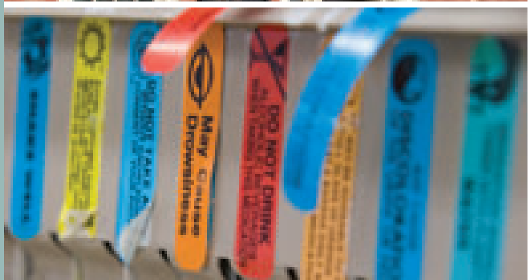
Hingham Institution for Savings

Simple Banking. Honest Value. Happy Customers.

ANNUAL REPORT 2008



175 Years and Growing

Amidst the chaos and uncertainty raging through our economy, a quiet bit of good news has appeared. At Hingham Savings, we're doing especially well, with earnings that are up 40% over last year.

We preface the good news in our Annual Report by highlighting a few customers we've had the pleasure of serving. The American Dream is alive and well for a Scituate resident and area business owner, who has just completed construction on his beautiful seaside home. A tiny company in Boston's South End brings simple pleasures to an international audience, with handpoured candles and a little retro-sensibility. A pharmacist assists in senior affairs, with a tireless desire to give back to his community. At an urban school, dedicated parents are making a difference in public education. We salute their unwavering commitment to the things that matter, their optimism and active engagement in their communities. We're proud to stand beside them.

We've grown this year. We saw the promise in bringing our services to businesses and residents of Norwell and Hanover, and opened our ninth full-service branch in the summer of 2008. Our beautiful new office is a landmark location that we have fully restored and renovated. It has been well received, and at year's end, has outperformed our most optimistic projections.

From the local papers to the Wall Street Journal, Hingham Savings has been widely recognized for our stability during these tumultuous times. Our simple guiding principles: good sense, good will, and good business, allow us to lead by example. We are a safe haven for our customers' deposits, with fully insured balances. Our lending practices in the communities we serve are anchored in good judgment. We take care of the families and businesses where we work and live. As we embark upon our 175th year, our motto still rings true: *Simple Banking. Honest Value. Happy Customers.*

From the President

Dear Shareholders:

At a time of almost unprecedented turmoil in the nation's financial sector, our Bank continued its record of maintaining solid capital ratios and sound asset quality while achieving strong growth in the balance sheet and a very significant increase to our bottom line.

In 2008, deposits increased by $84,059,000 or 19% over those of year-end 2007. Total loans increased by 9% and total assets by 8%. Our net income increased by 40% over that of 2007. Net income for the year ended December 31, 2008 was $6,285,000 or $2.96 per share (basic and diluted) as compared to $4,490,000 or $2.12 per share (basic and diluted) in 2007.

The significant deposit increase is attributable in part to the successful mid-year opening of our new branch in Norwell/Hanover MA. We also believe this increase reflects our reputation for strength and stability in a time of increasing uncertainty.

This past year, we experienced the first loss on a loan in over 7 years. While we experienced some increase in non-performing assets from .21% of total assets at year-end 2007 to .91% of total assets at year-end 2008, this ratio remains well below all national averages. Additionally, we have made substantial increases to our loan loss reserve and believe these reserves to be adequate.

This coming year will be a time of testing for all banks large or small. No bank will be immune from the challenge of declining real estate values and rising unemployment. Nonetheless, we believe that our customers and shareholders will be well served by the strength of our earnings, the discipline of our cost controls, the common-sense of our lending practices and the focus that we bring to effectively addressing any non-performing assets. These remain the basic skills of sound banking. They are skills which our Staff, Management and Board possess in abundance.

We remain committed to the continued growth and development of a community bank worthy of the trust and confidence you have given to us. You are our neighbors and friends as well as our shareholders and customers. We know that you rely upon us especially during the difficult times. In this our 175th year, we have every intention of continuing to live up to your expectations.

Very truly yours,

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

A New Day for a Historic Place

The Line House stands at Assinippi Corner, once an Indian highway and stage route. This storied building is so named because the Norwell and Hanover town lines run directly through its center. It has lived many lives: a brickmaker's showcase, private home, post office, meat purveyor, glass shop, public gathering place, and most recently, a bank. In summer of 2008, this historic landmark became Hingham Savings' ninth full-service branch.

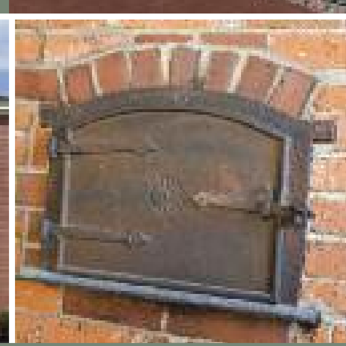
People like doing business in person and in a place where they feel welcomed and respected. With drive-through banking, 24-hour drive-up ATM, four teller and customer service stations, and a night deposit box, we are proud to bring our services and a sense of place to the residents and businesses of the Norwell and Hanover communities. Our beautiful new branch has been very well received, and in just 6 months has opened nearly 400 new customer accounts with total deposits of over $16 million dollars.

Norwell Branch Manager Denise Quirk is joined in this photo by Jack Conway, Chairman of Jack Conway Realty, a customer of Hingham Savings for more than 50 years.

Jack arrived at the photo shoot with a story – he recalls working with Hingham Savings 52 years ago on arranging a home loan to a local family. At that time loan decisions were made largely on the basis of character and integrity. Today, our common sense approach is still at the heart of everything we do. He's glad to see we're still doing business on a personal level, and with such success.

We believe in professional allegiances carried by honest effort and a common sensibility, and are proud to know Jack as both a customer and a colleague. With more than 40 offices, Conway Country stretches from Boston to the South Coast and Cape Cod. It's evident that he knows every one of his employees, and their parents too. Each day he reminds himself "You make your own good day." His words are inspirational.

We look forward to many good days and a bright future for our newest branch.




NORWELL
HANOVER


HINGHAM
SAVINGS

Living the Dream

Back in the early days of raising their children, Stew Rosen recalls taking drives with them to Second Cliff in Scituate. There was a certain spot on Crescent Avenue with a perfect, calming, view of the harbor and the surrounding ocean. It was a special sign when it became available as a site for construction of the Rosens' dream home.

Stew is a third-generation owner of a successful family business, Norfolk Hardware & Home Center, with several locations in and around the Greater Boston area. The Rosens had limited time in their busy schedule to arrange financing. Their former bank had recently been acquired by IndyMac, and as small business owners, they encountered delays that threatened the project. Just in time, a business acquaintance referred them to Hingham Savings.

Stew and Denise were impressed with Vice President of Residential Lending Officer Mike Sinclair, whose immediate response and quick work allowed them to arrange a mortgage loan for construction of their home as well as an investment home on the adjoining property. As a local bank, we understand the perspective of business owners. We are able to make fast decisions that are based on common sense and a shared commitment to the communities we serve. We are proud to have helped the Rosen family realize their dream.

The Banker and the Candlestick Maker

Through a screen door is a small room with three very large pots. The air is heavy with today's scent: lavender. Head Chandler Jamie Mallari tells us they produced enough to fill 600 candle orders last night. Founded in 1998, Aunt Sadie's provides high-quality, handpoured scented candles to an international audience. With wholesale relationships such as L.L. Bean and Macy's, gift shops, and a web-based direct-order system, enthusiasm for Aunt Sadie's candles extends from around the corner to New Zealand. The shop produces 200,000 candles per year, and gross sales at Aunt Sadie's exceed $1.5 million annually.

Partners Gary Briggs and Brian Schnetzer didn't think it was possible to have a personal relationship with a bank. They had been frustrated in the past by slow, impersonal treatment from national banks that didn't understand the needs of small business owners. They were nicely surprised by South End Branch Manager Tony Tierno when he called on them personally and told them all about our straightforward checking products, online banking and merchant services. Ever since they moved their accounts to Hingham Savings, they look forward to doing their business banking, and especially like visiting a place where everyone knows their name.

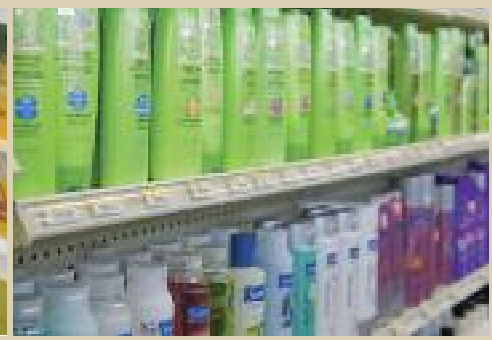
Aunt Sadie would be proud to know they found a business bank that meets her high standards.

Healthy and Wise

Rocky Tenaglia has been a Hull pharmacist since 1986. This profession runs in his family; his sister, wife, sister-in-law and mother-in-law are all pharmacists. His locations, which include Nantasket, Scituate, Hingham and the recently opened Pearl Street Pharmacy and Cafe in Brockton, are staffed by family members. It's clear he's deeply committed to the health of his customers and each of his pharmacies is open 365 days a year.

As a hands-on manager at each of his stores, Rocky is a busy person. Still, he finds time to give back. He volunteers his time on the Hull Town Retirement Board. An alumnus of Mass College of Pharmacy and Health Sciences, he has brought their co-sponsored MassMedline program to each of the communities he serves. Rocky organizes the annual event with seniors in mind, as it covers one-on-one medication advice, insurance, and medication payment assistance. Advocacy, high standards, and good service have brought Rocky a loyal following; he is the "go to" person for pharmaceutical concerns in each of his neighborhood drugstores.

When it comes to community, Hull Branch Manager Jinnie Ryan Walsh is a kindred spirit. As co-director of the hugely popular Hingham Cabaret production for the past nine years, she can be counted on to go the extra mile for her commitments. It comes as no surprise to us that Jinnie has convinced Rocky to come aboard as a Hingham Savings deposit customer. Since then, he has also worked with Vice President of Commercial Lending Officer Peter Smollett. For his part, Rocky thinks it's both healthy and wise to have his personal and business accounts with a local bank that shares in his community's concerns.



From Grassroots to Playing Fields

Six years ago, a South End mother of two got the idea that there must be a better way to enhance public education in the city. The simple thought led to a grassroots organization called Neighborhood Parents for the Hurley School (NPHS). They have a lofty ambition: to make their neighborhood school the finest elementary school in Boston.

The Joseph J. Hurley School is one of just three bilingual immersion schools in the public school system; a dual language program where native English-speaking and Spanish-speaking children learn core academics in two languages.

The nonprofit network has 120 very active members. In collaboration with Principal Marjorie Soto, they used their talents and resources to fully renovate a gym, build a school library and computer lab, hire a science specialist, and create a state-of-the-art playing field from a parking lot. The school curriculum has also been enhanced with music, theater and dance programs. Kelley Curry, President of NPHS, (above right) has told us about some of their current goals, which include creation of a science lab and updates to the school's auditorium.

We learned about the work of NPHS from our South End Branch Customer Service Representative, Ive Brawley, (above left) whose son, Ian, attends the Hurley School. As co-president of the Hurley's parent council "Padres en Acción," she is another committed parent. The associations work closely together throughout the school year.

We believe strongly in supporting our neighborhoods. We are proud to partner with Neighborhood Parents for the Hurley School and applaud their many accomplishments.

Senior Officers

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

Deborah J. Jackson
Senior Vice President
and Treasurer*

William M. Donovan, Jr.
Vice President
Administration

William G. Bowers, Jr.
Vice President
Commercial Lending

Thomas I. Chew
Vice President
Branch Operations

Shawn T. Sullivan
Vice President
Commercial Lending

Peter R. Smollett
Vice President
Commercial Lending

Michael J. Sinclair
Vice President
Retail Lending

Robert A. Bogart
Vice President
and Treasurer*

*Ms Jackson assumed the Presidency of East Boston Savings Bank effective March 4th 2009 and
Mr. Bogart was elected as Chief Financial Officer of Hingham Savings effective March 23rd, 2009.

Board of Directors


Howard M. Berger, Esq.


Marion J. Fahey


Ronald D. Falcione


Kevin W. Gaughen, Esq.

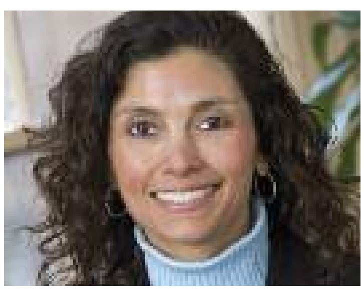

Robert H. Gaughen, Jr., Esq.


Julio R. Hernando, Esq.


Robert A. Lane, Esq.


Scott L. Moser


Warren B. Noble


Stacey M. Page

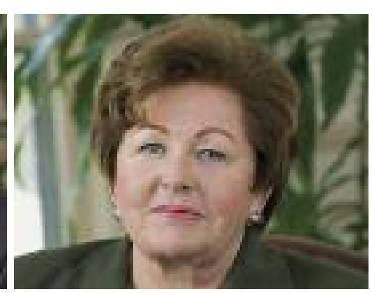

Joseph A. Ribaudo, CPA


Edward L. Sparda

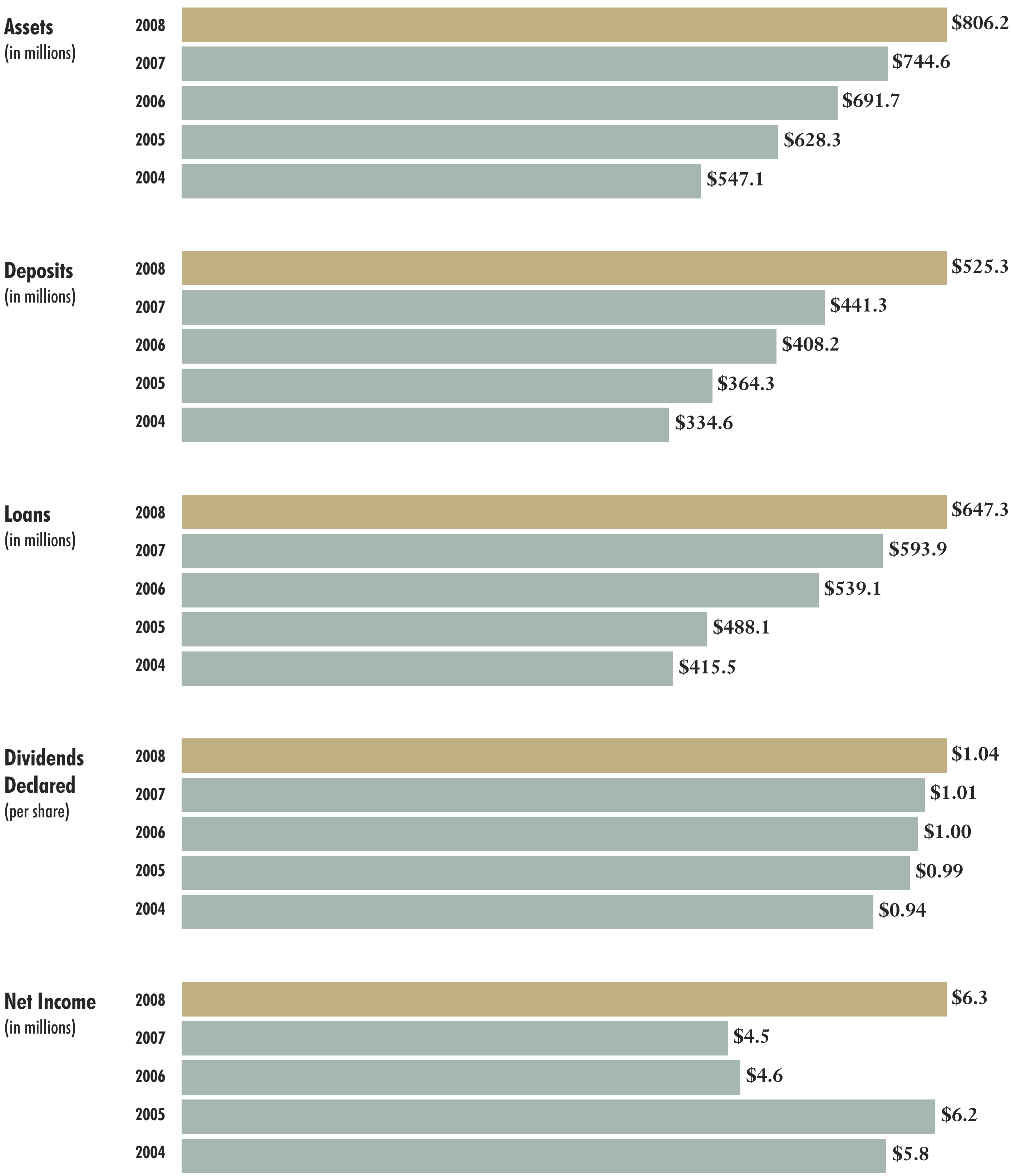

Donald M. Tardiff, M.D.


James R. White


Geoffrey C. Wilkinson, Sr.


Jacqueline M. Youngworth

Financial Highlights



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,				
	2008	2007	2006	2005	2004
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 806,193	$ 744,602	$ 691,652	$ 628,251	$ 547,051
Securities available for sale	87,380	77,432	94,732	91,513	85,815
Loans:					
Residential mortgage	299,866	273,323	254,073	233,138	194,552
Commercial mortgage	317,162	299,739	267,917	238,408	203,390
Construction, net	33,315	23,464	19,426	18,982	19,851
Other	799	755	811	481	431
Allowance for loan losses	4,530	3,925	3,603	3,316	3,070
Deposits	525,334	441,275	408,190	364,295	334,569
Federal Home Loan Bank advances	214,994	243,738	227,576	211,816	164,668
Stockholders' equity	59,825	54,771	51,818	48,458	44,323

	Years Ended December 31,				
	2008	2007	2006	2005	2004
	(In Thousands, Except Per Share Amounts)				
Income Statement Data:					
Total interest and dividend income	$ 43,309	$ 42,101	$ 37,089	$ 30,418	$ 26,151
Total interest expense	21,980	26,073	21,212	12,389	9,154
Net interest income	21,329	16,028	15,877	18,029	16,997
Provision for loan losses	805	322	287	244	80
Other income	1,664	1,708	1,693	1,598	1,565
Operating expenses	12,123	10,587	10,116	9,520	9,185
Income before income taxes	10,065	6,827	7,167	9,863	9,297
Income tax provision	3,780	2,337	2,527	3,692	3,473
Net income	$ 6,285	$ 4,490	$ 4,640	$ 6,171	$ 5,824
Earnings per common share:					
Basic	$ 2.96	$ 2.12	$ 2.19	$ 2.95	$ 2.80
Diluted	$ 2.96	$ 2.12	$ 2.19	$ 2.92	$ 2.77
Financial Ratios:					
Return on average assets	0.81%	0.63%	0.71%	1.07%	1.14%
Return on average equity	11.08	8.40	9.18	13.20	13.56
Average equity to average assets	7.33	7.51	7.72	8.08	8.42
Interest rate spread	2.52	1.87	2.08	2.91	3.20
Net yield on average earning assets	2.86	2.33	2.51	3.24	3.47
Dividend payout ratio (basic)	35.14	47.64	45.66	33.56	33.57
Efficiency ratio	52.72	59.69	57.58	48.50	49.70
Cash dividends declared per common share	$ 1.04	$ 1.01	$ 1.00	$ 0.99	$ 0.94
Book value per common share	$ 28.20	$ 25.85	$ 24.47	$ 23.01	$ 21.29

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. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, or if bank regulatory authorities require the Bank to increase the allowance for loan losses as a part of their examination process, the Bank's earnings and capital could be significantly and adversely affected.

COMPARISON OF THE YEARS 2008, 2007, and 2006

RESULTS OF OPERATIONS

For the year ended December 31, 2008, the Bank earned $6.3 million as compared to $4.5 million in 2007 and $4.6 million in 2006. On a basic and dilutive per-share basis, the Bank earned $2.96 in 2008, $2.12 in 2007 and $2.19 in 2006. Earnings for 2008 were impacted by a $5.3 million increase in net interest income offset, in part, by a $1.5 million increase in operating expenses and a $483,000 increase in the provision for loan losses. The decrease in earnings in 2007 as compared to 2006 was primarily the result of a $471,000 increase in operating expenses offset, in part, by a $151,000 increase in net interest income.

Net interest income increased in 2008 as compared to 2007 due to a 9% increase in earning assets offset by a 32 basis point decrease in the average yield on earning assets, reflecting market conditions. Interest expenses decreased in 2008 due to a 97 basis point decrease in the average rate paid reflecting market conditions offset, in part, by a 9% increase in deposits and borrowings, combined. Increased net interest income in 2007 as compared to 2006 was a result of a 9% increase in earning assets over the two years.

Non-interest income remained relatively flat at $1.7 million for each of the past three years.

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, and can be attributed, in part, to the opening of new branches in Norwell in 2008 and in Boston in 2006. Increased operating expenses in 2008 can also be attributed to foreclosure-related expenditures, which increased from $3,000 for 2007 to $202,000 for 2008, and an increase in the Federal Deposit Insurance Corporation ("FDIC") assessment which increased from zero for 2007, having been fully offset by a one-time FDIC credit, to $196,000 for 2008. The efficiency ratio, a measure of operating expenses as a percentage of operating income, was 53%, 60% and 58% for the years 2008, 2007 and 2006, respectively.

Net Interest Income

The Bank reported $21.3 million in net interest income for 2008 as compared to $16.0 million in 2007 and $15.9 million in 2006. Market interest rates rose until mid-2006. In 2006 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. Despite the declining margin, the Bank reported increased interest income in 2007 due to increased loan volume. Beginning in September 2007 and continuing through 2008, market rates have dropped dramatically. The Bank's net interest income has been positively impacted by this change in the interest rate environment and the Bank's net interest margin increased to 2.86% for 2008.

Average total earning assets increased 9% in each of the past two years. The Bank earned an average yield of 5.80% on its assets in 2008 as compared to 6.12% in 2007 and 5.86% in 2006. 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 3% in 2008 over 2007 and 14% in 2007 over 2006, resulting from continued growth in loans, the most significant component of assets, accounting for approximately 84% of average total earning assets in 2008, 83% in 2007 and 82% in 2006. 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 decreased in 2008 as compared to 2007 due to lower market rates and increased in 2007 as compared to 2006 due to modest growth in the combined portfolios accompanied by increased market rates. This category also includes dividends paid on Federal Home Loan Bank ("FHLB") stock which, for 2008, amounted to $490,000 as compared to $798,000 for 2007 and $602,000 for 2006. In 2009, the FHLB announced that it has suspended its dividend and, as such, it is uncertain when the FHLB will resume paying a dividend on its stock.

Non-accrual loans totaled $7.1 million at December 31, 2008 as compared to $1.5 million at December 31, 2007 and $166,000 at December 31, 2006. Interest income includes actual payments made on loans classified as non-accrual. Excluded from interest income is interest not paid on such loans, which totaled $424,000 for 2008 as compared to $80,000 for 2007 and $5,000 for 2006.

In response to market conditions, the Bank decreased the rates it paid on the more volatile of its interest-bearing deposit accounts in 2008 while most core deposit rates were unaffected. As a result, interest expense paid on deposits decreased by 15% in 2008 over 2007. The average rate paid on certificates of deposit decreased by 127 basis points in 2008 over 2007 and the average rate paid for money market accounts decreased by 22 basis points for 2008 over 2007. Certificates of deposit were 59% of total deposits at year end 2008 as compared to 61% at year end 2007 and 60% at year end 2006. Given the current economic environment, management believes it is unlikely that deposit market rates will rise significantly in 2009 and, as a result, the low cost of these liabilities is expected to continue for the next fiscal year.

Interest expense on borrowed funds decreased in 2008 as compared to 2007 due to decreased market rates which offset an increased volume in average borrowed funds. Borrowings from the FHLB are drawn to fund growth in the loan portfolio. At December 31, 2008, the weighted average rate on FHLB borrowings was 3.42%. The average cost of all borrowings was 4.10% for 2008 as compared to 5.08% for 2007 and 5.01% for 2006. Beginning in late 2008, the Bank began to refinance some of its maturing debt for longer periods to take advantage of low, long-term funding costs and reduce the Bank's reliance on short-term debt. The Bank intends to continue this practice through early 2009 and possibly beyond, to the extent that longer term market rates remain attractive.

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.)

In 2008, the Bank had loan charge-offs of $200,000 related primarily to a single loan for which the property was sold shortly after foreclosure. The Bank continues to closely monitor its non-accrual loans, which were 1.09% of total loans at December 31, 2008 as compared to 0.26% at December 31, 2007, and its loans past due greater than 30 days, which have increased to 1.7% of total loans at December 31, 2008 as compared to 1.1% at December 31, 2007 and 0.94% at December 31, 2006. The provision for loan losses for 2008 was $805,000 as compared to $322,000 in 2007 and $287,000 in 2006, reflecting growth in the loan portfolio, an increase in non-performing loans, a general deterioration in the housing market and the volatility of economic indicators. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.70% for 2008, and 0.66% for 2007 and 2006.

Other Income

Other income was $1.7 million in 2008, 2007 and 2006. Fees

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,					
	2008 Compared to 2007 Increase (Decrease)			2007 Compared to 2006 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 3,563	$ (593)	$ 2,970	$ 3,265	$ 633	$ 3,898
Securities	(1,116)	(889)	(2,005)	(150)	898	748
Short-term investments and certificates of deposit	815	(572)	243	332	34	366
Total interest and dividend income	3,262	(2,054)	1,208	3,447	1,565	5,012
Interest expense:						
Interest-bearing deposits:						
NOW	2	(3)	(1)	—	2	2
Money market deposits	638	(132)	506	(77)	235	158
Regular	(2)	(1)	(3)	(13)	1	(12)
Term certificates	814	(3,479)	(2,665)	2,136	1,665	3,801
Total interest-bearing deposits	1,452	(3,615)	(2,163)	2,046	1,903	3,949
Borrowed funds	421	(2,351)	(1,930)	762	150	912
Total interest expense	1,873	(5,966)	(4,093)	2,808	2,053	4,861
Net interest income	$ 1,389	$ 3,912	$ 5,301	$ 639	$ (488)	$ 151

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

	Years Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 624,483	$ 39,417	6.31%	$ 568,360	$ 36,456	6.41%	$ 517,121	$ 32,551	6.29%
Commercial loans	170	22	12.94	119	17	14.29	71	9	12.68
Other loans	555	45	8.11	483	41	8.49	703	56	7.97
Total loans (1) (2)	625,208	39,484	6.32	568,962	36,514	6.42	517,895	32,616	6.30
Securities (3) (4)	74,748	2,783	3.72	101,548	4,788	4.72	105,344	4,040	3.84
Short-term investments and certificates of deposit	46,385	1,042	2.25	17,292	799	4.62	10,054	433	4.31
Total interest-earning assets	746,341	43,309	5.80	687,802	42,101	6.12	633,293	37,089	5.86
Other assets	27,211			23,745			21,640		
Total assets	$ 773,552			$ 711,547			$ 654,933		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW (5)	$ 24,706	24	0.10	$ 23,153	25	0.11	$ 22,751	23	0.10
Money market deposits	85,015	1,749	2.06	54,490	1,243	2.28	58,456	1,085	1.86
Regular	41,747	104	0.25	42,646	107	0.25	47,633	119	0.25
Term certificates	277,977	10,200	3.67	260,572	12,865	4.94	214,406	9,064	4.23
Total interest-bearing deposits	429,445	12,077	2.81	380,861	14,240	3.74	343,246	10,291	3.00
Borrowed funds	241,362	9,903	4.10	232,820	11,833	5.08	217,792	10,921	5.01
Total interest-bearing liabilities	670,807	21,980	3.28	613,681	26,073	4.25	561,038	21,212	3.78
Demand deposits	42,803			42,161			41,426		
Other liabilities	3,230			2,237			1,937		
Stockholders' equity	56,712			53,468			50,532		
Total liabilities and stockholders' equity	$ 773,552			$ 711,547			$ 654,933		
Net interest income		$ 21,329			$ 16,028			$ 15,877	
Weighted average interest rate spread			2.52%			1.87%			2.08%
Net yield on average earning assets (6)			2.86%			2.33%			2.51%

(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.

earned on customer accounts were $1.0 million in each of the three years. Customer service fee income was derived primarily from deposit account transaction fees and ATM/debit card usage fees. The fees reflect a lower volume of fee-based transactions offset, in part, by modest increases in the schedule of fees.

Also contributing to other income in each of the three years was the increase in the cash surrender value of life insurance policies. The Bank held $13.2 million in life insurance policies at year end 2008. Income from these assets is fully excludable from income taxes and contributed $464,000 to other income in 2008, $480,000 in 2007 and $457,000 for 2006. 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 1.57% for 2008, 1.49% for 2007 and 1.54% for 2006, reflecting additional expenses associated with the opening of two branch offices during these periods.

Salaries and employee benefits continues to be the largest component of operating expenses at $7.1 million for 2008, $6.4 million for 2007, and $6.1 million for 2006. Annual merit-based salary increases, which averaged approximately 4% in each of 2008 and 2007, and 5% in 2006, accounted for the majority of the increase in each year. The Bank added four employees in 2008 to staff the Norwell branch and 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 expense associated with a Supplemental Employee Retirement Plan for certain Bank officers, which accounted for $611,000 in expense for 2008, $581,000 for 2007 and $553,000 for 2006. For 2008, 2007 and 2006, 401(k) defined contribution expenses were $241,000, $226,000 and $219,000, respectively. In 2006, the Bank adopted a post-retirement health care plan for certain Bank officers and expensed $59,000 in 2008, $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 3% in 2008 as compared to 2007 and 14% in 2007 as compared to 2006.

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 expense associated with this liability was $263,000 for 2008.

Data processing expenses increased in 2008 over 2007 due to costs associated with the Norwell branch, which opened in mid-2008, as well as upgrades to the Bank's information technology infrastructure. Expenses increased in 2007 over 2006, primarily due to expenses associated with the Boston branch which opened in late 2006.

Occupancy and equipment expenses increased 11% and 10% in each of the past two years and can largely be attributed to the 2008 opening of the Bank's ninth office in Norwell and the opening of the Boston office in late 2006. This category also includes approximately $167,000, $161,000 and $135,000 in rent expenses for 2008, 2007 and 2006, respectively.

All other operating expenses were $2.9 million for 2008 and $2.2 million for each of 2007 and 2006. The increase in 2008 can be primarily attributed to increased foreclosure costs and FDIC deposit insurance assessments. In 2008, the Bank incurred $202,000 in foreclosure-related expenditures as compared to $3,000 in 2007. 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. For 2008, FDIC premium expenses were $196,000. The FDIC has announced an increase in its premium rate for the first quarter of 2009 which, if maintained throughout the year, would result in FDIC premium expenses of approximately $600,000 based on 2009 estimates of the Bank's deposit balances. Additional increases for the remainder of 2009 are anticipated as the FDIC is considering enhancements to its risk-based premium system to improve its fund reserve ratio.

Operating expenses also include audit fees, advertising, directors' fees, supplies, legal fees and other items. In addition, in 2008, 2007 and 2006, the Bank incurred $29,000, $50,000 and $49,000, respectively, in losses due to robberies, fraudulent checks and fraudulent debit card transactions. Increasing occurrences of check fraud and information security breaches at merchants and their card processors may lead to additional, unrecoverable losses at the Bank.

Income Taxes

The Bank's effective tax rate was 37.6% for 2008, 34.2% for 2007 and 35.3% for 2006. The increase in the effective tax rate in 2008 over 2007 is attributable to the higher percentage of income taxed at higher state tax rates accompanied by a modest decrease 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 2008 AND 2007

BALANCE SHEET ANALYSIS

The Bank had total assets of $806.2 million at December 31, 2008, an increase of $61.6 million, or 8%, from the $744.6 million level at year end 2007.

Loans

At December 31, 2008 and 2007, the Bank reported net loans of $647.3 million and $593.9 million, respectively, or 80% of total assets at each reporting period. In 2008, the Bank originated $143.7 million in mortgage and other loan products which resulted in net loan growth of $53.3 million. Comparably for 2007, the Bank originated $139.1 million which resulted in net loan growth of $54.8 million. At December 31, 2008 and 2007, mortgage loans accounted for more than 99% of gross loans. For 2008, commercial mortgages represented 49% of the mortgage portfolio, residential mortgages and home equity loans represented approximately 45%, and construction mortgages represented 5%. For 2007, commercial mortgages represented 50% of the mortgage portfolio, residential mortgages and home equity loans represented 46%, and construction mortgages represented 4%.

The Bank's lending strategy during 2008 and 2007 has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Mortgages increased by 9% in 2008. Approximately 39% 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 ("FNMA") or Federal Home Loan Mortgage Corporation ("Freddie Mac") 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, 2008 and 2007, the allowance had a balance of $4.5 million and $3.9 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 and 2006, there were no loan charge-offs. In 2008, the Bank charged off $200,000 in mortgage loans. The charge-off related primarily to the sale of a commercial rental property which was acquired by the Bank at foreclosure. The property subsequently sold at less than the Bank's purchase price resulting in a loss on foreclosed property of $7,000.

The Bank had non-accrual loans at December 31, 2008 with a combined outstanding balance of $7.1 million as compared to $1.5 million at December 31, 2007. As a percentage of total loans, these non-accrual loans were 1.09% at December 31, 2008 and 0.26% at December 31, 2007. Management believes that its loans classified as non-accrual are adequately collateralized. Management works closely with such borrowers to minimize Bank losses, if any.

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, 2008, the portfolio of $87.4 million, or 11% of total assets, was comprised of debt and mortgage-backed securities issued by government-sponsored enterprises and a single equity issue as compared to $77.4 million, or 10% of total assets, at year end 2007. At December 31, 2008, 97% of the securities in the portfolio were issued or guaranteed by government-sponsored enterprises as compared to 96% at December 31, 2007.

At December 31, 2008, 87% 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 43% of this portfolio is subject to redemption at dates earlier than the stated maturity at the discretion of the issuer.

At December 31, 2008, approximately 10% of the portfolio, or $8.5 million, was comprised of mortgage-backed securities, a decrease of $1.8 million over the balances held at December 31, 2007. 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 a mutual fund which invests in securities which qualify under the Community Reinvestment Act ("CRA") securities test. This investment accounted for 3% of the investment portfolio at December 31, 2008. The Bank did not hold any equity securities issued by Fannie Mae or Freddie Mac and was unaffected by the devaluation of these securities which occurred in 2008.

At year end 2008 and 2007, the entire securities portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity. The net unrealized gain on the portfolio amounted to $770,000, net of tax effects, at December 31, 2008 as compared to a $128,000 unrealized loss, net of tax effects, at year end 2007, reflecting changing market conditions. The fair value of securities fluctuates with the movement of interest rates. Generally, during periods of falling interest rates, the fair values increase whereas the opposite may hold true during a rising interest rate environment.

As a member of the Federal Home Loan Bank of Boston, the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment which generally approximates 5% of the Bank's borrowings balance. At December 31, 2008 and 2007, this investment accounted for less than 2% of total Bank assets. During the latter part of 2008, the Bank experienced a significant influx of deposit dollars which were used, in part, to pay off FHLB borrowings. Subsequently, the FHLB announced a capital retention plan which prevented the Bank from redeeming its excess stock. At December 31, 2008, the Bank held $13.4 million in FHLB stock as compared to $12.5 million at December 31, 2007.

The Bank also holds an investment in certificates of deposit issued by other banks. At December 31, 2008, this investment amounted to $13.6 million, or 2% of total assets, as compared to $5.7 million, or less than 1% of total assets, at December 31, 2007. In 2008, the FDIC increased its maximum insurance coverage to $250,000 per depositor, effective through December 31, 2009. No single certificate held by the Bank maturing within this time frame exceeds this maximum and, therefore, all are insured in full by the FDIC.

Other Assets

The Bank held $13.2 million in Bank-owned life insurance at December 31, 2008 as compared to $12.7 million at December 31, 2007. The increase in 2008 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. The Bank monitors the credit ratings of the policy issuers and has determined that, at December 31, 2008, all issuers were rated at or above Bank guidelines.

Deposits

At December 31, 2008, the Bank held a total of $525.3 million in deposits, an increase of $84.1 million, or 19%, from the $441.3 million in deposits at year end 2007. The unprecedented growth experienced in 2008 was attributable to volatility in the financial markets experienced in the latter part of 2008 as depositors sought the safe haven offered by fully insured depository institutions. Non-certificate deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $217.2 million at December 31, 2008 as compared to $174.0 million at year end 2007, an increase of $43.2 million, or 25%, which was attributable to growth in money market and regular savings accounts, offset, in part, by decreases in transaction accounts. Non-certificate deposits comprised 41% of total deposits at December 31, 2008 as compared to 39% at year end 2007. Certificates of deposit were $308.2 million at December 31, 2008 as compared to $267.3 million at year end 2007.

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 insurance, 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 second quarter of 2008, the Bank opened a new branch in Norwell which has, thus far, met management's expectations with respect to deposit growth.

Deposits are insured in full through the combination of the Federal Deposit Insurance Corporation and the Deposit Insurance Fund of Massachusetts ("DIF"). Generally, through December 31, 2009, separately insured deposit accounts are insured up to $250,000 by the FDIC and deposit balances in excess of this amount are insured by the DIF. DIF insurance provides an advantage for the Bank as some competitors cannot offer this coverage.

Borrowings

The Bank had $215.0 million in FHLB advances at December 31, 2008 as compared to $243.7 million at year end 2007, a decrease of $28.7 million. In 2008, the Bank's deposit base increased by $84.1 million. A portion of these funds were used to redeem FHLB maturing debt. Generally, borrowings are drawn with a fixed rate and term; however, approximately $79.5 million, or 37%, can be called by the issuer after an initial specified term, and an additional $2.5 million is subject to principal amortization over its stated life. At December 31, 2008, 39% of all borrowings will mature within one year as compared to 63% at December 31, 2007. During 2008, the Bank refinanced many borrowings at longer terms to lock in lower cost funding for future periods. The average rate paid on borrowings held at year end 2008 was 3.42%, down from 4.66% at year end 2007, reflecting the decrease in market interest rates in 2008.

In 2008, the Bank purchased property in Norwell for its newest branch location. The Bank financed the purchase through the issuance of a mortgage in the amount of $1.2 million to the seller. The mortgage note is at a market rate, amortizes monthly and matures in 2028.

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 52% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. Sixteen securities, or 38%, are subject to redemption, at par, at the discretion of the issuer and, based on current market rates, are expected to be redeemed upon their contractual call dates. Mortgage-backed securities, which comprise 10% 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 approximately 14% on its loan portfolio in 2008 as compared to 12% in 2007. For 2009, prepayment rates are expected to rise as borrowers refinance their mortgages at lower market rates.

The proceeds to the Bank under key executive life insurance policies are illiquid during the lives of the executives. Such policies total $13.2 million, or less than 2% of total assets, at December 31, 2008 as compared to $12.7 million, or less than 2%, at December 31, 2007.

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 1% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 37%, or $79.5 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, 2008, the Bank had approximately $59.4 million in commitments to extend credit as compared to $64.4 million at December 31, 2007. (Refer to Note 9 to Consolidated Financial Statements for more details.) No other off-balance sheet arrangements existed at December 31, 2008 or 2007.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position at both the 30 day and 90 day horizon, the level of volatile liabilities to earning assets and loan to deposit ratios. At December 31, 2008 and 2007, each measurement was within predefined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the Federal Home Loan Bank of Boston where it is eligible to obtain both short and long-term credit advances. The Bank can borrow up to approximately $296.8 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 approximately $99.4 million in additional borrowings. At December 31, 2008, the Bank had $215.0 million in advances outstanding.

At December 31, 2008, the Bank had capital of $59.8 million, or 7.4% of total assets, as compared to $54.8 million, or 7.4%, at December 31, 2007. Total capital is adjusted by the unrealized gains or losses in the Bank's available-for-sale securities portfolio and, as such, it is subject to fluctuations resulting from changes in the market values of its securities available for sale. At December 31, 2008, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $770,000. In comparison, at year end 2007, capital was decreased by $128,000.

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 2008 and 2007.

Management's Discussion and Analysis

During 2008, the Bank declared dividends of $1.04 per share which included a $0.22 per share special dividend which was declared in the fourth quarter. In comparison, in 2007, the Bank declared dividends of $1.01 per share which included a $0.21 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, was 35.14% for 2008 as compared to 47.64% for 2007.

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. At December 31, 2008, the model assumed a 100 and 200 basis point increase in interest rates where the magnitude of the rate change varies with the term. For example, longer-term rates are modeled to change by 60 basis points and short term rates are modeled to change by 100 basis points. The model estimates that, over a twenty-four month period, net interest income will decrease 4% if rates rise 100 basis points and will decrease 7% if rates rise 200 basis points.

The Bank's interest rate risk exposure is believed to be well managed and within pre-defined limits.

To a significantly lesser degree, the Bank also utilizes GAP analysis which involves comparing the difference between interest-rate sensitive assets and liabilities that mature or reprice during a given period of time. However, GAP analysis does not measure the financial impact of mismatched assets to liabilities, nor does it measure the velocity at which assets and liabilities reprice.

The composition of the Bank's assets at December 31, 2008 was comparable to that of year end 2007 with loans as a percentage of total earning assets relatively unchanged at approximately 83%. In contrast, the composition of the Bank's liabilities changed such that deposits accounted for 69% of total interest-bearing liabilities at year end 2008 as compared to 62% at the prior year end. During the latter part of 2008, the Bank attracted new deposits which were used to reduce borrowings.

At December 31, 2007, liabilities that reprice within one year exceeded asset repricing within the same period by $176.8 million. Market

At December 31, 2008, 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	$ 214,994	$ 85,358	$ 89,665	$ 239	$ 39,732
Certificates of Deposit	308,165	273,852	31,600	2,713	—
Data Processing Agreements*	1,291	795	496	—	—
Lease Agreements **	1,183	167	351	372	293
Other Borrowings	1,219	35	77	87	1,020

*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.

interest rates fell dramatically over 2008. The Federal Reserve Bank lowered its targeted Federal Funds rate on seven occasions throughout the year which resulted in a targeted rate of between zero and 25 basis points at December 31, 2008 as compared to 4.25% one year earlier. The prime lending rate decreased by 400 basis points over the same time period. Longer term rates, however, were largely unaffected in 2008. The Bank was positively impacted by the lowering of market interest rates over 2008. The yield on earning assets declined by 32 basis points. However, the average rate on funding costs, in the form of deposits and borrowings, dropped by 97 basis points, contributing $4.1 million, or 77%, of the $5.3 million improvement in net interest income for 2008.

At December 31, 2008, liabilities that reprice within one year exceeded assets repricing within the same period by $172.2 million indicating that the Bank is susceptible to lower net interest income in the event that market rates rise in 2009. Thus far, in 2009, short-term rates have remained unchanged. Longer term rates, however, have experienced a downturn in 2009 which is expected to entice qualified borrowers to refinance their mortgage loans. To take advantage of the declining cost of long-term funding, the Bank anticipates that it will refinance a portion of its short-term debt at longer terms.

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, 2008

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	$ 76,121	$ 42,058	$ 6,138	$ —	$ —	$ —	$ 124,317
	2.14%	2.96%	3.50%	—%	—%	—%	2.49%
Loans:							
Fixed rate	$ 77,771	$ 60,977	$ 50,124	$ 37,723	$ 34,512	$ 84,134	$ 345,241
	6.24%	6.03%	6.71%	6.05%	6.09%	6.39%	6.27%
Adjustable rate	$ 100,256	$ 52,390	$ 51,157	$ 40,830	$ 48,792	$ 12,476	$ 305,901
	5.90%	6.27%	6.59%	6.88%	6.46%	6.56%	6.33%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 69,912	$ 10,914	$ —	$ —	$ 94,983	$ —	$ 175,809
	1.92%	1.83%	—%	—%	0.46%	—%	1.13%
Term certificates	$ 273,852	$ 23,446	$ 8,154	$ 1,309	$ 1,404	$ —	$ 308,165
	3.16%	3.44%	3.55%	3.66%	3.65%	—%	3.20%
Borrowed funds	$ 85,539	$ 42,948	$ 46,649	$ 158	$ 168	$ 40,751	$ 216,213
	2.83%	4.19%	3.27%	5.78%	5.78%	4.08%	3.43%

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%

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 for the year ended December 31, 2008 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
February 24, 2009

Deborah J. Jackson
Chief Financial Officer
February 24, 2009

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 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, 2008 included in the accompanying “Management’s Annual Report on Internal Control over Financial Reporting”, and, accordingly, we do not express an opinion thereon.

Wolf + Company, P.C.

Boston, Massachusetts
February 24, 2009

Consolidated Balance Sheets

ASSETS

	December 31, 2008	December 31, 2007
	(In Thousands)	
Cash and due from banks	$ 6,119	$ 8,280
Short-term investments	14,099	25,325
Cash and cash equivalents	20,218	33,605
Certificates of deposit	13,648	5,695
Securities available for sale, at fair value	87,380	77,432
Federal Home Loan Bank stock, at cost	13,373	12,470
Loans, net of allowance for loan losses of $4,530,000 in 2008 and $3,925,000 in 2007	647,255	593,915
Bank-owned life insurance	13,157	12,693
Premises and equipment, net	5,632	3,805
Accrued interest receivable	3,380	3,107
Deferred income tax asset, net	1,362	1,369
Other assets	788	511
	$ 806,193	$ 744,602

LIABILITIES AND STOCKHOLDERS' EQUITY

	2008	2007
Deposits	$ 525,334	$ 441,275
Federal Home Loan Bank advances	214,994	243,738
Mortgage payable	1,219	—
Mortgagors' escrow accounts	1,751	1,611
Accrued interest payable	692	995
Other liabilities	2,378	2,212
Total liabilities	746,368	689,831
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; 2,121,750 and 2,118,550 shares issued and outstanding at December 31, 2008 and 2007, respectively	2,122	2,119
Additional paid-in capital	10,364	10,290
Undivided profits	46,569	42,490
Accumulated other comprehensive income (loss)	770	(128)
Total stockholders' equity	59,825	54,771
	$ 806,193	$ 744,602

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,		
	2008	2007	2006
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 39,484	$ 36,514	$ 32,616
Debt securities	2,167	3,889	3,353
Equity securities	616	899	687
Short-term investments and certificates of deposit	1,042	799	433
Total interest and dividend income	43,309	42,101	37,089
Interest expense:			
Deposits	12,077	14,240	10,291
Federal Home Loan Bank advances	9,832	11,833	10,921
Mortgage payable	71	—	—
Total interest expense	21,980	26,073	21,212
Net interest income	21,329	16,028	15,877
Provision for loan losses	805	322	287
Net interest income, after provision for loan losses	20,524	15,706	15,590
Other income:			
Customer service fees on deposits	987	1,005	1,015
Increase in bank-owned life insurance	464	480	457
Miscellaneous	213	223	221
Total other income	1,664	1,708	1,693
Operating expenses:			
Salaries and employee benefits	7,147	6,408	6,085
Data processing	837	804	738
Occupancy and equipment	1,271	1,148	1,048
Other	2,868	2,227	2,245
Total operating expenses	12,123	10,587	10,116
Income before income taxes	10,065	6,827	7,167
Income tax provision	3,780	2,337	2,527
Net income	$ 6,285	$ 4,490	$ 4,640
Earnings per common share:			
Basic	$ 2.96	$ 2.12	$ 2.19
Diluted	$ 2.96	$ 2.12	$ 2.19

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31, 2008, 2007, and 2006				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
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
Comprehensive income:					
Net income	—	—	6,285	—	6,285
Change in net unrealized gain/loss on securities available for sale, net of tax effect	—	—	—	898	898
Total comprehensive income					7,183
Stock options exercised, after tax effect of $14,000	3	72	—	—	75
Share-based compensation	—	2	—	—	2
Cash dividends declared-common ($1.04 per share)	—	—	(2,206)	—	(2,206)
Balance at December 31, 2008	$ 2,122	$ 10,364	$ 46,569	$ 770	$ 59,825

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31, 2008	2007	2006
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 6,285	$ 4,490	$ 4,640
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	805	322	287
Amortization (accretion) of securities, net	108	(124)	305
Amortization of deferred loan origination costs, net	127	145	18
Share-based compensation expense	2	10	—
Excess tax benefits from share-based compensation	(14)	(10)	(136)
Depreciation and amortization of premises and equipment	487	429	428
Increase in bank-owned life insurance	(464)	(480)	(457)
Deferred income tax benefit	(474)	(189)	(162)
Loss on sale of foreclosed real estate	7	—	—
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(546)	30	(378)
Accrued interest payable and other liabilities	(170)	630	339
Net cash provided by operating activities	6,153	5,253	4,884
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Maturities, prepayments and calls	73,572	76,228	37,935
Purchases	(82,249)	(57,939)	(40,557)
Activity in certificates of deposit:			
Maturities	4,729	4,744	4,003
Purchases	(12,682)	(5,006)	(4,154)
Increase in Federal Home Loan Bank stock	(903)	(429)	(1,326)
Loans originated, net of payments received	(54,973)	(55,278)	(51,283)
Proceeds from sale of foreclosed real estate	694	—	—
Additions to premises and equipment	(1,064)	(328)	(1,015)
Net cash used in investing activities	(72,876)	(38,008)	(56,397)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(concluded)	Years Ended December 31, 2008	2007	2006
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits	84,059	33,085	43,895
Increase in mortgagors' escrow accounts	140	98	42
Proceeds from stock options exercised	61	20	114
Cash dividends paid on common stock	(2,163)	(2,118)	(2,112)
Excess tax benefits from share-based compensation	14	10	136
Net proceeds (repayment) from borrowings with maturities of less than three months	25,000	(50,500)	12,957
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	125,000	289,500	388,000
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(178,744)	(222,838)	(385,197)
Repayment of mortgage payable	(31)	—	—
Net cash provided by financing activities	53,336	47,257	57,835
Net change in cash and cash equivalents	(13,387)	14,502	6,322
Cash and cash equivalents at beginning of year	33,605	19,103	12,781
Cash and cash equivalents at end of year	$ 20,218	$ 33,605	$ 19,103
Supplementary information:			
Interest paid on deposit accounts	$ 12,087	$ 14,197	$ 10,293
Interest paid on borrowed funds	10,196	11,710	10,688
Income taxes paid	4,263	2,194	2,620
Non-cash activities:			
Real estate acquired through foreclosure	$ 701	$ —	$ —
Note payable for purchase of premises	1,250	—	—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 2008, 2007, and 2006

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 consolidated 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 nine 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.

Reclassification

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments which mature within ninety days and are carried at cost.

Certificates of deposit

Certificates of deposit are purchased from FDIC-insured depository institutions in amounts not to exceed $250,000, 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.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost 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.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2008, no impairment has been recognized.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 conditions.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and are not subject to income taxes.

Foreclosed assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

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.

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. The Bank uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

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,		
	2008	**2007**	**2006**
		(In Thousands)	
Average number of common shares outstanding used to calculate basic earnings per share	2,121	2,118	2,116
Effect of dilutive options	1	2	3
Average number of common shares outstanding used to calculate diluted earnings per common share	2,122	2,120	2,119

Options for 5,000 and 2,000 shares were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the years ended December 31, 2008 and 2007, respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive income (loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income (loss).

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

	Years Ended December 31,		
	2008	2007	2006
		(In Thousands)	
Net unrealized holding gains on available-for-sale securities	$ 1,379	$ 865	$ 902
Tax effect	(481)	(302)	(315)
Net-of-tax amount	$ 898	$ 563	$ 587

Advertising costs

Advertising costs are expensed as incurred.

Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("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 was adopted by the Bank on January 1, 2008 and had no impact on the Bank's consolidated financial statements. See Note 9.

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). In February 2008, the FASB issued a Staff Position which delays the effective date of Statement No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Bank adopted this Statement, except for items covered by the Staff Position, as of January 1, 2008 and the adoption did not have a material impact on the Bank's consolidated financial statements. See Note 13.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent accounting pronouncements (concluded)

In October, 2008, the FASB issued FASB Staff Position No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP 157-3”) which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective immediately upon issuance, and includes prior periods for which financial statements have not been issued. The Bank applied the guidance contained in FSP 157-3 in determining fair values at December 31, 2008, and it did not have a material impact on the Bank’s consolidated financial statements.

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 was adopted by the Bank on January 1, 2008 and did not have a material impact on the Bank’s consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (revised), “Business Combinations” which 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 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 and to recognize contingent consideration at the acquisition date. 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.

In March of 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.” This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This Statement is effective for fiscal years and interim periods beginning after November 15, 2008 and is not expected to have a material impact on the Bank’s consolidated financial statements.

Notes to Consolidated Financial Statements

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2008 and 2007, cash and due from banks included $300,000 and $321,000, 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, 2008				
Debt securities:				
Government-sponsored enterprises - FHLMC	$ 10,189	$ 218	$ —	$ 10,407
Government-sponsored enterprises - FNMA	24,313	196	—	24,486
Government-sponsored enterprises - Other	40,177	830	—	41,030
Mortgage-backed - FHLMC	3,763	—	(34)	3,729
Mortgage-backed - FNMA	4,755	5	(20)	4,740
Total debt securities	83,197	1,249	(54)	84,392
Equity securities	3,000	—	(12)	2,988
Total securities available for sale	$ 86,197	$ 1,249	$ (66)	$ 87,380
December 31, 2007				
Debt securities:				
Government-sponsored enterprises - FHLMC	$ 12,721	$ 18	$ (7)	$ 12,732
Government-sponsored enterprises - FNMA	11,631	7	(10)	11,628
Government-sponsored enterprises - Other	39,765	65	(17)	39,813
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

At December 31, 2008 and 2007, debt securities with a fair value of $84,392,000 and $72,941,000, 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, 2008 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	$ 10,889	$ 11,016
Over 1 year to 5 years	63,790	64,907
	74,679	75,923
Mortgage-backed securities:		
Over 1 year to 5 years	8,183	8,139
Over 5 to 10 years	193	190
Over 10 years	142	140
	8,518	8,469
Total debt securities	$ 83,197	$ 84,392

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007, 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, 2008				
Debt securities:				
Government-sponsored enterprises	$ —	$ —	$ —	$ —
Mortgage-backed - FHLMC	—	—	34	3,729
Mortgage-backed - FNMA	—	—	20	2,973
Total temporarily impaired debt securities	—	—	54	6,702
Equity securities	—	—	12	2,988
Total temporarily impaired securities	$ —	$ —	$ 66	$ 9,690

At December 31, 2008, ten debt securities have unrealized losses with aggregate depreciation of less than 1% from the Bank's amortized cost basis and one equity security has an unrealized loss with depreciation of less than 1% from the Bank's amortized cost basis. These unrealized losses relate to 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 foreseeable 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, 2007				
Debt securities:				
Government-sponsored enterprises - FHLMC	$ —	$ —	$ 7	$ 1,008
Government-sponsored enterprises - FNMA	—	—	10	2,010
Government-sponsored enterprises - Other	6	7,794	11	3,990
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

4. LOANS

A summary of the balances of loans follows:

	December 31,	
	2008	2007
	(In Thousands)	
Mortgage loans:		
Residential	$ 271,473	$ 248,385
Commercial	317,162	299,739
Construction	33,315	23,464
Equity lines of credit	20,591	18,136
Second mortgages	7,802	6,802
Total mortgage loans	650,343	596,526
Other loans:		
Personal installment	357	262
Commercial	198	131
Revolving credit	244	362
Total other loans	799	755
Total loans	651,142	597,281
Allowance for loan losses	(4,530)	(3,925)
Net deferred loan origination costs	643	559
Loans, net	$ 647,255	$ 593,915

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 $750,000, $859,000, and $939,000 at December 31, 2008, 2007 and 2006, 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,		
	2008	2007	2006
		(In Thousands)	
Balance at beginning of year	$ 3,925	$ 3,603	$ 3,316
Provision for loan losses	805	322	287
Loans charged off	(200)	—	—
Balance at end of year	$ 4,530	$ 3,925	$ 3,603

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

	December 31,	
	2008	2007
	(In Thousands)	
Impaired loans without a valuation allowance	$ 6,754	$ 1,536
Impaired loans with a valuation allowance	331	—
Total impaired loans	$ 7,085	$ 1,536
Valuation allowance related to impaired loans	$ 31	$ —
Non-accrual loans (including impaired loans)	$ 7,085	$ 1,536
Loans past due 90 days or more and still accruing	$ —	$ —

	Years Ended December 31,		
	2008	2007	2006
		(In Thousands)	
Average investment in impaired loans	$ 5,735	$ 1,353	$ 578
Interest income recognized on impaired loans	$ 127	$ 177	$ 93
Interest income recognized on a cash basis on impaired loans	$ 127	$ 177	$ 93

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, 2008	December 31, 2007	Estimated Useful Life
	(In Thousands)		
Premises:			
Land	$ 1,608	$ 870	N/A
Buildings	5,492	4,347	3-65 years
Leasehold improvements	324	324	10 years
Equipment	3,304	2,873	3-25 years
	10,728	8,414	
Less accumulated depreciation and amortization	(5,096)	(4,609)	
	$ 5,632	$ 3,805	

Depreciation and amortization expense for the years ended December 31, 2008, 2007, and 2006 amounted to $487,000, $429,000 and $428,000, respectively.

6. DEPOSITS

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

	December 31, 2008	December 31, 2007
	(In Thousands)	
Regular	$ 42,576	$ 39,958
Money market deposits	108,729	62,773
NOW	24,504	25,240
Demand	41,360	46,025
Total non-certificate accounts	217,169	173,996
Term certificates less than $100,000	159,144	144,271
Term certificates of $100,000 or more	149,021	123,008
Total certificate accounts	308,165	267,279
Total deposits	$ 525,334	$ 441,275

The maturity distribution of term certificates is as follows:

	December 31, 2008		December 31, 2007	
Maturing During the Year Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
2008	$ —	—%	$ 262,437	4.90%
2009	273,852	3.16	3,182	3.84
2010	23,446	3.44	1,310	3.94
2011	8,154	3.55	200	3.94
2012	1,309	3.66	150	3.94
2013	1,404	3.65	—	—
	$ 308,165	3.20%	$ 267,279	4.88%

DEPOSITS (concluded)

A summary of interest expense on deposits is as follows:

	Years Ended December 31,		
	2008	2007	2006
		(In Thousands)	
Regular	$ 104	$ 107	$ 119
Money market deposits	1,749	1,243	1,085
NOW	24	25	23
Term certificates	10,200	12,865	9,064
	$ 12,077	$ 14,240	$ 10,291

7. BORROWED FUNDS

Federal Home Loan Bank Advances

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

	December 31,			
	2008		2007	
Maturing During the Year Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
		(Dollars in Thousands)		
2008	$ —	—%	$ 152,912	4.71%
2009	84,500	2.82	30,000	4.83
2010(1)	43,713	4.16	20,453	5.24
2011	46,500	3.26	—	—
2012	—	—	—	—
2013	—	—	—	—
Thereafter(2)	40,281	4.05	40,373	4.05
	$ 214,994	3.42%	$ 243,738	4.66%

(1) At December 31, 2008 includes amortizing advance of $1,213,000 due in June, 2010 , requiring monthly principal and interest of $65,000.
(2) At December 31, 2008 includes amortizing advance of $1,281,000 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 $79.5 million at December 31, 2008, can be called by the FHLB after an initial specified term.

The Bank also has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under this line are limited to $4,633,000 at December 31, 2008. No amounts were drawn on the line of credit as of December 31, 2008 and 2007.

Mortgage Payable

The balance represents a loan payable by the Bank for the purchase from an unrelated party of property which was used for a new branch office. The note is secured by the real estate and bears interest at a fixed rate of 6.00%. Principal and interest is payable in 240 monthly installments. As of December 31, 2008, future principal payments amounted to $35,000, $37,000, $40,000, $42,000, $45,000 and $1,020,000, for the years ending December 31, 2009, 2010, 2011, 2012, 2013 and thereafter, respectively.

Notes to Consolidated Financial Statements

8. INCOME TAXES

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

	Years Ended December 31,		
	2008	2007	2006
		(In Thousands)	
Current tax provision:			
Federal	$ 3,407	$ 2,217	$ 2,287
State	847	309	402
	4,254	2,526	2,689
Deferred tax benefit:			
Federal	(408)	(145)	(126)
State	(66)	(44)	(36)
	(474)	(189)	(162)
Total provision	$ 3,780	$ 2,337	$ 2,527

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,		
	2008	2007	2006
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	5.1	2.6	3.4
Bank-owned life insurance	(1.5)	(2.4)	(2.1)
Effective tax rate	37.6%	34.2%	35.3%

INCOME TAXES (concluded)

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

	December 31, 2008	December 31, 2007
	(In Thousands)	
Deferred tax assets:		
Federal	$ 1,692	$ 1,311
State	492	433
	2,184	1,744
Deferred tax liabilities:		
Federal	(722)	(287)
State	(100)	(88)
	(822)	(375)
Net deferred tax asset	$ 1,362	$ 1,369

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

	December 31, 2008	December 31, 2007
	(In Thousands)	
Allowance for loan losses	$ 1,809	$ 1,605
Fees on loans	(373)	(343)
Net unrealized (gain) loss on securities available for sale	(413)	68
Non-accrual interest	168	33
Employee benefit plans	164	37
Other	7	(31)
Net deferred tax asset	$ 1,362	$ 1,369

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

	Years Ended December 31, 2008	2007	2006
		(In Thousands)	
Balance at beginning of year	$ 1,369	$ 1,482	$ 1,635
Deferred tax benefit	474	189	162
Deferred tax effects of net unrealized(gain) loss on securities available for sale	(481)	(302)	(315)
Balance at end of year	$ 1,362	$ 1,369	$ 1,482

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 $1,512,000 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, 2008 and 2007, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2008	2007
	(In Thousands)	
Unused lines of credit	$ 41,041	$ 37,084
Commitments to originate loans:		
Commercial mortgages	8,515	13,253
Residential mortgages	3,505	2,605
Unadvanced funds on construction loans	6,177	11,336
Standby letters of credit	135	135

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 non-cancelable lease agreements in effect at December 31, 2008, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending December 31,	Amount
	(In Thousands)
2009	$ 167
2010	173
2011	178
2012	183
2013	189
Thereafter	293
Total	$ 1,183

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, 2008, 2007, and 2006 amounted to $167,000, $161,000 and $135,000, respectively.

COMMITMENTS AND CONTINGENCIES (concluded)

Employment agreements

The Bank has entered into employment agreements with certain senior executives. The original terms of the agreements are for three or two years and can generally be extended for one-year periods. The agreements generally provide for certain lump sum severance payments under certain circumstances, within a one-year period following a "change in control," as defined in the agreements. Effective December 27, 2007, two of these agreements were amended to provide for certain death benefits, which will be accrued ratably over the employees' remaining service period. For the year ended December 31, 2008, $263,000 was expensed and accrued for these death benefits.

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 and effective December 27, 2007, these split-dollar agreements were terminated.

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. FDIC-insured depository institutions are prohibited from paying dividends or making capital distributions that would cause the institution to fail to meet minimum capital requirements or if it is already undercapitalized. 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, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, 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, 2008 and 2007 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, 2008						
Total Capital to Risk-Weighted Assets	$ 63,573	12.10%	$ 42,026	8.0%	$ 52,532	10.0%
Tier 1 Capital to Risk-Weighted Assets	59,043	11.24	21,013	4.0	31,519	6.0
Tier 1 Capital to Average Assets	59,043	7.39	31,960	4.0	39,950	5.0
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

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, 2008, there were 9,000 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,					
	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	9,200	$23.16	8,500	$19.07	20,250	$13.61
Granted	1,500	30.00	2,000	35.25	—	—
Exercised	(3,200)	18.98	(1,300)	15.00	(11,750)	9.66
Outstanding at end of year	7,500	$26.31	9,200	$23.16	8,500	$19.07
Options exercisable at end of year	7,500	$26.31	9,200	$23.16	8,500	$19.07

As of December 31, 2008, 2007 and 2006, the aggregate intrinsic value of options outstanding amounted to $25,000, $71,000 and $129,000, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006, was $34,000, $25,000 and $333,000, respectively.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2008 and 2007 was $2,000 and $10,000, respectively.

For the years ended December 31, 2008 and 2007, share-based compensation expense applicable to the plan amounted to $2,000 and $10,000 and the recognized tax benefit related to this expense amounted to $1,000 and $3,000, respectively.

Options outstanding consist of the following:

	December 31,			
	2008		2007	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$35.25	2,000	8	2,000	9
30.00	1,500	10	—	—
29.54	1,500	3	1,500	4
23.50	—	—	1,500	1
15.00	2,500	1	4,200	2
	7,500		9,200	

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:

	2008	2007
Expected dividends	3.3%	2.8%
Expected term	5 years	5 years
Expected volatility	9%	13%
Risk-free interest rate	3.06%	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, 2008, 2007 and 2006, expense attributable to the Plan amounted to $241,000, $226,000 and $219,000, 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 $13,157,000 and $12,693,000 at December 31, 2008 and 2007, 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 $611,000, $581,000 and $553,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

13. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB Statement No. 157, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

Notes to Consolidated Financial Statements

FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Fair Value Hierarchy

In accordance with SFAS No. 157, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. For example, Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or mortgage loans held for sale, for which the fair value is based on what the securitization market is currently offering for mortgage loans with similar characteristics.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain asset-backed securities, certain private equity investments, residential mortgage servicing rights, and long-term derivative contracts.

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, interest-bearing deposits and short-term investments approximate fair values based on the short-term nature of the assets.

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

Securities available for sale: The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market and generally include marketable equity securities. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include government-sponsored enterprise obligations, FHLMC and FNMA bonds, corporate bonds and other securities.

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 analysis, 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 analysis 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 analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Mortgage Payable: The fair value of the Bank's mortgage payable is estimated using discounted cash flow analysis based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Mortgagors' escrow accounts: The carrying amounts of mortgagors' escrow accounts approximate fair value.

FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Fair Value Hierarchy (concluded)

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, 2008 and 2007, the fair value of commitments outstanding is not significant since fees charged are not material.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at December 31, 2008 are summarized below. There are no liabilities measured at fair value on a recurring basis at December 31, 2008.

Assets	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
Securities available for sale	$ 2,988	$84,392	$ —	$87,380

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required from time to time, to measure certain other financial assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting, or write-downs of individual assets. The following table summarizes the fair value of the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2008.

	December 31, 2008			Year Ended December 31, 2008
	Level 1	Level 2	Level 3	Total Gains/(Losses)
		(In Thousands)		(In Thousands)
Impaired loans	$ —	$ 300	$ —	$ (31)

Losses applicable to impaired loans are estimated using the appraised value of the underlying collateral, discounting factors and other factors. The loss is not recorded directly as an adjustment to current earnings or comprehensive income, but rather as a component in determining the overall adequacy of the allowance for loan losses. Adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses.

Summary of Fair Values of Financial Instruments

As required under FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," the estimated fair values, and related carrying or notional amounts, of the Bank's financial instruments are as follows. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Bank.

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In Thousands)		
Financial assets:				
Cash and cash equivalents	$ 20,218	$ 20,218	$ 33,605	$ 33,605
Certificates of deposit	13,648	13,785	5,695	5,690
Securities available for sale	87,380	87,380	77,432	77,432
Federal Home Loan Bank stock	13,373	13,373	12,470	12,470
Loans, net	647,255	652,664	593,915	592,005
Accrued interest receivable	3,380	3,380	3,107	3,107
Financial liabilities:				
Deposits	525,334	527,458	441,275	441,661
Federal Home Loan Bank advances	214,994	222,583	243,738	245,921
Mortgage payable	1,219	1,220	—	—
Mortgagors' escrow accounts	1,751	1,751	1,611	1,611
Accrued interest payable	692	692	995	995

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2008 and 2007 are as follows:

	Years Ended December 31,							
	2008				2007			
	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	$ 10,994	$ 10,989	$ 10,434	$ 10,892	$ 11,118	$ 10,688	$ 10,335	$ 9,960
Interest expense	5,009	5,181	5,459	6,331	6,754	6,687	6,389	6,243
Net interest income	5,985	5,808	4,975	4,561	4,364	4,001	3,946	3,717
Provision for loan losses	293	244	200	68	99	68	85	70
Net interest income, after provision for loan losses	5,692	5,564	4,775	4,493	4,265	3,933	3,861	3,647
Other income	433	419	410	402	463	415	413	417
Operating expenses	3,240	3,027	2,962	2,894	2,649	2,648	2,634	2,656
Income before income taxes	2,885	2,956	2,223	2,001	2,079	1,700	1,640	1,408
Income tax provision	1,091	1,168	807	714	748	576	550	463
Net income	$ 1,794	$ 1,788	$ 1,416	$ 1,287	$ 1,331	$ 1,124	$ 1,090	$ 945
Earnings per common share:								
Basic	$ 0.85	$ 0.84	$ 0.67	$ 0.61	$ 0.63	$ 0.53	$ 0.51	$ 0.45
Diluted	$ 0.85	$ 0.84	$ 0.67	$ 0.61	$ 0.63	$ 0.53	$ 0.51	$ 0.45
Cash dividends declared per common share	$ 0.43(1)	$ 0.21	$ 0.20	$ 0.20	$ 0.41(2)	$ 0.20	$ 0.20	$ 0.20

(1) Includes a special dividend of $0.22 per common share declared on November 20, 2008.
(2) Includes a special dividend of $0.21 per common share declared on November 21, 2007.

Stock Performance Graph

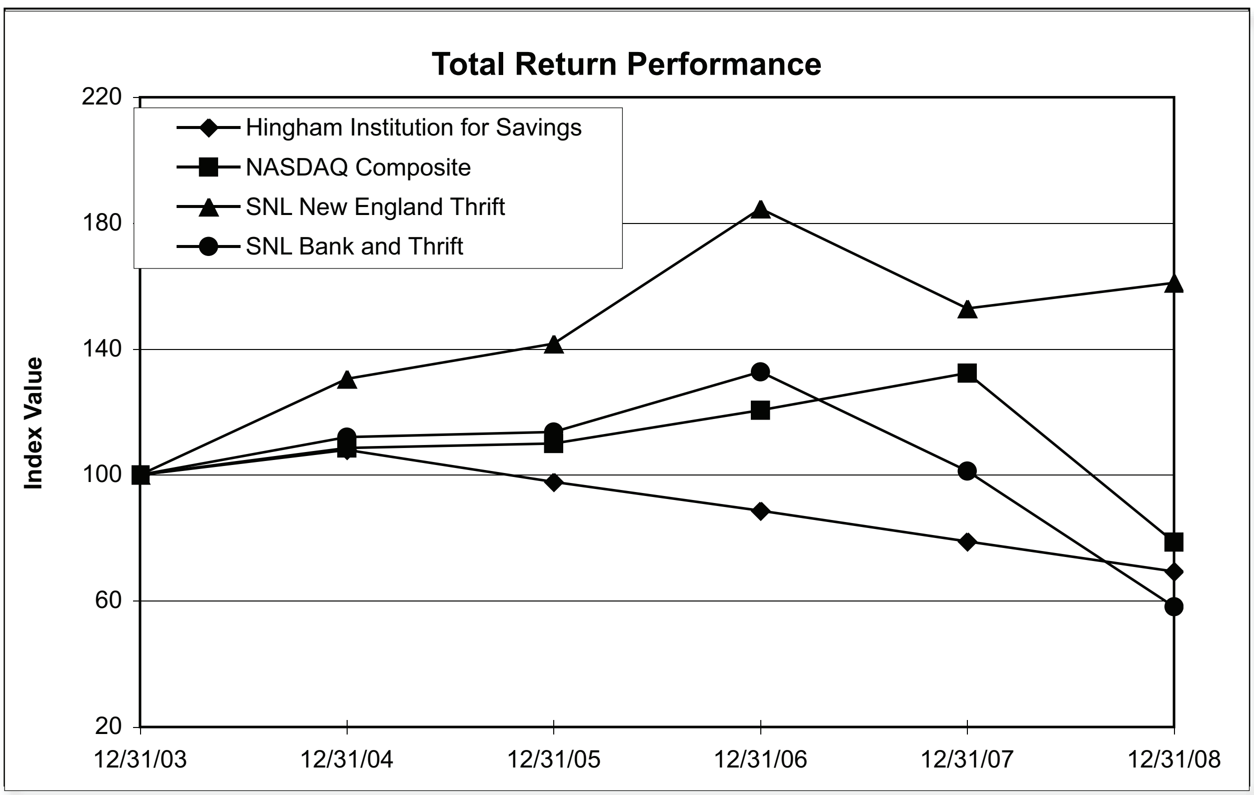
The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total return of the Bank's Common Stock since December 31, 2003 through December 31, 2008. For comparative purposes, changes in the cumulative total return on three indices of publicly traded stocks (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, 2003 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	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Hingham Institution for Savings	100.00	108.02	97.79	88.67	79.03	69.30
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL New England Thrift Index	100.00	130.61	141.65	184.59	152.96	160.98
SNL Bank and Thrift Index	100.00	111.98	113.74	132.90	101.34	58.28

Stockholder Information

Hingham Institution for Savings
55 Main Street
Hingham, MA 02043
(781) 749-2200

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

Investor Inquiries
William M. Donovan, Jr.
Vice President - Administration

Transfer Agent and Registrar
BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310
(800) 288-9541

Online Registered Shareholder Inquiries
www.bnymellon.com/shareowner/isd

Stockholder Inquiries
BNY Mellon Shareowner Services
For Hingham Institution for Savings
P.O. Box 358015
Pittsburgh, PA 15252-8015
(800) 288-9541

Independent Registered Public Accounting Firm
Wolf & Company, P.C.
99 High Street
Boston, MA 02110

Special Counsel
WilmerHale
60 State Street
Boston, MA 02109

Form 10-K
A copy of the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, 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, 2008, there were approximately 402 stockholders of record, holding 925,557 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
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
2008		
First Quarter	32.99	28.05
Second Quarter	31.51	28.47
Third Quarter	31.49	26.72
Fourth Quarter	30.00	24.75

The closing sale price of the Bank's common stock at December 31, 2008 was $25.08 per share.


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
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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