31, 2006. Efforts to raise deposits, such as offering promotional rates on certificates of deposit and the opening of a new branch in Boston, were undertaken in late 2006 to reduce the ratios to 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 $300.6 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 $69.9 million in additional borrowings. At December 31, 2006, the Bank had $227.6 million in advances outstanding.

At December 31, 2006, the Bank had capital of $51.8 million, or 7.5% of total assets, as compared to $48.5 million, or 7.7%, at December 31, 2005. 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, 2006, the Bank's entire securities portfolio was classified as available for sale which had the effect of decreasing capital by $691,000. In comparison, at year end 2005, capital was decreased by $1.3 million.

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 2006 and 2005.

During 2006, the Bank declared dividends of $1.00 per share which included a $0.20 per share special dividend which was declared in the fourth quarter. In comparison, in 2005, the Bank declared dividends of $0.99 per share which included a $0.20 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, was 46% for 2006 as compared to 34% for 2005.

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 basis point increase and decrease in interest rates where the magnitude of the rate change varies with the term. For example, longer term rates are modeled to change by 60 basis points and short term rates are modeled to change by 100 basis points. The model estimates that, over a twenty-four month period, net interest income will decrease 10% if rates rise 100 basis points and will increase 9% if rates fall 100 basis points.

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

Over the course of 2006, 41% of the investment portfolio matured and was reinvested at higher market interest rates, resulting in a 119 basis point increase in the average yield earned on the portfolio when

At December 31, 2006, 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	$ 227,576	$ 137,838	$ 69,602	$ 19,165	$ 971
Certificates of Deposit	$ 244,751	$ 238,131	$ 6,041	$ 579	$ —
Data Processing Agreements*	$ 2,305	$ 657	$ 1,285	$ 363	$ —

*Estimated payments subject to change based on transaction volume.

** Leases contain provisions to pay certain operating expenses, the cost of which is not included above. Lease commitments are based on the initial contract term, or longer when, in the opinion of management, it is more likely than not that the lease will be renewed.

comparing year end 2006 to 2005. In 2006, the Bank experienced growth in both fixed and adjustable rate loans, such that at December 31, 2006, fixed rate loans continued to account for approximately 55% of the total portfolio, relatively unchanged from the prior year end. The addition of new fixed rate loans at higher market rates resulted in a 10 basis point increase in the average rate earned when comparing year ends 2006 and 2005. The addition of new adjustable rate loans combined with existing loans resetting to higher market interest rates resulted in a 31 basis point increase in the average rate earned when comparing year ends 2006 and 2005. Core deposits decreased over 2006 as customers transferred their funds into higher-cost certificates of deposit. Approximately 97% of the Bank's certificates of deposit are due to mature in 2007. To mitigate the impact of its short-term liability exposure, the Bank extended the maturity of a portion of its borrowed funds such that approximately 60% will mature in the upcoming year as compared to 80% at year end 2005. Combined, these changes in the assets and liabilities of the Bank had the effect of reducing the Bank's liability sensitivity to 29% of total assets at December 31, 2006 as compared to 30% at December 31, 2005.

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 18% depending upon the particular asset category. Generally, adjustable rate loans are indexed to Prime or Treasury rates and can reprice as much as 200 basis points per year and 600 basis points over the life of the loan. Non-certificate deposits do not have contractual maturities. The tables reflect management's assumptions about the volatility of such deposits.

December 31, 2006

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	$ 61,341	$ 35,114	$4,627	$ 6,509	$ 177	$ 1,468	$ 109,236
	4.21%	4.64%	4.70%	3.92%	2.95%	4.77%	4.36%
Loans:							
Fixed rate	$ 73,675	$ 42,801	$ 31,382	$ 31,116	$ 23,972	$ 96,284	$ 299,230
	6.09%	6.25%	6.14%	5.91%	6.16%	5.87%	6.04%
Adjustable rate	$ 73,542	$ 47,727	$ 41,823	$ 34,137	$ 31,562	$ 14,206	$ 242,997
	7.20%	5.76%	5.93%	6.18%	6.47%	6.50%	6.44%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 33,827	$ 33,827	$ 9,216	$ 9,199	$ 9,199	$ 23,845	$ 119,113
	1.44%	1.44%	0.25%	0.25%	0.25%	0.10%	0.90%
Term certificates	$ 238,131	$ 4,077	$ 1,964	$ 443	$ 136	$ —	$ 244,751
	4.89%	3.67%	3.54%	3.91%	3.94%	—%	4.86%
Borrowed funds	$ 137,838	$ 66,744	$ 2,858	$ 19,056	$ 109	$ 971	$ 227,576
	5.24%	4.99%	3.39%	5.46%	5.70%	5.70%	5.16%

December 31, 2005

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	$ 46,120	$ 36,200	$ 10,409	$ 1,361	$ 5,726	$ 1,269	$ 101,085
	2.86%	3.57%	3.24%	3.03%	3.09%	2.69%	3.17%
Loans:							
Fixed rate	$ 51,992	$ 34,834	$ 30,388	$ 23,288	$ 25,110	$ 99,341	$ 264,953
	6.08%	6.13%	6.01%	6.01%	5.78%	5.79%	5.94%
Adjustable rate	$ 76,280	$ 30,119	$ 44,999	$ 30,871	$ 25,642	$ 18,145	$ 226,056
	6.57%	6.18%	5.71%	5.53%	6.11%	6.27%	6.13%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 44,539	$ 44,539	$ 10,139	$ 10,021	$ 10,022	$ 23,933	$ 143,193
	1.36%	1.36%	0.25%	0.25%	0.25%	0.10%	0.92%
Term certificates	$ 161,058	$ 9,463	$ 3,160	$ 1,216	$ 498	$ —	$ 175,395
	3.44%	3.56%	3.52%	3.49%	3.92%	—%	3.45%
Borrowed funds	$ 170,241	$ 7,838	$ 6,744	$ 2,857	$ 19,056	$ 5,080	$ 211,816
	4.24%	4.68%	3.86%	3.39%	5.45%	4.56%	4.35%

Report of Independent Registered Public Accounting Firm

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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

Wolf & Company, P.C.

Boston, Massachusetts
March 2, 2007

ASSETS

	December 31, 2006	December 31, 2005
	(In Thousands)	
Cash and due from banks	$ 9,093	$ 8,454
Short-term investments	10,010	4,327
Cash and cash equivalents	19,103	12,781
Certificates of deposit	5,433	5,282
Securities available for sale, at fair value	94,732	91,513
Federal Home Loan Bank stock, at cost	12,041	10,715
Loans, net of allowance for loan losses of $3,603,000 in 2006 and $3,316,000 in 2005	539,104	488,126
Bank-owned life insurance	12,213	11,756
Premises and equipment, net	3,906	3,319
Accrued interest receivable	3,095	2,658
Deferred income tax asset, net	1,482	1,635
Other assets	543	466
	$ 691,652	$ 628,251

LIABILITIES AND STOCKHOLDERS' EQUITY

	2006	2005
Deposits	$ 408,190	$ 364,295
Federal Home Loan Bank advances	227,576	211,816
Mortgagors' escrow accounts	1,513	1,471
Accrued interest payable	829	598
Other liabilities	1,726	1,613
Total liabilities	639,834	579,793
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; 2,117,250 and 2,105,500 shares issued and outstanding at December 31, 2006 and 2005, respectively	2,117	2,106
Additional paid-in capital	10,252	10,013
Undivided profits	40,140	37,617
Accumulated other comprehensive loss	(691)	(1,278)
Total stockholders' equity	51,818	48,458
	$ 691,652	$ 628,251

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,		
	2006	2005	2004
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 32,616	$ 27,202	$ 23,617
Debt securities	3,353	2,463	2,044
Equity securities	687	477	263
Short-term investments and certificates of deposit	433	276	227
Total interest and dividend income	37,089	30,418	26,151
Interest expense:			
Deposits	10,291	5,841	4,319
Federal Home Loan Bank advances	10,921	6,548	4,835
Total interest expense	21,212	12,389	9,154
Net interest income	15,877	18,029	16,997
Provision for loan losses	287	244	80
Net interest income, after provision for loan losses	15,590	17,785	16,917
Other income:			
Customer service fees on deposits	1,015	938	820
Gain on sales of securities available for sale	—	—	80
Increase in bank-owned life insurance	457	440	457
Other	221	220	208
Total other income	1,693	1,598	1,565
Operating expenses:			
Salaries and employee benefits	6,085	5,756	5,472
Data processing	738	774	779
Occupancy and equipment	1,048	948	892
Other	2,245	2,042	2,042
Total operating expenses	10,116	9,520	9,185
Income before income taxes	7,167	9,863	9,297
Income tax provision	2,527	3,692	3,473
Net income	$ 4,640	$ 6,171	$ 5,824
Earnings per common share:			
Basic	$ 2.19	$ 2.95	$ 2.80
Diluted	$ 2.19	$ 2.92	$ 2.77

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31, 2006, 2005, and 2004				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 2003	$ 2,079	$ 9,442	$ 29,657	$ (265)	$ 40,913
Comprehensive income:					
Net income	—	—	5,824	—	5,824
Change in 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
Comprehensive income:					
Net income	—	—	6,171	—	6,171
Change in net unrealized loss on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	(489)	(489)
Total comprehensive income					5,682
Stock options exercised, after tax effect of $288,000	24	507	—	—	531
Cash dividends declared-common ($ 0.99 per share)	—	—	(2,078)	—	(2,078)
Balance at December 31, 2005	2,106	10,013	37,617	(1,278)	48,458
Comprehensive income:					
Net income	—	—	4,640	—	4,640
Change in net unrealized loss on securities available for sale, net of tax effect	—	—	—	587	587
Total comprehensive income					5,227
Stock options exercised, after tax effect of $136,000	11	239	—	—	250
Cash dividends declared-common($ 1.00 per share)	—	—	(2,117)	—	(2,117)
Balance at December 31, 2006	$ 2,117	$ 10,252	$ 40,140	$ (691)	$ 51,818

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2006	2005	2004
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 4,640	$ 6,171	$ 5,824
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	287	244	80
Amortization of securities, net	305	783	952
Amortization of deferred loan origination costs, net	18	77	75
Depreciation and amortization of premises and equipment	428	432	461
Increase in bank-owned life insurance	(457)	(440)	(457)
Gain on sales of securities available for sale	—	—	(80)
Deferred tax provision (benefit)	(162)	(62)	6
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(378)	(261)	(240)
Accrued interest payable and other liabilities	339	44	353
Net cash provided by operating activities	5,020	6,988	6,974
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	—	—	6,098
Maturities, prepayments and calls	37,935	16,126	28,420
Purchases	(40,557)	(23,323)	(48,038)
Activity in certificates of deposit:			
Maturities	4,003	4,213	2,342
Purchases	(4,154)	(4,404)	(2,447)
Increase in Federal Home Loan Bank stock	(1,326)	(2,231)	(1,049)
Loans originated, net of payments received	(51,283)	(72,909)	(56,915)
Additions to premises and equipment	(1,015)	(200)	(343)
Net cash used in investing activities	(56,397)	(82,728)	(71,932)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2006	2005	2004
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits	43,895	29,726	43,256
Increase in mortgagors' escrow accounts	42	118	105
Proceeds from stock options exercised	114	243	30
Cash dividends paid on common stock	(2,112)	(2,049)	(1,914)
Net proceeds from borrowings with maturities of less than three months	12,957	19,368	13,175
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	388,000	182,500	94,700
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(385,197)	(154,720)	(91,908)
Net cash provided by financing activities	57,699	75,186	57,444
Net change in cash and cash equivalents	6,322	(554)	(7,514)
Cash and cash equivalents at beginning of year	12,781	13,335	20,849
Cash and cash equivalents at end of year	$ 19,103	$ 12,781	$ 13,335
Supplementary information:			
Interest paid on deposit accounts	$ 10,293	$ 5,857	$ 4,298
Interest paid on Federal Home Loan Bank advances	10,688	6,426	4,812
Income taxes paid	2,620	3,564	3,398

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 2006, 2005, and 2004

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. 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 eight 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.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments.

Short-term investments

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

Certificates of deposit

Certificates of deposit are purchased from FDIC-insured depository institutions in amounts not to exceed $100,000, per institution, for principal and accrued interest, combined, have original maturities greater than ninety days and are carried at cost.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (concluded)

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 impaired, whereby 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 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 observable 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.

Premises and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. 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 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)

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheet at cash surrender value. Changes in cash surrender value are reflected in other income on the consolidated statement of income.

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.

Stock compensation plans

The Bank has two fixed stock option plans as more fully described in Note 11.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)" or the "Statement"). SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) is a replacement of SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and its related interpretive guidance. The Statement requires the Bank to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. SFAS No. 123(R) permits the use of any option-pricing model that meets the fair value objective in the Statement.

The Bank adopted SFAS No. 123(R) effective January 1, 2006. Prior to January 1, 2006, stock compensation cost was measured using the intrinsic value-based method of accounting in accordance with Accounting Principal Board Opinion No. 25, "Accounting for Stock Issued to Employees". The adoption of SFAS No.123(R) had no effect on the Bank's net income or earnings per share for 2006 because no options were granted during 2006 and all existing options were fully vested prior to 2006.

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.

Earnings per common share have been computed based on the following:	Years Ended December 31,		
	2006	**2005**	**2004**
		(In Thousands)	
Average number of common shares outstanding	2,116	2,093	2,081
Effect of dilutive options	3	24	20
Average number of common shares outstanding used to calculate diluted earnings per common share	2,119	2,117	2,101

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).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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

	Years Ended December 31,		
	2006	2005	2004
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 902	$ (716)	$ (760)
Reclassification adjustment for gains realized in income	—	—	(80)
Net unrealized gains (losses)	902	(716)	(840)
Tax effect	(315)	227	316
Net-of-tax amount	$ 587	$ (489)	$ (524)

Advertising costs

Advertising costs are expensed as incurred.

Recent accounting pronouncements

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is not expected to have a material impact on the Bank's consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for the Bank on January 1, 2008 and is not expected to have a material impact on the Bank's consolidated financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force (“EITF”) 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements”. This issue addresses accounting for split-dollar life insurance arrangements whereby the employer purchases a policy to insure the life of an employee, and separately enters into an agreement to split the policy benefits between the employer and the employee. This EITF states that an obligation arises as a result of a substantive agreement with an employee to provide future postretirement benefits. Under EITF 06-4 the obligation is not settled upon entering into an insurance arrangement and since the obligation is not settled, a liability should be recognized in accordance with applicable authoritative guidance. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Bank is in the process of evaluating the potential impacts of adopting EITF 06-4 on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) No. 108. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. SAB 108 is applicable to all financial statements issued by the Bank for the year ended December 31, 2006.

On February 15, 2007, the FASB issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, which provides companies with an option to report selected financial assets and liabilities at fair value. Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for the Bank on January 1, 2008 and management is in the process of evaluating the impacts of adopting Statement No. 159 on its consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2006 and 2005, cash and due from banks included $390,000 and $222,000, respectively to satisfy such reserve requirements.

3. SECURITIES AVAILABLE FOR SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2006				
Debt securities:				
Government-sponsored enterprises	$ 81,217	$ 27	$ (480)	$ 80,764
Mortgage-backed - FHLMC	5,430	1	(253)	5,178
Mortgage-backed - FNMA	7,146	—	(307)	6,839
Total debt securities	93,793	28	(1,040)	92,781
Equity securities	2,000	—	(49)	1,951
Total securities available for sale	$ 95,793	$ 28	$ (1,089)	$ 94,732
December 31, 2005				
Debt securities:				
Government-sponsored enterprises	$ 76,375	$ —	$ (1,138)	$ 75,237
Mortgage-backed - FHLMC	6,511	1	(351)	6,161
Mortgage-backed - FNMA	8,590	—	(443)	8,147
Total debt securities	91,476	1	(1,932)	89,545
Equity securities	2,000	—	(32)	1,968
Total securities available for sale	$ 93,476	$ 1	$ (1,964)	$ 91,513

At December 31, 2006 and 2005, debt securities with a fair value of $85,766,000 and $86,555,000, 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, 2006 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	$ 42,573	$ 42,340
Over 1 year to 5 years	38,644	38,424
	81,217	80,764
Mortgage-backed securities:		
Within 1 year	3	3
Over 1 year to 5 years	12,028	11,472
Over 10 years	545	542
	12,576	12,017
Total debt securities	$ 93,793	$ 92,781

For the year ended December 31, 2004, proceeds from the sale of securities available for sale amounted to $6,098,000, resulting in gross realized gains of $80,000 and no gross realized losses. There were no sales of securities during 2005 and 2006.

Information pertaining to securities with gross unrealized losses at December 31, 2006 and 2005, 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)			
December 31, 2006				
Debt securities:				
Government-sponsored enterprises	$ (55)	$ 26,481	$ (425)	$ 41,118
Mortgage-backed - FHLMC	—	—	(253)	5,097
Mortgage-backed - FNMA	—	—	(307)	6,824
Total temporarily impaired debt securities	(55)	26,481	(985)	53,039
Equity securities	—	—	(49)	1,951
Total temporarily impaired securities	$ (55)	$ 26,481	$ (1,034)	$ 54,990

At December 31, 2006, certain debt securities have unrealized losses with aggregate depreciation of 1% from the Bank's amortized cost basis and equity securities have unrealized losses with depreciation of 2% from the Bank's amortized cost basis. These unrealized losses relate to government-sponsored enterprises, mortgage-backed securities and equity securities and result from changes in the bond and equity markets since their purchase. As management has the ability to hold debt securities until maturity, and equity securities for the forseeable future, no declines are deemed to be other than temporary.

SECURITIES AVAILABLE FOR SALE (concluded)

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)			
December 31, 2005				
Debt securities:				
Government-sponsored enterprises	$ (168)	$ 22,159	$ (970)	$ 53,078
Mortgage-backed - FHLMC	(1)	62	(350)	5,946
Mortgage-backed - FNMA	(1)	9	(442)	8,128
Total temporarily impaired debt securities	(170)	22,230	(1,762)	67,152
Equity securities	(32)	1,968	—	—
Total temporarily impaired securities	$ (202)	$ 24,198	$ (1,762)	$ 67,152

4. LOANS

A summary of the balances of loans follows:

	December 31, 2006	December 31, 2005
	(In Thousands)	
Mortgage loans:		
Residential	$ 230,473	$ 213,647
Commercial	267,917	234,842
Construction	19,426	18,982
Equity lines of credit	19,745	19,491
Second mortgages	3,855	3,566
Total mortgage loans	541,416	490,528
Other loans:		
Personal installment	526	218
Commercial	93	73
Revolving credit	192	190
Total other loans	811	481
Total loans	542,227	491,009
Allowance for loan losses	(3,603)	(3,316)
Net deferred loan origination costs	480	433
Loans, net	$ 539,104	$ 488,126

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 $939,000, $1,068,000 and $1,493,000 at December 31, 2006, 2005 and 2004, 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, 2006	2005	2004
	(In Thousands)		
Balance at beginning of year	$ 3,316	$ 3,070	$ 2,992
Provision for loan losses	287	244	80
Loans charged off	—	—	(3)
Recoveries on loans previously charged off	—	2	1
Balance at end of year	$ 3,603	$ 3,316	$ 3,070

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

	December 31, 2006	2005
	(In Thousands)	
Impaired loans without a valuation allowance	$ 166	$ 168
Non-accrual loans (including impaired loans)	$ 166	$ 168
Loans past due 90 days or more and still accruing	$ —	$ —

	Years Ended December 31, 2006	2005	2004
	(In Thousands)		
Average investment in impaired loans	$ 578	$ 598	$ 304
Interest income recognized on impaired loans	$ 93	$ 54	$ 30
Interest income recognized on a cash basis on impaired loans	$ 93	$ 54	$ 30

There were no additional funds committed to be advanced in connection with impaired loans.

5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31, 2006	December 31, 2005
	(In Thousands)	
Premises:		
Land	$ 870	$ 870
Buildings	4,179	3,815
Leasehold Improvements	291	—
Equipment	2,747	2,400
	8,087	7,085
Less accumulated depreciation and amortization	(4,181)	(3,766)
	$ 3,906	$ 3,319

Depreciation and amortization expense for the years ended December 31, 2006, 2005, and 2004 amounted to $428,000, $432,000, and $461,000, respectively.

6. DEPOSITS

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

	December 31, 2006	December 31, 2005
	(In Thousands)	
Regular	$ 46,289	$ 50,461
Money market deposits	48,978	68,799
NOW	23,846	23,933
Demand	44,326	45,707
Total non-certificate accounts	163,439	188,900
Term certificates less than $100,000	137,810	102,936
Term certificates of $100,000 or more	106,941	72,459
Total certificate accounts	244,751	175,395
Total deposits	$ 408,190	$ 364,295

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 2006 Amount	2006 Weighted Average Rate	December 31, 2005 Amount	2005 Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 238,131	4.89%	$ 161,058	3.44%
Over 1 year to 2 years	4,077	3.67	9,463	3.56
Over 2 years to 3 years	1,964	3.54	3,160	3.52
Over 3 years to 5 years	579	3.92	1,714	3.62
	$ 244,751	4.86%	$ 175,395	3.45%

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2006	2005	2004
	(In Thousands)		
Regular	$ 119	$ 138	$ 201
Money market deposits	1,085	1,378	1,272
NOW	23	23	20
Term certificates	9,064	4,302	2,826
	$ 10,291	$ 5,841	$ 4,319

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, 2006 Amount	2006 Weighted Average Rate	December 31, 2005 Amount	2005 Weighted Average Rate
	(Dollars in Thousands)			
2006	$ —	—%	$ 168,447	4.26%
2007	136,000	5.28	6,000	5.35
2008(1)	66,942	4.95	7,951	3.51
2009	2,000	3.58	2,000	3.58
2010(2)	21,174	5.15	21,877	5.07
2011	—	—	4,000	4.25
Thereafter(3)	1,460	5.70	1,541	5.70
	$ 227,576	5.16%	$ 211,816	4.35%

(1) At December 31, 2006 includes amortizing advances of $1,642,000 due in June, 2008, requiring monthly principal and interest of $88,000 .

(2) At December 31, 2006 includes amortizing advance of $2,674,000 due in June, 2010 , requiring monthly principal and interest of $65,000.

(3) At December 31, 2006 includes amortizing advances of $1,460,000 due in November, 2018 requiring monthly principal and interest of $14,000 .

All borrowings from the Federal Home Loan Bank of Boston (“FHLB”) 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 certain debt securities held in Hingham Securities Corporation II. Expected maturities may differ from contractual maturities because certain borrowings, aggregating $24.5 million at December 31, 2006, can be called by the FHLB after an initial specified term. All borrowings are at a fixed rate, with the exception of $20.0 million which is at an adjustable rate which can change monthly.

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, 2006.

8. INCOME TAXES

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

	Years Ended December 31, 2006	2005	2004
	(In Thousands)		
Current tax provision:			
Federal	$ 2,287	$ 3,001	$ 2,764
State	402	753	703
	2,689	3,754	3,467
Deferred tax provision (benefit):			
Federal	(126)	(49)	2
State	(36)	(13)	4
	(162)	(62)	6
Total provision	$ 2,527	$ 3,692	$ 3,473

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

	Years Ended December 31, 2006	2005	2004
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	3.4	5.0	5.0
Other, net	(2.1)	(1.6)	(1.6)
Effective tax rate	35.3%	37.4%	37.4%

INCOME TAXES (continued)

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

	December 31, 2006	December 31, 2005
	(In Thousands)	
Deferred tax assets:		
Federal	$ 1,487	$ 1,688
State	404	381
	1,891	2,069
Deferred tax liabilities:		
Federal	(317)	(341)
State	(92)	(93)
	(409)	(434)
Net deferred tax asset	$ 1,482	$ 1,635

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

	December 31, 2006	December 31, 2005
	(In Thousands)	
Allowance for loan losses	$ 1,445	$ 1,305
Fees on loans	(327)	(311)
Net unrealized loss on securities available for sale	370	685
Other	(6)	(44)
Net deferred tax asset	$ 1,482	$ 1,635

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

	Years Ended December 31, 2006	2005	2004
	(In Thousands)		
Balance at beginning of year	$ 1,635	$ 1,346	$ 1,036
Deferred tax benefit (provision)	162	62	(6)
Deferred tax effects of net unrealized(gain) loss on securities available for sale	(315)	227	316
Balance at end of year	$ 1,482	$ 1,635	$ 1,346

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.

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, 2006 and 2005, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31, 2006	December 31, 2005
	(In Thousands)	
Unused lines of credit	$38,217	$39,605
Commitments to originate loans:		
Commercial mortgages	16,531	19,787
Residential mortgages	5,593	3,023
Unadvanced funds on construction loans	5,976	8,844
Standby letters of credit	10	—

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. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments. The letter-of-credit outstanding at December 31, 2006 was unsecured.

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2006, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending December 31,	Amount (In Thousands)
2007	$ 153
2008	160
2009	168
2010	173
2011	177
Thereafter	665
Total	$ 1,496

Lease commitments are based on the initial contract term, or longer when, in the opinion of management, it is more likely than not that the lease will be renewed. Total rent expense for the years ended December 31, 2006, 2005, and 2004 amounted to $135,000, $61,000 and $18,000, respectively.

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 statements.

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, 2006 and 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, 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, 2006 and 2005 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, 2006						
Total Capital to Risk-Weighted Assets	$ 56,063	13.03%	$ 34,413	8.0%	$ 43,016	10.0%
Tier 1 Capital to Risk-Weighted Assets	52,460	12.20	17,206	4.0	25,810	6.0
Tier 1 Capital to Average Assets	52,460	7.72	27,186	4.0	33,983	5.0
December 31, 2005						
Total Capital to Risk-Weighted Assets	$ 53,020	13.60%	$ 31,192	8.0%	$ 38,990	10.0%
Tier 1 Capital to Risk-Weighted Assets	49,704	12.75	15,596	4.0	23,394	6.0
Tier 1 Capital to Average Assets	49,704	8.10	24,544	4.0	30,679	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, will have a maximum option term of 10 years and are fully vested immediately upon issuance. At December 31, 2006, there were 12,500 non-qualified 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,					
	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	20,250	$13.61	43,500	$11.90	46,500	$ 11.78
Granted	—	—	—	—	—	—
Exercised	(11,750)	9.66	(23,250)	10.42	(3,000)	9.97
Outstanding at end of year	8,500	$19.07	20,250	$13.61	43,500	$ 11.90
Options exercisable at end of year	8,500	$19.07	20,250	$13.61	43,500	$ 11.90

Options outstanding consist of the following:

	December 31,			
	2006		2005	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$29.540	1,500	5	1,500	6
23.500	1,500	2	1,500	3
15.000	5,500	3	6,500	4
9.167	—	—	10,750	1
	8,500		20,250	

12. EMPLOYEE BENEFIT PLANS

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. The Bank contributes 3% of an employee's compensation, regardless of the employee's contribution and makes a matching contribution of $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, 2006, 2005 and 2004, expense attributable to the Plan amounted to $219,000, $216,000 and $205,000, respectively.

Supplemental Employee Benefit Plans

The Bank has supplemental employee retirement plans which were established in 2002 for the benefit of certain senior executives. In connection with these plans, the Bank purchased life insurance policies amounting to $10,109,000 and contributed them to a Rabbi Trust. The value of these policies is $12,213,000 and $11,756,000 at December 31, 2006 and 2005, respectively. 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 $553,000, $526,000 and $501,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Endorsement Split -Dollar Life Insurance Arrangements

The Bank is the sole owner of life insurance policies pertaining to certain of the Bank's executives. The Bank has entered into agreements with these executives whereby the Bank will pay to the executives' estates or beneficiaries a portion of the death benefit that the Bank will receive as beneficiary of such policies. No liability has been recognized on the consolidated balance sheet for such death benefits. In September 2006, the Emerging Issues Task Force reached a consensus on Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." As a result, effective for fiscal years beginning after December 15, 2007, the Bank will be required to recognize a liability for future death benefits, and may choose to retroactively apply the accounting change to all periods presented, or to cumulatively adjust the financial statements as of the beginning of the year of adoption. Management is in the process of evaluating the impact of Issue No. 06-4 on the Bank's consolidated financial statements. See Note 1 - Recent Accounting Pronouncements.

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 $4,000 at December 31, 2006 and $7,000 at December 31, 2005. 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, 2006 and 2005, 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,			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 19,103	$ 19,103	$ 12,781	$ 12,781
Certificates of deposit	5,433	5,417	5,282	5,258
Securities available for sale	94,732	94,732	91,513	91,513
Federal Home Loan Bank stock	12,041	12,041	10,715	10,715
Loans, net	539,104	536,266	488,126	484,111
Accrued interest receivable	3,095	3,095	2,658	2,658
Financial liabilities:				
Deposits	408,190	407,965	364,295	363,784
Federal Home Loan Bank advances	227,576	227,410	211,816	212,929
Mortgagors' escrow accounts	1,513	1,513	1,471	1,471
Accrued interest payable	829	829	598	598

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2006 and 2005 are as follows:

	Years Ended December 31,							
	2006				2005			
	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	$ 9,845	$ 9,762	$ 8,891	$ 8,591	$ 8,231	$ 7,743	$ 7,363	$ 7,081
Interest expense	6,148	5,678	5,004	4,382	3,804	3,212	2,808	2,565
Net interest income	3,697	4,084	3,887	4,209	4,427	4,531	4,555	4,516
Provision for loan losses	69	71	78	69	71	42	82	49
Net interest income, after provision for loan losses	3,628	4,013	3,809	4,140	4,356	4,489	4,473	4,467
Other income	465	405	422	401	449	389	389	371
Operating expenses	2,601	2,492	2,528	2,495	2,342	2,415	2,357	2,406
Income before income taxes	1,492	1,926	1,703	2,046	2,463	2,463	2,505	2,432
Income tax provision	502	687	594	744	918	922	937	915
Net income	$ 990	$ 1,239	$ 1,109	$ 1,302	$ 1,545	$ 1,541	$ 1,568	$ 1,517
Earnings per common share:								
Basic	$ 0.47	$ 0.59	$ 0.52	$ 0.62	$ 0.74	$ 0.74	$ 0.75	$ 0.73
Diluted	$ 0.47	$ 0.58	$ 0.52	$ 0.61	$ 0.73	$ 0.73	$ 0.75	$ 0.72
Cash dividends declared per common share	$ 0.40(1)	$ 0.20	$ 0.20	$ 0.20	$ 0.40(2)	$ 0.20	$ 0.20	$ 0.19

(1) Includes a special dividend of $0.20 per common share declared on November 21, 2006.

(2) Includes a special dividend of $0.20 per common share declared on November 23, 2005.

Stock Performance Graph

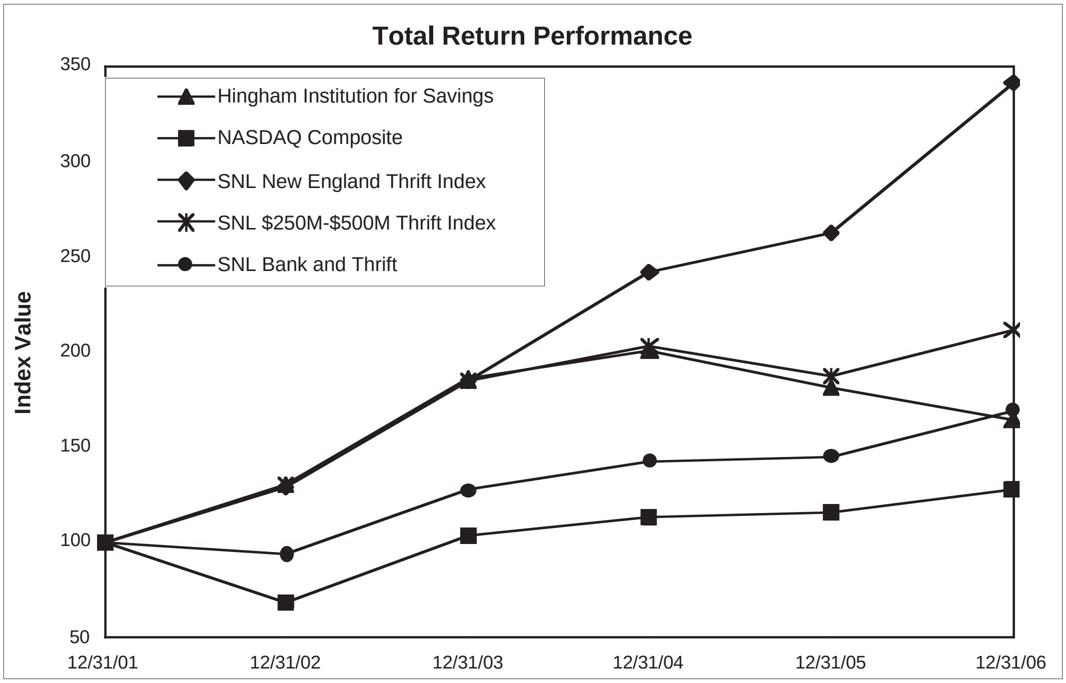
The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total return of the Bank's Common Stock since December 31, 2001 through December 31, 2006. For comparative purposes, changes in the cumulative total return on four indices of publicly traded stocks (the "Indices") are also set forth on the chart.

The NASDAQ Composite Index reflects the total return of a group of stocks in a cross section of industries. Many of these stocks have substantially larger market capitalizations than the Bank. The SNL Bank and Thrift Index tracks a national group of publicly traded bank and thrift institutions. In its proxy statements for annual meetings held in 2002, 2003, 2004, 2005 and 2006, the Bank used the SNL $250-500M Thrift Index, the results of which are also shown below. The Bank believes that, given the increase in the assets of the Bank over the last few years, the SNL Bank and Thrift Index is composed of institutions which are more similar to the Bank in its current position. Accordingly, the SNL Bank and Thrift Index will replace the SNL $250-500M Thrift Index in future reports.

The final Index, SNL New England Thrift Index, tracks a peer group of all publicly traded thrift institutions located in New England. SNL Securities is a research and publishing firm specializing in the collection and dissemination of data on the banking, thrift, and financial services industries.

The chart begins with an equal base value of $100 for the Bank's stock and for each of the Indices on December 31, 2001 and reflects year-end closing prices and dividends paid thereafter by the Bank and by the companies which comprise the Indices. The chart assumes full reinvestment of such dividends.

Information about the Indices has been obtained from sources believed to be reliable, but neither the accuracy nor the completeness of such information is guaranteed by the Bank.



Index	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Hingham Institution for Savings	100.00	130.38	185.44	200.31	181.34	164.43
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
SNL New England Thrift Index	100.00	128.89	184.98	241.61	262.02	341.46
SNL $250M-$500M Thrift Index	100.00	130.65	184.95	203.13	187.32	211.71
SNL Bank and Thrift	100.00	93.96	127.39	142.66	144.89	169.30

Stockholder Information

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Hingham, MA 02043
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Investor Inquiries
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Vice President - Administration

Transfer Agent and Registrar
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480 Washington Boulevard
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Special Counsel
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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, 2006, 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, 2006, there were approximately 407 stockholders of record, holding 894,698 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
2005		
First Quarter	$44.50	$40.84
Second Quarter	44.99	38.60
Third Quarter	42.25	40.01
Fourth Quarter	41.91	34.55
2006		
First Quarter	39.99	37.77
Second Quarter	40.42	36.28
Third Quarter	39.50	33.00
Fourth Quarter	38.49	32.25

The closing sale price of the Bank's common stock at December 31, 2006 was $34.28 per share.

Branch Offices

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540 Tremont Street
Boston, MA 02116

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
Hingham, MA 02043

LINDEN PONDS
300 Linden Ponds Way
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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