Hingham Institution for Savings

2011 Annual Report

Throughout our 177 year history, the Bank has met many challenges; holding constant and unwavering in the face of economic uncertainty, social struggle, and national crisis. The Bank's founding fathers set policy and forged relationships, constantly promoting the well-being of our customers and communities. Their leadership was thoughtful and proactive. They anticipated and met the needs of a market they knew well. Through the ensuing generations, we have served our customers with the same integrity and constancy.

In 2011 Hingham Savings completed a major expansion and renovation of our administrative offices – a three-story, 14,350-square-foot addition that unites our buildings in Hingham Square and represents the largest capital facility investment in our history. With our Administration in one building, we are now afforded increased opportunity for managing our growth.

We also continued to strengthen and judiciously expand our branch network. We opened a new branch on Boston's Beacon Hill, our second in the Boston market. By all accounts it has been an extraordinary success, with a solid base of deposits, loans and business banking.

We continue to receive honors and accolades on both local and national fronts: Keefe, Bruyette & Woods Honor Roll for the Top 40 Banks in the country, inclusion in 2011 Sandler O'Neill + Partners Bank and Thrift Sm-All Stars top 25 banks, and top rankings by SNL on its annual performance reviews over the past several years. We stand out from our local and national peers, and are attracting wonderful clients who are leaving the big banks in search of stability, integrity, and fairness.

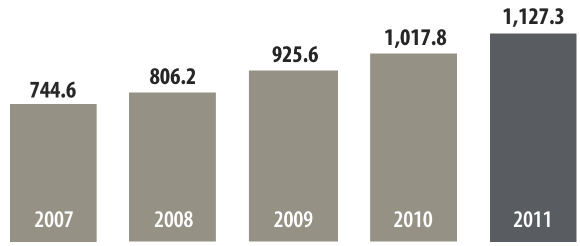
We are both honored and humbled by the clients highlighted in this Annual Report.

A food enthusiast from Dorchester overcomes the odds, rising to fame as a successful chef and restaurateur. A second generation Russian immigrant builds a local real estate empire with savings from his Central Square hardware store. A business owner in South Weymouth brings loyalty and community connection to his fellow business owners. An American Dream is realized when a young Irish businessman is able to establish a home on the South Shore to raise his family, and also attains his United States citizenship. They are each resilient, passionate, and driven by the connections they share with family and community. Hingham Savings has earned their trust, and will work hard to keep it.

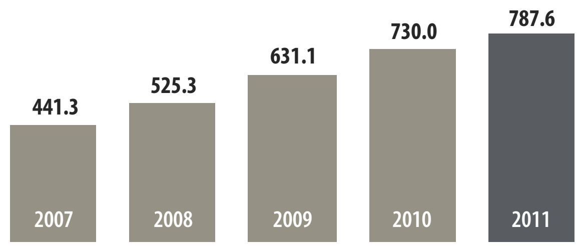
We are moving forward with certainty and purpose, excited for what 2012 will bring.

Financial Highlights

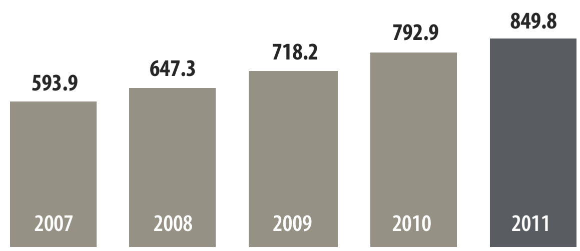
Assets ($ in millions)



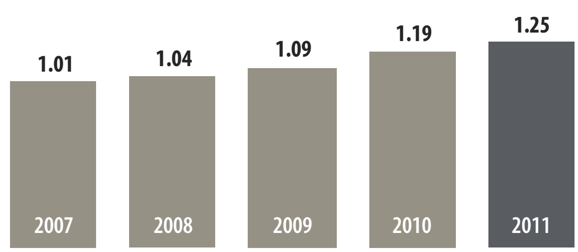
Deposits ($ in millions)



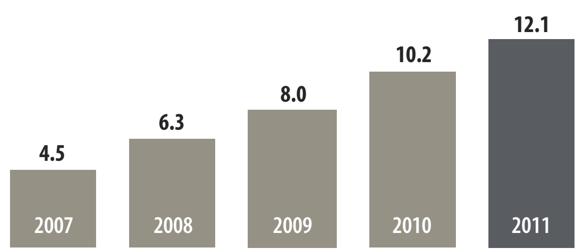
Loans, net ($ in millions)



Dividends Declared ($ per share)



Net Income ($ in millions)



From the President

Dear Shareholders

2011 has been another outstanding year for Hingham Savings. Over the past several years, despite the challenging business environment, we have developed a track record for delivering consistently outstanding results. Our Bank has continued its strong growth trends in both loans and deposits. Our earnings also experienced significant growth and remain among the highest in our industry.

In 2011, deposits increased by $58 million, or 8%, over 2010. Net loans increased by 7%, and total assets increased by 11% from December 31, 2010 to December 31, 2011. Our net income increased by 18% over that of 2010. Net income for the year ended December 31, 2011 was $12,062,000, or $5.68 per share (basic) and $5.67 per share (diluted), as compared to $10,228,000, or $4.81 per share (basic and diluted) in 2010. Total assets as of December 31, 2011 were $1,127,276,000, as compared to $1,017,845,000 at December 31, 2010.

These positive results allowed our Board to approve total annual cash dividends of $ 1.25 per share in 2011, representing a 5% increase over the prior year. This represents the 17th consecutive year of increasing cash dividends declared per share. This remarkable performance confirms our belief that a prudently operated community bank can profitably serve both its customers and its stockholders.

Stockholders' equity increased from $72,736,000 at December 31, 2010 to $82,265,000 at December 31, 2011 with a concomitant increase in book value per share from $34.24 to $38.70 per share. Our return on equity increased to 15.32%, and the return on average assets was 1.14%.

We are committed to the conservative strategies and practices that made the 2011 results possible. While no bank is completely immune to the challenges presented by the tumult of the real estate marketplace, our asset quality has remained quite stable. Our goal remains to vigorously manage asset quality and protect our earnings.

The Big Banks stand accused of unethical practices, as well as needlessly complicated deposit products and cleverly disguised fees. There continues to be a flight to safety, simplicity and integrity. In the communities we serve, Hingham Savings has become the bank of choice, and we are fortunate to welcome new customers of all sizes. Our strong capital base continues to grow, and allows us to serve larger customers on both the deposit and loan sides of our business.

We are proud of the consistency of our earnings, and the excellent quality of our credit portfolio; both are directly related to our passionate commitment to our customer relationships. As we extend our reach, we are also continuing to enhance our technological capabilities so that we may provide the unsurpassed customer service that has become a Hingham Savings hallmark.

I am grateful to our customers, shareholders, staff and directors for another wonderful year, and look forward to our continued success in 2012.

Very truly yours,

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

Hingham Moves to Beacon Hill

In October of 2011 Hingham Savings opened a new branch on Beacon Hill, our 10th banking office and second Boston branch location. Following on the success of our South End branch which opened in 2006, we felt that the Beacon Hill community was ready for a bank that could provide quality service and products on a neighborhood scale. Our new branch has allowed us to deepen our connections with Beacon Hill merchants and residents, many of whom were already customers.

The Beacon Hill community has welcomed us from the day we opened our doors. We are pleased to report a record performance that has far surpassed our expectations. We are encouraged by these extraordinary results and the warm welcome. This confirms our belief that the Beacon Hill neighborhood appreciates the service, rates, flexibility and ease of doing business with a local community bank.

We have a deep respect for the history and beauty of Beacon Hill, and appreciate the many visitors who have complimented our renovation of an historic storefront. We also recognize the stewardship of the many neighborhood organizations such as the Nichols House Museum and the Beacon Hill Civic Association that work to make the Hill such a special place, and we are fully committed to their preservation and support.

Shown here: Flavia Cigliano, Executive Director, Nichols House Museum with Sharon Rice, Assistant Vice President & Beacon Hill Branch Manager

Alma Nove

Chef Paul Wahlberg came from humble beginnings in Dorchester. Sharing meals with his eight siblings was at the heart of what helped keep his family connected in challenging times. He tells us, "When you grow up the way we did, it's hard to dream." Yet, dream he did. Paul has been preparing great food since the age of 16, developing his culinary expertise in noted Boston area restaurants.

In the summer of 2010, Paul opened Alma Nove at the Hingham Shipyard, together with family friend Ed St. Croix and celebrity brothers, actor Mark Wahlberg and musician/actor Donnie Wahlberg. Named in honor of Wahlberg's mother Alma, this premiere restaurant is a Hingham Harbor favorite. From its opening day, the restaurant has garnered rave reviews: a Best of Boston award from Boston Magazine in 2011, Boston Globe's 2011 Best of The New, and Chef Paul has also been featured in several area television and radio programs. Building on the rapid success of Alma Nove, Paul and his brothers opened a second restaurant in 2011, Wahlburgers, directly across the street. This year, we look forward to the opening of their third Shipyard restaurant, Pizzeria Gradi.

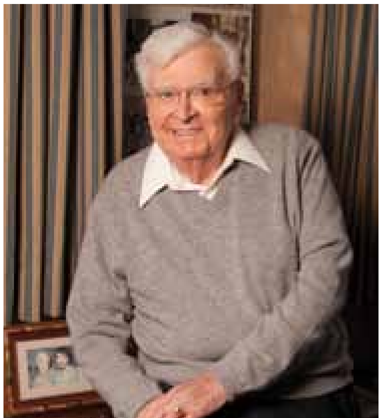
Paul is a strong community presence in Hingham, often participating in local fundraisers. His long relationship with Hingham Savings began over ten years ago when he met President Bob Gaughen and Branch Manager, Teresa Tseng. Paul values our high standards, as well as the financial strength and stability of Hingham Savings, and he always appreciates our warm welcome. Our relationship has grown to include his personal accounts as well as his business banking. Our products and tailored business solutions have been designed to keep our busy customer's banking simple, and we are proud to be a part of the continued success of the Wahlberg family.

Teresa Tseng
Assistant Vice President
& Branch Manager
Hingham Square Branch

First Cambridge Realty

Founded in 1966 by George Rothman, First Cambridge Realty is a family-owned business, and one of the largest family-owned real estate management firms in Cambridge, with over 650 residential units in prime areas of Cambridge, Brookline and Newton.

George's family emigrated from Kiev, Russia during WWI, settling in Cambridge. Challenged by language and job skills, they worked long hours as peddlers and re-sellers, and saved their money. Eventually, George's family was able to open Central Square Hardware in 1946. George's brother once said, "They wanted something better for their sons so they didn't have to do what they did. Everything is based on that story."



George Rothman
Founder, First Cambridge Realty

George took over the family business, and at the same time he began to make real estate investments in the area. Relying on his intuition and resourcefulness, George developed a sizeable real estate portfolio and founded First Cambridge Realty.

Today, George's son, Stuart Rothman, President, and son-in-law Lewis Robert, Vice President of Operations, are also committed to providing quality housing to the region. Like George, they are closely involved in the daily operations of the enterprise.

William G. Bowers, Jr.
Vice President
Commercial Lending

The Rothmans were referred to Bill Bowers, Vice President & Commercial Loan Officer at Hingham Savings, by a business colleague when they were considering a property acquisition in Brookline. They were impressed with our competitive rates and responsiveness, and Hingham Savings has continued to serve their needs. The relationship has grown to include additional commercial real estate loans in Cambridge and Brookline, as well as deposit accounts.

We are honored to have earned the trust of the Rothman family. Our Commercial Lending team has a long history in the region, with over 100 years of combined experience. As portfolio lenders, we offer a flexible product line, competitive rates, and we are able to service the changing face of the real estate market with quick response and local decision-making. Our customers also appreciate our streamlined loan processing and in-house servicing of their accounts.

McBride & Lucius

John McBride is a Managing Partner at McBride & Lucius, a multinational company specializing in business performance and organizational culture. He is a published author and has contributed articles to the Wall Street Journal, Financial Times and Boston Business Journal. John coaches business leaders from high profile companies from around the world in a wide range of industries. At the heart of his work is something he calls "the 360-degree" approach, which allows executives and corporate teams a realistic view of strengths and improvement opportunities.

When John visited Cohasset with a client one day, he decided to move his young family here from overseas. Unfortunately, the Big Bank with whom John had been doing his business banking for several years would not grant him a home loan because he was an Irish national without established local credit. A colleague referred him to Mike Sinclair, Vice President of Retail Lending at Hingham Savings, and the Bank was able to work with the McBrides on financing their first home in the United States. Our relationship through the years has grown to include John's business accounts as well as personal banking.

Mike Sinclair
Vice President
Retail Lending

As a portfolio lender, we are able to focus on the whole person, not just the numbers on a page. We live and work within the communities we serve, and bring our own 360-degree view to our client relationships. Mike and his team of loan officers are seasoned professionals who are skilled at bringing a deeper understanding to our client relationships, allowing us to make wise lending decisions that best serve our clients. Our customers know they can count on local decisions, flexible loan products and our signature service. As all of our loans are serviced in house, our customers really appreciate being able to reach a courteous, knowledgeable professional whenever they call Hingham Savings.

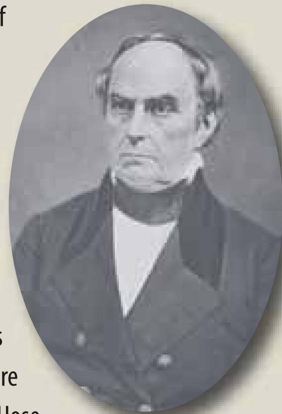
W. G. Bridges & Sons

Frank Douglas grew up working in his family's insurance business in Charlestown, where he worked for 25 years while he and his wife lived here in South Weymouth. However, he was not fond of his long Boston commute. He was thrilled when he had the opportunity to buy the W.G. Bridges & Sons insurance business in 2001, which offers a wide range of personal and commercial insurance products and is located right in South Weymouth. Since then he has been a solid presence in Columbian Square and an active member of the Columbian Square Business Association. He tells us, "Success is found in the business of taking care of our customers and knowing who they are."

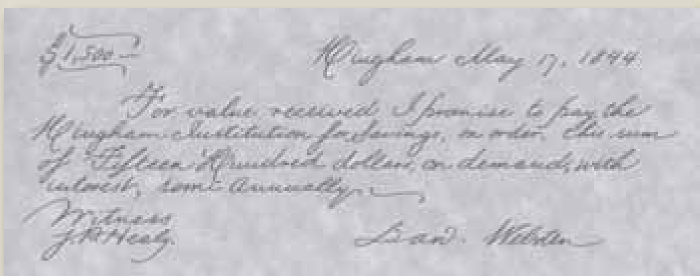
Frank counts on Marge Santacroce, Branch Manager at our South Weymouth Branch, for his business accounts as well as his personal banking and home loan. We are honored that he has become one of Hingham Savings' most loyal brand ambassadors. We are proud to support our local businesses, and we recognize their vital role in ensuring the vibrancy of our neighborhoods. Our strong relationships provide us with active feedback on how we can continue to best serve our customers. Our business customers appreciate our straightforward line of business products and flexible services. We can accommodate a wide range of enterprises, including office professionals, retail establishments and restaurants as well as municipalities. While many banks are raising service fees, Hingham Savings continues to bring our local businesses Free Business Checking, wonderful employee benefit programs, and generous business savings products.

Marge Santacroce
Assistant Vice President
& Branch Manager
South Weymouth Branch

A Most Distinguished Customer



Daniel Webster was Secretary of State in the Cabinet of President John Tyler, when in May of 1844 he entered the Hingham Institution for Savings to apply for a loan. Mr. Webster, attired in his signature blue tail coat with brass buttons and spit-shined black shoes, could hardly have been impressed --- we had been in business for just 10 years, and our bank was little more than a second floor office in the Isaac Little Hose Company building. Yet, he knew he had come to the right place, for in spite of our humble surroundings, Hingham Savings had already garnered a reputation for being a fair and professional community bank.



$1,500 —

Hingham May 17, 1844

For value received I promise to pay the Hingham Institution for Savings, on order, the sum of Fifteen Hundred dollars, on demand, with interest, semi-annually.

Witness
J.R. Healy

Dan. Webster

The $1,500 loan was to build a new library wing, designed by his daughter Julia Webster Appleton, for his estate in Marshfield. In 1845, a famous guest noted how the funds were put to good use. The library, "in a splendid new wing," was apparently as impressive as one would expect. Throughout his life, Webster was an active presence at Marshfield. In addition to his love for hunting and fishing, he formed strong relationships with the local farmers, overseeing much of the work on his 1,800-acre property himself. He also greatly enjoyed entertaining visitors there, such as British Lord Alexander Ashburton and James Audubon, along with many of his fellow statesmen.

An impassioned orator and Boston lawyer, Webster divided his time between Washington, Boston, and his beloved estate in Marshfield. He lived in several places on Beacon Hill, including 57 Mount Vernon Street, one of a group of townhouses owned by his lifelong colleague and friend, Jonathan Mason of the Mount Vernon Proprietors. In fact, his home was next door to what is now known as the Nichols House Museum. These were exciting times, just one generation after the founding of the United States. The country was new and growing, and our Bank was growing with it.

In the 167 years since doing business with our illustrious client, Hingham Savings has grown a great deal. We have a strong network of beautiful banking offices, and a national reputation as a top performing bank. Our South Shore-Boston connection is as strong as ever, and we have never forgotten the value of treating people well. We believe that Mr. Webster would still recognize and appreciate the New England qualities of independence, self-reliance and simplicity that remain the hallmarks of our Bank.

If Only Walls Could Talk

Nichols House Museum is a Federal Period townhouse, designed by Charles Bulfinch in 1804 for Jonathan Mason, a Boston businessman, real estate developer and statesman for Massachusetts. Located at 55 Mount Vernon Street, it is one of four connected townhouses that Mason had constructed on Beacon Hill.

The Nichols family acquired the home in 1885. Their daughter, Rose Standish Nichols, was a noted landscape designer, writer, suffragette and founder of the Women's International League for Peace and Freedom. Rose lived in the home at an especially vibrant period in Boston history, when Beacon Hill was home to many writers, artists, musicians and social activists. According to her wishes, Nichols House has been preserved as a museum so that visitors may have an opportunity to see life from the point of view of a 19th century Bostonian.

Nichols House is now part of the Beacon Hill National Historic Landmark District. Open year-round, the Nichols House Museum welcomes 5,000 guests annually for guided tours of the home and Rose Standish Nichols' collections from her world travels.

We are proud to work with Executive Director Flavia Cigliano to support the efforts of the Nichols House Museum to keep Beacon Hill's treasured past alive for the education of its neighbors and visitors. These uncertain economic times can be challenging for nonprofit concerns. Hingham Savings recognizes the importance of helping our local museums and cultural institutions to sustain and preserve all that encompasses the American spirit and its cherished history.

Senior Officers

Seated left to right:

Shawn T. Sullivan	Robert H. Gaughen, Jr.	William M. Donovan Jr.	Thomas I. Chew
Vice President Commercial Lending	President & Chief Executive Officer	Vice President Administration	Vice President Branch Operations

Standing left to right:

Robert A. Bogart	Peter R. Smollett	Michael J. Sinclair	Alexander L. Boyd	William G. Bowers, Jr.
Vice President & Treasurer	Vice President Commercial Lending	Vice President Retail Lending	Vice President Commercial Lending	Vice President Commercial Lending

Board of Directors


Howard M. Berger, Esq.


Michael J. Desmond


Marion J. Fahey


Ronald D. Falcione


Kevin W. Gaughen, Esq.


Robert H. Gaughen, Jr., Esq.


Julio R. Hernando, Esq.


Brian T. Kenner, Esq.


Robert A. Lane, Esq.


Scott L. Moser


Stacey M. Page


Edward L. Sparda


Donald M. Tardiff M.D.


Geoffrey C. Wilkinson, Sr.


Jacqueline M. Youngworth

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,				
	2011	2010	2009	2008	2007
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 1,127,276	$1,017,845	$ 925,560	$ 806,193	$ 744,602
Securities available for sale	96,689	95,071	96,374	87,380	77,432
Loans:					
Residential mortgage	408,607	385,524	350,433	299,866	273,323
Commercial mortgage	404,343	383,361	348,700	317,162	299,739
Construction	42,269	29,065	23,228	33,315	23,464
Other	1,090	958	833	799	755
Allowance for loan losses	7,516	6,905	5,737	4,530	3,925
Deposits	787,573	729,960	631,087	525,334	441,275
Federal Home Loan Bank advances	247,471	207,580	222,636	214,994	243,738
Stockholders' equity	82,265	72,736	65,293	59,825	54,771

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in Thousands, Except Per Share Amounts)				
Income Statement Data:					
Total interest and dividend income	$ 48,444	$ 46,825	$ 44,798	$ 43,309	$ 42,101
Total interest expense	12,618	15,098	17,599	21,980	26,073
Net interest income	35,826	31,727	27,199	21,329	16,028
Provision for loan losses	1,100	1,300	1,700	805	322
Other income	1,700	1,627	2,008	1,664	1,708
Operating expenses	16,091	14,978	14,371	12,123	10,587
Income before income taxes	20,335	17,076	13,136	10,065	6,827
Income tax provision	8,273	6,848	5,091	3,780	2,337
Net income	$ 12,062	$ 10,228	$ 8,045	$ 6,285	$ 4,490
Earnings per common share:					
Basic	$ 5.68	$ 4.81	$ 3.79	$ 2.96	$ 2.12
Diluted	$ 5.67	$ 4.81	$ 3.79	$ 2.96	$ 2.12
Financial Ratios:					
Return on average assets	1.14 %	1.05%	0.93%	0.81%	0.63%
Return on average equity	15.32	14.67	12.78	11.08	8.40
Average equity to average assets	7.44	7.14	7.26	7.33	7.51
Interest rate spread	3.36	3.20	3.11	2.52	1.87
Net yield on average earning assets	3.50	3.37	3.30	2.86	2.33
Dividend payout ratio (basic)	22.01	24.74	28.76	35.14	47.64
Efficiency ratio	42.88	44.91	49.20	52.72	59.69
Cash dividends declared per common share	$ 1.25	$ 1.19	$ 1.09	$ 1.04	$ 1.01
Book value per common share	$ 38.70	$ 34.24	$ 30.74	$ 28.20	$ 25.85

The following information should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements 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 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 Notes 1 and 4 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.

RESULTS OF OPERATIONS

COMPARISON OF THE YEARS 2011, 2010 and 2009

For the year-ended December 31, 2011, the Bank earned $12.1 million as compared to $10.2 million in 2010 and $8.0 million in 2009. On a per-share basis, the Bank earned $5.68 basic and $5.67 diluted in 2011. In 2010 and 2009, the Bank earned $4.81 per share and $3.79 per share, respectively, for both basic and diluted. Earnings for 2011 as compared to 2010 were primarily impacted by a $4.1 million increase in net interest income, offset in part by a $1.1 million increase in operating expenses and a $1.4 million increase in the income tax provision. Earnings for 2010 as compared to 2009 were impacted by a $4.5 million increase in net interest income and a reduction of $400,000 in the provision for loan losses, offset, in part, by a reduction of $381,000 in other income, a $607,000 increase in operating expenses and a $1.8 million increase in the income tax provision.

Total interest and dividend income increased in 2011 compared to 2010 due to a 9% increase in average interest earning assets offset by a 23 basis point decrease in the average yield on earning assets, reflecting market conditions. Interest expense decreased by 16% due to a 39 basis point decrease in the average rate paid reflecting a combination of market conditions and a shift from borrowed funds to lower cost deposit products offset, in part, by an 8% increase in average interest bearing liabilities. Total interest and dividend income increased in 2010 compared to 2009 due to a 14% increase in average interest earning assets offset by a 47 basis point decrease in the average yield on earning assets, reflecting market conditions. Interest expense decreased by 14% due to a 56 basis point decrease in the average rate paid reflecting a combination of market conditions and a shift from borrowed funds to lower cost deposit products offset, in part, by a 13% increase in average interest bearing liabilities

Other income increased in 2011 by $73,000 from 2010 primarily due an increase of $94,000 in customer service fees on deposits. Other income in 2010 compared to 2009 decreased by $381,000 primarily due to gains on the sale of mortgage loans of $454,000 recorded in 2009. This was partially offset by an increase of $36,000 in customer service fees on deposits. During 2009, the Bank sold $25.3 million in fixed-rate consumer mortgages (with servicing retained) as part of a strategy to reduce its long-term interest rate risk. Customer service fees increased in each of the last two years primarily due to an increase in volume associated with the overall growth in deposit accounts.

Increased operating expenses were reported for each of the past three years primarily in the categories of salaries and employee benefits, occupancy and equipment, foreclosure and marketing. In 2011, salaries and employee benefits increased by $523,000 or 6% due to annual salary increases, increased employee medical insurance expenses, and increased salaries associated with a new branch opened in the Beacon Hill section of Boston. Occupancy and equipment expense increased $248,000 or 19% due to the expansion of the Bank's administration building along with the new branch. Foreclosure expenses increased by $312,000 or 43% due to writing down the value on other real estate owned along with the cost to resolve non-performing loans. Marketing expenses increased by $149,000 or 30% due to promotions associated with the new branch along with increased marketing efforts to capitalize on opportunities for both lending and deposit growth. Offsetting these increases in 2011 was a decrease in deposit insurance expense. In 2009, the Federal Deposit Insurance Corporation ("FDIC") charged a one-time assessment that totaled $405,000 for the Bank along with an increase in the regular assessment rate. This rate increase also affected the Bank's 2010 FDIC assessment. In 2011, the FDIC changed the assessment calculation formula which positively affected the Bank. In 2010, salaries and employee benefits increased by $656,000 or 9% over 2009 due to annual salary increases along with employee medical expenses. Foreclosure expenses increased by $48,000 or 7% due to the resolution of several large non-performing loans, and marketing expenses increased by $40,000 or 9% due to increased marketing efforts to capitalize on opportunities for both lending and deposit growth. Offsetting these increases in 2010 was a decrease in deposit insurance expense. The efficiency ratio, a measure of operating expenses as a percentage of operating income, was 43%, 45% and 49% for the years 2011, 2010 and 2009, respectively.

Net Interest Income

The Bank reported $35.8 million in net interest income in 2011 compared to $31.7 million in 2010 and $27.2 million in 2009. Beginning in late 2007, interest rates dropped dramatically and continued to decline through 2011. The cost of deposits and borrowings, which are more susceptible to rate changes, have dropped dramatically during the last few years, allowing a large portion of deposit and borrowing balances to reprice to lower rates. In the last year, longer-term rates have declined and have started to have a more significant impact on loan yields. The Bank's yield on average earning assets has declined during these periods, however, not as fast as the cost of deposits and borrowings. The net yield on average earning assets increased from 3.30% in 2009 to 3.37% in 2010 and 3.50% in 2011. Additionally, during the same period the Bank recognized significant increases in loan and deposit balances contributing to net interest income.

Average total earning assets increased 9% in 2011 compared to 2010 and 14% in 2010 over 2009. The Bank earned an average yield of 4.74% on its assets in 2011 as compared to 4.97% in 2010 and 5.44% in 2009. Interest income is derived from commercial and residential mortgages, home equity, consumer and commercial loans, the securities portfolio and short-term investments. Interest income increased 3% in 2011 over 2010 and 5% in 2010 over 2009, resulting from continued growth in loans, the most significant component of assets, accounting for approximately 81% of average total earning assets in 2011, 80% in 2010 and 84% in 2009. 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 2011, as compared to 2010, and in 2010, as compared to 2009, due to lower market rates. This category also includes dividends paid on Federal Home Loan Bank ("FHLB") stock. In early 2008, the FHLB announced a capital retention plan and, as such, discontinued the payment of dividends until early 2011, when the FHLB reinstated the dividend, albeit at a substantially lower rate. The Bank maintains $13.4 million in stock at the FHLB and did not receive any income in 2010 and 2009. In 2011, the Bank received dividends totaling $39,000.

Non-accrual loans totaled $6.8 million at December 31, 2011 as compared to $5.7 million at December 31, 2010 and $9.4 million at December 31, 2009. 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 $176,000 for 2011 as compared to $129,000 for 2010 and $407,000 for 2009.

In response to market conditions, the Bank decreased the rates it paid on the more volatile of its interest-bearing deposit accounts in 2011, 2010 and 2009, and in 2011 reduced many core deposit rates. This extended period of declining deposit rates allowed most term certificates to roll over at lower rates and also allowed the Bank to lower rates on money market, NOW and regular savings accounts to reflect market conditions. As a result, interest expense paid on deposits decreased by 17% in 2011 from 2010 and decreased 21% in 2010 from 2009. The average rate paid on certificates of deposit decreased by 30 basis points in 2011 from 2010 and decreased 86 basis points in 2010 from 2009. The average rate paid for money market accounts decreased by 39 basis points in 2011 from 2010 and decreased 38 basis points in 2010 from 2009. The average rate paid on NOW and regular savings accounts declined by 5 basis points and 4 basis points, respectively, in 2011 while the average rates in 2010 and 2009 were the same. Certificates of deposit were 47% of total deposits at year-end 2011 as compared to 48% at year-end 2010 and 51% at year-end 2009. Given the current economic environment, management believes it is unlikely that deposit market rates will rise significantly in 2012 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 2011 as compared to 2010 due to decreased market rates. Borrowings from the FHLB are drawn to fund growth in the loan portfolio. At December 31, 2011, the weighted average rate on FHLB borrowings was 1.99% compared to 2.93% at December 31, 2010. The average cost of all borrowings was 2.70% for 2011 as compared to 3.27% for 2010 and 3.41% for 2009. The Bank continues to see the benefit from low interest rates as new borrowings are at lower rates than the rates on maturing advances.

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

	Years Ended December 31,								
	2011			2010			2009		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 827,441	$ 47,125	5.70%	$ 756,232	$ 44,807	5.93 %	$ 691,457	$ 42,134	6.09 %
Commercial loans	402	24	5.97	261	27	10.34	252	28	11.11
Other loans..................	617	42	6.81	654	44	6.73	518	37	7.14
Total loans (1) (2) ...	828,460	47,191	5.70	757,147	44,878	5.93	692,227	42,199	6.10
Securities (3) (4).............	99,888	902	0.90	104,920	1,524	1.45	85,427	2,120	2.48
Short-term investments and certificates of deposit. ...	93,867	351	0.37	79,615	423	0.53	46,251	479	1.04
Total interest-earning assets	1,022,215	48,444	4.74	941,682	46,825	4.97	823,905	44,798	5.44
Other assets	35,612			34,344			42,928		
Total assets	$ 1,057,827			$ 976,026			$ 866,833		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
Regular	$ 61,448	$ 126	0.21 %	$ 52,998	$ 133	0.25%	$ 46,478	$ 117	0.25%
Money market	246,726	1,516	0.61	223,752	2,240	1.00	154,034	2,132	1.38
NOW (5)	29,268	15	0.05	27,374	27	0.10	28,366	27	0.10
Term certificates	362,455	5,094	1.41	334,948	5,725	1.71	313,932	8,058	2.57
Total interest-bearing deposits	699,897	6,751	0.96	639,072	8,125	1.27	542,810	10,334	1.90
Borrowed funds	217,324	5,867	2.70	213,138	6,973	3.27	212,841	7,265	3.41
Total interest-bearing liabilities	917,221	12,618	1.38	852,210	15,098	1.77	755,651	17,599	2.33
Demand deposits	58,885			51,034			42,873		
Other liabilities	3,002			3,074			5,338		
Stockholders' equity	78,719			69,708			62,971		
Total liabilities and stockholders' equity...	$ 1,057,827			$ 976,026			$ 866,833		
Net interest income.........		$ 35,826			$ 31,727			$ 27,199	
Weighted average interest rate spread			3.36 %			3.20 %			3.11 %
Net yield on average earning assets (6)......			3.50 %			3.37 %			3.30 %

(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*

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,					
	2011 Compared to 2010 Increase (Decrease)			2010 Compared to 2009 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 4,112	$ (1,799)	$ 2,313	$ 3,873	$ (1,193)	$ 2,680
Securities	(70)	(552)	(622)	413	(1,009)	(596)
Short-term investments and certificates of deposit	67	(139)	(72)	245	(302)	(57)
Total interest and dividend income	4,109	(2,490)	1,619	4,531	(2,504)	2,027
Interest expense:						
Interest-bearing deposits:						
Regular	36	(43)	(7)	16	—	16
Money market	951	(1,675)	(724)	799	(691)	108
NOW	1	(13)	(12)	(1)	1	—
Term certificates	803	(1,434)	(631)	509	(2,842)	(2,333)
Total interest-bearing deposits	1,791	(3,165)	(1,374)	1,323	(3,532)	(2,209)
Borrowed funds	144	(1,250)	(1,106)	10	(302)	(292)
Total interest expense	1,935	(4,415)	(2,480)	1,333	(3,834)	(2,501)
Net interest income	$ 2,174	$ 1,925	$ 4,099	$ 3,198	$ 1,330	$ 4,528

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 historical charge-offs, 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, market conditions and credit concentrations. (Refer to Notes 1 and 4 to the Consolidated Financial Statements for more details.)

In 2011, the Bank had net loan charge-offs of $489,000 compared to $132,000 in 2010 and $493,000 in 2009. The Bank continues to closely monitor its non-accrual loans, which were 0.79% of total loans at December 31, 2011 compared to 0.72% at December 31, 2010, and its loans past due greater than 30 days, which have increased to 1.95% of total loans at December 31, 2011 as compared to 1.81% at December 31, 2010 and 1.85% at December 31, 2009. The provision for loan losses for 2011 was $1.1 million as compared to $1.3 million in 2010 and $1.7 million in 2009. The reduction in 2011 was due to the resolution of several large non-performing loans. The Bank continues to be cautious due to continued deterioration in the housing markets and volatility of economic indicators. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.88% for 2011, 0.86% for 2010, and 0.79% for 2009.

Other Income

Other income was $1.7 million compared to $1.6 million in 2010 and $2.0 million in 2009. Other income is comprised of gains on sale of loans, customer service fees, increases in the cash surrender value of life insurance policies and miscellaneous income. During 2009, the Bank sold $25.3 million in fixed-rate consumer mortgages (with servicing retained) producing gains totaling $454,000. During 2011 and 2010, the Bank did not sell any loans. Fees earned on customer accounts were $987,000 in 2011, $893,000 in 2010 and $857,000 in 2009. Customer service fee income was derived primarily from deposit account transaction fees and ATM/debit card usage fees. The fees reflect an increase in volume on fee-based transactions due to the growth in deposit accounts combined with modest increases in the schedule of fees. ATM/debit card fees also increased due to an increase in interchange volume.

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 $14.5 million in life insurance policies at year-end 2011 compared to $14.1 million at year-end 2010. Income from these assets is fully excludable from federal income taxes and contributed $450,000 to other income in 2011, $459,000 in 2010 and $458,000 in 2009. 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 1.52% for 2011, 1.53% for 2010, and 1.66% for 2009. Although total operating expenses in 2011 increased by $1.1 million, or 7% over 2010, the net interest margin increased at a greater rate of 13%.

Salaries and employee benefits continue to be the largest component of operating expenses at $8.9 million for 2011, $8.4 million for 2010 and $7.7 million for 2009. Annual merit-based salary increases, which averaged approximately 7% for 2011 compared to 6% for 2010 and 5% for 2009, accounted for the majority of the increase in each year. Additionally, 2011 saw increases in medical insurance expenses associated with greater participation in the plans and an increase in premiums. Health care benefits, including medical and dental, rose approximately 13% in 2011 over 2010 and 12% in 2010 over 2009. In both 2011 and 2010, the Bank noted increased participation in the medical plans due to the addition of staff and increased enrollment. Also impacting salaries and employee benefits expenses is the Bank's guarantee of a death benefit for certain current and former executive officers. The expense associated with this liability was $69,000 in 2011 compared to $288,000 in 2010 and $421,000 for 2009. The higher expense in 2009 was due to the departure of one executive covered under the plan and the associated escalation of service cost that totaled $168,000. In 2011, the expense declined as one executive reached his originally anticipated retirement age and the service cost was fully recognized.

Data processing expenses were relatively flat between 2011, 2010 and 2009 at $883,000, $853,000 and $859,000, respectively. The Bank continually performs upgrades to its information technology infrastructure, however, in 2010 and 2011 the Bank recognized savings when the Bank converted to a more efficient check processing system in late 2009 that reduced processing charges and provided for more timely collection. In 2011, the overall increase was due to higher volume of transactions, statement rendering charges and ATM charges due to growth in customer accounts.

Occupancy and equipment expenses increased by 19% in 2011 compared to 2010 due to the addition and renovation of the Bank's Administration facilities along with the cost associated with the Bank's newest branch in the Beacon Hill section of Boston. Occupancy and equipment expense decreased by 4% in 2010 compared to 2009 due to several large purchases in prior years being fully depreciated in 2010. This category also includes $270,000, $178,000 and $178,000 in rent expenses for 2011, 2010 and 2009, respectively.

Deposit insurance expenses were $701,000 in 2011, compared to $1.1 million in 2010 and $1.3 million in 2009. Deposit insurance expense consists of premiums paid to the FDIC and the Massachusetts Deposit Insurance Fund ("DIF"). In 2009, the FDIC announced a significant increase in premiums along with a special assessment that amounted to $405,000 for the Bank. It called for a prepayment of an estimate for 2010 to 2012 that included an assumption of an annual increase in insured deposits of 5% per year, along with a 3 basis point increase in the assessment rate. In 2010 and 2011, there was no special assessment, however, premiums increased in 2010 consistent with the announcement. In 2011, the FDIC changed the calculation from a deposit-based calculation to an asset-based calculation. This change along with several other components of the calculation, reduced the Bank's assessment in 2011. In both 2010 and 2011, the Bank has been amortizing the prepayment made in 2009. At December 31, 2011 and 2010, the balance remaining of the prepayment was $1.9 million and $2.5 million, respectively.

Foreclosure expenses include expenses related to foreclosing on collateral, maintaining properties, subsequent write-downs in the value of collateral and any net losses or gains associated with their disposition. During 2011, total foreclosure related expenses were $1.0 million, compared to $726,000 in 2010 and $678,000 in 2009. Expenses in 2011 were primarily comprised of $238,000 in write-downs on properties and $861,000 in legal, real estate taxes, utilities, insurance and other expenses related to the foreclosure process and maintaining properties. This was partially offset by $61,000 in gains on disposal of properties. In 2010, the Bank wrote down properties by $46,000, and posted expenses totaling $800,000. These expenses were offset by $120,000 in gains on the disposal of properties. In 2009, the Bank wrote down properties by $100,000, paid expenses totaling $512,000 and posted net losses on the sale of properties of $66,000.

Marketing expenses were $650,000 in 2011, $501,000 in 2010 and $461,000 in 2009. The increase in 2011 was due to additional marketing initiatives to promote the new branch in the Beacon Hill section of Boston along with continued marketing concerning the security of full insurance coverage on deposit balances. Additionally, the Bank has been promoting competitive deposit and loan products and rates.

All other operating expenses were $2.4 million in 2011, $2.2 million for 2010 and $2.0 million in 2009. Operating expenses include audit fees, directors' fees, supplies, postage, legal fees, bank fees, reporting costs and other items.

Income Taxes

The Bank's effective tax rate was 40.7% for 2011, 40.1% for 2010 and 38.8% for 2009. The increase in the effective tax rate in 2011 and 2010 over 2009 is attributable to the increase in pre-tax income, placing the Bank in a higher tax bracket. Additionally, income derived from the Bank's investment portfolio along with income derived from the bank-owned life insurance policies are becoming a lower portion of overall 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.

BALANCE SHEET ANALYSIS

COMPARISON OF THE YEARS 2011 AND 2010

The Bank had total assets of $1.1 billion at December 31, 2011, an increase of $109.4 million, or 11%, from the $1.0 billion million level at year-end 2010.

Loans

At December 31, 2011 and 2010, the Bank reported net loans of $849.8 million, or 75% of total assets, and $792.9 million, or 78% of total assets, respectively. In 2011, the Bank originated $255.9 million in mortgage and other loans which resulted in net growth of $56.9 million. At December 31, 2011 and 2010, mortgage loans accounted for more than 99% of gross loans. At December 31, 2011, commercial mortgages represented 47% of the mortgage loan portfolio, while residential mortgages and home equity loans represented 48% and construction loans represented 5%. At December 31, 2010, commercial mortgages represented 48% of the mortgage portfolio, while residential mortgages and home equity loans represented 48% and construction loans represented 4%.

The Bank's lending strategy during 2011 and 2010 has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Mortgages increased by 7% in 2011. Approximately 37% 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 ("FHLMC") 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, 2011 and 2010, the allowance had a balance of $7.5 million and $6.9 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 historic losses, 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 Notes 1 and 4 to the Consolidated Financial Statements for more details.) Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. In 2011, 2010 and 2009, the Bank had net charge offs of $489,000, $132,000 and $493,000, respectively.

The Bank works closely with delinquent mortgagors to bring their loans current and foreclosure proceedings commence if the mortgagor is unable to satisfy their outstanding obligation. In 2010, the Commonwealth of Massachusetts enacted a law which grants a mortgagor a 150-day right to cure a default on residential real property mortgages. Land court filings, which are part of the foreclosure process in Massachusetts, are experiencing backlogs due to the volume of foreclosure filings, delaying the Bank's collection process.

The Bank had non-accrual loans at December 31, 2011 with a combined outstanding balance of $6.8 million as compared to $5.7 million at December 31, 2010. As a percentage of total loans, these non-accrual loans were 0.79% at December 31, 2011 and 0.72% at December 31, 2010. Additionally, at December 31, 2011 and 2010, total impaired loans were $7.0 million and $5.7 million, respectfully. All loans on non-accrual and troubled debt restructurings are considered impaired and, as such, are reviewed for specific reserve allocation. Management determines the amount reserves on a case-by-case basis using either the present value of expected cash flows, or the fair value of the underlying collateral when the loan is collateral dependent. Updated appraisals on collateral are obtained when management believes that the value of the property has deteriorated. At December 31, 2011 and 2010, $211,000 and $145,000, respectively, was allocated to impaired loans.

Securities

The purpose of the Bank's securities portfolio is to provide liquidity and to serve as collateral to obtain borrowed funds. At December 31, 2011, the portfolio of $96.7 million represented 9% of total assets, as compared to $95.1 million, or 9% of total assets, at year-end 2010. At December 31, 2011, 10% of the securities in the portfolio are U.S. Treasury securities and 86% of the securities were issued or guaranteed by government-sponsored enterprises. At December 31, 2010, 97% of the securities were issued or guaranteed by government-sponsored enterprises.

At December 31, 2011, 10% of the portfolio is represented by U.S. Treasury issues. Another 86% 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 19% of the bond issues are subject to redemption at dates earlier than the stated maturity at the discretion of the issuer.

At December 31, 2011 and 2010, less than 1% of the portfolio, or $201,000 and $239,000, respectively, were comprised of mortgage-backed securities. Mortgage-backed securities are subject to declines in principal balances due to principal repayments. Repayments tend to increase as market interest rates fall and the individual underlying mortgages are refinanced at lower rates. Conversely, repayments tend to decrease as market interest rates rise.

The portfolio also includes a $3.0 million investment in the CRA Fund, 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, 2011.

At year-end 2011 and 2010, the entire securities portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive income, a separate component of stockholders' equity. The net unrealized gain on the portfolio amounted to $235,000, net of tax effects, at December 31, 2011 as compared to $196,000 at year-end 2010, reflecting changing market conditions and the remaining maturity of securities. The fair value of securities fluctuates with the movement of interest rates and is impacted by maturities. Generally, during periods of falling interest rates, the fair values increase whereas the opposite may hold true during a rising interest rate environment. However, due to the short-term nature of the investment portfolio, market value adjustments lessen as a maturity date gets closer.

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, 2011 and 2010, this investment accounted for 1% of total Bank assets. During 2008, the FHLB announced a capital retention plan which prevented the Bank from redeeming its excess stock. At December 31, 2011 and 2010, the Bank held $13.4 million in FHLB stock. Additionally, in early 2009, the FHLB announced the suspension of dividends on its stock and during both 2009 and 2010 no dividends were received. Beginning in 2011, the FHLB reinstated the dividend, albeit at a much lower rate. In 2011, the Bank received $39,000 in dividends.

The Bank also holds certificates of deposit issued by other banks. At December 31, 2011, these investments amounted to $13.4 million, or 1% of total assets, as compared to $13.9 million, or 1% of total assets, at December 31, 2010. In 2008, the FDIC increased its maximum insurance coverage to $250,000 per depositor effective through December 31, 2013, and in 2010 this coverage was made permanent. No single certificate held by the Bank exceeds this maximum and, therefore, all are insured in full by the FDIC.

Foreclosed Assets

At December 31, 2011, the Bank held seven properties totaling $3.6 million compared to four properties totaling $3.6 million at December 31, 2010. At December 31, 2011, the properties consist of four commercial real estate properties carried at $3.0 million and three residential properties carried at $597,000. The Bank is carrying the properties as held for sale and as such has marked the properties to the lower of carrying amount or fair value less cost to sell.

Other Assets

The Bank held $14.5 million in Bank-owned life insurance at December 31, 2011 as compared to $14.1 million at December 31, 2010. The increase in 2011 was attributable to the increase in the cash surrender values of the underlying policies. The policies, which insure the lives of certain current and former 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, 2011, all issuers were rated at or above Bank guidelines.

Deposits

At December 31, 2011, the Bank held a total of $787.6 million in deposits, an increase of $57.6 million, or 8%, from the $730.0 million in deposits at year-end 2010. The growth experienced in 2011 is a continuation of the trend seen during 2010 and was attributable to volatility in the financial markets as depositors sought the safe haven offered by fully insured depository institutions. Additionally, the Bank recognized growth associated with its newest branch in the Beacon Hill section of Boston, Massachusetts, which opened in late 2011. Non-certificate deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $415.3 million at December 31, 2011 as compared to $377.2 million at year-end 2010, an increase of $38.1 million, or 10%, which was attributable to growth in money market accounts of $17.1 million, or 7%, in regular savings accounts of $7.4 million, or 13%, and transaction accounts of $13.7 million, or 17%. Non-certificate deposits comprised 53% of total deposits at December 31, 2011 as compared to 52% at year-end 2010. Certificates of deposit were $372.3 million at December 31, 2011 as compared to $352.8 million at year-end 2010.

Primary competition for deposits is other banks and credit unions in the Bank's market area and on the internet as well as 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 fourth quarter of 2011, the Bank opened a new branch in the Beacon Hill section of Boston which has, thus far, surpassed 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, 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 $247.5 million, or 22% of its assets, in borrowed funds at December 31, 2011 as compared to $207.6 million, or 20% of total assets, at year-end 2010, representing an increase of $39.9 million. During 2011, the average balance of borrowed funds was $217.3 million compared to $213.1 million in 2010. Generally, borrowings are drawn with a fixed rate and term; however, at December 31, 2011, $29.0 million, or 12%, can be called by the issuer after an initial specified term, and an additional $971,000 is subject to principal amortization over its stated life. At December 31, 2011, 42% of all borrowings will mature within one year as compared to 32% at December 31, 2010. During 2011, the Bank refinanced many borrowings at shorter-terms due to the extremely low interest rate environment and the current expectation that short-term rates will remain low for an extended period. The average rate paid on borrowings held at year-end 2011 was 1.99%, down from 2.93% at year-end 2010, reflecting a decrease in market interest rates in 2011.

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 the U.S. Treasury or government-sponsored enterprises, or 79% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. Nine securities, or 19%, 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 less than 1% 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 in excess of 20% on its loan portfolio in both 2011 and 2010. For 2012, prepayment rates are expected to slow as refinancing has slowed and rates are expected to remain relatively stable.

The Bank invests in key executive life insurance policies that are illiquid during the lives of the executives. Such policies total $14.5 million, or less than 2% of total assets, at December 31, 2011 as compared to $14.1 million, or less than 2%, at December 31, 2010.

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 88% of the Bank's borrowings are fixed in terms of maturity. Less than 1% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 12%, or $29.0 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, 2011, the Bank had approximately $128.7 million in commitments to extend credit as compared to $88.0 million at December 31, 2010. The Bank also has commitments for lease obligations and data processing agreements totaling $1.6 million and $716,000, respectively, at December 31, 2011.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position from the 30-day to 90-day horizon, the level of volatile liabilities to earning assets and loan to deposit ratios. Additionally, the Bank "shocks" its cash flows by assuming significant cash outflows in both non-certificate and certificate deposit balances. At December 31, 2011 and 2010, 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 $333.6 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages, certain multifamily residential property, assets held 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 $166.9 million in additional borrowings. At December 31, 2011, the Bank had $247.5 million in advances outstanding. Additionally, the

Bank has registered with the Federal Reserve Bank to access their discount window. The Bank may access this line by assigning assets as collateral.

At December 31, 2011, the Bank had capital of $82.3 million, or 7.3% of total assets, as compared to $72.7 million, or 7.1%, at December 31, 2010. 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, 2011, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $235,000. In comparison, at year-end 2010, capital was increased by $196,000.

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 2011 and 2010. (Refer to Note 11 to the Consolidated Financial Statements for more details.)

During 2011, the Bank declared dividends of $1.25 per share which included a $0.26 special dividend declared in the fourth quarter. In comparison, in 2010, the Bank declared dividends of $1.19 per share that also included a $0.25 special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share by earnings per share, was 22.01% for 2011 as compared to 24.74% for 2010.

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, and 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, and then remain constant over the remaining period. At December 31, 2011, 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 2% if rates rise 100 basis points and will decrease 5% 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.

At December 31, 2011, loans, as a percent of total earning assets, were 79% as compared to 81% at the prior year-end. The composition of the Bank's liabilities changed such that interest-bearing deposits to total interest-bearing liabilities were 74% at year-end 2011, as compared to 78% at the prior year-end.

At December 31, 2010, liabilities that reprice within one year exceeded assets repricing within the same period by $198.2 million. Short-term market interest rates remained relatively flat during 2011 but mid- to long-term rates declined. The Federal Reserve Bank lowered its targeted Federal Funds rate to near zero in late 2008 and has kept it at this level over the past three years. The prime lending rate has also stayed level at 3.25% during the last two years. In 2011, longer-term rates dropped due to volatility in the stock market and uncertainty in Europe. The Bank was positively impacted by the lowering of market interest rates during 2011. The yield on earning assets declined by 23 basis points. However, the average rate on funding costs, in the form of deposits and borrowings, dropped by 39 basis points, contributing $1.9 million, or 47%, of the $4.1 million improvement in net interest income for 2011.

At December 31, 2011, liabilities that reprice within one year exceeded assets repricing within the same period by $147.0 million indicating that the Bank is susceptible to lower net interest income in the event that market rates rise in 2012. Due to the anticipated extended period of low rates and the growth in longer-term certificates of deposits, the Bank continues to finance a portion of its borrowings at shorter terms.

At December 31, 2011, 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**	**Over Five Years**
Contractual Obligations:					
Federal Home Loan Bank advances	$ 247,471	$ 105,000	$ 84,500	$ 22,000	$ 35,971
Certificates of deposit	372,261	276,843	58,519	36,899	—
Data processing agreements (1)	716	229	344	143	—
Lease agreements (2)	1,575	274	546	329	426
Other borrowings	1,107	42	93	104	868

(1) Estimated payments subject to change based on transaction volume.

(2) 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.

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 of loans are adjusted for amortization and prepayments of principal. Prepayment speeds range from 0% to 28% depending upon the particular asset category. Generally, adjustable-rate loans are indexed to Prime and 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 current assumptions about the volatility of such deposits.

December 31, 2011 **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) (1), short-term investments and certificates of deposit…	$ 175,060	$ 44,903	$ 10,560	$ —	$ —	$ —	$ 230,523
	0.70 %	1.32 %	0.60 %	— %	— %	— %	0.81 %
Loans:							
Fixed rate ……………………………	$ 51,908	$ 39,710	$ 34,959	$ 30,543	$ 24,409	$ 68,559	$ 250,088
	5.61 %	5.43 %	5.49 %	5.51 %	5.54 %	5.69 %	5.57 %
Adjustable rate………………………	$ 171,228	$ 117,030	$ 100,859	$ 89,114	$ 73,691	$ 54,299	$ 606,221
	5.11 %	5.64 %	5.59 %	5.55 %	5.27 %	5.26 %	5.39 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts …………….	$ 163,239	$ 16,045	$ —	$ —	$ 172,936	$ —	$ 352,220
	0.48 %	0.42	— %	— %	0.35 %	— %	0.41 %
Term certificates ……………………	$ 276,843	$ 41,823	$ 16,696	$ 3,528	$ 33,371	$ —	$ 372,261
	1.00 %	1.37 %	1.90 %	2.24 %	2.66 %	— %	1.25 %
Borrowed funds…………………………	$ 105,145	$ 19,654	$ 65,163	$ 10,173	$ 12,184	$ 36,259	$ 248,578
	0.48 %	2.58 %	3.10 %	2.61 %	1.82 %	4.10 %	2.01 %

December 31, 2010 **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) (1), short-term investments and certificates of deposit…	$ 113,334	$ 61,568	$ 8,736	$ —	$ —	$ —	$ 183,638
	1.51 %	1.62 %	1.02 %	— %	— %	— %	1.30 %
Loans:							
Fixed rate ……………………………	$ 44,517	$ 35,109	$ 29,682	$ 26,706	$ 25,381	$ 79,917	$ 241,312
	6.08 %	5.84 %	5.78 %	5.79 %	5.81 %	5.88 %	5.88 %
Adjustable rate………………………	$ 154,677	$ 91,553	$ 80,507	$ 74,233	$ 71,699	$ 84,927	$ 557,596
	5.72 %	6.08 %	5.90 %	5.79 %	5.63 %	5.42 %	5.76 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts ……………	$ 151,155	$ 13,852	$ —	$ —	$ 158,639	$ —	$ 323,646
	0.91 %	0.74 %	— %	— %	0.32 %	— %	0.61 %
Term certificates ……………………	$ 292,937	$ 47,386	$ 7,197	$ 2,751	$ 2,504	$ —	$ 352,775
	1.42 %	1.83 %	2.67 %	2.89 %	2.46 %	— %	1.52 %
Borrowed funds…………………………	$ 66,640	$ 14,148	$ 18,158	$ 63,167	$ 10,177	$ 36,437	$ 208,727
	2.40 %	2.23 %	2.72 %	3.14 %	2.61 %	4.11 %	2.95 %

(1) Includes FHLB stock

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America.

Management assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2011, based on the framework established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Bank's internal control over financial reporting as of December 31, 2011 is effective.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the Bank's consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2011 has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report, which follows. This report expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2011.

Robert H. Gaughen, Jr.
Chief Executive Officer
March 6, 2012

Robert A. Bogart
Chief Financial Officer
March 6, 2012

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, 2011 and 2010, 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, 2011. We also have audited the Bank's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hingham Institution for Savings' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Bank's internal control over financial reporting based on our audits.

We conducted our audits of the financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. An audit of the financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Hingham Institution for Savings maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Wolf & Company, P.C.

Boston, Massachusetts
March 6, 2012

ASSETS

	December 31, 2011	December 31, 2010
	(In Thousands)	
Cash and due from banks	$ 8,918	$ 6,298
Short-term investments	107,422	61,566
Cash and cash equivalents	116,340	67,864
Certificates of deposit	13,405	13,929
Securities available for sale, at fair value	96,689	95,071
Federal Home Loan Bank stock, at cost	13,373	13,373
Loans, net of allowance for loan losses of $7,516,000 in 2011 and $6,905,000 in 2010	849,776	792,910
Foreclosed assets	3,629	3,559
Bank-owned life insurance	14,524	14,074
Premises and equipment, net	10,597	7,985
Accrued interest receivable	2,858	2,992
Prepaid FDIC assessment	1,871	2,474
Deferred income tax asset, net	3,425	2,803
Other assets	789	811
Total assets	$ 1,127,276	$ 1,017,845

LIABILITIES AND STOCKHOLDERS' EQUITY

	2011	2010
Deposits	$ 787,573	$ 729,960
Federal Home Loan Bank advances	247,471	207,580
Mortgage payable	1,107	1,147
Mortgagors' escrow accounts	2,517	2,344
Accrued interest payable	475	591
Other liabilities	5,868	3,487
Total liabilities	1,045,011	945,109
Commitments and contingencies (Note 10)		
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; 2,125,750 shares issued and outstanding at December 31, 2011 and 2,124,250 at December 31, 2010	2,126	2,124
Additional paid-in capital	10,500	10,417
Undivided profits	69,404	59,999
Accumulated other comprehensive income	235	196
Total stockholders' equity	82,265	72,736
Total liabilities and stockholders' equity	$ 1,127,276	$ 1,017,845

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31, 2011	2010	2009
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 47,191	$ 44,878	$ 42,199
Debt securities	749	1,418	2,003
Equity securities	153	106	117
Short-term investments and certificates of deposit	351	423	479
Total interest and dividend income	48,444	46,825	44,798
Interest expense:			
Deposits	6,751	8,125	10,334
Federal Home Loan Bank advances	5,799	6,903	7,193
Mortgage payable	68	70	72
Total interest expense	12,618	15,098	17,599
Net interest income	35,826	31,727	27,199
Provision for loan losses	1,100	1,300	1,700
Net interest income, after provision for loan losses	34,726	30,427	25,499
Other income:			
Customer service fees on deposits	987	893	857
Increase in Bank-owned life insurance	450	459	458
Gain on sales of loans, net	—	—	454
Miscellaneous	263	275	239
Total other income	1,700	1,627	2,008
Operating expenses:			
Salaries and employee benefits	8,894	8,371	7,715
Data processing	883	853	859
Occupancy and equipment	1,528	1,280	1,333
Deposit insurance	701	1,074	1,335
Foreclosure	1,038	726	678
Marketing	650	501	461
Other general and administrative	2,397	2,173	1,990
Total operating expenses	16,091	14,978	14,371
Income before income taxes	20,335	17,076	13,136
Income tax provision	8,273	6,848	5,091
Net income	$ 12,062	$ 10,228	$ 8,045
Earnings per common share:			
Basic	$ 5.68	$ 4.81	$ 3.79
Diluted	$ 5.67	$ 4.81	$ 3.79

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31, 2011, 2010 and 2009				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 2008	$ 2,122	$ 10,364	$ 46,569	$ 770	$ 59,825
Comprehensive income:					
Net income	—	—	8,045	—	8,045
Net unrealized loss on securities available for sale, net of tax effect	—	—	—	(312)	(312)
Total comprehensive income					7,733
Stock options exercised, including tax benefit of $12,000	2	48	—	—	50
Cash dividends declared-common ($1.09 per share)	—	—	(2,315)	—	(2,315)
Balance at December 31, 2009	2,124	10,412	52,299	458	65,293
Comprehensive income:					
Net income	—	—	10,228	—	10,228
Net unrealized loss on securities available for sale, net of tax effect	—	—	—	(262)	(262)
Total comprehensive income					9,966
Share-based compensation	—	5	—	—	5
Cash dividends declared-common ($1.19 per share)	—	—	(2,528)	—	(2,528)
Balance at December 31, 2010	2,124	10,417	59,999	196	72,736
Comprehensive income:					
Net income	—	—	12,062	—	12,062
Net unrealized gain on securities available for sale, net of tax effect	—	—	—	39	39
Total comprehensive income					12,101
Stock options exercised, including tax benefit of $10,000	2	53	—	—	55
Share-based compensation	—	30	—	—	30
Cash dividends declared-common ($1.25 per share)	—	—	(2,657)	—	(2,657)
Balance at December 31, 2011	$ 2,126	$ 10,500	$ 69,404	$ 235	$ 82,265

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2011	2010	2009
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 12,062	$ 10,228	$ 8,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,100	1,300	1,700
Net gain on sales of loans	—	—	(454)
Amortization of securities, net	874	779	822
Amortization of deferred loan origination costs, net	166	182	150
Share-based compensation expense	30	5	—
Excess tax benefits from share-based compensation arrangements	(10)	—	(12)
Depreciation and amortization of premises and equipment	531	443	480
Increase in Bank-owned life insurance	(450)	(459)	(458)
Deferred income tax benefit	(648)	(674)	(459)
Net (gain) loss on sales and write-downs of foreclosed assets	177	(74)	166
Changes in operating assets and liabilities:			
Prepaid FDIC assessment	603	935	(3,409)
Accrued interest receivable and other assets	156	348	(263)
Accrued interest payable and other liabilities	2,231	601	291
Net cash provided by operating activities	16,822	13,614	6,599
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Maturities, prepayments and calls	47,701	69,140	41,478
Purchases	(50,126)	(69,017)	(51,775)
Activity in certificates of deposit:			
Maturities	6,271	7,377	9,632
Purchases	(5,749)	(8,156)	(9,134)
Loans originated, net of payments received	(60,239)	(83,101)	(103,274)
Proceeds from sales of loans	—	—	25,757
Proceeds from sales of foreclosed assets	1,860	6,651	2,063
Additions to premises and equipment	(3,143)	(2,994)	(282)
Net cash used in investing activities	(63,425)	(80,100)	(85,535)

(continued)

See accompanying notes to consolidated financial statements.

(concluded)

	Years Ended December 31,		
	2011	2010	2009
		(In thousands)	
Cash flows from financing activities:			
Increase in deposits	$ 57,613	$ 98,873	$ 105,753
Increase in mortgagors' escrow accounts	173	376	217
Proceeds from stock options exercised	45	—	38
Cash dividends paid on common stock	(2,613)	(2,443)	(2,272)
Excess tax benefits from share-based compensation arrangements	10	—	12
Net repayments of borrowings with maturities of less than three months	—	—	(25,000)
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	151,500	47,000	135,000
Repayments of Federal Home Loan Bank advances with maturities of three months or more	(111,609)	(62,056)	(102,358)
Repayment of mortgage payable	(40)	(37)	(35)
Net cash provided by financing activities	95,079	81,713	111,355
Net change in cash and cash equivalents	48,476	15,227	32,419
Cash and cash equivalents at beginning of year	67,864	52,637	20,218
Cash and cash equivalents at end of year	$ 116,340	$ 67,864	$ 52,637
Supplementary information:			
Interest paid on deposit accounts	$ 6,768	$ 8,141	$ 10,327
Interest paid on borrowed funds	5,966	7,079	7,250
Income taxes paid	8,727	7,714	5,648
Non-cash activities:			
Real estate acquired through foreclosure	$ 2,107	$ 6,951	$ 5,134

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2011, 2010 and 2009

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, and Dunbar-Walnut, LLC and Taunton Oak Street, LLC which hold certain foreclosed properties. 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. Material estimates that are susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets and the valuation of deferred tax assets.

Business and operating segments

The Bank provides a variety of financial services to individuals and small businesses through its ten 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.

Fair value hierarchy

The Bank groups its assets and liabilities 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, as follows:

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.

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 unobservable inputs to 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.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Reclassification

Certain amounts in the 2010 and 2009 consolidated financial statements have been reclassified to conform to the 2011 presentation.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments which mature within ninety days at the date of purchase and are carried at cost. At December 31, 2011, the Bank had a concentration of cash on deposit at the Federal Reserve Bank amounting to $108.9 million.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certificates of deposit

Certificates of deposit are purchased from FDIC-insured depository institutions in amounts not to exceed $250,000 per institution, including accrued interest, and have original maturities greater than ninety days. Certificates of deposit 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. The fair values are obtained from an independent pricing service and from the Bank's safekeeping agent. The Bank compares fair values from the two independent sources to ensure that pricing is accurate.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on disposition of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Bank evaluates all securities with a decline in fair value below the amortized cost to determine whether or not the impairment is deemed to be other than temporary ("OTTI").

OTTI is required to be recognized if (1) the Bank intends to sell the security; (2) it is "more likely than not" that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses. For impaired debt securities that the Bank intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income, net of applicable taxes.

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, 2011, no impairment has been recognized.

Loans

The Bank's loan portfolio includes residential real estate, commercial real estate, construction, home equity, commercial and consumer segments. A substantial portion of the loan portfolio is secured by real estate 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and allocated loss components, as further discussed below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial, home equity (equity lines of credit and second mortgages) and consumer (personal installment and revolving credit). Management uses a rolling average of historical losses based on a time frame (currently two years) appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2011.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent (without private mortgage insurance) and does not grant sub-prime loans. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates which, in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

Construction – Loans in this segment include both owner-occupied and speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, the overall health of the economy and market conditions.

Home equity – Loans in this segment are generally collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The Bank generally does not originate loans with combined loan-to-value ratios greater than 70%.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer – Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocated component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential, commercial, commercial real estate, construction and home equity loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan.

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.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

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, changes in the valuation allowance and any direct write-downs are included in foreclosure expenses.

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.

Premises and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. It is general practice to charge the cost of maintenance and repairs to earnings when incurred; major expenditures for betterments are capitalized and depreciated.

Transfers of financial assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the normal course of business, the Bank may transfer a portion of a financial asset; for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties, and no loan holder has the right to pledge or exchange the entire loan.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized. The Bank has no uncertain tax positions at December 31, 2011. The Bank records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2011, 2010 and 2009.

Stock compensation plans

The Bank has two fixed stock option plans as more fully described in Note 12.

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,		
	2011	**2010**	**2009**
	(In Thousands)		
Average number of common shares outstanding used to calculate basic earnings per share	2,125	2,124	2,124
Effect of dilutive options	1	1	—
Average number of common shares outstanding used to calculate diluted earnings per common share	2,126	2,125	2,124

Options for 4,500 and 3,000 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, 2011 and December 31, 2009, respectively. There were no anti-dilutive options for the year ended December 31, 2010.

Comprehensive income

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Years Ended December 31,		
	2011	2010	2009
		(In Thousands)	
Net unrealized holding gains (losses) on available–for–sale securities	$ 65	$ (401)	$ (481)
Tax effect	(26)	139	169
Net-of-tax amount	$ 39	$ (262)	$ (312)

At December 31, 2011 and 2010, accumulated other comprehensive income relates to unrealized gains on available-for-sale securities of $366,000 and $301,000, respectively, net of tax effects of $131,000 and $105,000, respectively.

Marketing costs

Marketing costs are expensed as incurred.

Recent accounting pronouncements

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This Update requires an entity to provide disclosures that facilitate a financial statement user's evaluation of (1) the nature of credit risk inherent in the entity's loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan and lease losses, and (3) the changes and reasons for those changes in the allowance for loan and lease losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Bank has provided the required disclosures in Note 4.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* This Update provides additional guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring ("TDR"). This Update was effective for the Bank for the third quarter of 2011, with retrospective application to the beginning of the annual period of adoption. The measurement of impairment should be done prospectively in the period of adoption for loans that are newly identified as TDRs upon adoption of this Update. In addition, the TDR disclosures required by ASU 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* are required beginning in the period of adoption of this Update. The Bank adopted this Update on July 1, 2011 and it did not have a material impact on its consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements.* This Update revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update will be effective for interim and annual reporting periods beginning on or after December 15, 2011. The amendments will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this guidance is not expected to have a material impact on the Bank's financial condition or results of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The Update clarifies and expands the disclosures pertaining to unobservable inputs used in Level 3 fair value measurements, including the disclosure of quantitative information related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. The Update also requires, for public entities, disclosure of the level within the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The Bank does not expect this pronouncement to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income.* This Update amends the disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes, as amended by ASU 2011-12, are effective for fiscal years, and interim periods within those years, ending after December 15, 2011, with retrospective application required. There will be no impact on the Bank's consolidated financial results as the amendments relate only to changes in financial statement presentation.

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, 2011 and 2010, cash and due from banks included $757,000 and $685,000, respectively, to satisfy such reserve requirements.

3. SECURITIES AVAILABLE FOR SALE

The amortized cost and 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, 2011				
Debt securities:				
U.S. Government	$ 10,066	$ 8	$ —	$ 10,074
Government-sponsored enterprises –FHLMC	18,325	59	(5)	18,379
Government-sponsored enterprises – FNMA	32,605	75	(2)	32,678
Government-sponsored enterprises – Other	32,130	91	(2)	32,219
Residential mortgage-backed	197	4	—	201
Total debt securities	93,323	237	(9)	93,551
Equity securities	3,000	138	—	3,138
Total securities available for sale	$ 96,323	$ 375	$ (9)	$ 96,689

3. SECURITIES AVAILABLE FOR SALE (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
December 31, 2010				
Debt securities:				
Government-sponsored enterprises –FHLMC	$ 16,775	$ 34	$ (3)	$ 16,806
Government-sponsored enterprises – FNMA	32,307	82	(24)	32,365
Government-sponsored enterprises – Other	42,452	176	(11)	42,617
Residential mortgage-backed	236	3	—	239
Total debt securities	91,770	295	(38)	92,027
Equity securities	3,000	44	—	3,044
Total securities available for sale	94,770	339	(38)	95,071

At December 31, 2011 and 2010, debt securities with a fair value of $93,551,000 and $92,027,000, respectively, were pledged to secure Federal Home Loan Bank advances. See Note 8.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2011 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	$ 43,162	$ 43,259
Over 1 year to 5 years	49,964	50,091
	93,126	93,350
Residential mortgage-backed securities:		
Over 5 years to 10 years	110	113
Over 10 years	87	88
	197	201
Total debt securities	$ 93,323	$ 93,551

Information pertaining to securities with gross unrealized losses at December 31, 2011 and 2010, 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 Values	Gross Unrealized Losses	Fair Values
	(In Thousands)			
December 31, 2011				
Debt Securities:				
Government-sponsored enterprises	$ 9	$ 13,541	$ —	$ —

3. SECURITIES AVAILABLE FOR SALE (concluded)

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Values	Gross Unrealized Losses	Fair Values
	(In Thousands)			
December 31, 2010				
Debt Securities:				
Government-sponsored enterprises	$ 38	$ 18,198	$ —	$ —

At December 31, 2011, nine debt securities have unrealized losses with aggregate depreciation of less than 1% from the Bank's amortized cost basis. These unrealized losses relate to debt securities secured by Government-sponsored enterprises and result from changes in the bond markets since their purchase. Because the decline in market value is attributable to changes in interest rates and not the credit quality, and because the Bank does not intend to sell the securities and it is more likely than not that the Bank will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2011.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2011	December 31, 2010
	(In Thousands)	
Mortgage loans:		
Residential	$ 381,272	$ 356,176
Commercial	404,343	383,361
Construction	42,269	29,065
Equity lines of credit	22,867	23,688
Second mortgages	4,468	5,660
Total mortgage loans	855,219	797,950
Other loans:		
Commercial	459	298
Personal installment	375	464
Revolving credit	256	196
Total other loans	1,090	958
Total loans	856,309	798,908
Allowance for loan losses	(7,516)	(6,905)
Net deferred loan origination costs	983	907
Loans, net	$ 849,776	$ 792,910

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 $14,138,000 and $20,247,000 at December 31, 2011 and 2010, respectively. All loans serviced for others were sold without recourse provisions and are not included in the accompanying consolidated balance sheets.

4. LOANS (continued)

The Bank has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Bank's accompanying consolidated balance sheets. The Bank and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2011 and 2010, the Bank was servicing loans for participants aggregating $5,390,000 and $5,482,000, respectively.

An analysis of the allowance for loan losses, by segment, follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
			(In Thousands)				
Allowance for loan losses:							
Balance December 31, 2008	$ 1,182	$ 2,964	$ 285	$ 98	$ —	$ 1	$ 4,530
Provision for loan losses	617	519	542	14	7	1	1,700
Loans charged-off	(42)	(131)	(449)	—	(4)	(1)	(627)
Recoveries of loans previously charged off	—	134	—	—	—	—	134
Balance December 31, 2009	1,757	3,486	378	112	3	1	5,737
Provision for loan losses	284	751	243	2	—	20	1,300
Loans charged-off	—	(81)	(40)	—	—	(12)	(133)
Recoveries of loans previously charged off	—	1	—	—	—	—	1
Balance December 31, 2010	2,041	4,157	581	114	3	9	6,905
Provision for loan losses	614	505	(106)	90	(1)	(2)	1,100
Loans charged-off	(144)	(380)	—	(77)	(1)	—	(602)
Recoveries of loans previously charged off	58	55	—	—	—	—	113
Balance December 31, 2011	$ 2,569	$ 4,337	$ 475	$ 127	$ 1	$ 7	$ 7,516

Further information pertaining to the allowance for loan losses follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
			(In Thousands)				
December 31, 2011							
Amount of allowance for loan losses for loans deemed to be impaired and individually evaluated	$ 144	$ 67	$ —	$ —	$ —	$ —	$ 211
Amount of allowance for loan losses for loans not deemed to be impaired and collectively evaluated	2,425	4,270	475	127	1	7	7,305
	$ 2,569	$ 4,337	$ 475	$ 127	$ 1	$ 7	$ 7,516
Loans deemed to be impaired	$ 3,176	$ 3,502	$ —	$ 306	$ —	$ —	$ 6,984
Loans not deemed to be impaired	378,096	400,841	42,269	27,029	459	631	849,325
	$ 381,272	$ 404,343	$ 42,269	$ 27,335	$ 459	$ 631	$ 856,309

4. LOANS (continued)

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity (In thousands)	Commercial	Consumer	Total
December 31, 2010							
Amount of allowance for loan losses for loans deemed to be impaired and individually evaluated	$ 68	$ 77	$ —	$ —	$ —	$ —	$ 145
Amount of allowance for loan losses for loans not deemed to be impaired and collectively evaluated	1,973	4,080	581	114	3	9	6,760
	$ 2,041	$ 4,157	$ 581	$ 114	$ 3	$ 9	$ 6,905
Loans deemed to be impaired	$ 2,117	$ 3,527	$ —	$ 97	$ —	$ 1	$ 5,742
Loans not deemed to be impaired	354,059	379,834	29,065	29,251	298	659	793,166
	$ 356,176	$ 383,361	$ 29,065	$ 29,348	$ 298	$ 660	$ 798,908

The following is a summary of past due and non-accrual loans:

	December 31, 2011				
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due (In Thousands)	Total Past Due	Loans on Non-accrual
Mortgage loans:					
Residential real estate	$ 6,550	$ 711	$ 1,648	$ 8,909	$ 2,945
Commercial real estate	5,255	—	1,477	6,732	3,502
Home equity	888	75	134	1,097	306
Consumer	1	—	—	1	—
Total loans	$ 12,694	$ 786	$ 3,259	$ 16,739	$ 6,753

	December 31, 2010				
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due (In Thousands)	Total Past Due	Loans on Non-accrual
Mortgage loans:					
Residential real estate	$ 4,165	$ 1,077	$ 1,099	$ 6,341	$ 2,117
Commercial real estate	4,227	1,461	1,696	7,384	3,527
Home equity	577	—	97	674	97
Consumer	75	—	1	76	1
Total loans	$ 9,044	$ 2,538	$ 2,893	$ 14,475	$ 5,742

At December 31, 2011 and 2010, there were no loans past due 90 days or more and still accruing interest.

4. LOANS (continued)

The following is a summary of impaired loans:

	December 31, 2011			December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In Thousands)					
Impaired loans without a valuation allowance:						
Residential real estate	$ 2,194	$ 2,194	$ —	$ 1,030	$ 1,030	$ —
Commercial real estate	2,498	2,498	—	3,020	3,020	—
Home equity	306	306	—	97	97	—
Consumer	—	—	—	1	1	—
Total	4,998	4,998	—	4,148	4,148	—
Impaired loans with a valuation allowance:						
Residential real estate	982	1,082	144	1,087	1,183	68
Commercial real estate	1,004	1,004	67	507	507	77
Total	1,986	2,086	211	1,594	1,690	145
Total impaired loans	$ 6,984	$ 7,084	$ 211	$ 5,742	$ 5,838	$ 145

The following is information pertaining to impaired loans:

	Year Ended December 31, 2011		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
	(In Thousands)		
Residential real estate	$ 2,843	$ 153	$ 153
Commercial real estate	4,714	190	190
Home equity loans	114	4	4
Total	$ 7,671	$ 347	$ 347

	Year Ended December 31,	
	2010	2009
	(In Thousands)	
Average investment in impaired loans	$ 7,488	$ 10,309
Interest income recognized on impaired loans	$ 364	$ 526
Interest income recognized on a cash basis on impaired loans	$ 364	$ 526

No additional funds are committed to be advanced in connection with impaired loans.

4. LOANS (continued)

The following is a summary of troubled debt restructurings for the year ended December 31, 2011:

	Number of Contracts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance
		(In Thousands)	
Residential mortgage	1	$ 231	$ 231
Commercial mortgage	1	503	503

A rate reduction of 2.25% for 15 years was granted on one residential real estate mortgage loan. The commercial mortgage loan was modified as part of a bankruptcy settlement to combine three separate loans into a single note with $67,000 being converted to unsecured debt. On both loans, management performed a discounted cash flow calculation to determine the amount of impairment reserve required on each of the troubled debt restructurings. Any reserve required is recorded through the provision for loan losses.

During the year ended December 31, 2011, neither of the two loans restructured in 2011 defaulted after restructuring. However, one residential mortgage loan restructured in 2010 with an outstanding balance of $751,000 defaulted in 2011.

Credit Quality Information

The Bank uses a seven-grade internal rating system for commercial real estate, construction, commercial and certain residential real estate loans as follows:

Loans rated 1-3B: Loans in this category are considered “pass” rated with low to average risk.

Loans rated 4: Loans in this category are considered “special mention.” These loans are currently protected, but exhibit conditions that have the potential for weakness. The borrower may be affected by unfavorable economic, market or other external conditions that may affect their ability to repay the debt. These may also include credits where there is deterioration of the collateral or have deficiencies which may affect our ability to collect on the collateral. This rating is consistent with the “Other Assets Especially Mentioned” category used by the FDIC regulatory agency.

Loans rated 5: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

Loans are assigned an initial grade at the origination of the loan. After origination, the Bank has a quality control program performed by an independent third-party. On a quarterly basis, all commercial and residential loan relationships with individual loans $500,000 or more are assigned a risk rating. An in-depth review is performed on all relationships totaling $850,000 or greater along with loans on the Bank’s Watchlist. Watchlist loans are those loans that are more than two payments past due at the end of the quarter, loans rated four or higher in a previous review, or loans past contractual maturity. Results of the review are reported to the Bank’s Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.

4. LOANS (concluded)

The following table presents the Bank's loans by risk ratings as of December 31, 2011 and 2010:

	December 31, 2011			
Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
	(In Thousands)			
1- 3B	$ 376,127	$ 400,169	$ 42,269	$ 459
4	3,794	2,960	—	—
5	1,351	1,214	—	—
6	—	—	—	—
	$ 381,272	$ 404,343	$ 42,269	$ 459

	December 31, 2010			
Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
	(In Thousands)			
1- 3B	$ 354,074	$ 376,648	$ 29,065	$ 298
4	975	1,877	—	—
5	1,127	4,836	—	—
6	—	—	—	—
	$ 356,176	$ 383,361	$ 29,065	$ 298

For home equity and consumer loans management uses delinquency reports as the key credit quality indicator.

5. FORECLOSED ASSETS

A summary of foreclosed assets is as follows:

	December 31,	
	2011	2010
	(In Thousands)	
Commercial property	$ 3,032	$ 2,790
Residential property	597	769
	$ 3,629	$ 3,559

Expenses applicable to foreclosed assets include the following:

	December 31,		
	2011	2010	2009
	(In Thousands)		
Net (gain) loss on sales of real estate	$ (61)	$ (120)	$ 66
Write-down of real estate	238	46	100
Operating expenses, net of rental income	861	800	512
	$ 1,038	$ 726	$ 678

6. PREMISES AND EQUIPMENT

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

	December 31, 2011	December 31, 2010	Estimated Useful Life
	(In Thousands)		
Premises:			
Land	$ 1,608	$ 1,608	N/A
Buildings	10,277	5,605	3-65 years
Leasehold improvements	802	329	10 years
Equipment	4,225	3,401	3-25 years
Construction in progress	—	2,962	N/A
	16,912	13,905	
Less accumulated depreciation and amortization	(6,315)	(5,920)	
	$ 10,597	$ 7,985	

Depreciation and amortization expense for the years ended December 31, 2011, 2010 and 2009 amounted to $531,000, $443,000 and $480,000, respectively.

7. DEPOSITS

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

	December 31, 2011	December 31, 2010
	(In Thousands)	
Regular	$ 65,261	$ 57,848
Money market	256,971	239,909
NOW	29,988	25,889
Demand	63,092	53,539
Total non-certificate accounts	415,312	377,185
Term certificates less than $100,000	171,276	179,448
Term certificates of $100,000 or more	200,985	173,327
Total certificate accounts	372,261	352,775
Total deposits	$ 787,573	$ 729,960

The maturity distribution of term certificates is as follows:

	December 31,			
	2011		2010	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within one year	$ 276,843	1.01 %	$ 292,937	1.42 %
Over 1 to 2 years	41,823	1.37	47,386	1.83
Over 2 to 3 years	16,696	1.90	7,197	2.67
Over 3 to 4 years	3,528	2.24	2,751	2.89
Over 4 to 5 years	33,371	2.66	2,504	2.46
	$ 372,261	1.25 %	$ 352,775	1.52 %

7. DEPOSITS (concluded)

A summary of interest expense on deposits is as follows:

	Years Ended December 31,		
	2011	2010	2009
		(In Thousands)	
Regular	$ 126	$ 133	$ 117
Money market	1,516	2,240	2,132
NOW	15	27	27
Term certificates	5,094	5,725	8,058
	$ 6,751	$ 8,125	$ 10,334

8. BORROWED FUNDS

Federal Home Loan Bank Advances

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

	December 31,			
	2011		2010	
Maturing During the Year Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
		(Dollars in Thousands)		
2011	$ —	— %	$ 66,500	2.39 %
2012	105,000	0.47	14,000	2.19
2013	19,500	2.55	18,000	2.69
2014	65,000	3.09	63,000	3.13
2015	10,000	2.55	10,000	2.55
2016	12,000	1.76	—	—
Thereafter (1)	35,971	4.08	36,080	4.08
	$ 247,471	1.99 %	$ 207,580	2.93 %

(1) At December 31, 2011 and 2010, includes an amortizing advance with a balance of $971,000 and $1,080,000, respectively, due in November 2018, requiring monthly principal and interest of $14,000.

All borrowings from the Federal Home Loan Bank of Boston are secured by a blanket lien on “qualified collateral” defined principally as 60%-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 and 50% of the carrying value of loans on certain commercial property. In addition, 90% of the fair value of certain government-sponsored enterprise debt and mortgage-backed securities held in Hingham Securities Corporation II with a fair value of $93,551,000 and $92,027,000 at December 31, 2011 and 2010, respectively, are used as collateral.

Expected maturities may differ from contractual maturities because certain borrowings, aggregating $29.0 million at December 31, 2011, can be called by the FHLB after an initial specified term.

8. BORROWED FUNDS (concluded)

Available Lines of Credit

The Bank 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, 2011. No amounts were drawn on the line of credit as of December 31, 2011 and 2010. Additionally, the Bank has registered with the Federal Reserve Bank to access the discount window. The Bank may access this line by assigning assets as collateral.

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, 2011, future principal payments amounted to $42,000, $45,000, $48,000, $50,000, $54,000 and $868,000, for the years ending December 31, 2012, 2013, 2014, 2015, 2016 and, thereafter, respectively.

9. INCOME TAXES

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

	Years Ended December 31,		
	2011	2010	2009
		(In Thousands)	
Current tax provision:			
Federal	$ 6,942	$ 5,854	$ 4,311
State	1,979	1,668	1,239
	8,921	7,522	5,550
Deferred tax benefit:			
Federal	(510)	(542)	(350)
State	(138)	(132)	(109)
	(648)	(674)	(459)
	$ 8,273	$ 6,848	$ 5,091

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

	Years Ended December 31,		
	2011	2010	2009
		(In Thousands)	
Statutory rate	35.0 %	35.0 %	34.0 %
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	5.9	5.9	5.7
Bank-owned life insurance	(0.8)	(0.8)	(0.9)
Other, net	0.6	—	—
Effective rate	40.7 %	40.1 %	38.8 %

9. INCOME TAXES (concluded)

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

	December 31, 2011	December 31, 2010
	(In Thousands)	
Deferred tax assets:		
Federal	$ 3,231	$ 2,731
State	913	772
	4,144	3,503
Deferred tax liabilities:		
Federal	(592)	(576)
State	(127)	(124)
	(719)	(700)
Net deferred tax asset	$ 3,425	$ 2,803

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

	December 31, 2011	December 31, 2010
	(In Thousands)	
Allowance for loan losses	$ 3,070	$ 2,821
Employee benefit plans	527	460
Fees on loans	(514)	(475)
Net unrealized gain on securities available for sale	(131)	(105)
Non-accrual interest	72	53
Foreclosed real estate expenses	367	170
Other, net	34	(121)
Net deferred tax asset	$ 3,425	$ 2,803

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

	Years Ended December 31, 2011	2010	2009
		(In Thousands)	
Balance at beginning of year	$ 2,803	$ 1,990	$ 1,362
Deferred tax benefit	648	674	459
Deferred tax effects of net unrealized gain/loss on securities available for sale	(26)	139	169
Balance at end of year	$ 3,425	$ 2,803	$ 1,990

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 $1,545,000 has not been provided.

The Bank’s income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2008 through 2011. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2008 are open.

10. 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, 2011 and 2010, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2011	2010
	(In Thousands)	
Unused lines of credit	$ 56,455	$ 45,512
Commitments to originate loans:		
Commercial mortgages	26,079	11,550
Residential mortgages	32,504	21,817
Unadvanced funds on construction loans	13,695	8,996
Standby letters of credit	10	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.

Employment agreements

The Bank has entered into employment agreements with certain senior executives. The original terms of the agreements are for two or three 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. Two of these agreements provide for certain death benefits, which are being accrued ratably over the employees' remaining service period. For the years ended December 31, 2011, 2010 and 2009, expenses attributable to the agreements amounted to $69,000, $288,000 and $421,000, respectively.

10. COMMITMENTS AND CONTINGENCIES (concluded)

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2011, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount (In Thousands)
2012	$ 274
2013	281
2014	265
2015	204
2016	125
Thereafter	426
Total	$ 1,575

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, 2011, 2010 and 2009 amounted to $270,000, $178,000 and $178,000, respectively.

Legal claims

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.

11. 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 to average assets (as defined). Management believes, as of December 31, 2011 and 2010, that the Bank meets all capital adequacy requirements to which it is subject.

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2011, 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, 2011 and 2010 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
			(Dollars in Thousands)			
December 31, 2011						
Total Capital to Risk-Weighted Assets	$ 89,608	13.55 %	$ 52,903	8.0 %	$ 66,129	10.0 %
Tier 1 Capital to Risk-Weighted Assets	82,030	12.40	26,452	4.0	39,677	6.0
Tier 1 Capital to Average Assets	82,030	7.47	43,926	4.0	54,907	5.0
December 31, 2010						
Total Capital to Risk-Weighted Assets	$ 79,465	12.72 %	$ 49,994	8.0 %	$ 62,493	10.0 %
Tier 1 Capital to Risk-Weighted Assets	72,540	11.61	24,997	4.0	37,496	6.0
Tier 1 Capital to Average Assets	72,540	7.18	40,389	4.0	50,487	5.0

12. 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, 2011, there were 3,000 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:

	2011		2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	6,500	$ 32.89	5,000	$ 31.96	7,500	$ 26.31
Granted	4,500	51.95	1,500	36.00	—	—
Exercised	(1,500)	29.54	—	—	(2,500)	15.00
Outstanding at end of year	9,500	$ 42.45	6,500	$ 32.89	5,000	$ 31.96
Options exercisable at end of year	9,500	$ 42.45	6,500	$ 32.89	5,000	$ 31.96

12. STOCK OPTION PLANS (concluded)

As of December 31, 2011, the aggregate intrinsic value of options outstanding amounted to $70,000.

The total intrinsic value of options exercised during the years ended December 31, 2011 and 2009 was $26,000 and $28,000, respectively. There were no options exercised in the year ended December 31, 2010.

Options outstanding consist of the following:

	December 31,			
	2011		2010	
	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life in Years
Option price				
$35.25 ………………………………	2,000	5	2,000	6
30.00 ………………………………	1,500	7	1,500	8
29.54 ………………………………	—	—	1,500	1
36.00 ………………………………	1,500	8	1,500	9
51.95 ………………………………	4,500	9	—	—
	9,500		6,500	

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. There were no options granted in 2009.

	2011	2010
Expected dividends	2.3%	3.1%
Expected term	5 years	5 years
Expected volatility	17%	14%
Risk-free interest rate	2.25%	2.49%

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 term is based on historical exercise experience. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2011 and 2010 was $6.72 and $3.37, respectively.

For the years ended December 31, 2011 and 2010, share-based compensation expense applicable to the plan amounted to $30,000 and $5,000 and the recognized tax benefit related to this expense amounted to $12,000 and $2,000, respectively. There was no share-based compensation expense in 2009 as there were no options granted.

13. RELATED PARTY TRANSACTIONS

The Bank has a policy providing that loans (excluding passbook loans) will not be granted to directors, officers and other employees of the Bank. During the years ended December 31, 2011, 2010 and 2009, legal fees paid by the Bank to a law firm owned by certain directors of the Bank amounted to $484,000, $434,000 and 431,000, respectively. Such fees related to representation of the Bank with foreclosure and collection actions, loan closing costs borne by the Bank and certain other routine legal matters. The Bank believes that the foregoing sums have been reasonable in relation to the services provided to the Bank.

14. 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 59½, if earlier. For the years ended December 31, 2011, 2010 and 2009, expense attributable to the plan amounted to $303,000, $290,000 and $261,000, respectively.

Supplemental Employee Retirement 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 $14,524,000 and $14,074,000 at December 31, 2011 and 2010, 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 $604,000, $604,000 and $595,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

15. 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. 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.

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

<u>Cash and cash equivalents:</u> 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.

<u>Certificates of deposit:</u> Fair values for certificates of deposit are based upon quoted market prices.

<u>Securities available for sale:</u> 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. At December 31, 2011 and 2010, all fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

<u>Federal Home Loan Bank stock:</u> 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.

<u>Loans:</u> 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 market 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.

15. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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 market 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 current incremental borrowing rates in the market 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.

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, 2011 and 2010, 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 are summarized below. There are no liabilities measured at fair value on a recurring basis.

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
Securities available for sale:				
Debt securities	$ —	$ 93,551	$ —	$ 93,551
Equity securities	3,138	—	—	3,138
Total securities available for sale	$ 3,138	$ 93,551	$ —	$ 96,689

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
Securities available for sale:				
Debt securities	$ —	$ 92,027	$ —	$ 92,027
Equity securities	3,044	—	—	3,044
Total securities available for sale	$ 3,044	$ 92,027	$ —	$ 95,071

15. FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required, from time to time, to measure certain other 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 hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2011 and 2010. There are no liabilities measured at fair value on a non-recurring basis at December 31, 2011 or 2010.

	December 31, 2011			Year Ended December 31, 2011
	Level 1	Level 2	Level 3	Total Losses
		(In Thousands)		(In Thousands)
Impaired loans	$ —	$ —	$ 1,326	$ (112)
Foreclosed assets	—	—	3,347	(571)
	$ —	$ —	$ 4,673	$ (683)

	December 31, 2010			Year Ended December 31, 2010
	Level 1	Level 2	Level 3	Total Losses
		(In Thousands)		(In Thousands)
Impaired loans	$ —	$ —	$ 1,594	$ (20)
Foreclosed assets	—	—	3,061	(46)
	$ —	$ —	$ 4,655	$ (66)

Losses applicable to impaired loans and foreclosed assets are estimated using the appraised value of the underlying collateral, discounting factors and other factors. The losses applicable to impaired loans are 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. Management adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses. Management will consider the circumstances of the individual loan or foreclosed asset when determining any estimated losses. This may include a review of an independent appraisal and if deemed necessary, an updated appraisal will be performed.

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying amounts, of the Bank's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Bank.

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In Thousands)		
Financial assets:				
Cash and cash equivalents	$ 116,340	$ 116,340	$ 67,864	$ 67,864
Certificates of deposit	13,405	13,174	13,929	14,006
Securities available for sale	96,689	96,689	95,071	95,071
Federal Home Loan Bank stock	13,373	13,373	13,373	13,373
Loans, net	849,776	883,770	792,910	801,755
Accrued interest receivable	2,858	2,858	2,992	2,992
Financial liabilities:				
Deposits	787,573	792,059	729,960	732,551
Federal Home Loan Bank advances	247,471	260,259	207,580	215,715
Mortgage payable	1,107	1,465	1,147	1,305
Mortgagors' escrow accounts	2,517	2,517	2,344	2,344
Accrued interest payable	475	475	591	591

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2011 and 2010 are as follows:

	Year Ended December 31, 2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 12,231	$ 12,201	$ 12,089	$ 11,923
Interest expense	2,912	3,171	3,268	3,267
Net interest income	9,319	9,030	8,821	8,656
Provision for loan losses	225	275	300	300
Net interest income, after provision for loan losses	9,094	8,755	8,521	8,356
Other income	446	422	421	411
Operating expenses	4,285	3,936	3,959	3,911
Income before income taxes	5,255	5,241	4,983	4,856
Income tax provision	2,148	2,133	2,016	1,976
Net income	$ 3,107	$ 3,108	$ 2,967	$ 2,880
Earnings per common share:				
Basic (1)	$ 1.46	$ 1.46	$ 1.40	$ 1.36
Diluted (1)	$ 1.46	$ 1.46	$ 1.40	$ 1.35
Cash dividends declared per common share	$ 0.51 (2)	$ 0.25	$ 0.25	$ 0.24

	Year Ended December 31, 2010			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 11,965	$ 11,898	$ 11,502	$ 11,460
Interest expense	3,567	3,724	3,812	3,995
Net interest income	8,398	8,174	7,690	7,465
Provision for loan losses	300	300	300	400
Net interest income, after provision for loan losses	8,098	7,874	7,390	7,065
Other income	463	407	380	377
Operating expenses	3,846	3,693	3,792	3,647
Income before income taxes	4,715	4,588	3,978	3,795
Income tax provision	2,017	1,794	1,557	1,480
Net income	$ 2,698	$ 2,794	$ 2,421	$ 2,315
Earnings per common share:				
Basic (1)	$ 1.27	$ 1.32	$ 1.14	$ 1.09
Diluted (1)	$ 1.27	$ 1.32	$ 1.14	$ 1.09
Cash dividends declared per common share	$ 0.49 (3)	$ 0.24	$ 0.23	$ 0.23

(1) The total of the four quarters' earnings per share does not agree to the year-to-date earnings per share due to rounding.
(2) Includes a special dividend of $0.26 per common share declared on November 23, 2011.
(3) Includes a special dividend of $0.25 per common share declared on November 19, 2010.

STOCK PERFORMANCE GRAPH

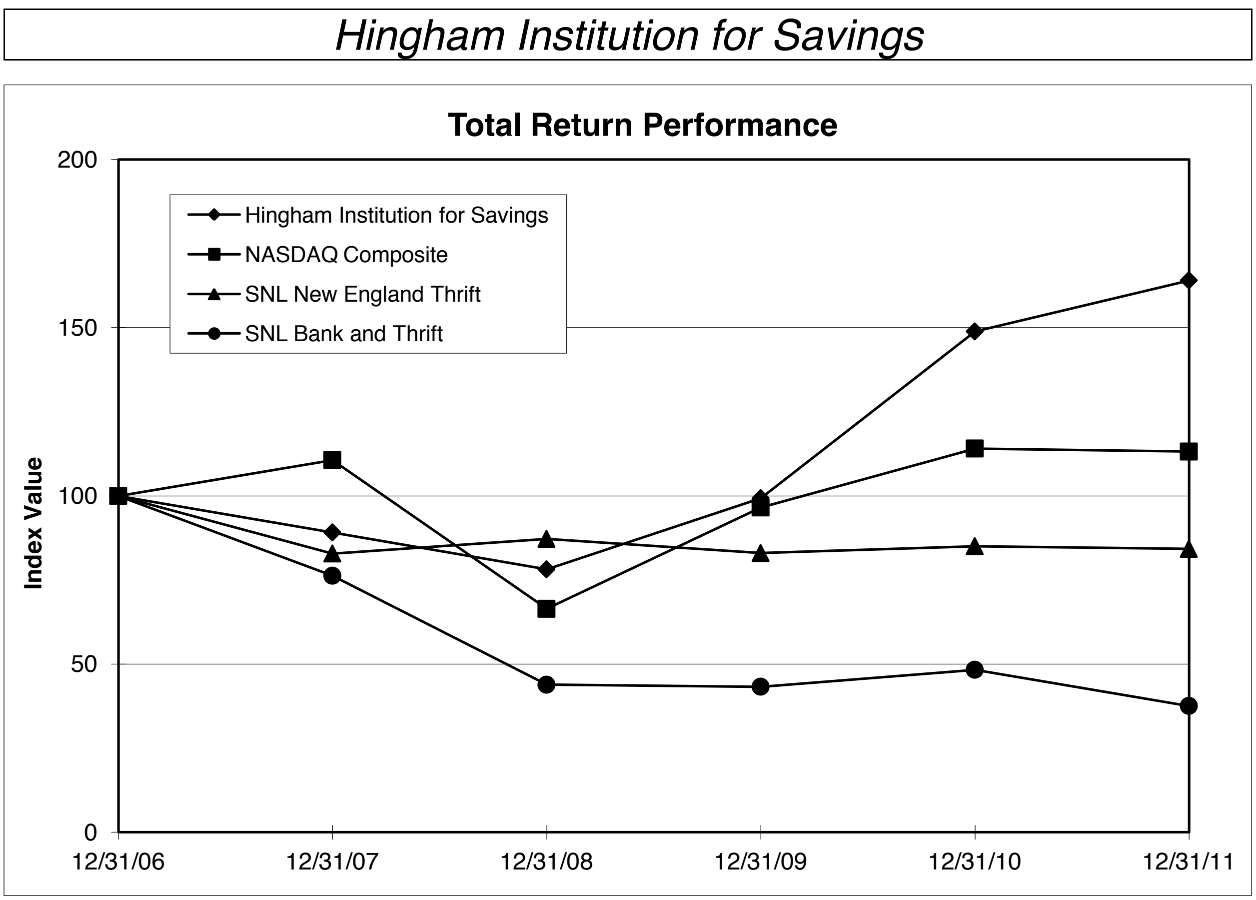
The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total return on the Bank's Common Stock since December 31, 2006 through December 31, 2011. For comparative purposes, changes in the cumulative total return on the three indices of publicly traded stocks (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, 2006 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.



	PERIOD ENDING					
INDEX	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Hingham Institution for Savings	100.00	89.12	78.16	99.31	148.86	164.05
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL New England Thrift Index	100.00	82.86	87.21	82.98	85.05	84.22
SNL Bank and Thrift	100.00	76.26	43.85	43.27	48.30	37.56

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

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

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Vice President –Administration

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(800) 288-9541

Online Registered Shareholder Access
www.bnymellon.com/shareowner/equityaccess

Stockholder Inquiries
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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, 2011, 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, 2011, there were approximately 365 stockholders of record, holding 748,530 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
2010		
First Quarter	$ 34.70	$ 30.32
Second Quarter	38.05	33.86
Third Quarter	41.50	35.02
Fourth Quarter	45.00	37.08
2011		
First Quarter	$ 51.51	$ 42.80
Second Quarter	53.00	44.77
Third Quarter	57.50	45.75
Fourth Quarter	50.00	46.15

The closing sale price of the Bank's common stock at December 31, 2011 was $47.80 per share.

Branch Offices

BOSTON

Beacon Hill
80 Charles Street
Boston, MA 02114

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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