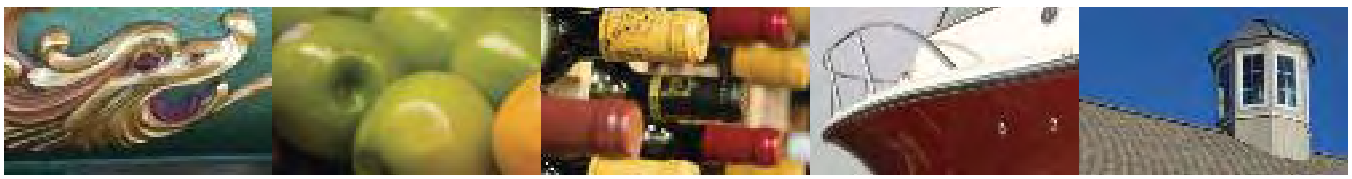
Hingham Institution for Savings



Simple Choices. Extraordinary Results.

Annual Report

07

We've noticed that the world around us has shifted its focus away from the super-sized, faceless and gimmick-laden. Simplicity and authenticity have become fashionable again. We're glad things have come around to the very philosophy that Hingham Savings has practiced for more than 173 years. A genuine concern for the well-being of our customers and our community is at the center of everything we do. It's reflected in our straightforward products, our standards of excellence, and our deep commitment to treat people with fairness and honesty. It's in each and every choice we make as members of the communities we serve. It's not just banking. It's personal.

Our view is illustrated in the stories of those who have graciously agreed to be a part of our Annual Report. A family returns to the cherished values and community of a seaside village. A daughter builds upon a Greek family tradition with hard work and determination. Community builders share their passions for boating and wine collecting. A dedicated restoration artist labors for more than a decade on one of the last operating carousels in the country. We are grateful to each of them for the choices they have made. They bring us some of life's most wonderful moments: the intensity and flavor of traditional foods, a savored glass of wine, a perfect sail on the open sea, the special magic of a carousel ride. We're proud to be a part of their stories, and for being chosen to help them accomplish their dreams.

In 2007, we had the highest banking deposit gains in our service area. And happily, in spite of the housing market downturn, we have had no foreclosures or loan losses again this year. While the world around HIFS has changed, we've remained focused, with strong and steady growth in both deposits and loans. Once again, our simple choices have brought extraordinary results.

From the President

Dear Shareholders:

The banking industry experienced tremendous turbulence in 2007. A continued squeeze on net interest margins and a meltdown in the home mortgage market left many banks exposed. In the words of investor Warren Buffet "it is only when the tide goes out that you discover who is swimming naked." This past year the tide was definitely on the ebb and I am pleased to report that we are appropriately attired.

We again experienced vigorous growth with an 8% increase in deposits and a 10% increase in loans. Our total assets increased from $691,652,000 on December 31, 2006 to $744,602,000 at December 31, 2007. Our earnings remained solid with net income of $4,490,000 for 2007, down slightly from the $4,640,000 for 2006. Most encouraging, with some improvement in the yield curve late in the year, we experienced a 34% increase in fourth quarter earnings over those of the same period in 2006. Asset quality remained quite high. In 2007, we experienced absolutely no loan losses. In fact, we've had no foreclosures in over six years, and at year end non-performing assets represented a mere 0.21% of total assets. These loans are all well collateralized and we believe present no risk of loss.

This performance is made possible by the strength and vitality of the communities we serve in Boston and along the South Shore. It is also the result of the skill and experience of a growing and talented management and staff. Our newest branches at Linden Ponds and in the South End of Boston have allowed us to bring our highly focused brand of customer service to two quite different and unique communities. We have recently acquired a new branch facility on the town line of Norwell and Hanover, Massachusetts and look forward to strengthening old relationships and developing new ones there. We believe there will continue to be significant opportunities in our marketplace, and we look forward to capitalizing on them. We have continued to invest in new technologies and product improvements while carefully controlling our overhead expenses.

At this point each year, we find ourselves newly inspired. Our Annual Report brings another opportunity for our Hingham Savings community of directors, management and staff to see all we have accomplished together and to renew our commitment to shared objectives. While we have continued to grow, produce and improve during challenging times, we realize that momentum must be sustained. Asset quality requires constant diligence and our focus must not waiver. We will carry on our tradition of providing the finest in community banking with integrity and teamwork.

Very truly yours,

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


Eastern Yacht Sales

Sights set on excellence

As a former legislator and active fundraiser, Jon Rotenberg knows the value of community building. At Eastern Yacht Sales, one of the area's largest sailboat and powerboat dealers, he and his longtime staff share with their clientele a passion for all things boating — whether it's racing, boat shows, new design or the latest technology. Passion and commitment drive the business, and as Jon puts it, keep his customers "returning every 38 months for 3 more feet of boat."

Eastern Yacht Sales has been in operation for more than 35 years. They opened their 3-acre waterfront location in Hingham in 1989, and have recently opened a new showroom in Marblehead. The growing business relies on Hingham Savings as a community bank that "gets it." We bring a first-hand understanding of the unique aspects of their business to the relationship. We value what their business adds to the community. Our quick response and excellent service have earned their trust, making Hingham Savings their bank of choice for both lending and deposit needs.

The complex world of wine, uncorked

Duncan Routh tells us he's going to kiss a lot of frogs for us. As new partner at the Hingham Wine Merchant, he's on a mission to bring us the best in wine values, and that involves personally tasting wines in every category. Along with partners Dick Graham and Moira Sullivan, he's building a community for wine enthusiasts in a manner that is both high tech and highly personal. Their big new space at 74 North Street merges the worlds that the Wine Merchant seeks to connect - exposed ceiling ducts and crated wine provide a warehouse feel – in contrast to the warmth of the Tuscan yellow walls and terracotta floor. A Tasting Room which hosts visits by vineyard owners, and a state-of-the-art "Enomatic" wine sampling system, allow visitors to tour the world of wine. Meanwhile, the shop makes use of the Internet, a website, newsletters and email campaigns to keep a growing community of customers and fans updated.

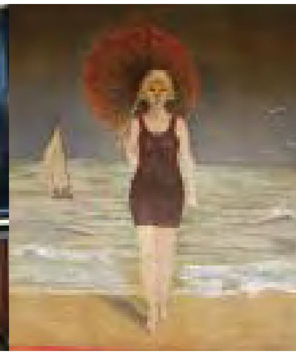
The Hingham Wine Merchant has always banked with Hingham Savings. Branch Manager Teresa Tseng looks forward to their frequent visits and an opportunity to chat about the new store's exciting progress. Duncan especially appreciates our Business*Online* Internet banking, finding it easy to use and a welcome timesaver. Simplicity is a priority in our business banking products and technologies. Business banking is both efficient and effective at Hingham Savings. We're pleased to see that these choices meet the needs of our business community.




At home again on the South Shore

After six years in the Midwest, healthcare professionals Jeff and Diane Dillon decided it was time to come home. Former residents of the South Shore, they longed to be near the sea again, and as a young mother, Diane especially missed being part of a village community. On a weekend trip, they found their new home. Located at one of the highest points in town and just steps from Hingham Square, its winding approach and white trim reminded them of treasured times in Nantucket.

A preference for the personal relationships of local banking drew the Dillons to Hingham Savings. The brisk housing market at the time required fast work on the part of Residential Loan Officer Joan Reydel. Because the family was still living in Illinois, Joan worked with them long distance on all of the arrangements for the successful purchase and financing of their new home. The Dillons were impressed with the speed and accuracy of Joan's work, and are very pleased with the flexibility of our mortgage products. It's a privilege to have been a part of this family's happy return. It's what we value most about what we do as a community bank.

A preservation effort comes full circle

The glass mirrors and intricately painted panels of the Paragon Carousel's rounding house hold the machinery located at its center. This is where you'll often find restoration expert James Hardison. He knows every inch of this carousel, from the 1920s Wurlitzer band organ to its 66 hand carved and bejeweled horses. As the carousel's operator and restorer for the past 15 years, he is central to the preservation efforts of the Friends of the Paragon Carousel.

Built in 1928, this merry-go-round is the last remaining amusement ride from the former Paragon Park that closed in the mid-eighties. Ever since, community members, investors and enthusiasts have rallied on the carousel's behalf, saving it from being sold off or destroyed by development. At Hingham Savings, we find their story inspiring, and Loan Officer Peter Smollett is proud to have worked with The Friends of the Paragon Carousel on arranging the financing that was crucial to their preservation effort. As a locally managed bank, we directly experience what's happening in our communities, and know that a flexible approach can be at the heart of a project's success.

Today, nearly half of the horses have been fully restored to their original "Philadelphia Style", and the results are breathtaking. A walk around the pavilion, its circular walls layered with handwritten notes and photos from generations of delighted fans are a testament to the magic of the Carousel. Now in its 80th year of continuous operation, it is a centerpiece in a community that we're proud to support.

Greek flavor and goodwill served in the South End

In carrying on her family-owned Greek market tradition, Anna Barounis was also determined to make some big changes. Formerly known as the Athens Market, the new shop would be renamed Georgiana's. In addition to fresh olives, feta cheese and gourmet items, the new market would offer hot Greek dishes, baked goods, restaurant seating, and a wine shop. Last October she stopped in at our new branch in the South End of Boston. Anna was interested in a fast turnaround on her commercial loan. As a locally managed bank, Hingham Savings was just what she was looking for, providing quick answers and streamlined processing for her financing needs. Branch Manager Tony Tierno saw to it that her loan was available in record time, and needless to say, we are impressed with all she has accomplished.

Georgiana's had been open for just one week when we visited to photograph for this Annual Report. Short-staffed that day, Anna managed to talk with us about her shop and be part of the shoot. At the same time, she greeted new customers, served up some classic Greek cuisine, and ran the cash register. It's clear that her hard work has paid off. Already there are regulars and a growing community following. Tony is in every day for the homemade food. He counts Anna and her husband George Tsaousidis among his most loyal customers, as they have referred many others to Hingham Savings. We are proud to have become a trusted resource to this business community.

Senior Officers

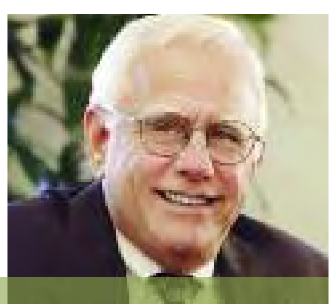
Robert H. Gaughen, Jr.
President
and Chief Executive Officer

Deborah J. Jackson
Senior Vice President
and Treasurer

Thomas I. Chew
Vice President
Branch Operations

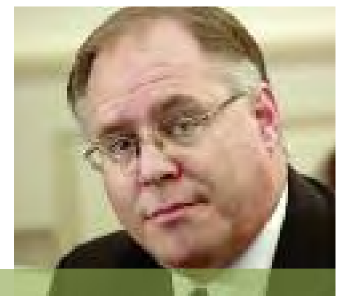
Peter R. Smollett
Vice President
Commercial Lending

Edward P. Zec
Vice President



William M. Donovan Jr.
Vice President
Administration

William G. Bowers, Jr.
Vice President
Commercial Lending



Shawn T. Sullivan
Vice President
Commercial Lending

Michael J. Sinclair
Vice President
Retail Lending

Board of Directors

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Marion J. Fahey

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Geoffrey C. Wilkinson, Sr.

James V. Consentino

Ronald D. Falcione

Robert H. Gaughen, Jr., Esq.

Robert A. Lane, Esq.

Stacey M. Page

Edward L. Sparda

James R. White

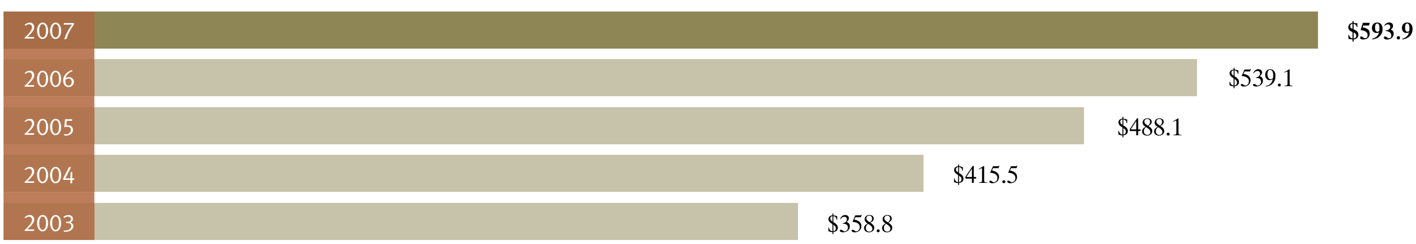
Jacqueline M. Youngworth

Financial Highlights

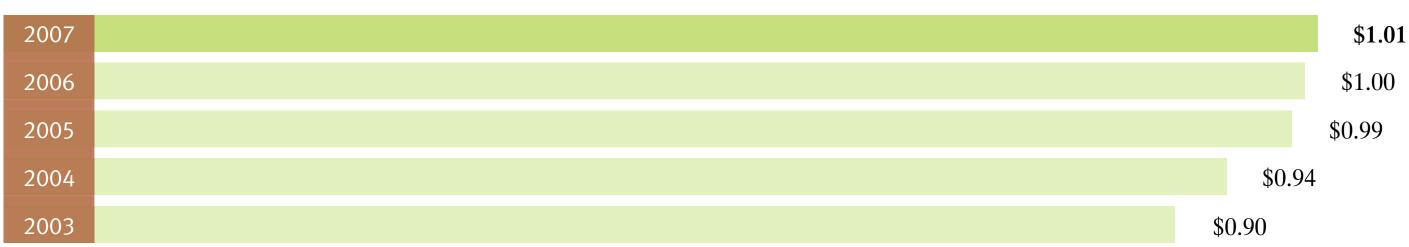
Assets (in millions)

Deposits (in millions)

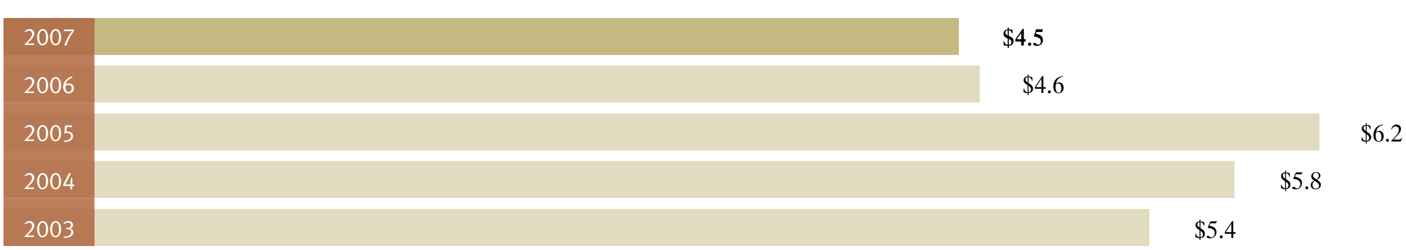
Loans (in millions)



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,				
	2007	2006	2005	2004	2003
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 744,602	$ 691,652	$ 628,251	$ 547,051	$ 483,954
Securities available for sale	77,432	94,732	91,513	85,815	74,007
Loans:					
Residential mortgage	273,323	254,073	233,138	194,552	170,491
Commercial mortgage	299,739	267,917	238,408	203,390	174,077
Construction, net	23,464	19,426	18,982	19,851	15,924
Other	755	811	481	431	923
Allowance for loan losses	3,925	3,603	3,316	3,070	2,992
Deposits	441,275	408,190	364,295	334,569	291,313
Federal Home Loan Bank advances	243,738	227,576	211,816	164,668	148,701
Stockholders' equity	54,771	51,818	48,458	44,323	40,913

	Years Ended December 31,				
	2007	2006	2005	2004	2003
			(In Thousands, Except Per Share Amounts)		
Income Statement Data:					
Total interest and dividend income	$ 42,101	$ 37,089	$ 30,418	$ 26,151	$ 25,558
Total interest expense	26,073	21,212	12,389	9,154	9,035
Net interest income	16,028	15,877	18,029	16,997	16,523
Provision for loan losses	322	287	244	80	182
Other income	1,708	1,693	1,598	1,565	1,753
Operating expenses	10,587	10,116	9,520	9,185	8,325
Income before income taxes	6,827	7,167	9,863	9,297	9,769
Income tax provision	2,337	2,527	3,692	3,473	4,415
Net income	$ 4,490	$ 4,640	$ 6,171	$ 5,824	$ 5,354
Earnings per common share:					
Basic	$ 2.12	$ 2.19	$ 2.95	$ 2.80	$ 2.58
Diluted	$ 2.12	$ 2.19	$ 2.92	$ 2.77	$ 2.56
Financial Ratios:					
Return on average assets	0.63%	0.71%	1.07%	1.14%	1.18%
Return on average equity	8.40	9.18	13.20	13.56	13.53
Average equity to average assets	7.51	7.72	8.08	8.42	8.75
Interest rate spread	1.87	2.08	2.91	3.20	3.50
Net yield on average earning assets	2.33	2.51	3.24	3.47	3.81
Dividend payout ratio (basic)	47.64	45.66	33.56	33.57	34.88
Efficiency ratio	59.69	57.58	48.50	49.70	46.68
Cash dividends declared per common share	$ 1.01	$ 1.00	$ 0.99	$ 0.94	$ 0.90
Book value per common share	$ 25.85	$ 24.47	$ 23.01	$ 21.29	$ 19.68

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 2007, 2006, and 2005

RESULTS OF OPERATIONS

For the year ended December 31, 2007, the Bank earned $4.5 million as compared to $4.6 million in 2006 and $6.2 million in 2005. On a basic, per-share basis, the Bank earned $2.12 in 2007, $2.19 in 2006 and $2.95 in 2005. On a dilutive basis, earnings per share were $2.12 in 2007, $2.19 in 2006, and $2.92 in 2005. Earnings for 2007 were impacted by a $471,000, or 5%, increase in operating expenses offset, in part, by a $151,000, or 1%, improvement in net interest income. The decrease in earnings for 2006 over 2005 was primarily attributable to a 73 basis point decline in the net yield on average earning assets.

Net interest income increased in 2007 as compared to 2006 due to a 9% increase in earning assets accompanied by a 26 basis point increase in the average yield on earning assets. Increased interest expenses were incurred in 2007 due to a corresponding 9% increase in interest-bearing liabilities accompanied by a 47 basis point increase in the average rate paid, reflecting a continuation of a shift in consumer preferences toward higher-cost deposit products. Decreased net interest income in 2006 as compared to 2005 was a result of a 71% increase in interest expense over the two years.

The Bank observed steady increases in non-interest income in each of the past three years and combined accounted for 25%, 24% and 16% of pretax income for the years 2007, 2006 and 2005, respectively.

Increased operating expenses were reported for each of the past three years primarily in the categories of salaries and employee benefits and occupancy and equipment due to the opening of a new branch in Boston in 2006. The efficiency ratio, a measure of operating expenses as a percentage of operating income, was 59.69%, 57.58% and 48.50% for the years 2007, 2006 and 2005, respectively.

Net Interest Income

The Bank reported $16.0 million in net interest income for 2007 as compared to $15.9 million in 2006 and $18.0 million in 2005. Market interest rates, which, in 2004, had been at their lowest level in nearly forty years, rose throughout 2005 until mid-2006. Over this period and continuing through mid-2007, loans repriced and new loans originated at higher rates. The cost of deposits and borrowings, which are more susceptible to rate changes, increased over this same period and, as a result, the Bank's net interest margin tightened to 2.33% for 2007 from 2.51% for 2006 and 3.24% for 2005. Despite the declining margin, the Bank reported increased interest income in 2007 due primarily to increased loan volume.

Beginning in September 2007 and continuing through early 2008, market rates have dropped dramatically. It is expected that the Bank's net interest income will be positively impacted by this change in the interest rate environment. At December 31, 2007, the Bank's gap position at one year is a negative 24% of total assets. This indicates that $176.8 million more liabilities than assets are expected to reprice in 2008 at lower rates, thereby increasing net interest income.

Interest income is derived from commercial and residential mortgages, home equity, installment and commercial loans, the securities portfolio and short-term investments. Interest income increased 14% in 2007 over 2006 and 22% in 2006 over 2005. This positive trend was primarily the result of continued growth in loans which were the most significant component of assets, accounting for approximately 83% of average total earning assets in 2007, 82% in 2006 and 80% in 2005. Mortgage loans accounted for more than 99% of average outstanding loans in each of the past three years. Interest income derived from securities and short-term investments increased in each of the past three years and was attributable to modest growth in the combined portfolios accompanied by increased market rates. Average total earning assets increased 9% in 2007 over 2006 and 14% in 2006 over 2005. The Bank earned an average yield of 6.12% on its assets in 2007 as compared to 5.86% in 2006 and 5.46% in 2005.

Non-accrual loans totaled $1.5 million at December 31, 2007 as compared to $166,000 at December 31, 2006 and $168,000 at December 31, 2005. Interest income includes actual payments made on loans classified as non-accrual. Excluded from interest income is interest accrued but not paid on such loans, which totaled $80,000 for 2007 as compared to $5,000 for 2006 and $6,000 for 2005.

In response to market conditions, the Bank increased the rates it paid on the more volatile of its interest-bearing deposit accounts in 2007 and 2006 while core deposit rates were unaffected. As a result, interest expense paid on deposits increased by 38% in 2007 over 2006 and by 76% in 2006 over 2005. The average rate paid on certificates of deposit increased by 71 basis points in 2007 over 2006 and by 138 basis points in 2006 over 2005 and the average rate paid for money market accounts increased by 42 basis points in 2007 over 2006 and by 19 basis points in 2006 over 2005. Certificates of deposit were 61% of total deposits at year end 2007 as compared to 60% at year end 2006, which reflects the shift in preference of existing customers as well as growth from new customers. It is anticipated that the recent decline in market rates will result in lower deposit interest expenses for the next fiscal year because 98% of the Bank's certificates of deposit are scheduled to mature in 2008. Historically, the Bank has been successful at retaining deposits by offering competitive market interest rates.

Interest expense on borrowed funds increased in each of the past three years due to increased market rates and increased volume of borrowed funds. Borrowings from the Federal Home Loan Bank are drawn to fund growth in the loan portfolio. The average cost was 5.08% for 2007 as compared to 5.01% for 2006 and 3.75% for 2005. It is anticipated that the recent decline in market rates will result in lower borrowing interest expense for the next fiscal year because approximately 63% of the Bank's borrowings are scheduled to be refinanced in 2008.

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.)

Despite widespread industry write-downs and charge-offs of sub-prime loans, the Bank has not taken a charge to its allowance for loan losses over the past three years. The Bank continues to closely monitor its nonaccrual loans, which were 0.26% of total loans at December 31, 2007 as compared to 0.03% at December 31, 2006 and its loans past due greater than 30 days, which have decreased to 1.1% of total loans at December 31, 2007 as compared to 1.9% at December 31, 2006. The provision for loan losses for 2007 was $322,000 as compared to $287,000 in 2006 and $244,000 in 2005, reflecting growth in the loan portfolio. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.66% for 2007 and 2006, and 0.67% for 2005. Generally, the decline in this ratio reflects the absence of loan charge-offs, low delinquency rates and strong underwriting standards.

Other Income

Other income was $1.7 million in 2007 and 2006, and $1.6 million for 2005.

Fees earned on customer accounts were $1.0 million for 2007 and 2006, and $938,000 for 2005. Customer service fee income in each of the three years was derived primarily from deposit account transaction fees and ATM/debit card usage fees. The increase resulted primarily from the volume of fee-based transactions and, to a significantly lesser degree, modest increases in the schedule of fees.

Also contributing to other income in each of the three years was the

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,					
	2007 Compared to 2006 Increase (Decrease)			2006 Compared to 2005 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 3,265	$ 633	$ 3,898	$ 4,432	$ 982	$ 5,414
Securities	(150)	898	748	176	924	1,100
Short-term investments and certificates of deposit	332	34	366	(8)	165	157
Total interest and dividend income	3,447	1,565	5,012	4,600	2,071	6,671
Interest expense:						
Interest-bearing deposits:						
NOW	—	2	2	(1)	1	—
Money market deposits	(77)	235	158	(437)	144	(293)
Regular	(13)	1	(12)	(16)	(3)	(19)
Term certificates	2,136	1,665	3,801	2,219	2,543	4,762
Total interest-bearing deposits	2,046	1,903	3,949	1,765	2,685	4,450
Borrowed funds	762	150	912	1,840	2,533	4,373
Total interest expense	2,808	2,053	4,861	3,605	5,218	8,823
Net interest income	$ 639	$ (488)	$ 151	$ 995	$ (3,147)	$ (2,152)

Management's Discussion and Analysis

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

	Years Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 568,360	$ 36,456	6.41%	$ 517,121	$ 32,551	6.29%	$ 446,674	$ 27,161	6.08%
Commercial loans	119	17	14.29	71	9	12.68	65	8	12.31
Other loans	483	41	8.49	703	56	7.97	393	33	8.40
Total loans (1) (2)	568,962	36,514	6.42	517,895	32,616	6.30	447,132	27,202	6.08
Securities (3) (4)	101,548	4,788	4.72	105,344	4,040	3.84	99,657	2,940	2.95
Short-term investments and certificates of deposit	17,292	799	4.62	10,054	433	4.31	10,349	276	2.67
Total interest-earning assets	687,802	42,101	6.12	633,293	37,089	5.86	557,138	30,418	5.46
Other assets	23,745			21,640			21,104		
Total assets	$ 711,547			$ 654,933			$ 578,242		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW (5)	$ 23,153	25	0.11	$ 22,751	23	0.10	$ 23,723	23	0.10
Money market deposits	54,490	1,243	2.28	58,456	1,085	1.86	82,708	1,378	1.67
Regular	42,646	107	0.25	47,633	119	0.25	54,124	138	0.25
Term certificates	260,572	12,865	4.94	214,406	9,064	4.23	150,875	4,302	2.85
Total interest-bearing deposits	380,861	14,240	3.74	343,246	10,291	3.00	311,430	5,841	1.88
Borrowed funds	232,820	11,833	5.08	217,792	10,921	5.01	174,806	6,548	3.75
Total interest-bearing liabilities	613,681	26,073	4.25	561,038	21,212	3.78	486,236	12,389	2.55
Demand deposits	42,161			41,426			43,565		
Other liabilities	2,237			1,937			1,695		
Stockholders' equity	53,468			50,532			46,746		
Total liabilities and stockholders' equity	$ 711,547			$ 654,933			$ 578,242		
Net interest income		$ 16,028			$ 15,877			$ 18,029	
Weighted average interest rate spread			1.87%			2.08%			2.91%
Net yield on average earning assets (6)			2.33%			2.51%			3.24%

(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.

increase in the cash surrender value of life insurance policies. The Bank held $12.7 million in life insurance policies at year end 2007. Income from these assets is fully excludable from Federal income taxes and contributed $480,000 to other income in 2007, $457,000 in 2006 and $440,000 for 2005. The policies accrete at a variable rate of interest with minimum stated guaranteed rates.

Operating Expenses

Total operating expenses as a percentage of average total assets were 1.49% for 2007, 1.54% for 2006 and 1.65% for 2005, showing a steady decline in each of the past three years despite increasing in absolute dollars.

Salaries and employee benefits continues to be the largest component of operating expenses at $6.4 million for 2007, $6.1 million for 2006, and $5.8 million for 2005. Annual merit-based salary increases, which averaged approximately 4% in 2007 and 5% in each of 2006 and 2005, accounted for the majority of the increase in each year. The Bank added four employees in 2006 to staff the 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 $581,000 in expense for 2007, $553,000 for 2006 and $526,000 for 2005. For 2007, 2006 and 2005, 401(k) defined contribution expenses were $226,000, $219,000 and $216,000, respectively. In 2006, the Bank adopted a post-retirement health care plan for certain Bank officers and accrued $55,000 in 2007 and $35,000 in 2006, reflecting an estimate of such future expenses. Health care benefits, including medical and dental, rose approximately 14% in 2007 as compared to 2006 and were relatively flat when comparing 2006 to 2005.

In 2007, the Bank terminated its split dollar life insurance arrangement with two Bank officers and replaced the benefit with an amendment to each officer’s employment agreement which guarantees a death benefit similar to that previously provided by the split dollar agreements. The accrual of this liability is expected to increase expenses by approximately $263,000 in each of the next four years.

Data processing expenses increased in 2007 over 2006 due to costs associated with the Boston branch, which opened in late 2006, as well as upgrades to the Bank’s information technology infrastructure. Expenses decreased in 2006 over 2005, primarily due to renegotiated contract terms with third-party data processors.

Occupancy and equipment expenses increased 10% in each of the past two years and can be attributed to the 2006 opening of the Bank’s eighth office in Boston’s South End and include approximately $86,000 and $60,000 in rent expenses for 2007 and 2006, respectively, along with the amortization of approximately $300,000 in leasehold improvements. Expenses in this category are expected to increase in the coming year due to the establishment of a new branch location. In late 2007, the Bank entered into an agreement to purchase a facility on the Norwell/Hanover line, in the Assinippi section of Massachusetts, which is expected to be opened as a branch in the second quarter of 2008.

All other operating expenses were $2.2 million for each of 2007 and 2006, and $2.0 million for 2005. These expenses include audit fees, advertising, directors’ fees, supplies, legal fees and other items. In 2007 and 2006, there were increased advertising, supplies and postage expenses related to the new Boston office. Beginning in 2006, the Bank also incurred internal audit expenses to strengthen commercial lending internal controls. In addition, in 2007 and 2006, the Bank incurred $47,000 and $49,000, respectively, in losses due to robberies, fraudulent checks and fraudulent debit card transactions, an increase from the $9,000 incurred in 2005. Increasing occurrences of check fraud and information security breaches at merchants and their card processors may lead to additional, unrecoverable losses at the Bank.

Operating expenses also include deposit insurance expense. In 2007, the FDIC significantly increased its premium rate and concomitantly issued a one-time credit which the Bank has used in its entirety to offset all 2007 FDIC premium expenses. At the current FDIC premium rate, this expense could amount to $200,000 in 2008; however, the actual amount is subject to several variables, such as the amount and type of deposits held by the Bank as well as the FDIC assessment rate.

Income Taxes

The Bank’s effective tax rate was 34.2% for 2007, 35.3% for 2006 and 37.4% for 2005. The decrease in the effective tax rate in 2007 and 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. Income derived from bank-owned life insurance policies is tax-exempt.

COMPARISON OF THE YEARS 2007 AND 2006

BALANCE SHEET ANALYSIS

The Bank had total assets of $744.6 million at December 31, 2007, an increase of $52.9 million, or 8%, from the $691.7 million level at year end 2006.

Loans

At December 31, 2007 and 2006, the Bank reported net loans of $593.9 million, or 80% of total assets, and $539.1 million, or 78% of total assets, respectively. In 2007, the Bank originated $139.1 million in mortgage and other loan products which resulted in net loan growth of $54.8 million. Comparably for 2006, the Bank originated $131.6 million which resulted in net loan growth of $51.0 million. At December 31, 2007 and 2006, mortgage loans accounted for more than 99% of gross loans with residential mortgages and home equity loans representing approximately 46% of the mortgage portfolio in 2007 and 47% in 2006. Commercial mortgages represented 50% of the mortgage portfolio in 2007 and 2006, and construction mortgages remained at approximately 4% of total mortgage loans for both years.

The Bank's lending strategy during 2007 and 2006 has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Commercial mortgages increased by 12% in 2007. Approximately 35% of the residential mortgage loan portfolio consists of 20/20 mortgages – a forty-year mortgage with a fixed rate that is subject to change, one time, at the end of the twenty year period. Other residential mortgages are generally underwritten to conform to Federal National Mortgage Association or Federal Home Loan Mortgage Corporation guidelines. The Bank also offers home equity loans indexed to the prime lending rate and construction loans.

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2007 and 2006, the allowance had a balance of $3.9 million and $3.6 million, respectively. The allowance is maintained at a level which the Bank believes is adequate to absorb inherent losses in the portfolio. 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 2007, 2006 and 2005, there were no loan charge-offs. There was a $2,000 recovery in 2005.

The Bank had non-accrual loans at December 31, 2007 with a combined outstanding balance of $1.5 million as compared to $166,000 at December 31, 2006. As a percentage of total loans, these non-accrual loans were 0.26% at December 31, 2007 and 0.03% at December 31, 2006. Management believes these loans are well secured and pose no risk of loss to the Bank.

Securities

The purpose of the Bank's securities portfolio is to provide liquidity and for use as collateral to obtain borrowed funds. At December 31, 2007, the portfolio was comprised of debt and mortgage-backed securities issued by government-sponsored enterprises and a single equity issue for a total of $77.4 million, or 10% of total assets, as compared to $94.7 million, or 14% of total assets, at year end 2006. At December 31, 2007, 96% of the securities in the portfolio were issued or guaranteed by government-sponsored enterprises as compared to 98% at December 31, 2006.

At December 31, 2007, 83% 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 34% of this portfolio is subject to redemption at dates earlier than the stated maturity at the discretion of the issuer.

At December 31, 2007, approximately 13% of the portfolio, or $10.3 million, was comprised of mortgage-backed securities, a decrease of $1.7 million over the balances held at December 31, 2006. 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 a $3.0 million 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 4% of the investment portfolio at December 31, 2007.

At year end 2007 and 2006, the entire securities portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive loss, a separate component of stockholders' equity. The unrealized loss on the portfolio amounted to $128,000, net of tax effects, at December 31, 2007 as compared to $691,000 at year end 2006, reflecting changing market conditions. The fair value of securities fluctuates with the movement of interest rates. Generally, during periods of rising interest rates, the fair values decrease whereas the opposite may hold true during a falling interest rate environment.

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment which, at December 31, 2007, was $12.5 million, or approximately 5% of the Bank's current borrowings balance. The stock pays a quarterly dividend, as declared by the FHLB board. At December 31, 2007 and 2006, 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, 2007 and 2006.

Other Assets

The Bank held $12.7 million in Bank-owned life insurance at December 31, 2007 as compared to $12.2 million at December 31, 2006. The increase in 2007 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, 2007, the Bank held a total of $441.3 million in deposits, an increase of $33.1 million, or 8%, from the $408.2 million in deposits at year end 2006. Non-certificate deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $174.0 million at December 31, 2007 as compared to $163.4 million at year end 2006, an increase of $10.6 million, or 6%. The increase in such deposits was observed in most categories, but was most pronounced in money market accounts, which alone increased by $13.8 million. Non-certificate deposits comprised 39% of total deposits at December 31, 2007 as compared to 40% at year end 2006. Certificates of deposit were $267.3 million at December 31, 2007 as compared to $244.8 million at year end 2006. 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 as well as the internet 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. In late 2007, the Bank entered into an agreement to purchase a facility on the Norwell/Hanover line, in the Assinippi section of Massachusetts, which is expected to be opened as a branch in the second quarter of 2008.

Deposits are insured in full through the combination of the Federal

Deposit Insurance Corporation 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. DIF insurance provides an advantage for the Bank as some competitors cannot offer this coverage.

Borrowings

The Bank had $243.7 million in FHLB advances at December 31, 2007 as compared to $227.6 million at year end 2006. In 2007, borrowings helped to finance the growth in the loan portfolio. Generally, the borrowings are drawn with a fixed rate and term; however, approximately $81.5 million, or 33%, can be called by the issuer after an initial specified term, an additional $3.9 million is subject to principal amortization over its stated life and $20.0 million is subject to a monthly rate adjustment. At December 31, 2007, nearly 63% of all borrowings will mature within one year as compared to 60% at December 31, 2006. The average rate paid on borrowings held at year end 2007 was 4.66%, down from 5.16% at year end 2006, reflecting the decrease in market interest rates in the latter part of 2007.

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 55% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. Fourteen securities, or 28%, 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 12% on its loan portfolio in 2007 as compared to 13% in 2006.

The proceeds to the Bank under key executive life insurance policies are illiquid during the lives of the executives. Such policies total $12.7 million, or less than 2% of total assets, at December 31, 2007 as compared to $12.2 million, or less than 2%, at December 31, 2006.

Non-certificate 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 65% of the Bank's borrowings are fixed in terms of maturity. Approximately 2% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 33%, or $81.5 million, can be called for earlier repayment at the discretion of the issuer. However, in the current economic environment, it is unlikely that all of these borrowings will be called in the near term.

The Bank also monitors its off-balance sheet items. At December 31, 2007, the Bank had approximately $64.4 million in commitments to extend credit as compared to $66.3 million at December 31, 2006. (Refer to Note 9 to Consolidated Financial Statements for more details.) No other off-balance sheet arrangements existed at December 31, 2007 or 2006.

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, 2007 and 2006, each measurement was within predefined Bank guidelines. The loan-to-deposit ratio slightly exceeded the Bank's tolerance at December 31, 2007. Efforts to raise deposits, such as offering promotional rates on certificates of deposit and money market accounts were undertaken in late 2007 to reduce the ratios to guidelines. In addition, the Bank entered into an agreement to purchase a new branch which will be used to gather deposits as well as originate mortgage loans.

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 $288.0 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 $85.3 million in additional borrowings. At December 31, 2007, the Bank had $243.7 million in advances outstanding.

At December 31, 2007, the Bank had capital of $54.8 million, or 7.4% of total assets, as compared to $51.8 million, or 7.5%, at December 31, 2006. 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, 2007, the Bank's entire securities portfolio was classified as available for sale which had the effect of decreasing capital by $128,000. In comparison, at year end 2006, capital was decreased by $691,000.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements in both 2007 and 2006.

During 2007, the Bank declared dividends of $1.01 per share which included a $0.21 per share special dividend which was declared in the fourth quarter. In comparison, in 2006, the Bank declared dividends of $1.00 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 47.64% for 2007 as compared to 45.66% for 2006.

IMPACT OF INFLATION AND CHANGING PRICES

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

FORWARD-LOOKING STATEMENTS

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

ASSET/LIABILITY MANAGEMENT

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

Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, balance sheet growth and deposit elasticity. Generally, rates are assumed to rise steadily over a twelve-month period, then remain constant over the remaining period. The model assumes a 100 and 200 basis point 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 most recently generated model estimates that, over a twenty-four month period, net interest income will increase 5% if rates fall 100 basis points and will increase 7% if rates fall 200 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.

The composition of the Bank's balance sheet at December 31, 2007 was comparable to that of year end 2006. Loans continued to account for approximately 83% of interest sensitive assets and the mix of fixed versus adjustable rate loans remained unchanged. At December 31, 2007 and 2006, fixed rate loans accounted for approximately 55% of total loans. Interest bearing liability balances increased in all categories. Certificates of deposit, as a percentage of total deposits, increased slightly to 61% at December 31, 2007 as compared to 60% at year- end 2006. Terms on borrowed funds were lengthened during the latter part of 2007.

At December 31, 2007, the Bank had the following contractual obligations outstanding:

	Payments Due by Year (In Thousands)				
	Total	**Less than One Year**	**One to Three Years**	**Over Three to Five Years**	**More than Five Years**
Contractual Obligations:					
Federal Home Loan Bank advances	$ 243,738	$ 153,744	$ 49,914	$ 225	$ 39,855
Certificates of Deposit	$ 267,279	$ 262,437	$ 4,492	$ 350	$ —
Data Processing Agreements*	$ 2,154	$ 848	$ 1,306	$ —	$ —
Lease Agreements **	$ 1,344	$ 161	$ 340	$ 361	$ 482

*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.

Market interest rates were relatively flat in the early part of 2007. However, beginning in the third quarter of 2007 and continuing through the early part of 2008, short-term rates have declined by a total of 225 basis points, thus far. Economists are predicting additional rate declines in the near future.

This interest rate environment is expected to be beneficial to the Bank's earnings for 2008 because the majority of the Bank's liabilities are expected to reprice at lower rates over the upcoming period. Approximately 98% of term certificates of deposit and 63% of borrowed funds, or a total amount of approximately $451.7 million, are expected to mature in 2008. Comparably, $274.9 million in assets are expected to reprice at lower rates over the same time period.

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 28% 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, 2007

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	$ 108,737	$ 3,010	$ 5,247	$ 224	$ 179	$ 721	$ 118,118
	4.62%	4.04%	3.30%	3.10%	3.10%	4.67%	4.55%
Loans:							
Fixed rate	$ 67,004	$ 34,361	$ 31,953	$ 27,873	$ 15,672	$ 152,003	$ 328,866
	6.64%	6.51%	6.12%	6.42%	6.14%	6.00%	6.24%
Adjustable rate	$ 99,144	$ 53,745	$ 39,560	$ 33,322	$ 30,257	$ 12,387	$ 268,415
	6.55%	6.17%	6.32%	6.71%	7.11%	6.71%	6.53%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 35,493	$ 11,287	$ —	$ —	$ 81,191	$ —	$ 127,971
	3.75%	2.76%	—%	—%	0.35%	—%	1.50%
Term certificates	$ 262,437	$ 3,182	$ 1,310	$ 200	$ 150	$ —	$ 267,279
	4.90%	3.84%	3.94%	3.94%	3.94%	—%	4.88%
Borrowed funds	$ 153,744	$ 30,858	$ 19,056	$ 109	$ 116	$ 39,855	$ 243,738
	4.69%	4.78%	5.45%	5.70%	5.70%	4.04%	4.66%

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	$ 73,382	$ 35,114	$ 4,627	$ 6,509	$ 177	$ 1,468	$ 121,277
	4.46%	4.64%	4.70%	3.92%	2.95%	4.77%	4.50%
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%

Management's Annual Report on Internal Control over Financial Reporting

It is the responsibility of Management for establishing and maintaining adequate internal control structure and procedures for financial reporting. Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has undertaken a comprehensive review of the Bank's internal controls and has evaluated the effectiveness of such disclosure controls and procedures based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, management does not expect that its internal control over financial reporting will prevent or detect all error or fraud. A control system, no matter how well designed, implemented and operated, can provide only reasonable, not absolute, assurance that its objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Based on Management's evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that we have maintained effective control over the preparation of the Bank's financial statements for external reporting purposes and that there is reasonable assurance that the information required to be disclosed has been completed in accordance with accounting principles generally accepted in the United States of America and in all material respects is fairly stated.

This annual report does not include an attestation report of the Bank's Independent Registered Public Accounting Firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's Independent Registered Public Accounting Firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report.

Robert H. Gaughen
Chief Executive Officer

Deborah J. Jackson
Chief Financial Officer

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, 2007 and 2006, 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, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management’s assertion about the effectiveness of the Bank’s internal control over financial reporting as of December 31, 2007 included in the accompanying “Annual Report on Internal Control over Financial Reporting”, and, accordingly, we do not express an opinion thereon.

Wolf & Company, P.C.

Boston, Massachusetts
February 26, 2008

Consolidated Balance Sheets

ASSETS

	December 31, 2007	December 31, 2006
	(In Thousands)	
Cash and due from banks	$ 8,280	$ 9,093
Short-term investments	25,325	10,010
Cash and cash equivalents	33,605	19,103
Certificates of deposit	5,695	5,433
Securities available for sale, at fair value	77,432	94,732
Federal Home Loan Bank stock, at cost	12,470	12,041
Loans, net of allowance for loan losses of $3,925,000 in 2007 and $3,603,000 in 2006	593,915	539,104
Bank-owned life insurance	12,693	12,213
Premises and equipment, net	3,805	3,906
Accrued interest receivable	3,107	3,095
Deferred income tax asset, net	1,369	1,482
Other assets	511	543
	$ 744,602	$ 691,652

LIABILITIES AND STOCKHOLDERS' EQUITY

	2007	2006
Deposits	$ 441,275	$ 408,190
Federal Home Loan Bank advances	243,738	227,576
Mortgagors' escrow accounts	1,611	1,513
Accrued interest payable	995	829
Other liabilities	2,212	1,726
Total liabilities	689,831	639,834
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; 2,118,550 and 2,117,250 shares issued and outstanding at December 31, 2007 and 2006, respectively	2,119	2,117
Additional paid-in capital	10,290	10,252
Undivided profits	42,490	40,140
Accumulated other comprehensive loss	(128)	(691)
Total stockholders' equity	54,771	51,818
	$ 744,602	$ 691,652

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,		
	2007	2006	2005
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 36,514	$ 32,616	$ 27,202
Debt securities	3,889	3,353	2,463
Equity securities	899	687	477
Short-term investments and certificates of deposit	799	433	276
Total interest and dividend income	42,101	37,089	30,418
Interest expense:			
Deposits	14,240	10,291	5,841
Federal Home Loan Bank advances	11,833	10,921	6,548
Total interest expense	26,073	21,212	12,389
Net interest income	16,028	15,877	18,029
Provision for loan losses	322	287	244
Net interest income, after provision for loan losses	15,706	15,590	17,785
Other income:			
Customer service fees on deposits	1,005	1,015	938
Increase in bank-owned life insurance	480	457	440
Other	223	221	220
Total other income	1,708	1,693	1,598
Operating expenses:			
Salaries and employee benefits	6,408	6,085	5,756
Data processing	804	738	774
Occupancy and equipment	1,148	1,048	948
Other	2,227	2,245	2,042
Total operating expenses	10,587	10,116	9,520
Income before income taxes	6,827	7,167	9,863
Income tax provision	2,337	2,527	3,692
Net income	$ 4,490	$ 4,640	$ 6,171
Earnings per common share:			
Basic	$ 2.12	$ 2.19	$ 2.95
Diluted	$ 2.12	$ 2.19	$ 2.92

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31, 2007, 2006, and 2005				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
			(In Thousands)		
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 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
Comprehensive income:					
Net income	—	—	4,490	—	4,490
Change in net unrealized loss on securities available for sale, net of tax effect	—	—	—	563	563
Total comprehensive income					5,053
Stock options exercised, after tax effect of $10,000	2	28	—	—	30
Share-based compensation	—	10	—	—	10
Cash dividends declared-common ($1.01 per share)	—	—	(2,140)	—	(2,140)
Balance at December 31, 2007	$ 2,119	$ 10,290	$ 42,490	$ (128)	$ 54,771

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31, 2007	2006	2005
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 4,490	$ 4,640	$ 6,171
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	322	287	244
Amortization (accretion) of securities, net	(124)	305	783
Amortization of deferred loan origination costs, net	145	18	77
Share-based compensation expense	10	—	—
Excess tax benefits from share-based compensation arrangements	(10)	(136)	(288)
Depreciation and amortization of premises and equipment	429	428	432
Increase in bank-owned life insurance	(480)	(457)	(440)
Deferred income tax benefit	(189)	(162)	(62)
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	30	(378)	(261)
Accrued interest payable and other liabilities	630	339	44
Net cash provided by operating activities	5,253	4,884	6,700
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Maturities, prepayments and calls	76,228	37,935	16,126
Purchases	(57,939)	(40,557)	(23,323)
Activity in certificates of deposit:			
Maturities	4,744	4,003	4,213
Purchases	(5,006)	(4,154)	(4,404)
Increase in Federal Home Loan Bank stock	(429)	(1,326)	(2,231)
Loans originated, net of payments received	(55,278)	(51,283)	(72,909)
Additions to premises and equipment	(328)	(1,015)	(200)
Net cash used in investing activities	(38,008)	(56,397)	(82,728)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(concluded)

	Years Ended December 31,		
	2007	2006	2005
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits	33,085	43,895	29,726
Increase in mortgagors' escrow accounts	98	42	118
Proceeds from stock options exercised	20	114	243
Cash dividends paid on common stock	(2,118)	(2,112)	(2,049)
Excess tax benefits from share-based compensation arrangements	10	136	288
Net proceeds (repayment) from borrowings with maturities of less than three months	(50,500)	12,957	19,368
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	289,500	388,000	182,500
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(222,838)	(385,197)	(154,720)
Net cash provided by financing activities	47,257	57,835	75,474
Net change in cash and cash equivalents	14,502	6,322	(554)
Cash and cash equivalents at beginning of year	19,103	12,781	13,335
Cash and cash equivalents at end of year	$ 33,605	$ 19,103	$ 12,781
Supplementary information:			
Interest paid on deposit accounts	$ 14,197	$ 10,293	$ 5,857
Interest paid on Federal Home Loan Bank advances	11,710	10,688	6,426
Income taxes paid	2,194	2,620	3,564

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2007, 2006, and 2005

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 Boston and 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 pools of 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.

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.

Effective January 1, 2006, the Bank adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)" or the "Statement"), which 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.

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,		
	2007	**2006**	**2005**
		(In Thousands)	
Average number of common shares outstanding	2,118	2,116	2,093
Effect of dilutive options	2	3	24
Average number of common shares outstanding used to calculate diluted earnings per common share	2,120	2,119	2,117

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 (continued)

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

	Years Ended December 31,		
	2007	2006	2005
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 865	$ 902	$ (716)
Tax effect	(302)	(315)	227
Net-of-tax amount	$ 563	$ 587	$ (489)

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. The Bank adopted FIN 48 on January 1, 2007 and this adoption did not have any 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" which 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. Since the obligation is not settled, a liability should be recognized in accordance with applicable authoritative guidance. This EITF is effective on January 1, 2008 and the Bank has determined that the adoption will have no impact on the Bank's consolidated financial statements. See Note 12.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The definition of fair value retains the exchange price notion in earlier definitions of fair value. This Statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. Emphasis is placed on fair value being a market-based measurement, not an entity-specific measurement, and therefore a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering these market participant assumptions, a fair value hierarchy has been established to distinguish between (1) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). This Statement is effective for the Bank on January 1, 2008, except for certain nonfinancial assets and nonfinancial liabilities for which the effective date is January 1, 2009, and is not expected to have a material impact on the Bank's consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" which permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions, and is expected to expand the use of fair value measurement. An entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may generally be applied instrument by instrument and is irrevocable. 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 December 2007, the FASB issued Statement No. 141 (revised), "Business Combinations." This Statement replaces FASB Statement No. 141, and applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for certain business combinations. Under Statement No. 141 (revised) an acquirer is required to recognize at fair value the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date. This replaces the cost allocation process under Statement No. 141, which resulted in the non-recognition of some assets and liabilities at the acquisition date and in measuring some assets and liabilities at amounts other than their fair values at the acquisition date. This Statement requires that acquisition costs and expected restructuring costs be recognized separately from the acquisition, and that the acquirer in a business combination achieved in stages recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. This Statement also requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, while Statement 141 allowed for the deferred recognition of pre-acquisition contingencies until certain recognition criteria were met, and an acquirer is only required to recognize assets or liabilities arising from all other contingencies if it is more likely than not that they meet the definition of an asset or a liability. Under this Statement, an acquirer is required to recognize contingent consideration at the acquisition date, whereas contingent consideration obligations usually were not recognized at the acquisition date under Statement 141. Further, this Statement eliminates the concept of negative goodwill and requires gain recognition in instances in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any non-controlling interest in the acquiree. This Statement makes significant amendments to other Statements and other authoritative guidance, and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date.

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, 2007 and 2006, cash and due from banks included $321,000 and $390,000, 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, 2007				
Debt securities:				
Government-sponsored enterprises	$ 64,117	$ 90	$ (34)	$ 64,173
Mortgage-backed - FHLMC	4,587	—	(124)	4,463
Mortgage-backed - FNMA	5,924	—	(119)	5,805
Total debt securities	74,628	90	(277)	74,441
Equity securities	3,000	—	(9)	2,991
Total securities available for sale	$ 77,628	$ 90	$ (286)	$ 77,432
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

At December 31, 2007 and 2006, debt securities with a fair value of $72,941,000 and $85,766,000, 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, 2007 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	$ 48,609	$ 48,623
Over 1 year to 5 years	15,508	15,550
	64,117	64,173
Mortgage-backed securities:		
Over 1 year to 5 years	10,118	9,878
Over 5 to 10 years	72	72
Over 10 years	321	318
	10,511	10,268
Total debt securities	$ 74,628	$ 74,441

Information pertaining to securities with gross unrealized losses at December 31, 2007 and 2006, 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, 2007				
Debt securities:				
Government-sponsored enterprises	$ 6	$ 7,794	$ 28	$ 7,008
Mortgage-backed - FHLMC	1	49	123	4,414
Mortgage-backed - FNMA	—	—	119	5,805
Total temporarily impaired debt securities	7	7,843	270	17,227
Equity securities	—	—	9	2,991
Total temporarily impaired securities	$ 7	$ 7,843	$ 279	$ 20,218

At December 31, 2007, 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 less than 1% 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, 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

4. LOANS

A summary of the balances of loans follows:

	December 31,	
	2007	2006
	(In Thousands)	
Mortgage loans:		
Residential	$ 248,385	$ 230,473
Commercial	299,739	267,917
Construction	23,464	19,426
Equity lines of credit	18,136	19,745
Second mortgages	6,802	3,855
Total mortgage loans	596,526	541,416
Other loans:		
Personal installment	262	526
Commercial	131	93
Revolving credit	362	192
Total other loans	755	811
Total loans	597,281	542,227
Allowance for loan losses	(3,925)	(3,603)
Net deferred loan origination costs	559	480
Loans, net	$ 593,915	$ 539,104

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 $859,000, $939,000 and $1,068,000 at December 31, 2007, 2006 and 2005, 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,		
	2007	2006	2005
		(In Thousands)	
Balance at beginning of year	$ 3,603	$ 3,316	$ 3,070
Provision for loan losses	322	287	244
Recoveries on loans previously charged off	—	—	2
Balance at end of year	$ 3,925	$ 3,603	$ 3,316

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

	December 31,	
	2007	2006
	(In Thousands)	
Impaired loans without a valuation allowance	$ 1,536	$ 166
Non-accrual loans (including impaired loans)	$ 1,536	$ 166
Loans past due 90 days or more and still accruing	$ —	$ —

	Years Ended December 31,		
	2007	2006	2005
		(In Thousands)	
Average investment in impaired loans	$ 1,353	$ 578	$ 598
Interest income recognized on impaired loans	$ 177	$ 93	$ 54
Interest income recognized on a cash basis on impaired loans	$ 177	$ 93	$ 54

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 and amortization of premises and equipment follows:

	December 31, 2007	December 31, 2006
	(In Thousands)	
Premises:		
Land	$ 870	$ 870
Buildings	4,347	4,179
Leasehold improvements	324	291
Equipment	2,873	2,747
	8,414	8,087
Less accumulated depreciation and amortization	(4,609)	(4,181)
	$ 3,805	$ 3,906

Depreciation and amortization expense for the years ended December 31, 2007, 2006, and 2005 amounted to $429,000, $428,000, and $432,000, respectively.

6. DEPOSITS

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

	December 31, 2007	December 31, 2006
	(In Thousands)	
Regular	$ 39,958	$ 46,289
Money market deposits	62,773	48,978
NOW	25,240	23,846
Demand	46,025	44,326
Total non-certificate accounts	173,996	163,439
Term certificates less than $100,000	144,271	137,810
Term certificates of $100,000 or more	123,008	106,941
Total certificate accounts	267,279	244,751
Total deposits	$ 441,275	$ 408,190

The maturity distribution of term certificates is as follows:

Maturing During the Year Ending December 31,	2007 Amount	2007 Weighted Average Rate	2006 Amount	2006 Weighted Average Rate
	(Dollars in Thousands)			
2007	$ —	—%	$ 238,131	4.89%
2008	262,437	4.90	4,077	3.67
2009	3,182	3.84	1,964	3.54
2010	1,310	3.94	443	3.91
2011	200	3.94	136	3.94
2012	150	3.94	—	—
	$ 267,279	4.88%	$ 244,751	4.86%

DEPOSITS (concluded)

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2007	2006	2005
		(In Thousands)	
Regular	$ 107	$ 119	$ 138
Money market deposits	1,243	1,085	1,378
NOW	25	23	23
Term certificates	12,865	9,064	4,302
	$ 14,240	$ 10,291	$ 5,841

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, 2007 Amount	2007 Weighted Average Rate	2006 Amount	2006 Weighted Average Rate
		(Dollars in Thousands)		
2007	$ —	—%	$ 136,000	5.28%
2008[1]	152,912	4.71	66,942	4.95
2009	30,000	4.83	2,000	3.58
2010[2]	20,453	5.24	21,174	5.15
2011	—	—	—	—
2012	—	—	—	—
Thereafter[3]	40,373	4.05	1,460	5.70
	$ 243,738	4.66%	$ 227,576	5.16%

(1) At December 31, 2007 includes amortizing advances of $611,000 due in June, 2008, requiring monthly principal and interest of $88,000 .
(2) At December 31, 2007 includes amortizing advance of $1,953,000 due in June, 2010 , requiring monthly principal and interest of $65,000.
(3) At December 31, 2007 includes amortizing advances of $1,373,000 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 $81.5 million at December 31, 2007, 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, 2007.

8. INCOME TAXES

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

	Years Ended December 31,		
	2007	2006	2005
		(In Thousands)	
Current tax provision:			
Federal	$ 2,217	$ 2,287	$ 3,001
State	309	402	753
	2,526	2,689	3,754
Deferred tax provision (benefit):			
Federal	(145)	(126)	(49)
State	(44)	(36)	(13)
	(189)	(162)	(62)
Total provision	$ 2,337	$ 2,527	$ 3,692

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,		
	2007	2006	2005
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	2.6	3.4	5.0
Bank-owned life insurance	(2.4)	(2.1)	(1.6)
Effective tax rate	34.2%	35.3%	37.4%

INCOME TAXES (concluded)

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

	December 31, 2007	December 31, 2006
	(In Thousands)	
Deferred tax assets:		
Federal	$ 1,311	$ 1,487
State	433	404
	1,744	1,891
Deferred tax liabilities:		
Federal	(287)	(317)
State	(88)	(92)
	(375)	(409)
Net deferred tax asset	$ 1,369	$ 1,482

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

	December 31, 2007	December 31, 2006
	(In Thousands)	
Allowance for loan losses	$ 1,605	$ 1,445
Fees on loans	(343)	(327)
Net unrealized loss on securities available for sale	68	370
Other	39	(6)
Net deferred tax asset	$ 1,369	$ 1,482

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

	Years Ended December 31, 2007	2006	2005
	(In Thousands)		
Balance at beginning of year	$ 1,482	$ 1,635	$ 1,346
Deferred tax benefit	189	162	62
Deferred tax effects of net unrealized(gain) loss on securities available for sale	(302)	(315)	227
Balance at end of year	$ 1,369	$ 1,482	$ 1,635

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, 2007 and 2006, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2007	2006
	(In Thousands)	
Unused lines of credit	$ 37,084	$ 38,217
Commitments to originate loans:		
Commercial mortgages	13,253	16,531
Residential mortgages	2,605	5,593
Unadvanced funds on construction loans	11,336	5,976
Standby letters of credit	135	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. All letters of credit issued have expiration dates within five years. 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.

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2007, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount
	(In Thousands)
2008	$ 161
2009	167
2010	173
2011	178
2012	183
Thereafter	482
Total	$ 1,344

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, 2007, 2006, and 2005 amounted to $161,000, $135,000 and $61,000, respectively.

COMMITMENTS AND CONTINGENCIES (concluded)

Purchase commitment

At December 31, 2007, the Bank had entered into an agreement to purchase a branch location for $1,350,000.

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. Effective December 27, 2007, two of these agreements were ammended to provide for certain death benefits, which will be accrued ratably over the employees' remaining service period.

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, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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, 2007 and 2006 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, 2007						
Total Capital to Risk-Weighted Assets	$ 58,815	12.37%	$38,022	8.0%	$47,528	10.0%
Tier 1 Capital to Risk-Weighted Assets	54,890	11.55	19,011	4.0	28,517	6.0
Tier 1 Capital to Average Assets	54,890	7.43	29,538	4.0	36,922	5.0
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

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, 2007, there were 10,500 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,					
	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	8,500	$19.07	20,250	$13.61	43,500	$ 11.90
Granted	2,000	35.25	—	—	—	—
Exercised	(1,300)	15.00	(11,750)	9.66	(23,250)	10.42
Outstanding at end of year	9,200	$23.16	8,500	$19.07	20,250	$ 13.61
Options exercisable at end of year	9,200	$23.16	8,500	$19.07	20,250	$ 13.61

As of December 31, 2007, 2006 and 2005, the aggregate intrinsic value of options outstanding amounted to $71,000, $129,000 and $510,000, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was $25,000, $333,000 and $704,000, respectively.

The weighted-average grant-date fair value of options granted during the year ended December 31, 2007 was $10,000.

For the year ended December 31, 2007, share-based compensation expense applicable to the plan amounted to $10,000 and the recognized tax benefit related to this expense amounted to $3,000.

Options outstanding consist of the following:

	December 31,			
	2007		2006	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$35.250	2,000	9	—	—
29.540	1,500	4	1,500	5
23.500	1,500	1	1,500	2
15.000	4,200	2	5,500	3
	9,200		8,500	

STOCK OPTION PLANS (concluded)

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

	2007
Expected dividends	2.8%
Expected term	5 years
Expected volatility	13%
Risk-free interest rate	4.81%

The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts.

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, 2007, 2006 and 2005, expense attributable to the Plan amounted to $226,000, $219,000 and $216,000, 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 $12,693,000 and $12,213,000 at December 31, 2007 and 2006, 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 $581,000, $553,000 and $526,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Endorsement Split -Dollar Life Insurance Arrangements

Prior to 2007, the Bank had entered into split-dollar life insurance agreements with certain executives whereby the Bank agreed to pay to the executives' estates or beneficiaries a portion of the death benefit that the Bank would receive as beneficiary of life insurance policies. No liability had been recognized on the consolidated balance sheet for such death benefits, and effective December 27, 2007, these split-dollar agreements were terminated. (See Note 9 - Employment Agreements)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. 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 fair value estimates may not be realized in an immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair 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, 2007 and 2006, 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,			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 33,605	$ 33,605	$ 19,103	$ 19,103
Certificates of deposit	5,695	5,690	5,433	5,417
Securities available for sale	77,432	77,432	94,732	94,732
Federal Home Loan Bank stock	12,470	12,470	12,041	12,041
Loans, net	593,915	592,005	539,104	536,266
Accrued interest receivable	3,107	3,107	3,095	3,095
Financial liabilities:				
Deposits	441,275	441,661	408,190	407,965
Federal Home Loan Bank advances	243,738	245,921	227,576	227,410
Mortgagors' escrow accounts	1,611	1,611	1,513	1,513
Accrued interest payable	995	995	829	829

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2007 and 2006 are as follows:

	Years Ended December 31,							
	2007				2006			
	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	$ 11,118	$ 10,688	$ 10,335	$ 9,960	$ 9,845	$ 9,762	$ 8,891	$ 8,591
Interest expense	6,754	6,687	6,389	6,243	6,148	5,678	5,004	4,382
Net interest income	4,364	4,001	3,946	3,717	3,697	4,084	3,887	4,209
Provision for loan losses	99	68	85	70	69	71	78	69
Net interest income, after provision for loan losses	4,265	3,933	3,861	3,647	3,628	4,013	3,809	4,140
Other income	463	415	413	417	465	405	422	401
Operating expenses	2,649	2,648	2,634	2,656	2,601	2,492	2,528	2,495
Income before income taxes	2,079	1,700	1,640	1,408	1,492	1,926	1,703	2,046
Income tax provision	748	576	550	463	502	687	594	744
Net income	$ 1,331	$ 1,124	$ 1,090	$ 945	$ 990	$ 1,239	$ 1,109	$ 1,302
Earnings per common share:								
Basic	$ 0.63	$ 0.53	$ 0.51	$ 0.45	$ 0.47	$ 0.59	$ 0.52	$ 0.62
Diluted	$ 0.63	$ 0.53	$ 0.51	$ 0.45	$ 0.47	$ 0.58	$ 0.52	$ 0.61
Cash dividends declared per common share	$ 0.41[1]	$ 0.20	$ 0.20	$ 0.20	$ 0.40[2]	$ 0.20	$ 0.20	$ 0.20

(1) Includes a special dividend of $0.21 per common share declared on November 21, 2007.
(2) Includes a special dividend of $0.20 per common share declared on November 21, 2006.

Stock Performance Graph

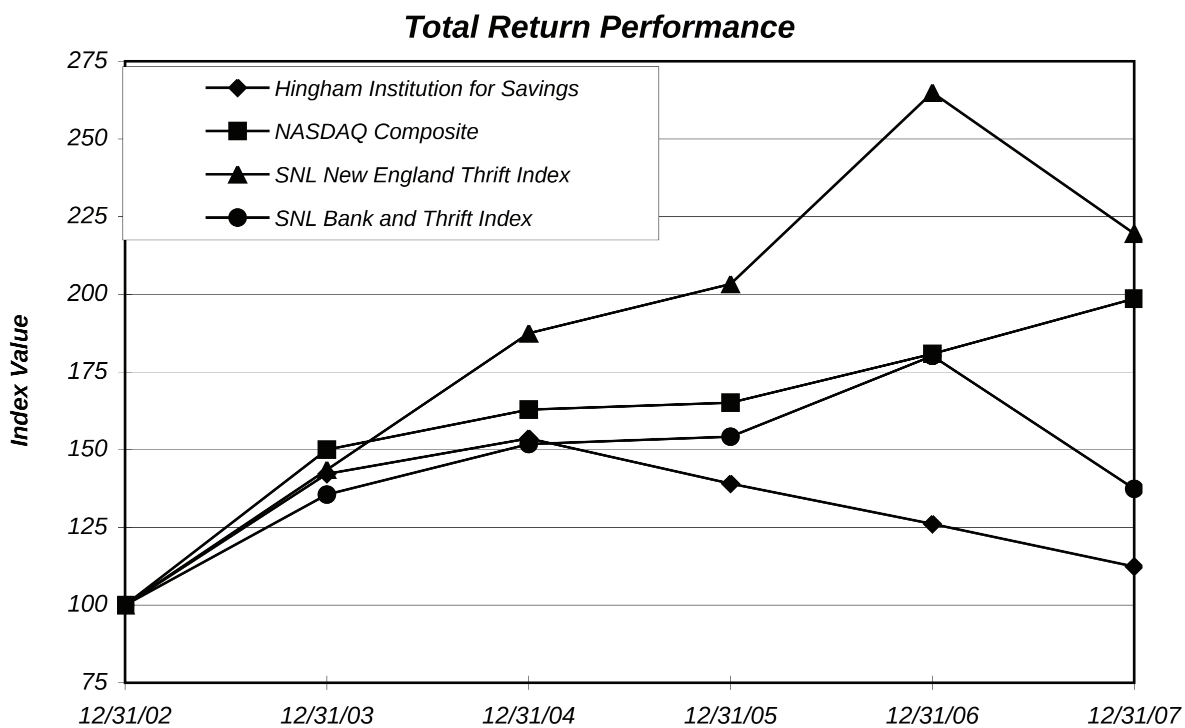
The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total return of the Bank's Common Stock since December 31, 2002 through December 31, 2007. For comparative purposes, changes in the cumulative total return on three indices of publicly traded stocks (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.

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, 2002 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	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Hingham Institution for Savings	100.00	142.22	153.63	139.08	126.11	112.39
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL New England Thrift Index	100.00	143.53	187.46	203.30	264.93	219.54
SNL Bank and Thrift Index	100.00	135.57	151.82	154.20	180.17	137.40

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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, 2007, 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, 2007, there were approximately 398 stockholders of record, holding 801,188 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
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
2007		
First Quarter	$37.51	$32.74
Second Quarter	34.90	29.89
Third Quarter	32.00	29.03
Fourth Quarter	32.79	28.89

The closing sale price of the Bank's common stock at December 31, 2007 was $ 29.64 per share.

Notes


HINGHAM
INSTITUTION FOR
SAVINGS

Branch Offices

BOSTON – South End
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

NORWELL/HANOVER *Opening in Spring 2008*
5 Assinippi Avenue
Hanover, MA 02339

SCITUATE
400 Gannett Road
North Scituate, MA 02066

SOUTH WEYMOUTH
32 Pleasant Street
South Weymouth, MA 02190

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