SUBSCRIPTION AND DIRECT COMMUNITY OFFERING CIRCULAR

1,250,000 Shares

HINGHAM INSTITUTION FOR SAVINGS

Common Stock

Hingham Institution for Savings, a Massachusetts-chartered savings bank (the "Bank"), is offering for sale in a subscription offering (the "Subscription Offering") and in a direct community offering (the "Community Offering") 1,250,000 shares (the "Shares") of its common stock, $1.00 par value per share (the "Common Stock"), to be issued upon the Bank's conversion from mutual to stock form of organization (the "Conversion"). The Conversion has been approved by the Massachusetts Commissioner of Banks (the "Commissioner") and the Corporators and Trustees of the Bank. The offering of Shares is being made first in a Subscription Offering to persons who had certain deposit accounts of $50 or more with the Bank on May 31, 1988 and second to Trustees, officers and employees of the Bank. Simultaneously, but subject to the rights of all persons having subscription rights for Shares, the Shares are being offered in the Community Offering to persons residing or owning real property in, individuals or entities having their principal place of business in, or governmental agencies or subdivisions located in Hingham, Massachusetts and its surrounding communities. The Bank reserves the right in its sole discretion and for any reason it deems appropriate to reject any orders for Shares from purchasers in the Community Offering. Any Shares remaining unsold after the Subscription and Community Offering are expected to be sold to the general public in an underwritten public offering (the "Public Offering").

Purchasers will pay the maximum purchase price of $11.50 per Share (the "Maximum Purchase Price") at the time the order is placed, subject to adjustment if the actual purchase price differs from the Maximum Purchase Price. **Subject to the approval of the Commissioner, the total number of Shares to be issued in the Conversion may be significantly increased or decreased or the price per Share payable by subscribers or purchasers may be increased or reduced to reflect market conditions or changes in the estimated pro forma market value of the Bank following the commencement of the Subscription and Community Offering, all without resolicitation of subscriptions or purchase orders and without affording subscribers or purchasers an opportunity to modify or cancel their subscriptions or purchase orders.** See "THE CONVERSION—Purchase Price and Number of Shares to be Issued."

The maximum number of Shares which may be purchased in the Subscription and Community Offering by any eligible account holder, Trustee, officer or employee of the Bank, or qualified community purchaser is 43,750 except that each holder of a qualifying deposit in excess of $290,614 on May 31, 1988 may subscribe for a number of Shares in excess of 43,750 up to a maximum of 62,500 Shares depending on the particular amount of such qualifying deposit(s). In addition, the maximum number of Shares which may be purchased by any person, together with such person's associates or group acting in concert, is 62,500 Shares. The minimum purchase is 25 Shares. Certain other purchase and sale limitations also apply. See "THE CONVERSION—Procedures in Subscription and Community Offerings; Purchase Limitations."

Orders for Shares in the Subscription and Community Offering must be received before 3:00 p.m., Eastern Standard Time, on November 30, 1988, unless extended by the Bank with the approval of the Commissioner. Such orders must be returned with the accompanying order form and order certification to the Bank, thereby designating the number of Shares being purchased, together with full payment for such Shares at the Maximum Purchase Price shown below, or with instructions authorizing withdrawal of such amount from certain deposit accounts at the Bank. **Subscription and community purchase rights are non-transferable, either directly or indirectly, and may be exercised only by the person to whom they are granted and only for such person's own account. Each person exercising such subscription or purchase rights will be required to certify that such person is purchasing Shares for such person's own account, and that such person has no agreement or understanding for the sale or transfer of such Shares. Regulations of the Commissioner prohibit any such agreement or understanding for the sale or transfer of Shares, and authorize the Commissioner to take such remedial measures as he may deem appropriate, including the imposition of civil penalties.** See "THE CONVERSION—Procedures in Subscription and Community Offerings."

Prior to this offering, the Bank, as a mutual savings bank, has never issued shares of capital stock. There is no assurance that an active and liquid trading market for the Common Stock will develop after issuance of the Shares in the Conversion. The Bank has applied to have the Common Stock quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") under the symbol "HIFS." See "MARKET FOR THE COMMON STOCK."

THESE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE MASSACHUSETTS COMMISSIONER OF BANKS, THE MUTUAL SAVINGS CENTRAL FUND, INC., THE FEDERAL DEPOSIT INSURANCE CORPORATION OR BY ANY OTHER GOVERNMENT OFFICIAL OR AGENCY, NOR HAS ANY SUCH COMMISSIONER, FUND, CORPORATION, OFFICIAL, AGENCY OR OTHER REGULATORY BODY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS SUBSCRIPTION AND DIRECT COMMUNITY OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

	Maximum Purchase Price(1)	Estimated Maximum Conversion Expenses(2)	Estimated Maximum Net Conversion Proceeds(3)
Per Share	$11.50	$.88	$10.62
Total (4)	$14,375,000	$1,100,000	$13,275,000

(1) The Maximum Purchase Price of $11.50 has been determined on the basis of an independent valuation of the estimated total pro forma market value of the Shares, and is the maximum amount to be paid for each Share subscribed for or purchased in the Subscription and Community Offering. The actual purchase price, which will be the same as the price in any Public Offering, is expected to be in the range of $8.50 to $11.50 per Share, and will not be finally determined until after completion of the Subscription and Community Offering. Any difference between $11.50 and the actual purchase price paid by a subscriber or an eligible purchaser in the Subscription and Community Offering will be refunded or the withdrawal authorization will be reduced unless it is requested on the order form that the difference be applied to the purchase of additional available whole Shares at the actual purchase price, subject to applicable purchase limitations. See "THE CONVERSION—Procedures in Subscription and Community Offerings; Purchase Price and Number of Shares to be Issued."

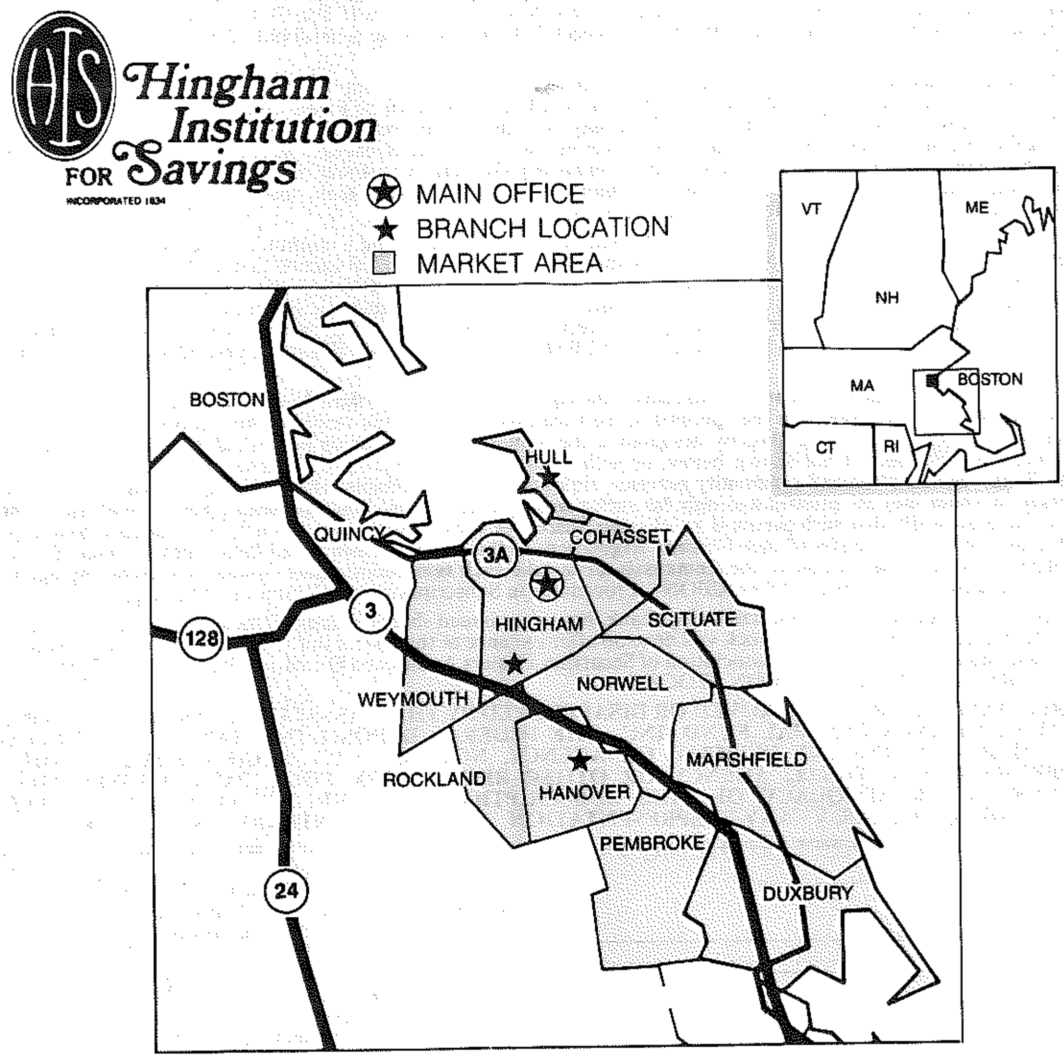
(2) Consists of estimated expenses of the Bank in the Conversion, including an underwriting discount relating to any unsubscribed Shares to be sold in any Public Offering and other expenses of the Conversion, based upon certain assumptions. See "PRO FORMA DATA."

(3) Actual net proceeds may vary substantially from estimated amounts depending upon the number of Shares issued, the actual purchase price per Share and other factors. Estimated minimum net conversion proceeds would be $9,625,000 or $7.70 per Share. See "THE CONVERSION—Purchase Price and Number of Shares to be Issued" and "PRO FORMA DATA."

(4) These totals do not reflect the exercise of an over-allotment option, which is expected to be granted to the underwriters, to purchase, on the same terms as other Shares of Common Stock purchased by the underwriters in any Public Offering, up to an additional 15% of the total number of Shares offered in the Conversion, solely to cover over-allotments, if any. See "THE CONVERSION—Public Offering."

The date of this Subscription and Direct Community Offering Circular is November 8, 1988.

THE SHARES OF COMMON STOCK WHICH MAY BE SUBSCRIBED FOR IN THIS OFFERING ARE NOT DEPOSIT ACCOUNTS AND ARE NOT INSURED BY THE DEPOSIT INSURANCE FUND OF THE MUTUAL SAVINGS CENTRAL FUND, INC., THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER INSURER. SUCH SECURITIES ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THAT ACT.



IN ANY CONTEMPLATED PUBLIC OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY

This Summary is qualified in its entirety by the more detailed information and by the Financial Statements and accompanying notes thereto appearing elsewhere herein.

Hingham Institution for Savings

Hingham Institution for Savings is a Massachusetts-chartered savings bank (the "Bank") headquartered in Hingham, Massachusetts. The Bank was originally chartered in 1834, which makes it the oldest financial institution with its main office in Hingham. In addition to its main office, with a nearby drive-up facility on Central Street, the Bank has banking offices in South Hingham, Hanover and Hull. At September 30, 1988, the Bank had total assets of $147.6 million, total deposits of $124.3 million and total surplus (net worth) of $11.0 million.

The Bank is engaged principally in the business of attracting deposits from the general public through its banking offices, and investing those deposits in real estate mortgage, commercial, consumer and real estate construction loans. At September 30, 1988, approximately 75.5% of the Bank's total loan portfolio was invested in residential mortgages (including home equity, second mortgages and construction, net of unadvanced loan funds), 19.7% in commercial real estate loans (including construction, net of unadvanced loan funds), 0.4% in commercial loans and 4.4% in consumer loans. While the Bank has diversified its lending portfolio, the Bank intends to continue to focus on the origination of residential real estate loans in its primary market area. The Bank also invests in securities issued by the United States government and agencies thereof, and in corporate debt and equity securities. The Bank offers a variety of deposit accounts to individuals and commercial customers.

The Bank's primary market area consists of Hingham and its surrounding communities, which include the towns of Cohasset, Duxbury, Hanover, Hull, Marshfield, Norwell, Pembroke, Scituate, Rockland and Weymouth. Hingham, with approximately 20,000 residents, is located approximately 16 miles south of Boston in an area commonly known as the "South Shore." Due in part to its proximity to Boston, the Bank's market area has experienced considerable residential development in recent years and the area's residential property values have increased significantly. According to the "Plymouth County Comp Report," the average value of a home in Hingham has increased from $130,000 to $233,225 over the past five years. While not as significant as the growth in the residential real estate market, commercial real estate development in the Bank's market area has also increased. The South Shore in general, and the Bank's market area in particular, benefit from the attractiveness of area properties, accessibility to the waterfront and places of historic significance, and from the commuting distance to many major Boston area employers.

During the past several years, the Bank has made an effort to diversify and expand its lending activities in order to reduce the sensitivity of its earnings to fluctuations in market interest rates. Historically, the Bank emphasized long-term, fixed-rate loans secured by single-family residences and funded such loans with deposits which were more sensitive to market rates. The Bank has taken actions to increase the interest-rate sensitivity and to shorten the term of its assets, while extending the maturity of its liabilities.

The Bank originates both fixed and adjustable-rate residential mortgage loans, but the majority of such originations carry adjustable rates. Of the permanent, single-family residential loans originated by the Bank during the nine months ended September 30, 1988, 63.2% provide for periodic adjustments to the interest rate. It is the Bank's intention to originate all fixed-rate loans in conformance with the standards and limitations established by the Federal Home Loan Mortgage Corporation (the "FHLMC") in order to enable the Bank to sell such loans in the secondary market if and when appropriate. The Bank considers regular savings and special notice accounts to be core deposits with effective maturities beyond other short-term interest-bearing liabilities. However, for purposes of calculating the deficiency of earning assets over interest-bearing liabilities, maturing or adjusting in one year, the Bank has allocated a substantial percentage of such core deposits as maturing within one year, consistent with industry practice, thus causing a considerable increase in the deficiency. Based on such calculation, the one-year deficiency was $38.1 million or 25.8% of total assets at September 30, 1988. In addition to focusing on the interest-rate sensitivity of its loan portfolio, the Bank has established an investment policy that emphasizes short-term investments. As of September 30, 1988, the weighted average life of the Bank's portfolio of short-term investments and bonds and obligations was 1.2 years.

The Bank reported net income of $1.6 million, $1.4 million and $915,000 in 1985, 1986 and 1987, respectively, and $585,000 and $690,000 during the nine months ended September 30, 1987 and 1988, respectively. Net income in 1986 and 1987 decreased primarily as a result of increases in the provision for loan losses relating to commercial loans to a certain borrower that were subsequently charged off. The Bank has since decreased its level of commercial lending. See "BUSINESS—Asset Quality—Non-performing Assets." A reduction in other income also affected the Bank's earnings in 1987 and in the first nine months of 1988. Net interest income, however, increased from $3.5 million in 1985 to $4.1 million and $4.3 million in 1986 and 1987, respectively. Net interest income for the first nine months of 1988 increased from $3.1 million in the comparable 1987 period to $3.4 million. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and "SELECTED FINANCIAL DATA."

At September 30, 1988, the Bank's total capital to total assets ratio of 7.7% exceeded capital maintenance requirements of the Federal Deposit Insurance Corporation (the "FDIC"), which call for a ratio of at least 6.0%. Based on anticipated net conversion proceeds of $11,450,000 at the estimated midpoint of the current valuation range, the total capital to total assets ratio would have been 14.3% as of September 30, 1988. See "PRO FORMA DATA" and "POWERS AND REGULATION—Deposit Insurance: The FDIC and the Central Fund."

The Bank is subject to examination by the Commissioner and the FDIC. It is also subject to regulation incidental to its membership in the Federal Home Loan Bank ("FHLB") of Boston, which is one of the 12 regional banks comprising the Federal Home Loan Bank System.

The Bank's main office is located at 55 Main Street, Hingham, Massachusetts 02043, and its telephone number is (617) 749-2200. The Bank has established a special extension (ext. 332) for questions related to the Conversion.

The Conversion

The Bank has adopted a plan of conversion (the "Plan of Conversion"), pursuant to which the Bank would be converted from a Massachusetts-chartered savings bank in mutual form to a Massachusetts-chartered savings bank in stock form. The Plan of Conversion has been approved by the Commissioner and by the Trustees and the Corporators of the Bank. The Conversion is intended to provide an increased capital base for the Bank's activities. With such proceeds the Bank will be able to expand its lending, investment and deposit-taking activities. The Bank may also make expenditures on manpower, technology and facilities to help it compete more effectively with other financial service providers. The capital stock structure will also permit consideration of adopting a holding company structure after the Conversion, subject to regulatory and stockholder approval. See "USE OF PROCEEDS" and "THE CONVERSION—Business Purposes of the Conversion." As part of the Conversion, the Bank is making a Subscription Offering to certain depositors, and to the Trustees, officers and employees of the Bank, in accordance with the priorities described below. Simultaneously, but subject to the rights of all persons having subscription rights for Shares, the Shares are being offered in the Community Offering. Any Shares remaining unsold after the Subscription and Community Offering are expected to be sold to the general public in the Public Offering. The actual price to be paid for Shares in the Subscription and Community Offering ("Actual Purchase Price") and the price to be paid for Shares in the Public Offering will be the same. See "THE CONVERSION—Purchase Price and Number of Shares to be Issued."

Subscription and Community Offering

The Shares are being offered for sale to depositors ("Eligible Account Holders") who held deposit accounts of $50 or more ("Qualifying Deposits") with the Bank on May 31, 1988, and to Trustees, officers and employees of the Bank (the "Subscription Rights"). Qualifying Deposits do not include escrow accounts or savings bank life insurance policies. *Subscription Rights will expire at 3:00 p.m., Eastern Standard Time, on November 30, 1988, unless extended by the Bank with the approval of the Commissioner (the "Subscription Expiration Date").*

Concurrently with the Subscription Offering, the Bank is offering Shares to persons residing or owning real property in, individuals or entities having their principal place of business in, or governmental agencies or subdivisions located in, any of the following towns within Massachusetts: Hingham, Cohasset, Duxbury, Hanover, Hull, Marshfield, Norwell, Pembroke, Scituate, Rockland and Weymouth (such towns constituting the Bank's "Community Reinvestment Act area") ("Community Purchasers"). As part of the Community Offering, the Bank will accept purchase requests from Community Purchasers and will fill such requests to the extent Shares are available after all the subscriptions in the Subscription Offering have been satisfied. If Community Purchasers request to purchase more shares than are available, certain Community Purchasers who are natural persons residing in the Bank's Community Reinvestment Act area will have priority over all other Community Purchasers. See "THE CONVERSION—Community Offering; Procedures in Subscription and Community Offerings; Purchase Limitations."

Pursuant to the Plan of Conversion, each Eligible Account Holder and each Trustee, officer and employee of the Bank, as well as each Community Purchaser, is entitled to subscribe for up to 43,750 Shares (3.5% of the total number of Shares offered in the Subscription and Community Offering), except that Eligible Account Holders with Qualifying Deposits in excess of $290,614 on May 31, 1988 may subscribe for a greater number of Shares based on the particular amount of their Qualifying Deposits, but not to exceed 62,500 Shares (5% of the total number of Shares offered in the Subscription and Community Offering). The Subscription Rights of Trustees, officers and employees are subordinate, under certain circumstances, to the Subscription Rights of Eligible Account Holders. The minimum subscription or purchase is 25 Shares. See "THE CONVERSION—Purchase Limitations."

Purchasers in the Conversion are subject to the additional limitation that no person, together with any associates or group acting in concert, may subscribe for or purchase in the aggregate in the Subscription and Community Offering and the Public Offering more than 62,500 Shares (5% of the total number of Shares offered in the Subscription and Community Offering). Each person subscribing for or purchasing Shares in the Subscription and Community Offering will be required to confirm that such purchase does not conflict with the purchase limitations set forth above and elsewhere in this Offering Circular. The determinations of the Bank with respect to Subscription Rights and purchase limitations shall be final and conclusive. See "THE CONVERSION—Procedures in Subscription and Community Offerings; Purchase Limitations."

Subscription Rights are non-transferable and may be exercised only by the person to whom they are granted and only for such person's own account. Similarly, Community Purchasers may not transfer rights to purchase Shares in the Community Offering. Each person exercising Subscription Rights or purchase rights will be required to certify that such person is purchasing Shares for such person's own account, and that such person has no agreement or understanding for the sale or transfer of Subscription Rights, purchase rights or Shares. The regulations of the Commissioner prohibit any such agreement or understanding to transfer the legal or beneficial ownership of Subscription Rights, purchase rights or the underlying Shares to the account of another person and authorize the Commissioner to take such remedial measures as he deems appropriate, including the revocation of purchases and the imposition of civil penalties. See "THE CONVERSION—Subscription Offering; Community Offering—Non-transferability of Subscription and Purchase Rights."

The Bank intends for a period of time after the Conversion to scrutinize transfers of the Shares with a view to determining whether any prohibited agreements or understandings have been made and to report any suspected violations of these regulations to the Commissioner.

Upon completion of the sale of all Shares offered in the Conversion, subscribers and purchasers will be notified by mail of the number of Shares for which their subscriptions or orders have been accepted and the Actual Purchase Price of the Shares in the Subscription and Community Offering. Stock certificates will be delivered as soon as practicable thereafter.

Purchase Price

The Maximum Purchase Price of $11.50 is the amount to be paid initially by a person subscribing for or purchasing Shares in the Subscription and Community Offering. The Actual Purchase Price is expected to be within the range of $8.50 to $11.50 per Share, based on an independent valuation of the estimated total pro forma market value of the Shares. The Actual Purchase Price and the price of the Shares in the Public Offering will be the same. See "THE CONVERSION—Purchase Price and Number of Shares to be Issued." Payment may be made (i) by money order, by certified, treasurer's or bank cashier's check issued by any bank, or by check or negotiable order of withdrawal drawn on the Bank, in each case payable to the Bank directly and not by endorsement, and provided that the foregoing will only be accepted subject to collection and payment, or (ii) by appropriate authorizations for withdrawal from certain deposit accounts of the Bank (excluding Individual Retirement Accounts, Keogh and other similar accounts, and also excluding insurance escrow and tax escrow accounts). To the extent that the Actual Purchase Price is less than the Maximum Purchase Price, the resulting excess payment will be refunded or the withdrawal authorization will be reduced, unless the purchaser has requested on the order form to apply such excess payment to the purchase of additional whole Shares at the Actual Purchase Price. Payments for Shares made by check, negotiable order of withdrawal or money order will earn interest at the rate of 5.5% per annum from the date of collection by the Bank, while payments for Shares made by withdrawal from existing accounts with the Bank will earn interest at the rates applicable to such accounts, in each case, only until the consummation or termination of the Conversion. See "THE CONVERSION—Procedures in Subscription and Community Offerings; Purchase Price and Number of Shares to be Issued."

Number of Shares; Changes in Number of Shares or Purchase Price

The number of Shares or the price per Share may be changed significantly, subject to the approval of the Commissioner, depending on market conditions or changes in the estimated aggregate pro forma market value of the Shares following the commencement of the Subscription and Community Offering. Any such change in the number of Shares to be issued or any increase or reduction in the price per Share may be made without a resolicitation of subscriptions or without affording subscribers or purchasers an opportunity to modify or cancel their subscriptions or orders. Any increase in the total number of Shares issued would decrease a subscriber's or purchaser's proportionate ownership interest in the Bank and the pro forma net income and pro forma net worth on a per Share basis, while increasing the pro forma net income and pro forma net worth on an aggregate basis. See "PRO FORMA DATA" and "THE CONVERSION—Purchase Price and Number of Shares to be Issued."

A decrease at the time of the Public Offering in the total number of Shares to be issued in the Conversion would affect Subscription Rights by reducing the maximum number of Shares that may be purchased under the various purchase limitations but would not otherwise change the number of Shares that a subscriber may purchase. See "THE CONVERSION—Procedures in Subscription and Community Offerings; Purchase Limitations."

Public Offering

Any Shares not subscribed for or purchased in the Subscription and Community Offering are expected to be sold to the general public in an underwritten Public Offering managed by Keefe, Bruyette & Woods, Inc. ("Keefe, Bruyette"), who is expected to be the representative of the underwriters (the "Underwriters"). The Underwriters may be granted an over-allotment option to purchase additional shares of Common Stock in an amount not to exceed 15% of the total Shares offered in the Conversion, on the same terms as the Shares purchased by the Underwriters in the Public Offering. See "THE CONVERSION—Public Offering."

Independent Appraisal

Kaplan, Smith & Associates, Inc. ("Kaplan, Smith"), a firm experienced in the appraisal of financial institutions converting from mutual to stock form, such as the Bank, has made an independent valuation of the estimated total pro forma market value of the Shares. The valuation range in its appraisal as of October 17, 1988 is from $10,625,000 to $14,375,000. Such appraisal is not intended and must not be construed as a recommendation as to the advisability of purchasing the Shares. Because the estimated valuation is necessarily based upon estimates of a number of factors (including certain assumptions as to the underwriting commission and other expense factors affecting the net proceeds to the Bank from the sale of its Shares and as to the net earnings on such net proceeds), all of which are subject to change from time to time, no assurance can be given that persons who purchase Shares in the Conversion will be able to sell such Shares at comparable prices thereafter. The Bank has agreed to indemnify Kaplan, Smith against certain liabilities that may arise out of the appraisal. The appraisal will be updated prior to completion of the Conversion. See "THE CONVERSION—Purchase Price and Number of Shares to be Issued—Determination of Purchase Price."

Market for the Common Stock

The Bank has applied for quotation of the Common Stock on NASDAQ under the symbol "HIFS." However, there can be no assurance that an active and liquid trading market will develop for the Common Stock. See "MARKET FOR THE COMMON STOCK."

Use of Proceeds

The net conversion proceeds, estimated at $11,450,000 (based on the midpoint of the current valuation range pursuant to appraisal and the assumptions set forth in "PRO FORMA DATA"), will provide the Bank with a larger capital base from which to expand and diversify its lending, investment and deposit-taking activities in a manner consistent with its current underwriting standards and policies with regard to interest-rate risk for such activities. The increased capital will also enable the Bank to undertake further expansion of its services and market area by opening new or expanding current branch offices, and through possible acquisitions, when and if such opportunities arise. After the Conversion, the Bank may also consider the formation of a holding company, in which case a portion of the proceeds may be used to capitalize the holding company. On an interim basis, the net conversion proceeds will be used to purchase short-term investments. See "USE OF PROCEEDS," "POWERS AND REGULATION" and "THE CONVERSION—Business Purposes of the Conversion."

Dividends

The Bank intends to establish a policy to pay quarterly cash dividends on the Common Stock. Declaration of dividends by the Board of Directors after the Conversion, however, will depend on the Bank's future operating results and earnings, financial position and capital needs, and will be subject to applicable law and certain regulatory requirements. See "DIVIDEND POLICY."

Anti-takeover Provisions

After the Conversion, the Bank's Amended and Restated Charter and amended By-Laws will contain certain anti-takeover provisions which are intended, among other things, to encourage any acquiror to negotiate the terms of any acquisition with the Board of Directors of the Bank. See "ANTI-TAKEOVER PROVISIONS."

Deposit Insurance

The Bank's deposits are insured by the FDIC up to $100,000 per insured depositor and by the Deposit Insurance Fund of the Mutual Savings Central Fund, Inc. (the "Central Fund"), a corporation formed by the Massachusetts legislature and composed of all Massachusetts-chartered savings banks, for that portion of deposits in excess of $100,000 per insured depositor. See "POWERS AND REGULATION—Deposit Insurance: The FDIC and the Central Fund."

Special Considerations

Prospective investors should pay special attention to the section of this Offering Circular entitled "SPECIAL CONSIDERATIONS."

SUMMARY FINANCIAL AND OTHER DATA OF THE BANK

The following summary financial and other data of the Bank does not purport to be complete and is qualified in its entirety by the more detailed financial information and Financial Statements and accompanying notes thereto contained elsewhere herein.

	At December 31,					At September 30,
	1983(1)	1984(1)	1985	1986	1987	1988(1)
	(Unaudited)		(In Thousands)			(Unaudited)
Balance Sheet Data:						
Total assets	$92,236	$100,592	$111,341	$131,804	$134,418	$147,564
Mortgage loans:						
Residential (including home equity and second mortgages)	43,320	42,237	50,774	57,660	62,386	71,004
Residential construction, net	937	1,723	3,341	7,836	8,232	18,293
Commercial	5,980	11,865	13,229	16,927	25,223	17,713
Commercial construction, net	817	3,020	6,147	5,939	4,500	5,640
Commercial loans	1,315	2,270	3,488	5,767	693	464
Consumer loans	4,461	5,579	6,673	6,209	5,689	5,161
Total loans	56,830	66,694	83,652	100,338	106,723	118,275
Allowance for possible loan losses	(148)	(182)	(287)	(1,008)	(525)	(602)
Short-term investments	6,199	4,599	8,349	2,109	4,725	3,963
Investment securities	25,343	24,546	14,539	23,713	17,593	19,728
Deposits	85,102	92,821	101,513	120,850	122,788	124,343
Advance from FHLB	—	—	—	—	—	10,000
Surplus (net worth)	5,851	6,385	8,006	9,349	10,291	11,013

	Years Ended December 31,					Nine Months Ended September 30,	
	1983(1)	1984(1)	1985	1986	1987	1987(1)	1988(1)
	(Unaudited)		(Dollars in Thousands)			(Unaudited)	
Operating Data:							
Interest and dividend income	$8,972	$10,337	$11,170	$12,266	$12,528	$9,276	$9,910
Interest expense	7,006	7,818	7,621	8,123	8,228	6,140	6,553
Net interest income	1,966	2,519	3,549	4,143	4,300	3,136	3,357
Provision for possible loan losses	24	59	107	723	1,038	808	283
Other income:							
Gain (loss) on sales of investment securities, net	(330)	(407)	(111)	(48)	29	29	(23)
Mutual Savings Central Fund, Inc. dividends	—	69	446	423	—	—	—
All other income	559	480	849	1,122	708	538	307
Total other income	229	142	1,184	1,497	737	567	284
Operating expenses:							
Salaries and employee benefits	764	934	1,207	1,396	1,461	1,096	1,161
All other operating expenses	943	951	805	994	1,216	953	946
Total operating expenses	1,707	1,885	2,012	2,390	2,677	2,049	2,107
Income before income taxes	464	717	2,614	2,527	1,322	846	1,251
Provision for income taxes	144	221	1,012	1,132	407	261	561
Net income	$ 320	$ 496	$ 1,602	$ 1,395	$ 915	$ 585	$ 690
Other Data(2):							
Return on assets	0.37%	0.52%	1.54%	1.14%	0.69%	0.59%	0.66%
Return on equity	5.55	8.06	22.54	15.99	9.46	8.18	8.62
Equity to assets	6.63	6.43	6.82	7.16	7.26	7.19	7.64
Weighted average interest rate spread(3)	2.03	2.43	3.22	3.31	3.16	3.11	3.03
Net yield on average earning assets(3)	2.36	2.75	3.55	3.57	3.39	3.32	3.35
Net charge-offs to average outstanding loans	0.03	0.04	—	—	1.50	0.16	0.25
Allowance for possible loan losses to total loans at end of period	0.26	0.27	0.34	1.00	0.49	1.61	0.51
Non-performing loans to total loans at end of period(4)	0.12	2.10	0.09	2.76	1.93	0.91	2.08
Number of offices	5	5	5	5	5	5	5

(1) Financial information at and for the years ended December 31, 1983 and 1984 and the nine-month periods ended September 30, 1987 and 1988 have been prepared by the Bank without audit and, in the opinion of management of the Bank, reflect all adjustments (consisting only of normal recurring accruals) which are necessary to present fairly the results of such periods. Results for the nine months ended September 30, 1988 are not necessarily indicative of the results that may be expected for the full year.

(2) Except for end of period ratios, all ratios are based on average monthly balances during the respective periods. Ratios for the nine months ended September 30, 1987 and 1988 are annualized.

(3) Weighted average interest rate spread represents the difference between the weighted average yield on earning assets and the weighted average cost of interest-bearing liabilities, and net yield on average earning assets represents net interest income as a percentage of average earning assets. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

(4) Non-performing loans consist of loans 90 days or more contractually past due and non-accrual loans. See "BUSINESS—Asset Quality."

SPECIAL CONSIDERATIONS

Potential Impact of Interest Rates; Asset Restructuring

Prevailing economic conditions, particularly changes in market interest rates, significantly affect the operations of banking institutions, including the Bank. In addition, the Bank is affected by government policies and regulations concerning monetary and fiscal affairs, housing and financial institutions generally. The earnings of the Bank depend primarily on the difference between the income earned on its loans and investments and the interest paid on its deposits and borrowings. Like many other savings banks, the Bank has invested a portion of its assets in long-term mortgage loans, often at fixed rates of interest, while accepting deposits for considerably shorter terms. Since, absent other factors, only a small percentage of the Bank's fixed-rate loan portfolio matures or is prepaid each year, the Bank cannot, in the short term, significantly alter the rate of return on this portion of its loan portfolio, and increases in current interest rates will not result in increases in interest income on the fixed-rate portion of the Bank's loan portfolio. However, since in many cases borrowers prepay and/or refinance residential mortgage loans without penalties, the portion of the Bank's portfolio invested in higher-yielding mortgages can be expected to decrease during periods of declining interest rates. Deregulation has eliminated many of the restrictions on deposit interest rates and permitted the Bank, like other savings banks, to offer new types of accounts. This has allowed the Bank to compete more effectively for funds, but has increased the Bank's cost of funds and made such cost more sensitive to changes in interest rates. In particular, increases in current interest rates may be more quickly reflected in increases in the Bank's cost of funds than in interest income. Consequently, a rapid rise in interest rates could have an adverse impact on the earnings of the Bank, and a continuing rapid rise in interest rates to high levels could result in operating losses.

In order to address these interest rate risks inherent in the savings bank business, the Bank has and continues to pursue a strategy of increasing the interest sensitivity of its assets and lengthening the maturities of its liabilities. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—Asset/Liability Management." The Bank believes that this asset/liability strategy has helped to reduce the pressure on its net interest margin during periods of changing interest rates.

The availability of competing deposit products, such as money market mutual funds, has in the past and may in the future reduce deposits in the Bank, especially during periods of increasing interest rates. If the Bank were to experience substantial deposit outflows during a period of increasing interest rates, it might have to liquidate portions of its loan and investment portfolios. During such a period, the Bank could not be expected to sell fixed-rate loans or investments without losses.

The foregoing circumstances have led many thrift institutions to diversify their operations and investment activities into new areas in order to increase the yields on their assets or to increase the interest-rate sensitivity of their assets. For these reasons, institutions have increased their commercial, construction and consumer lending activities and their originations of adjustable-rate mortgage loans ("ARMs").

While commercial, construction and consumer loans provide benefits to an institution's asset and liability management program and reduce exposure to interest rate changes, such loans may entail significant additional risks compared to residential mortgage lending. Commercial and construction mortgage loans may involve larger loan balances to single borrowers or groups of related borrowers and may also involve higher ratios of loan principal amount to appraised value of the security property. In addition, the payment experience on loans secured by income producing properties is typically dependent on the successful operation of the properties and thus may be subject to a greater extent to diverse conditions in the real estate market or in the economy generally. Construction loans may involve additional risks attributable to the fact that loan funds are advanced upon the security of the project under construction and are otherwise subject to uncertainties inherent in estimating construction costs and other unpredictable contingencies that make it difficult to evaluate accurately the total loan funds required to complete the project.

Despite the benefits of ARMs to an institution's asset/liability management, they do pose potential additional risks, primarily because as interest rates rise the underlying payments by the borrower rise, increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates.

Change in Accounting for Loan Origination Fees

In December, 1986, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" ("FASB 91"). The Bank has adopted the provisions of this Statement for lending transactions initiated and commitments granted on or after January 1, 1988. Accordingly, loan origination and commitment fees and certain direct loan origination costs are being deferred, and the net amount amortized as an adjustment to the related loan's yield. The Bank is generally amortizing these amounts over the contractual life of the related loans. In 1987 and prior years, the Bank recognized loan origination and commitment fees as income in the period the loan or commitment was granted to reflect reimbursement of the related costs associated with originating those loans and commitments.

Use of Proceeds

The proceeds from the sale of the Shares, plus anticipated growth in the Bank's deposit base following the Conversion, represent a substantial amount of funds to be invested by the Bank. Management expects that these funds will be invested gradually in the Bank's business. See "USE OF PROCEEDS."

Competition

The above-described proceeds will be invested in the Bank at a time when recent legislation permitting interstate banking in the New England area may significantly increase the competition faced by the Bank. Bank regulation is undergoing significant change with an increased number of bank mergers and acquisitions, changes in the products and services banks can offer and involvement in nonbanking activities by bank holding companies. Although recent legislation and regulations have expanded the activities in which savings institutions may engage, the same legislation has reduced or eliminated some of the competitive advantages which savings institutions formerly held over commercial banks, such as interest rate differentials which permitted savings institutions to offer a higher rate of interest to attract deposits. There are a number of pending legislative and regulatory proposals that may further alter the structure, regulations and competitive relationships of financial institutions. See "BUSINESS—Competition."

Anti-takeover Provisions

After the Conversion, the Amended and Restated Charter and the amended By-Laws of the Bank will contain certain provisions which are intended, among other things, to encourage any potential acquiror of the Bank to negotiate acquisition terms with the Board of Directors of the Bank. These provisions, as well as certain provisions of state and federal law, may have the effect of discouraging or preventing a future takeover attempt or tender offer in which stockholders of the Bank otherwise might have received a substantial premium for their shares over then-current market prices. In addition, these provisions might also have the effect of insulating incumbent officers and Directors against the possibility of removal. See "ANTI-TAKEOVER PROVISIONS."

Regulation

The Bank, like other savings banks, is engaged in a heavily regulated industry. Savings banks may be subject to regulation by, among others, the FDIC, the Federal Home Loan Bank Board and the Commissioner. The FDIC is empowered, as insurer of the Bank's deposits, to take a number of supervisory actions that could result in the impairment or loss of the value of the stock of the Bank. See "POWERS AND REGULATION."

Taxation

The Tax Reform Act of 1986 reduced some of the special tax benefits afforded to savings banks and other thrift institutions. It is possible that future tax legislation could reduce or eliminate such benefits, which could have a material adverse effect on the marginal tax rate of the Bank. See "TAXATION."

Value of Common Stock; Lack of Public Market

Massachusetts banking regulations require that the purchase price of equity securities of a converting mutual savings bank sold in connection with its conversion based upon the pro forma market value of such securities as determined by an independent valuation. Kaplan, Smith's valuation of the estimated total pro forma market value of the Shares was based on estimates derived from a number of factors considered by that firm, all of which are subject to change from time to time. The estimated valuation by Kaplan, Smith is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing the Shares. No assurance can be given that persons who purchase Shares in the Subscription, Community or Public Offerings will be able to sell such Shares at comparable prices thereafter. See "THE CONVERSION— Purchase Price and Number of Shares to be Issued."

The Bank has not previously issued shares of capital stock. Consequently, there is no market for the Common Stock at this time and no assurance can be given that an established and liquid trading market will develop or that it will continue if it does develop. See "MARKET FOR THE COMMON STOCK."

THE BANK

Hingham Institution for Savings is a Massachusetts-chartered savings bank headquartered in Hingham, Massachusetts. The Bank was originally chartered in 1834, which makes it the oldest financial institution with its main office in Hingham. In addition to its main office, with a nearby drive-up facility on Central Street, the Bank has banking offices in South Hingham, Hanover and Hull. At September 30, 1988, the Bank had total assets of $147.6 million, total deposits of $124.3 million and total surplus (net worth) of $11.0 million.

The Bank is engaged principally in the business of attracting deposits from the general public through its banking offices, and investing those deposits in real estate mortgage, commercial, consumer and real estate construction loans. At September 30, 1988, approximately 75.5% of the Bank's total loan portfolio was invested in residential mortgages (including home equity, second mortgages and construction, net of unadvanced loan funds), 19.7% in commercial real estate loans (including construction, net of unadvanced loan funds), 0.4% in commercial loans and 4.4% in consumer loans. While the Bank has diversified its lending portfolio, the Bank intends to continue to focus on the origination of residential real estate loans in its primary market area. The Bank also invests in securities issued by the United States government and agencies thereof, and in corporate debt and equity securities. The Bank offers a variety of deposit accounts to individuals and commercial customers. The Bank's deposits are insured by the FDIC up to $100,000 per separately insured depositor and by the Central Fund for that portion of deposits in excess of $100,000.

The Bank's primary market area consists of Hingham and its surrounding communities, which include the towns of Cohasset, Duxbury, Hanover, Hull, Marshfield, Norwell, Pembroke, Scituate, Rockland and Weymouth. Hingham, with approximately 20,000 residents, is located approximately 16 miles south of Boston in an area commonly known as the "South Shore." Due in part to its proximity to Boston, the Bank's market area has experienced considerable residential development in recent years and the area's residential property values have increased significantly. According to the "Plymouth County Comp Report," the average value of a home in Hingham has increased from $130,000 to $233,225 over the past five years. While not as significant as the growth in the residential real estate market, commercial real estate development in the Bank's market area has also increased. The South Shore in general, and the Bank's market area in particular, benefit from the attractiveness of area properties, accessibility to the waterfront and places of historic significance, and from the commuting distance to many major Boston area employers.

The Bank's main office is located at 55 Main Street, Hingham, Massachusetts 02043, and its telephone number is (617) 749-2200. The Bank has established a special extension (ext. 332) for questions related to the Conversion.

MARKET FOR THE COMMON STOCK

As a mutual savings bank, the Bank has never issued capital stock, and consequently there is no market for the Common Stock at this time. The Bank will use its efforts to cause the Common Stock to be listed on NASDAQ.

Keefe, Bruyette has advised the Bank that it intends, upon completion of the Public Offering, to make a market in the Common Stock by maintaining bid and asked quotations and by acting as a principal as long as the trading volume and other market making considerations justify its doing so. Keefe, Bruyette will encourage at least one other securities dealer to create a market in the Common Stock with the expectation that a public trading market for the Common Stock will develop. The development of a public market having the desirable characteristics of depth, liquidity and orderliness, however, depends upon the presence in the market place of a sufficient number of willing buyers and sellers at any given time, over which neither the Bank, Keefe, Bruyette nor any market maker has control. Accordingly, there can be no assurance that an active and liquid trading market for the Common Stock will develop, or that, if developed, it will continue.

USE OF PROCEEDS

The net conversion proceeds will become part of the Bank's general funds. The consequent increase in its net worth will place the Bank in an enhanced position to expand and diversify its lending, investment and deposit-taking activities. Specifically, the Bank intends to expand its residential mortgage, commercial and consumer loan portfolios in a manner consistent with its current policies. See "BUSINESS—Lending Activities; Sources of Funds." In addition, the Bank may enlarge its market area as opportunities arise by establishing additional branches and lending offices in adjacent areas or by acquiring or merging with other organizations. The Bank has no current plans with respect to any such transactions. The Bank has entered into a purchase and sale agreement to purchase, for total consideration of $950,000, an office building located adjacent to its main office in Hingham. The Bank expects the purchase to close in December of 1988. The Bank intends to incorporate the building as part of its central offices.

The Bank may also consider forming a holding company after the Conversion. If formed, a portion of the net conversion proceeds may be used to capitalize the holding company. In any such transaction, the Bank's stockholders would become the stockholders of the holding company.

The estimated net conversion proceeds to the Bank from the sale of the Shares is $11,450,000, based upon the midpoint price per Share of $10.00, the issuance of 1,250,000 Shares in the Conversion and the assumptions described under "PRO FORMA DATA." Such proceeds would have increased the Bank's net worth at September 30, 1988 by 104.0% to $22,463,000. The actual net conversion proceeds may be more or less than the estimated amount. THE ACTUAL PURCHASE PRICE MAY BE MORE OR LESS THAN THE CURRENT MIDPOINT PRICE PER SHARE, AND THE NUMBER OF SHARES SOLD IN THE CONVERSION MAY BE MORE OR LESS THAN 1,250,000, DEPENDING UPON CHANGES IN MARKET AND FINANCIAL CONDITIONS AT THE TIME OF ANY PUBLIC OFFERING OR AT THE TIME THE CONVERSION IS CONSUMMATED. See "THE CONVERSION—Purchase Price and Number of Shares to be Issued." This will, in turn, affect the total proceeds obtained from the sale of the Shares. Both the actual offering expenses and the underwriting discount may vary from their respective estimates based upon the number of Shares sold in any Public Offering, the Actual Purchase Price, and other factors. Finally, actual net conversion proceeds will increase if the Underwriters exercise their over-allotment option to purchase in any Public Offering up to an additional 15% of the Shares offered in the Conversion. See "THE CONVERSION—Public Offering."

DIVIDEND POLICY

Following the Conversion, the Bank intends to establish a policy of paying quarterly cash dividends on the Common Stock. Declaration of future dividends by the Board of Directors will, however, depend upon a number of factors, including capital requirements, regulatory limitations, the Bank's operating results and financial condition and general economic conditions. Accordingly, no assurance can be given that dividends will, in fact, be paid, or that, if paid, such dividends will not be reduced or eliminated in future periods. No dividends may be paid to the stockholders if such dividends would reduce the net worth of the Bank below the amount required for the liquidation account to be established upon Conversion. See "POWERS AND REGULATION" and "THE CONVERSION—Effects of the Conversion—Liquidation Rights."

CAPITALIZATION

The following table sets forth the capitalization, including deposits and net worth, of the Bank at September 30, 1988, and as adjusted to give effect to the sale of the Common Stock offered pursuant to the Plan of Conversion. The pro forma capitalization table is based upon the assumption that 1,250,000 shares of Common Stock are sold at the midpoint price per Share, that 55% of the Common Stock is sold in the Subscription and Community Offering and 45% is sold in the Public Offering, and that the Bank's expenses in connection with the Conversion will include certain underwriting expenses and $670,000 in other conversion expenses. See "PRO FORMA DATA." *A change in the final price or the number of Shares to be issued in the Conversion may materially affect such pro forma capitalization.*

	Capitalization at September 30, 1988	Pro Forma Adjustments as a Result of Conversion	Pro Forma Capitalization after Giving Effect to the Conversion
		(In Thousands)	
Deposits(1)	$124,343	$ —	$124,343
FHLB advance	10,000	—	10,000
Total	$134,343	$ —	$134,343
Stockholders' Equity:			
Preferred Stock, 2,500,000 shares, $1.00 par value per share; none issued or outstanding	$ —	$ —	$ —
Common Stock, 5,000,000 shares, $1.00 par value per share; 1,250,000 assumed to be issued and outstanding(2)	—	1,250	1,250
Additional paid-in capital(2)	—	10,200	10,200
Surplus(3)	11,013	—	11,013
Total stockholders' equity(2)(4)	$ 11,013	$ 11,450	$ 22,463

(1) Withdrawals from deposit accounts for the purchase of Common Stock are not reflected.

(2) Does not include Shares that may be issued pursuant to the Underwriters' over-allotment option in the Public Offering, or up to 125,000 Shares to be reserved for issuance under the Bank's Stock Option Plan. See "THE CONVERSION—Public Offering" and "MANAGEMENT—1988 Stock Option Plan."

(3) See "THE CONVERSION—Effects of the Conversion—Liquidation Rights" and Note 14 to the Financial Statements for information concerning restrictions on net worth and the liquidation account to be established upon Conversion.

(4) Based on the minimum and maximum prices per Share of $8.50 and $11.50, respectively, of the current valuation range, estimated net conversion proceeds would be $9,625,000 and $13,275,000, respectively, and at September 30, 1988 pro forma total stockholders' equity would be $20,638,000 and $24,288,000, respectively.

PRO FORMA DATA

Summarized below are the actual and pro forma net income and net worth (surplus) of the Bank prior to the Conversion and after giving effect to the Conversion for the periods and at the dates indicated. The unaudited pro forma amounts and per Share amounts have been calculated at a minimum price of $8.50 per Share, a midpoint price of $10.00 per Share and a maximum price of $11.50 per Share. The pro forma data assumes that: (i) 1,250,000 Shares will be sold, with 55% of the Shares being sold in the Subscription and Community Offering and 45% being sold in the Public Offering; (ii) the Bank's expenses in connection with the Conversion will include an underwriting discount of 6.0% on Shares sold in the Public Offering (with a minimum fee of $190,000) and $670,000 in other conversion expenses; (iii) the Shares had been issued and sold on January 1, 1987 (with respect to the data relating to the year ended December 31, 1987), and January 1, 1988 (with respect to the data relating to the nine months ended September 30, 1988), in each case yielding net proceeds as shown; and (iv) the net proceeds were invested at 9.88%, which represents the weighted-average annual yield on the Bank's total earning assets during the year ended December 31, 1987 and during the nine-month period ended September 30, 1988. After recognizing federal and state income taxes for these periods at the Bank's combined marginal tax rate of 48.1% and 41.8%, respectively, such weighted-average annual yield, as adjusted, would be 5.13% and 5.75% for the respective periods. No effect has been given to withdrawals from deposit accounts for the purpose of purchasing Shares pursuant to the Subscription and Community Offering, and no adjustment has been made to the pro forma net worth for the assumed earnings on the net conversion proceeds.

The pro forma net income derived from the assumptions set forth above should not be considered indicative of the actual results of operations of the Bank for any period, and the assumptions regarding investment yield should not be considered indicative of the actual yield expected during any future period. Further, the pro forma net worth per Share should not be considered indicative of the possible market value or liquidation value of the Shares.

	At or for the Year Ended December 31, 1987			At or for the Nine Months Ended September 30, 1988		
	1,250,000 Shares Sold at			1,250,000 Shares Sold at		
	Minimum Price of $8.50	Midpoint Price of $10.00	Maximum Price of $11.50	Minimum Price of $8.50	Midpoint Price of $10.00	Maximum Price of $11.50
	(Dollars In Thousands, Except Per Share Data)					
Gross proceeds	$10,625	$12,500	$14,375	$10,625	$12,500	$14,375
Less offering expenses and underwriting discount	1,000	1,050	1,100	1,000	1,050	1,100
Estimated net conversion proceeds	$ 9,625	$11,450	$13,275	$ 9,625	$11,450	$13,275
Net income:						
Historical	$ 915	$ 915	$ 915	$ 690	$ 690	$ 690
Pro forma adjustments	494	587	681	415	494	572
Pro forma net income	$ 1,409	$ 1,502	$ 1,596	$ 1,105	$ 1,184	$ 1,262
Net income per Share (1):						
Historical	$ .73	$ .73	$ .73	$ .55	$ .55	$ .55
Pro forma adjustments	.40	.47	.55	.33	.40	.46
Pro forma net income per Share	$ 1.13	$ 1.20	$ 1.28	$ .88	$ .95	$ 1.01
Surplus (net worth) (2):						
Historical	$10,291	$10,291	$10,291	$11,013	$11,013	$11,013
Estimated net conversion proceeds	9,625	11,450	13,275	9,625	11,450	13,275
Pro forma surplus (net worth)	$19,916	$21,741	$23,566	$20,638	$22,463	$24,288
Surplus (net worth) per Share(1)(2):						
Historical	$ 8.23	$ 8.23	$ 8.23	$ 8.81	$ 8.81	$ 8.81
Estimated net conversion proceeds	7.70	9.16	10.62	7.70	9.16	10.62
Pro forma surplus (net worth) per Share	$ 15.93	$ 17.39	$ 18.85	$ 16.51	$ 17.97	$ 19.43

(1) Historical per Share amounts have been computed as if the assumed number of Shares to be issued in the Subscription and Community Offering and the Public Offering had been outstanding at the beginning of the period or date shown but without any adjustment of historical net income or net worth to reflect the estimated net conversion proceeds or net income thereon as described above. Pro forma per Share amounts have been computed by dividing the pro forma net income or net worth by the assumed number of Shares to be issued in the Subscription and Community Offering and the Public Offering.

(2) Net worth represents the excess of the book value of the assets of the Bank over its liabilities, computed in accordance with generally accepted accounting principles. The effect of the liquidation account to be established in connection with the Conversion has not been reflected in the pro forma computations. See "CAPITALIZATION" and "THE CONVERSION—Effects of the Conversion—Liquidation Rights" and "Tax Consequences" for information concerning other restrictions on net worth and the liquidation account to be established upon consummation of the Conversion.

The foregoing information does not give effect to the Underwriters' over-allotment option or to possible changes in the price per Share or number of Shares to be issued in the Subscription and Community Offering and any Public Offering. In addition, no effect has been given to the 125,000 Shares to be reserved for issuance under the Bank's Stock Option Plan. See "MANAGEMENT—1988 Stock Option Plan."

If the Shares are sold at the maximum of the current valuation range and the Underwriters' over-allotment option is exercised in full, then pro forma net income would be approximately $1,700,000 or $1.18 per Share, and $1,349,000, or $0.94 per Share for the year ended December 31, 1987 and for the nine months ended September 30, 1988, respectively, and pro forma net worth would be approximately $25,593,000 or $17.80 per Share, and $26,314,000, or $18.31 per Share, at December 31, 1987 and September 30, 1988, respectively. Any exercise of the over-allotment option which causes the gross proceeds of the Conversion to exceed $14,375,000, the maximum of the current valuation range, would be subject to a revised valuation of the estimated total pro forma market value of the Shares. See "THE CONVERSION—Public Offering."

If the Shares are sold at $8.50 per Share and the number of Shares offered is increased to 1,691,176, yielding gross proceeds of $14,374,996, then, assuming the over-allotment option is not exercised, pro forma net income for the year ended December 31, 1987 and the nine months ended September 30, 1988 would be $0.94 and $0.75 per Share, respectively, and pro forma net worth at December 31, 1987 and September 30, 1988 would be $13.94 and $14.36 per Share, respectively.

SELECTED FINANCIAL DATA

The following selected financial data of the Bank for each of the years in the three-year period ending December 31, 1987 have been examined by Wolf & Company of Massachusetts, P.C., independent certified public accountants, whose report thereon appears elsewhere herein. The financial data at and for the years ended December 31, 1983 and 1984 and the nine-month periods ended September 30, 1987 and September 30, 1988 are not audited. However, in the opinion of management, all adjustments (none of which were other than normal recurring accruals) necessary for a fair presentation of results for such periods have been included. Interim results are not necessarily indicative of results which may be expected for the entire year. These statements should be read in conjunction with the Financial Statements and accompanying notes thereto included elsewhere herein.

	At December 31,					At September 30, 1988
	1983	1984	1985	1986	1987	
	(Unaudited)		(In Thousands)			(Unaudited)
Balance Sheet Data:						
Total assets	$92,236	$100,592	$111,341	$131,804	$134,418	$147,564
Mortgage loans:						
Residential (including home equity and second mortgages)	43,320	42,237	50,774	57,660	62,386	71,004
Residential construction, net	937	1,723	3,341	7,836	8,232	18,293
Commercial	5,980	11,865	13,229	16,927	25,223	17,713
Commercial construction, net	817	3,020	6,147	5,939	4,500	5,640
Mortgage loans, net	51,054	58,845	73,491	88,362	100,341	112,650
Commercial loans	1,315	2,270	3,488	5,767	693	464
Consumer loans	4,461	5,579	6,673	6,209	5,689	5,161
Total loans	56,830	66,694	83,652	100,338	106,723	118,275
Less:						
Deferred loan fees, net	—	—	—	—	—	(179)
Allowance for possible loan losses	(148)	(182)	(287)	(1,008)	(525)	(602)
Loans, net	56,682	66,512	83,365	99,330	106,198	117,494
Short-term investments	6,199	4,599	8,349	2,109	4,725	3,963
Investment securities	25,343	24,546	14,539	23,713	17,593	19,728
Deposits:						
NOW and demand	4,948	6,821	7,807	9,820	11,505	10,809
Money-market deposits	29,729	34,500	35,784	37,354	32,096	29,447
Regular and special notice	21,071	19,396	20,166	23,438	26,661	27,663
Term certificates	29,354	32,104	37,756	50,238	52,526	56,424
Total deposits	85,102	92,821	101,513	120,850	122,788	124,343
Advance from FHLB	—	—	—	—	—	10,000
Surplus (net worth)	5,851	6,385	8,006	9,349	10,291	11,013

	Years Ended December 31,					Nine Months Ended September 30,	
	1983	1984	1985	1986	1987	1987	1988
	(Unaudited)					(Unaudited)	
	(Dollars in Thousands)						
Operating Data:							
Interest and dividend income:							
Interest on loans	$ 6,147	$ 7,218	$ 8,532	$10,265	$10,651	$ 7,849	$ 8,519
Interest and dividend income on investment securities and mortgage-backed investments	2,560	2,558	1,772	1,455	1,626	1,269	1,089
Interest on short-term investments	265	561	866	546	251	158	302
Total interest and dividend income	8,972	10,337	11,170	12,266	12,528	9,276	9,910
Interest expense:							
Interest on deposits	7,006	7,818	7,621	8,123	8,228	6,140	6,374
Interest on FHLB advance	—	—	—	—	—	—	179
Total interest expense	7,006	7,818	7,621	8,123	8,228	6,140	6,553
Net interest income	1,966	2,519	3,549	4,143	4,300	3,136	3,357
Provision for possible loan losses	24	59	107	723	1,038	808	283
Net interest income, after provision for possible loan losses	1,942	2,460	3,442	3,420	3,262	2,328	3,074
Other income:							
Loan origination and other loan fees	157	191	507	680	349	261	36
Fees on deposit accounts	180	216	235	240	232	175	170
Gain (loss) on sales of investment securities, net	(330)	(407)	(111)	(48)	29	29	(23)
Gain on sales of mortgage loans, net	—	—	—	99	—	—	—
Mutual Savings Central Fund, Inc. dividends	—	69	446	423	—	—	—
Miscellaneous	222	73	107	103	127	102	101
Total other income	229	142	1,184	1,497	737	567	284
Operating expenses:							
Salaries and employee benefits	764	934	1,207	1,396	1,461	1,096	1,161
Equipment expenses	115	101	153	158	173	130	142
Occupancy expenses	113	116	110	101	110	85	81
Data processing expenses	85	119	134	169	212	153	236
Other general and administrative expenses	507	455	408	566	585	449	487
Repossession expenses	—	—	—	—	136	136	—
Massachusetts excise tax	123	160	—	—	—	—	—
Total operating expenses	1,707	1,885	2,012	2,390	2,677	2,049	2,107
Income before income taxes	464	717	2,614	2,527	1,322	846	1,251
Provision for income taxes	144	221	1,012	1,132	407	261	561
Net income	$ 320	$ 496	$ 1,602	$ 1,395	$ 915	$ 585	$ 690
Other Data(1):							
Return on assets	0.37%	0.52%	1.54%	1.14%	0.69%	0.59%	0.66%
Return on equity	5.55	8.06	22.54	15.99	9.46	8.18	8.62
Equity to assets	6.63	6.43	6.82	7.16	7.26	7.19	7.64
Weighted average interest rate spread(2)	2.03	2.43	3.22	3.31	3.16	3.11	3.03
Net yield on average earning assets(2)	2.36	2.75	3.55	3.57	3.39	3.32	3.35
Net charge-offs to average outstanding loans	0.03	0.04	—	—	1.50	0.16	0.25
Allowance for possible loan losses to total loans at end of period	0.26	0.27	0.34	1.00	0.49	1.61	0.51
Non-performing loans to total loans at end of period(3)	0.12	2.10	0.09	2.76	1.93	0.91	2.08

(1) Except for end of period ratios, all ratios are based on average monthly balances during the respective periods. Ratios for the nine months ended September 30, 1987 and 1988 are annualized.

(2) Weighted average interest rate spread represents the difference between the weighted average yield on earning assets and the weighted average cost of interest-bearing liabilities, and net yield on average earning assets represents net interest income as a percentage of average earning assets. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

(3) Non-performing loans consist of loans 90 days or more contractually past due and non-accrual loans. See "BUSINESS—Asset Quality."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The operating results of the Bank depend primarily on its net interest income, which is the difference between interest and dividend income on earning assets, primarily loans and investment securities, and interest expense on interest-bearing liabilities, which consist of deposits and borrowings. The Bank's net income also is affected by the level of its other income, including gains and losses on the sale of investment securities and other assets and loan origination and other fees, and its operating expenses. Each of these principal components of the Bank's operating results is discussed below under "Results of Operations."

The lending activities of savings banks, including the Bank, have historically emphasized long-term, fixed-rate loans secured by single-family residences, and the primary source of funds of such institutions has been deposits. As a result of the authorization in recent years of deposit accounts which bear interest rates that reflect market rates and the removal of limitations on ceilings on deposit account rates, the deposit accounts of savings banks largely mature or are subject to repricing within a short period of time. This factor, in combination with substantial investments in long-term, fixed-rate loans, has historically caused the income earned by savings banks, including the Bank, on their loan portfolios to adjust more slowly to changes in interest rates than their cost of funds. Actions which the Bank has taken to increase the interest-rate sensitivity and shorten the term of its assets, and lower the cost and extend the term of its liabilities have reduced the sensitivity of its earnings to changes in interest rates. The principal actions which the Bank has taken in this regard are discussed below under "Asset/Liability Management."

Results of Operations

General. The Bank has historically maintained profitability, including the years 1979 through 1982 when a significant number of thrifts were experiencing negative operating results. Declining interest rates during the past two years have reduced interest costs and therefore contributed to the increase in the Bank's net interest income. The Bank reported net income of $1.6 million, $1.4 million and $915,000 for the years 1985, 1986 and 1987, respectively. The Bank reported net income of $585,000 and $690,000 for the nine-month periods ended September 30, 1987 and 1988, respectively.

Net Interest Income. The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Bank from earning assets and the resultant average yields; (ii) the total amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) weighted average interest rate spread; and (v) net yield on average earning assets. Information is based on average month-end balances during the indicated periods.

	Years Ended December 31,									Nine Months Ended September 30,					
	1985			1986			1987			1987			1988		
	Average Balance	Interest and Dividends	Yield/ Rate	Average Balance	Interest and Dividends	Yield/ Rate	Average Balance	Interest and Dividends	Yield/ Rate	Average Balance	Interest and Dividends	Yield/ Rate	Average Balance	Interest and Dividends	Yield/ Rate
	(Dollars in Thousands)														
Assets:															
Loans:															
Mortgage	$ 63,106	$ 7,232	11.46%	$ 80,813	$ 9,076	11.23%	$ 94,453	$ 9,875	10.45%	$ 93,115	$7,250	10.38%	$103,042	$7,915	10.24%
Consumer	6,215	879	14.14	6,668	839	12.58	5,683	664	11.68	5,677	511	12.00	5,320	544	13.63
Commercial	3,162	421	13.31	3,677	350	9.52	1,510	112	7.42	1,750	88	6.70	612	60	13.07
Total loans	72,483	8,532	11.77	91,158	10,265	11.26	101,646	10,651	10.48	100,542	7,849	10.41	108,974	8,519	10.42
Investment securities	18,435	1,772	9.61	18,028	1,455	8.07	21,933	1,626	7.41	22,802	1,269	7.42	19,430	1,089	7.47
Short-term investments	9,091	866	9.53	6,913	546	7.90	3,181	251	7.89	2,724	158	7.73	5,307	302	7.59
Total earning assets	100,009	11,170	11.17	116,099	12,266	10.57	126,760	12,528	9.88	126,068	9,276	9.81	133,711	9,910	9.88
Non-earning assets	4,233			5,771			6,318			6,528			5,980		
Total assets	$104,242			$121,870			$133,078			$132,596			$139,691		
Liabilities and Surplus:															
Deposits:															
Regular and special notice	$ 19,822	$ 1,098	5.54%	$ 21,482	$ 1,190	5.54%	$ 25,771	$ 1,411	5.48%	$ 25,569	$1,047	5.46%	$ 27,305	$1,135	5.54%
NOW	6,533	254	3.89	8,852	329	3.72	10,674	389	3.64	10,441	292	3.73	11,026	293	3.54
Money-market deposits	35,485	2,868	8.08	36,602	2,479	6.77	34,707	2,088	6.02	35,224	1,569	5.94	31,531	1,482	6.27
Term certificates	33,593	3,395	10.11	44,415	4,119	9.27	50,852	4,335	8.52	50,474	3,228	8.53	54,326	3,461	8.49
Total deposits	95,433	7,615	7.98	111,351	8,117	7.29	122,004	8,223	6.74	121,708	6,136	6.72	124,188	6,371	6.84
FHLB advance	—	—		—	—		—	—		—	—	—	3,000	179	7.96
Other	429	6	1.40	479	6	1.25	477	5	1.05	463	4	1.15	405	3	0.99
Total interest-bearing liabilities	95,862	7,621	7.95	111,830	8,123	7.26	122,481	8,228	6.72	122,171	6,140	6.70	127,593	6,553	6.85
Other liabilities	1,272			1,313			929			897			1,422		
Surplus	7,108			8,727			9,668			9,528			10,676		
Total liabilities and surplus	$104,242			$121,870			$133,078			$132,596			$139,691		
Net interest income		$ 3,549			$ 4,143			$ 4,300			$3,136			$3,357	
Weighted average interest rate spread(1)			3.22%			3.31%			3.16%			3.11%			3.03%
Net yield on average earning assets(2)			3.55%			3.57%			3.39%			3.32%			3.35%

(1) Represents the weighted average yield on total earning assets during the period less the weighted average rate paid on total interest-bearing liabilities.

(2) Determined by dividing net interest income by average earning assets.

The following table shows the Bank's weighted average yield earned on loans and investments, the weighted average rate paid on interest-bearing liabilities (excluding demand deposits) and the weighted average interest rate spread for the period indicated.

	At September 30, 1988
Weighted average yield earned on:	
Mortgage loans	10.23%
Commercial loans	12.54
Consumer loans	12.07
Investment securities	7.42
Short-term investments	7.89
Total earning assets	9.87
Weighted average rates paid on:	
Deposits	7.24
FHLB advance	8.25
Total interest-bearing liabilities	7.31
Weighted average interest rate spread(1)	2.56

(1) Represents the weighted average yield on total earning assets less the weighted average rate paid on total interest-bearing liabilities.

The following table presents certain information regarding changes in interest and dividend income and interest expense of the Bank for the periods indicated. For each category, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by old volume) and (2) changes in volume (change in volume multiplied by old rate). The change attributable to both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31,						Nine Months Ended September 30, 1988 Compared to 1987 Increase (Decrease)		
	1986 Compared to 1985 Increase (Decrease)			1987 Compared to 1986 Increase (Decrease)					
	Due to			Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)								
Interest and dividend income:									
Loans:									
Mortgage	$1,986	$(142)	$1,844	$1,358	$ (559)	$ 799	$ 761	$ (96)	$ 665
Commercial	78	(118)	(40)	(118)	(57)	(175)	(28)	61	33
Consumer	95	(166)	(71)	(173)	(65)	(238)	61	(89)	(28)
Total loans	2,159	(426)	1,733	1,067	(681)	386	794	(124)	670
Investment securities	(38)	(279)	(317)	275	(104)	171	(189)	9	(180)
Short-term investments	(187)	(133)	(320)	(294)	(1)	(295)	147	(3)	144
Total interest and dividend income	1,934	(838)	1,096	1,048	(786)	262	752	(118)	634
Interest expense:									
Deposits:									
Regular and special notice	92	—	92	234	(13)	221	72	16	88
NOW	85	(10)	75	67	(7)	60	11	(10)	1
Money-market deposits	94	(483)	(389)	(125)	(266)	(391)	(185)	98	(87)
Term certificates	976	(252)	724	489	(273)	216	248	(15)	233
Total deposits	1,247	(745)	502	665	(559)	106	146	89	235
FHLB advance	—	—	—	—	—	—	179	—	179
Other	—	—	—	—	(1)	(1)	—	(1)	(1)
Total interest expense	1,247	(745)	502	665	(560)	105	325	88	413
Net interest income	$ 687	$ (93)	$ 594	$ 383	$ (226)	$ 157	$ 427	$ (206)	$ 221

Net interest income increased by $594,000 or 16.7% in 1986, by $157,000 or 3.8% in 1987 and by $221,000 or 7.0% in the nine months ended September 30, 1988, as compared to the same period in the prior year.

Total interest and dividend income increased in 1986 by $1.1 million or 9.8% primarily as a result of a $17.7 million or 28.1% increase in average mortgage loans. The average yield on total earning assets decreased from 11.17% in 1985 to 10.57% in 1986. Total interest expense in 1986 increased by $502,000 or 6.6% as a result of a $15.9 million or 16.7% increase in average deposits. The average rate paid on interest-bearing liabilities decreased from 7.95% in 1985 to 7.26% in 1986.

Total interest and dividend income increased in 1987 by $262,000 or 2.1% as a result of a $13.6 million or 16.9% increase in average mortgage loans and a $3.9 million or 21.7% increase in average investment securities. The average yield on total earning assets decreased from 10.57% in 1986 to 9.88% in 1987. Total interest expense in 1987 increased by $105,000 or 1.3% primarily as a result of a $4.3 million or 20.0% increase in the average balance of regular and special notice deposits and a $6.4 million or 14.5% increase in the average balance of term certificates. The average rate paid on total interest-bearing liabilities decreased from 7.26% in 1986 to 6.72% in 1987. The decreases in average yields on earning assets and average rates paid on interest-bearing liabilities reflect the declining interest rate environment that existed during 1986 and 1987.

Total interest and dividend income for the nine months ended September 30, 1988 as compared to the same period in the prior year increased by $634,000 or 6.8% primarily as a result of a $9.9 million or 10.7% increase in average mortgage loans and a $2.6 million on 94.8% increase in the average balance of short-term investments. Total interest expense for the nine-month period ended September 30, 1988 increased by $413,000 or 6.7% from the comparable period in the prior year primarily due to increases in the average balances of term certificates and borrowed funds, and increases in the rates paid on certain deposit accounts. Average term certificates increased by $3.9 million or 7.6% and regular and special notice deposits increased by $1.7 million or 6.8% over the time period. The average rate paid on regular savings and on money-market deposits increased from 5.46% and 5.94% to 5.54% and 6.27% from the first nine months of 1987 to the first nine months of 1988, respectively. Interest expense on the FHLB advance totaled $179,000 for the nine months ended September 30, 1988 on an average balance of such funds of $3.0 million. There was no such advance in the comparable 1987 period. See "BUSINESS—Borrowings."

Provision for Possible Loan Losses. Provisions for possible loan losses are charges to earnings to bring the total allowance to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Bank, industry standards, the status of past due principal and interest payments, general economic conditions as they relate to the Bank's market area and other factors related to the collectibility of the Bank's loan portfolio. As of September 30, 1988, the total allowance for possible loan losses amounted to $602,000 or 0.51% of the Bank's total loan portfolio.

The provision for possible loan losses increased from $107,000 in 1985 to $723,000 and $1.0 million in 1986 and 1987, respectively. During the nine months ended September 30, 1987 and 1988, the Bank provided through operations $808,000 and $283,000, respectively, as additions to the allowance account. The significant increases in the provisions in 1986 and 1987 include amounts which were made available to absorb losses relating to a group of commercial loans made to a marine dealership and certain related subsidiaries. Such loans were charged off in full during 1987. The provision in 1988 includes approximately $100,000 relating to a $255,000 commercial real estate loan made in connection with a business condominium, which $100,000 amount has since been charged off. For a reconciliation of the activity in the Bank's allowance for possible loan losses and additional information relating to asset quality, see "BUSINESS—Asset Quality—Non-performing Assets" and Notes 1 and 4 to the Financial Statements.

Other Income. Total other income increased by $313,000 or 26.4% in 1986, and decreased by $760,000 or 50.8% in 1987, and by $283,000 or 49.9% during the nine months ended September 30, 1988, as compared to the same nine-month period in the prior year. The increase in total other income in 1986 is primarily attributable to a 100% increase in gains on sale of mortgage loans from zero in 1985 to $99,000 in 1986, and a 34.1% increase in loan origination fees from $507,000 in 1985 to $680,000 in 1986. The decrease in total other income in 1987 is attributable to the non-recurring nature of Central Fund dividends and reduced loan fees. The Bank received $446,000 and $423,000 in Central Fund dividends during 1985 and 1986, respectively, and received no such dividends in 1987. The Bank experienced a reduction in mortgage loan activity during the third and fourth quarters of 1987 which reduced loan origination fees by $331,000 or 48.7% for the year ended December 31, 1987. Total other income during the nine months ended September 30, 1988 reflects in part a $225,000 or 86.2% reduction in loan origination and other loan fees due primarily to the implementation of FASB 91. FASB 91 has the effect of deferring net loan fees that would have otherwise been immediately reflected as income. The effect of FASB 91 on the Bank's other income, for the nine months ended September 30, 1988, was a decrease of $179,000. See Note 1 to the Financial Statements and "BUSINESS—Lending Activities— Loan Rates and Fees."

Operating Expenses. Over the past few years, the Bank's total operating expenses as a percentage of average assets has remained relatively stable. For the years 1985, 1986 and 1987, such percentage was 1.93%, 1.96% and 2.01%, respectively. Total operating expenses, annualized, represented 2.01% of average assets for the nine-month period ended September 30, 1988.

Total operating expenses increased by $378,000 or 18.8% during 1986, by $287,000 or 12.0% during 1987 and by $58,000 or 2.8% during the nine months ended September 30, 1988 as compared to the nine months ended September 30, 1987. Salaries and employee benefits, the largest component of the Bank's total operating expenses, increased by $189,000 or 15.7% during 1986 reflecting general increases in staff and salaries since 1984. Salaries and employee benefits increased by $65,000 or 4.7% during 1987 and by $65,000 or 5.9% during the nine-month period ended September 30, 1988 as compared to the same period in 1987. All other categories of the Bank's operating expenses (excluding certain repossession expenses) increased by $189,000 or 23.5%, by $86,000 or 8.7% and by $129,000 or 15.8% during 1986, 1987 and the first nine months of 1988 as compared to the same nine-month period in 1987, respectively. The increases reflect increases in data processing costs due to growth in the number of deposit accounts as well as increased insurance costs associated with such growth. Increases in general administrative costs related to the overall growth of the Bank and the conversion of its data processing system to another service bureau constituted the greatest share of such costs. In addition, in 1987 the Bank incurred certain repossession expenses of $136,000 in connection with foreclosure on the marine dealership loans. Absent such repossession expenses, total operating expenses would have increased by 6.3% during 1987 and by 10.1% during the nine months ended September 30, 1988 as compared to the same period in 1987.

Effective Tax Rates. The following table sets forth the effective federal, state and combined tax rates on the pre-tax accounting income of the Bank for the taxable years indicated.

	Federal	Massachusetts	Combined
Years Ended December 31:			
1985	34.0%	4.7%	38.7%
1986	38.9	5.9	44.8
1987	25.4	5.4	30.8
Nine Months Ended September 30:			
1987	25.4	5.4	30.8
1988	35.8	9.0	44.8

The increase in the effective tax rate from 1985 to 1986 resulted from the increased provision for possible loan losses in excess of the amount permitted for income tax purposes. The subsequent loan charge-offs in 1987 allowed the Bank to claim deductions for income tax purposes for the actual losses sustained. For the nine months ended September 30, 1988, the provision for possible loan losses again exceeded the amount permitted for income tax purposes. See also the previous discussion in "Provision for Possible Loan Losses," the discussion in "TAXATION—Federal Taxation" and Note 8 to the Financial Statements.

Asset/Liability Management

The objective of the Bank's asset/liability strategy has been to improve the match between interest-sensitive assets and liabilities. The Bank has been implementing various asset/liability management programs designed to match more closely the maturities and interest rate sensitivities of the Bank's assets and liabilities. The Bank has been originating adjustable-rate mortgage loans for its own portfolio and fixed-rate loans for possible sale to the FHLMC. It is the Bank's intention to originate all such fixed-rate loans in conformity with the standards and limitations established by the FHLMC in order to sell such loans in the secondary market if and when appropriate. The Bank has further established an investment policy that emphasizes short-term maturities. The Bank has been selectively selling long-term or low-yielding investments without adversely impacting its surplus position. All funds exceeding the amount necessary to meet the Bank's commitments have been invested in either short-term investments or investments that have adjustable interest rates.

The Bank's liability management program is designed to control deposit growth and to lengthen the maturity of its deposits where possible. From time to time, the Bank has marketed highly competitive interest rates on selected deposit investments to attract those depositors who are interested in longer-term deposits. At the same time the Bank has priced deposits that are competitive but not necessarily the highest rates available within its market area. This strategy has enabled the Bank to maintain positive interest rate margins.

The following table sets forth maturity and repricing information relating to interest-sensitive assets and liabilities at September 30, 1988. Although regular and special notice accounts are subject to withdrawal, management of the Bank considers these accounts to be core deposits with significantly longer effective maturities. If these deposit accounts were not included in the categories covering the period from 0 to 365 days, the cumulative excess (deficiency) of earning assets over interest-bearing liabilities would be a deficiency of $20.1 million rather than the deficiency of $38.1 million as shown and that deficiency as a percentage of total assets would also be reduced. Fixed-rate mortgage loans are shown in the table in the time period corresponding to contractual principal amortization. Although no assumption of prepayment has been made in preparing the table, based on experience, partial and full repayment of a portion of the Bank's mortgage loans and pass-through certificates prior to final contractual maturity can be expected. Adjustable-rate loans are shown at the adjustment period dates.

	At September 30, 1988							
	0-180 Days	181-365 Days	1-2 Years	2-3 Years	3-5 Years	5-10 Years	Over 10 Years	Total
	(Dollars in Thousands)							
Interest-sensitive assets:								
Short-term investments	$ 2,963	$ 1,000	$ —	$ —	$ —	$ —	$ —	$ 3,963
Total bonds and obligations and mortgage-backed securities	5,007	5,434	6,145	24	155	1,225	540	18,530
Adjustable-rate and short-term loans	30,393	20,525	15,609	17,388	1,449	46	2,553	87,963
Fixed-rate loan amortization	483	507	1,089	1,199	2,773	9,775	14,486	30,312
Total	38,846	27,466	22,843	18,611	4,377	11,046	17,579	140,768
Interest-sensitive liabilities:								
Deposits:								
Regular and special notice	692	17,290	1,037	1,037	2,075	2,766	2,766	27,663
NOW	7,113	—	—	—	—	—	—	7,113
Money-market deposits	29,447	—	—	—	—	—	—	29,447
Term certificates	27,401	11,807	8,904	5,790	2,522	—	—	56,424
Total	64,653	29,097	9,941	6,827	4,597	2,766	2,766	120,647
FHLB advance	10,000	—	—	—	—	—	—	10,000
Escrow accounts	631	—	—	—	—	—	—	631
Total	75,284	29,097	9,941	6,827	4,597	2,766	2,766	131,278
Excess (deficiency) of earning assets over interest-bearing liabilities	$ (36,438)	$ (1,631)	$ 12,902	$ 11,784	$ (220)	$ 8,280	$14,813	$ 9,490
Cumulative excess (deficiency) of earning assets over interest-bearing liabilities	$ (36,438)	$ (38,069)	$ (25,167)	$ (13,383)	$ (13,603)	$ (5,323)	$ 9,490	
Cumulative excess (deficiency) of earning assets over interest-bearing liabilities as a percentage of total assets	(24.69%)	(25.80%)	(17.05%)	(9.07%)	(9.22%)	(3.61%)	6.43%	

The preceding table does not address the degree to which repricing mechanisms are subject to limitations, and, thus, may not reflect completely the ability of the Bank's assets to adjust to changes in market interest rates. In part, because the Bank's variable-rate earning assets generally will not adjust as frequently or to the same degree as the Bank's interest-bearing liabilities, the Bank's net interest income is likely to decline during periods of rising interest rates. The interest rate sensitivity of the Bank's earning assets and interest-bearing liabilities illustrated in the table also would vary if significantly different assumptions were used.

Liquidity and Capital Resources

The Bank's principal sources of liquidity are customer deposits, payments and prepayments on outstanding loans, investment maturities, positive cash flows generated from operations and the advance from the FHLB of Boston. As a member of the Central Fund the Bank also has the right to borrow from the Fund for short-term cash needs by pledging certain assets. The Bank has never had occasion to exercise this right. The Bank maintains a relatively high percentage of its assets in federal funds, government securities and corporate bonds which can be drawn on, pledged or sold to raise any required funds.

Deposits have been a relatively stable source of funds for the Bank and have shown limited volatility over the years. Total average deposits for the years 1985, 1986 and 1987 were $95.4 million, $111.4 million and $122.0 million, respectively. Total average deposits for the nine-month period ended September 30, 1988 were $124.2 million.

Savings banks which are insured by the FDIC are required to maintain a minimum total capital ratio equal to 6.0% of total assets. At September 30, 1988, the Bank's total capital was equal to 7.7% of total assets which exceeded the minimum capital requirements of the FDIC.

The Bank believes its capital resources, net deposit inflows, scheduled loan repayments and revenue generated from the sale of loans and securities, as well as revenue from other sources will be adequate to meet its funding commitments. Proceeds from the sale of the Shares in the Conversion will also significantly increase the Bank's capital and liquidity position.

Impact of Inflation

The Financial Statements and related financial data presented herein have been prepared in accordance with generally accepted accounting principles which require 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. Unlike most industrial companies, virtually all of 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. The primary impact of inflation on operations of the Bank is reflected in increased operating costs.

General

The Bank is engaged principally in the business of attracting deposits from the general public through its banking offices, and investing those deposits in real estate mortgage, commercial, consumer and real estate construction loans. At September 30, 1988, approximately 75.5% of the Bank's total loan portfolio consisted of residential mortgages (including home equity, second mortgages and construction, net of unadvanced loan funds), 19.7% in commercial real estate loans (including construction, net of unadvanced loan funds), 0.4% in commercial loans and 4.4% in consumer loans. While the Bank has diversified its lending portfolio, the Bank intends to continue to focus on the origination of residential real estate loans in its primary market area. The Bank also invests in securities issued by the United States government and agencies thereof, and in corporate debt and equity securities. The Bank offers a variety of deposit accounts to individuals and commercial customers. The Bank has no subsidiaries.

Primary Market Area

The Bank's primary market area consists of Hingham and its surrounding communities, which include the towns of Cohasset, Duxbury, Hanover, Hull, Marshfield, Norwell, Pembroke, Scituate, Rockland and Weymouth. Hingham, with approximately 20,000 residents, is located approximately 16 miles south of Boston in an area commonly known as the "South Shore." Due in part to its proximity to Boston, the Bank's market area has experienced considerable residential development in recent years and the area's residential property values have increased significantly. According to the "Plymouth County Comp Report," the average value of a home in Hingham has increased from $130,000 to $233,225 over the past five years. While not as significant as the growth in the residential real estate market, commercial real estate development in the Bank's market area has also increased. The South Shore in general, and the Bank's market area in particular, benefit from the attractiveness of area properties, accessibility to the waterfront and places of historic significance, and from the commuting distance to many major Boston area employers.

Lending Activities

General. At September 30, 1988, the Bank's net loan portfolio totaled $117.5 million, representing approximately 79.6% of its total assets at that date. The principal categories of loans in the Bank's portfolio are residential real estate loans secured by single-family residences and commercial real estate loans secured by commercial property (in each case including construction loans), commercial business loans and consumer loans. The Bank's loan portfolio primarily consists of conventional mortgage loans, which are loans that are neither insured by the Federal Housing Administration (the "FHA") nor partially guaranteed by the Veterans Administration (the "VA"). The Bank's lending activities are generally conducted in its primary market area, which is composed of its Community Reinvestment Act area. Borrowers are also generally based in the Bank's primary market area.

In order to improve the match between interest-sensitive assets and liabilities, the Bank continues to emphasize adjustable-rate mortgage loans. Management believes the Bank is one of the leading originators of residential mortgage loans in its primary market area (see "Primary Market Area"). The Bank also offers consumer loans, consisting primarily of automobile, passbook, personal and educational loans.

Massachusetts law imposes various limitations on the amount of loans that may be made by the Bank to any one borrower. Mortgage loans are generally exempt from these limitations provided they are in compliance with the terms and conditions set out in the relevant statute for the various classes of mortgage loans. The Bank monitors the aggregate loans of large borrowers and reports them to its Board of Investment at all scheduled meetings. As of September 30, 1988, the Bank's five largest loans or group of loans to a single borrower amounted to $5.1 million, $3.9 million, $2.2 million, $2.1 million and $2.0 million. The $5.1 million group of loans consisted of 19 loans to a local real estate developer, which loans are secured by various residential properties.

The following table shows the composition of the Bank's loan portfolio by type of loan at the dates indicated.

	At December 31, 1983	1984	1985	1986	1987	At September 30, 1988
	(In Thousands)					
Mortgage loans:						
Residential	$41,686	$39,820	$47,269	$ 51,961	$ 56,183	$ 63,253
Residential construction, net	2,276	3,696	6,754	12,777	13,247	23,946
Commercial	5,980	11,865	13,229	16,927	25,223	17,713
Commercial construction, net	1,350	4,072	8,818	8,343	5,301	5,670
Home equity	—	—	658	3,719	4,700	6,389
Second mortgages	1,634	2,417	2,847	1,980	1,503	1,362
Total mortgage loans	52,926	61,870	79,575	95,707	106,157	118,333
Less unadvanced loan funds	(1,872)	(3,025)	(6,084)	(7,345)	(5,816)	(5,683)
Mortgage loans, net	51,054	58,845	73,491	88,362	100,341	112,650
Commercial loans:						
Secured	1,315	2,270	3,488	5,767	693	464
Total commercial loans	1,315	2,270	3,488	5,767	693	464
Consumer loans:						
Personal installment	2,416	2,770	3,531	4,075	3,747	3,561
Education	989	1,283	1,325	1,230	1,112	874
Passbook and stock secured	736	878	427	147	20	3
Revolving credit	320	648	1,390	757	810	723
Total consumer loans	4,461	5,579	6,673	6,209	5,689	5,161
Total loans	56,830	66,694	83,652	100,338	106,723	118,275
Less:						
Deferred loan fees, net	—	—	—	—	—	(179)
Allowance for possible loan losses	(148)	(182)	(287)	(1,008)	(525)	(602)
Loans, net	$56,682	$66,512	$83,365	$ 99,330	$106,198	$117,494

The following table sets forth at September 30, 1988 all mortgage loans by categories of weighted average annual yield and as percentages of the Bank's net mortgage loan portfolio.

	Amount	Percentage of Total	Weighted Average Annual Yield
	(Dollars in Thousands)		
14.01% and above	$ 253	0.2%	15.07%
13.01% to 14.00%	1,361	1.2	13.62
12.01% to 13.00%	2,888	2.6	12.66
11.01% to 12.00%	22,820	20.2	11.56
10.01% to 11.00%	41,539	36.9	10.76
9.01% to 10.00%	20,358	18.1	9.67
8.01% to 9.00%	9,227	8.2	8.68
8.00% and below	14,204	12.6	7.49
Mortgage loans, net	$112,650	100.0%	10.23%

Residential Real Estate and Construction Loans. The Bank makes both fixed and adjustable-rate loans on one-to-four family residential properties with loan-to-value ratios of up to 90%. As a general rule, the

Bank requires private mortgage insurance if the loan-to-value ratio exceeds 80%. The Bank charges a one-point origination fee on its residential mortgage loans. As of September 30, 1988, residential mortgage loans represented 75.5% of the Bank's total loan portfolio.

Since the early 1980's, the Bank has been emphasizing single-family residential mortgage loans which provide for periodic adjustments to the interest rate. Such loans amounted to approximately 77.0%, 64.1%, 83.2% and 63.2% of the permanent, single-family residential loans originated by the Bank in 1985, 1986, and 1987 and the nine months ended September 30, 1988, respectively. The percentage decrease in 1986 was due to consumer preference for fixed-rate loans in the lower interest rate environment that existed throughout most of that year. However, $13.3 million of $17.9 million in fixed-rate loans originated during 1986 were sold on a 95% participation basis to the FHLMC and the servicing for such loans was retained by the Bank. The Bank intends to utilize such market to the extent that it has conforming mortgages or as appropriate. Presently, a number of residential mortgages originated by the Bank in its primary market area exceed $250,000. Such mortgages are characterized as "jumbo mortgages" and do not conform with the requirements of the secondary FHLMC market. Therefore, as a matter of policy, all jumbo mortgages are originated on an adjustable-rate basis for the Bank's own portfolio.

The loans currently emphasized by the Bank have up to 30-year terms and an interest rate which adjusts each one to three years in accordance with an index based on securities issued by the United States government. There is a 2% cap on any increase or decrease in the interest rate per year and there is a 6% lifetime cap on loans that are adjusted each year. The three-year indexed loan has a cap of 3% per adjustment and a 6% lifetime cap. The Bank offers discounts on the interest rate of its adjustable-rate mortgage products of up to 200 basis points which remains in effect until the first adjustment date.

Adjustable-rate mortgage loans decrease the risks associated with changes in interest rates, but involve other risks because as interest rates increase the underlying payments by the borrower increase, thus increasing the potential for default. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. These risks have not had any adverse effect on the Bank to date.

The Bank continues to originate long-term, fixed-rate mortgage loans in order to provide a full range of products to its customers. At September 30, 1988, approximately $25.4 million or 35.8% of the permanent, single-family residential loans in the Bank's loan portfolio consisted of loans which provide for fixed rates of interest. Although these loans provide for repayments of principal over a fixed period of up to 30 years, it is the Bank's experience that such loans have remained outstanding for a substantially shorter period of time. As of September 30, 1988, the average size of a residential mortgage loan was $54,000.

As of September 30, 1988, residential construction loans consisted entirely of single-family homes at various stages of completion by local builders and the average size of a residential construction loan was $228,000.

Commercial Real Estate and Construction Loans. The Bank originates mortgage loans for acquisition of existing commercial real estate properties such as apartment buildings and condominiums and, to a lesser extent, office buildings, industrial buildings, warehouses, small retail shopping centers and various special purpose properties, including motels and theaters. Although terms vary, commercial real estate loans secured by existing properties generally have maturities of 30 years or less and interest rates which adjust annually in accordance with a designated index, with no limit on the amount that the interest rate can increase over the life of the loan. As of September 30, 1988, the average size of a commercial real estate mortgage loan was $268,000. All loans are made with respect to properties in the Bank's primary market area.

Construction loans for commercial properties are generally made as 12-month demand notes with interest adjustments and principal reduction required at the conclusion of the 12-month period until the property is sold or permanently financed. Included within the commercial construction loan category are three area bank participation loans in the amounts of $1.9 million, $1.4 million and $850,000, each secured by a first mortgage on local condominium developments. The average size of a commercial real estate construction loan, as of September 30, 1988, was $1.1 million.

Commercial Lending. The Bank makes loans to local businesses in its market area on a secured basis. The Bank generally requires personal guarantees from the principals of any corporation to which it extends credit.

Consumer Lending. The Bank offers automobile loans, home improvement loans, government-guaranteed education loans, mobile home loans (for those permanently stationed in mobile home parks), passbook and stock secured loans, and both secured and unsecured personal loans. At September 30, 1988 the Bank's consumer loan portfolio totaled $5.2 million (exclusive of its second mortgage loans and home equity lines of credit, which are included for financial statement purposes with mortgage loans), representing approximately 4.4% of its total loan portfolio. From time to time, the Bank sells its student loans in the secondary market.

Commercial, construction, and consumer lending may entail significant additional risks compared to residential mortgage lending. Commercial and construction loans may involve large loan balances to single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the properties and thus may be subject to a greater extent to adverse conditions in the real estate market or in the economy generally. Construction loans may involve additional risks because the uncertainties inherent in estimating construction costs, delays arising from labor problems, material shortages, and other unpredictable contingencies make it relatively difficult to evaluate accurately either the total loan funds required to complete a project or related loan-to-value ratios. Because of these factors, the analysis of prospective construction loan projects requires an expertise that is different in significant respects from the expertise required for residential mortgage lending. Consumer loans, particularly unsecured personal loans, may involve additional risks because it can be expensive and time consuming to recover such loans in the event of default.

Origination, Purchase and Sale of Loans. Applications for all types of loans are taken at the Bank's main office in Hingham and at all of the Bank's branch offices. The processing of all loan applications is centralized at the Bank's main office. Residential loan applications are primarily attributed to referrals from real estate brokers, whom the Bank actively solicits, and to a lesser extent, builders, existing customers and walk-in customers. Commercial real estate applications are obtained primarily from previous borrowers, direct contact with the Bank and referrals. Commercial business applications are primarily obtained through existing customers and walk-in customers who have been made aware of the Bank's programs by its advertising. The Bank has recently started an officer call program as a further means of producing applications for the Bank's loan programs.

Loans may be approved by certain loan officers within designated limits, which are established and modified from time to time based on the officers' expertise and experience. All loans are presented to and approved by the Bank's Board of Investment at regularly scheduled meetings. Management is in the process of forming a senior loan committee. This committee's aggregate single borrower loan limitations will be established by the Board of Investment and will require a majority approval by the committee members before an application is approved. All loans that exceed the aggregate limitations established for a single borrower will require Board of Investment approval before commitment.

Historically, the Bank has originated loans for inclusion in its loan portfolio and not for sale in the secondary market. Beginning in 1982, however, the Bank began selling on a 95% participation basis the long-term fixed-rate loans it originates to the FHLMC in order to avoid the interest rate risks associated with including whole loans in its portfolio. The Bank underwrites individual fixed-rate residential loans pursuant to standards established by the FHLMC. All of the participations sold are on a service-retained basis.

In July of 1988, the Bank purchased approximately $10.0 million of one-year adjustable-rate residential mortgage loans secured by owner-occupied properties located throughout New England from a national mortgage banking firm. This purchase was consummated in order to increase the sensitivity of the Bank's loan portfolio to changes in interest rates. The servicing for those loans is performed by the seller. Future purchases will be undertaken when, in the opinion of management, loan demand in the primary market is insufficient to maintain appropriate levels of adjustable rate mortgage loans. The funding for the above purchase was provided through a six month fixed-rate advance from the FHLB of Boston. The rate is 8.25% and the advance matures on January 13, 1989. The management of the Bank intends to pay the advance in full on its maturity date.

The following table sets forth loan origination, sale and repayment activities during the periods indicated.

	Years Ended December 31,			Nine Months Ended September 30,	
	1985	1986	1987	1987	1988
	(Dollars In Thousands)				
Total loans at beginning of year	$ 69,719	$ 89,736	$107,683	$107,683	$112,539
Loans originated:					
Residential mortgage loans:					
Fixed-rate	8,081	17,884	5,745	5,306	11,455
Adjustable-rate	27,069	31,974	28,518	20,359	19,662
Total residential mortgage loans	35,150	49,858	34,263	25,665	31,117
Commercial mortgage	10,404	11,384	5,197	4,293	2,860
Commercial	3,082	2,874	244	211	24
Consumer	7,894	6,528	6,028	4,037	5,760
Total loans originated	56,530	70,644	45,732	34,206	39,761
Loans sold	(5,247)	(13,294)	(1,162)	(1,162)	(332)
Loans charged off	(3)	(10)	(1,523)	(119)	(219)
Loan repayments	(31,263)	(39,393)	(38,191)	(29,975)	(27,791)
Total loans before net items	89,736	107,683	112,539	110,633	123,958
Less:					
Unadvanced loan funds	(6,084)	(7,345)	(5,816)	(5,203)	(5,683)
Deferred loan fees, net	—	—	—	—	(179)
Allowance for possible loan losses	(287)	(1,008)	(525)	(1,699)	(602)
Loans, net at end of year	$83,365	$ 99,330	$106,198	$103,731	$117,494

Loan Rates and Fees. Interest rates charged by the Bank on its loan products are based upon the type of loan, the degree of risk, competitive market rates, and the collateral. Fees charged are also based upon these same factors, and are further subject to the limitations imposed by the regulations of the Commissioner. The Bank has adopted the provisions of FASB 91, as issued in December 1986, for lending transactions initiated and commitments granted on or after January 1, 1988. Accordingly, loan originations and commitment fees and certain direct loan origination costs are being deferred, and the net amount amortized as an adjustment to the related loan's yield. The Bank is generally amortizing these amounts over the contractual life of the related loans. In 1987 and prior years, the Bank recognized loan origination and commitment fees as income in the period the loan or commitment was granted to reflect reimbursement of the related costs associated with originating those loans and commitments. As a result of adopting this change in accounting, as of September 30, 1988, the Bank has deferred net loan fees of $179,000 that would have otherwise been reflected as income. As of September 30, 1988, approximately $85.1 million or 72.5% of the mortgage loans included in the Bank's financial statements were accounted for under the prior policy.

Asset Quality

General. It is the Bank's policy to manage its loan portfolio so as to recognize problem loans at an early stage and thereby minimize losses. As a matter of policy, the Bank commences collection procedures on real estate and commercial loans once a loan payment is 15 days past due and on other loans once a loan payment is more than 10 days past due. A detailed list of loans 90 days or more contractually past due is reported to the Board of Trustees at its quarterly meetings. Generally, it is the policy of the Bank not to accrue interest on loans 90 days or more contractually past due, or when, in the opinion of management, the collectibility of the principal or interest becomes doubtful.

Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When property is acquired, it is recorded at the lower of carrying or market value at the date of acquisition and any writedown resulting therefrom is charged to the allowance for possible loan losses. Interest accrual ceases on the date of acquisition and all costs incurred from that date in maintaining the property are expensed.

Non-performing Assets. The following table sets forth information with respect to non-performing assets at the dates indicated.

	At December 31,					At September 30,
	1983	1984	1985	1986	1987	1988
	(Dollars in Thousands)					
Accruing loans which are 90 days or more contractually past due:						
Residential real estate loans	$ 11	$ —	$ 56	$ 207	$ 817	$ 19
Commercial real estate loans	—	—	—	—	—	—
Consumer loans	10	5	21	38	22	20
Commercial business loans	49	20	—	—	—	—
Total	70	25	77	245	839	39
Non-accrual loans:						
Residential real estate loans	—	1,375	—	—	405	1,768
Commercial real estate loans	—	—	—	—	717	653
Consumer loans	—	—	—	—	96	—
Commercial business loans	—	—	—	2,529	—	—
Total	—	1,375	—	2,529	1,218	2,421
Total non-performing loans:						
Residential real estate loans	11	1,375	56	207	1,222	1,787
Commercial real estate loans	—	—	—	—	717	653
Consumer loans	10	5	21	38	118	20
Commercial business loans	49	20	—	2,529	—	—
Total	$ 70	$1,400	$ 77	$2,774	$2,057	$2,460
Ratio of total non-performing loans to total loans	.12%	2.10%	.09%	2.76%	1.93%	2.08%
Total other real estate owned, net of related reserves	$—	$ —	$1,347	$1,627	$ —	$433
Ratio of total non-performing loans, including other real estate owned to total loans, including other real estate owned	.12%	2.10%	1.68%	4.32%	1.93%	2.44%

Total non-performing loans, including other real estate owned, equalled 1.68%, 4.32%, 1.93% and 2.44% of the Bank's total loan portfolio, including other real estate owned, at December 31, 1985, 1986, 1987 and September 30, 1988, respectively. Since 1984, the Bank's total non-performing assets have been materially affected by two groups of loans.

The first group of loans relates to real estate loans extended to two individuals in 1984 for the construction of three residential condominium units in Cohasset. The Bank extended additional credit as the builders expanded their plans into a two-phased development, each phase to include the construction of nine residential condominium units. The nine units from the second phase remained to be completed and sold when a dispute between the builders halted further development. At such time, the Bank had loans outstanding on the project of $1.3 million. The Bank accepted a deed-in-lieu of foreclosure and carried the units as other real estate owned as of December 31, 1985 and 1986. The Bank sold two units to individuals and seven units to a single real estate investor and recorded a loss of $82,000. The Bank extended credit in the form of seven individual loans to such investor. One unit was sold, but the other six loans became delinquent during 1987. As of December 31, 1987, $817,000 of these loans were contractually past due 90 days. As of September 30, 1988, all six loans, amounting to $1.2 million, were placed on non-accrual. The Bank is in the process of foreclosing on the six properties. A recent appraisal valued the properties in excess of the Bank's cost, and, while no assurances can be given, management anticipates minimal loss, if any, on the credit.

The second group of loans relating to certain commercial business loans were extended to a Hingham-based marine dealership in 1983. As collateral, the Bank received and recorded filings on various boats, marine equipment and accounts receivable. This credit relationship continued in a generally satisfactory manner until June of 1985 when the borrower failed to file the required current financial statements; however, payments did continue on a less than timely basis. In September of 1985, an inventory check by bank personnel revealed that various boats were missing for which the Bank held the Certificates of Origin. In April of 1986, the Bank acquired second mortgages on each of the three principals' residences as additional collateral. Occasional and late payments of principal and interest continued until the last quarter of 1986, at which time payments stopped completely. The borrower met with the Board of Investment of the Bank in December of 1986 and gave assurances of its ability to resume contractual servicing of its indebtedness based upon a commitment that it received for additional financing from another bank. Such financing commitment was terminated in January of 1987. Subsequently, the borrower ceased all business operations. In February of 1987, the Bank took possession of all remaining collateral, and it completed liquidation activities in mid-1988. Loan balances totaled $2.5 million when the liquidation of collateral began in 1987. Specific provisions for possible loan losses amounting to $630,000 in 1986 and $705,000 in 1987 were recorded. Proceeds of the liquidation totaling $1.1 million were applied to the loan balances. During October of 1987, $1.4 million, which represented the remaining balance on the marine dealership concentration, was charged off. All accounts are now closed on the matter and management believes that any further recovery will not be material.

Excluding the residential real estate loans on the Cohasset development and the commercial business loans extended to the marine dealership, total non-performing loans, including other real estate owned, as a percentage of total loans, including other real estate owned, would have been 0.09%, 0.25%, 1.17%, and 1.43% at December 31, 1985, 1986, 1987 and September 30, 1988, respectively.

In addition to the above-mentioned loans, the Bank carried two commercial real estate loans to a single borrower totaling $717,000 on non-accrual as of December 31, 1987. The total includes a $320,000 loan on a business condominium located in Quincy, Massachusetts. The Bank foreclosed on the business condominium during the nine months ended September 30, 1988, and charged off $100,000 of the loan. While this loan is therefore included as other real estate owned at September 30, 1988, the Bank has since entered into a purchase and sale agreement for $255,000, which sale occurred on November 1, 1988.

The other commercial loan included in the $717,000 to the same borrower is a $397,000 loan secured by approximately 13 acres of land and buildings located in Kingston, Massachusetts. Negotiations regarding the sale of the Kingston property are in progress. While no assurance can be given as to the actual proceeds from any sale, the Bank does not anticipate a loss pursuant to any sale as a result of those negotiations.

Allowance for Possible Loan Losses. Possible losses on loans are provided for under the reserve method of accounting. The adequacy of the allowance for possible losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers and the performance of individual loans in relation to the contract terms. The provision for possible loan losses charged to operating expense is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb possible losses. Loan losses are charged against the allowance when management believes the collectibility of the principal is unlikely.

The following table sets forth an analysis of the allowance for possible loan losses for the periods indicated.

	Years Ended December 31,					Nine Months Ended September 30,
	1983	1984	1985	1986	1987	1988
	(Dollars in Thousands)					
Average loans outstanding	$54,937	$61,179	$72,483	$91,158	$101,646	$108,974
Balance at beginning of period	$ 88	$ 148	$ 182	$ 287	$ 1,008	$ 525
Provision for possible loan losses	74	59	107	723	1,038	283
Recoveries on consumer loans previously charged off	5	2	1	8	2	13
Loans charged off:						
Commercial real estate loans	—	—	—	—	(82)	(100)
Commercial business loans	(7)	(3)	—	—	(1,400)	(93)
Consumer loans	(12)	(24)	(3)	(10)	(41)	(26)
Total loans charged off	(19)	(27)	(3)	(10)	(1,523)	(219)
Net charge-offs	(14)	(25)	(2)	(2)	(1,521)	(206)
Balance at end of period	$ 148	$ 182	$ 287	$ 1,008	$ 525	$ 602
Ratio of net charge-offs to average outstanding loans(1)	.03%	.04%	— %	— %	1.50%	.25%
Ratio of allowance for possible loan losses to total loans at end of period	.26%	.27%	.34%	1.00%	.49%	.51%

(1) Annualized for the nine months ended September 30, 1988

Investment Activities

The Bank invests in United States government and agency obligations, investment grade corporate securities, money market instruments, corporate equities and other authorized investments. The Bank's investment portfolio is managed by senior officers with the counsel of an independent investment advisor. The portfolio is managed according to the investment policy approved by the Board of Investment on May 19, 1988 and the strategies reviewed by it periodically. At September 30, 1988, the carrying value of the Bank's investment portfolio totaled $23.7 million which represented 16.1% of the Bank's total assets.

The Bank's investment policy has been written to provide flexibility in the types of securities purchased by the Bank depending on a number of factors including the outlook for interest rates, the size of the gap between interest-sensitive assets and interest-sensitive liabilities and the liquidity requirements of the Bank. The objectives of the Bank's investment policy are to provide earnings, diversification of assets and liquidity. Various maximum investment limitations for any one issue of an investment security and aggregate investment limitations for particular types of investment securities are outlined in the policy as well as the Bank's investment limitations in the equities of individual companies.

The following table sets forth the carrying value and market value of the Bank's investment portfolio at the dates indicated.

	At December 31,						At September 30, 1988	
	1985		1986		1987			
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
	(Dollars In Thousands)							
Short-term investments:								
Federal funds sold	$ 5,850	$ 5,850	$ 1,109	$ 1,109	$ 3,225	$ 3,225	$ 1,963	$ 1,963
Interest-bearing deposits	2,499	2,499	1,000	1,000	1,500	1,500	2,000	2,000
Total short-term investments	$ 8,349	$ 8,349	$ 2,109	$ 2,109	$ 4,725	$ 4,725	$ 3,963	$ 3,963
Percent of total assets	7.5%		1.6%		3.5%		2.7%	
Investment securities:								
U.S. Government	$ 1,513	$ 1,543	$ 3,017	$ 3,062	$ —	$ —	$ 1,502	$ 1,481
Federal agency obligations	—	—	5,629	5,707	4,555	4,546	7,086	7,006
Public service obligations	4,566	4,077	2,017	1,868	1,546	1,377	851	700
Banking and finance obligations	5,035	5,091	8,781	8,851	7,099	6,992	5,693	5,622
Other bonds and obligations	1,597	1,601	2,395	2,380	2,780	2,742	2,759	2,743
Total bonds and obligations	12,711	12,312	21,839	21,868	15,980	15,657	17,891	17,552
Mortgage-backed investments	1,635	1,556	750	731	688	596	639	565
Marketable equity securities:								
Preferred stock	238	193	517	436	299	259	125	110
Common stock	—	—	134	118	126	96	311	288
Total marketable equity securities	238	193	651	554	425	355	436	398
Less valuation allowance for marketable equity securities	(45)	—	(97)	—	(70)	—	(38)	—
Marketable equity securities, net	193	193	554	554	355	355	398	398
FHLB stock	—	—	570	570	570	570	800	800
Total marketable and other equity securities	193	193	1,124	1,124	925	925	1,198	1,198
Total investment securities	$14,539	$14,061	$23,713	$23,723	$17,593	$17,178	$19,728	$19,315
Percent of total assets	13.1%		18.0%		13.1%		13.4%	
Total investment portfolio	$22,888	$22,410	$25,822	$25,832	$22,318	$21,903	$23,691	$23,278
Percent of total assets	20.6%		19.6%		16.6%		16.1%	

The following table sets forth certain information concerning the contractual maturities of short-term investments and bonds and obligations as of the dates indicated.

	At December 31,			At September 30,
	1985	1986	1987	1988
Percentage of short-term investments and bonds and obligations maturing:				
Within 1 year	64.4%	24.0%	51.5%	65.8%
After 1 year but within 5 years	21.9	70.4	39.6	28.5
After 5 years but within 10 years	2.8	2.5	5.1	4.8
After 10 years	10.9	3.1	3.8	0.9
Total	100.0%	100.0%	100.0%	100.0%
Weighted average life to maturity (expressed in years) of short-term investments and bonds and obligations	2.52	1.98	1.37	1.17

The following table sets forth, as of September 30, 1988, the carrying value, estimated market value, weighted average contractual maturity and weighted average yield of bonds, obligations and mortgage-backed investments in the Bank's investment securities portfolio.

	Carrying Value	Estimated Market Value	Weighted Average Contractual Maturity (Years)	Weighted Average Yield
	(In Thousands)			
U.S. Government and federal agencies	$ 8,588	$ 8,487	0.99	7.64%
Corporate and other	9,942	9,630	2.69	7.38
Total bonds, obligations and mortgage-backed investments	$18,530	$18,117	1.90	7.42

The following table sets forth certain information with respect to securities of issuers exceeding 10% of the Bank's net worth, as of September 30, 1988.

Issuer	Carrying Value	Market Value	Weighted Average Yield	Weighted Average Maturity (Years)
	(In Thousands)			
Federal Home Loan Bank	$2,035	$2,015	7.70%	1.23
Federal Farm Credit Banks	4,093	4,055	7.35	0.86
Ford Motor Credit Co.	1,909	1,896	6.92	0.44
Transcontinental Gas Pipeline	1,203	1,201	8.11	0.17

Sources of Funds

General. Deposit accounts of all types have historically constituted the primary source of funds for the Bank's lending and investment activities. To a lesser extent, the Bank also derives funds from amortization and prepayments of outstanding loans, sales of investment securities and loans and borrowings from the FHLB of Boston. The availability of funds is influenced by prevailing interest rates, competition, and other market conditions.

Deposits. The Bank's current deposit products include regular and special notice accounts, demand accounts, NOW accounts, money-market accounts and certificates of deposit ranging in terms from ninety-one days to three and one-half years. Included among these deposit products are Individual Retirement Account Certificates and Keogh Retirement Certificates (collectively "retirement accounts"). The Bank's consumer deposits are primarily attracted from customers in the Bank's primary market area. The Bank also accepts deposits through its five ATMs. It is also a franchisee of an ATM network which has over 20,000 ATMs located throughout the United States and in Canada. However, the Bank does not receive deposits by way of this network. The Bank does not solicit deposits outside its market area, accept deposits from money brokers or use premiums to attract deposits.

In recent years, market conditions have caused the Bank's mix of deposits to shift into short-term accounts, money-market accounts, and other savings alternatives which may be more responsive to changes in market rates of interest than passbook accounts and longer maturity, fixed-rate certificates, which historically have been the Bank's primary sources of deposits. The shifting of deposit mix has primarily resulted from the elimination of regulatory rate ceilings on various types of deposits offered by financial institutions such as the Bank. The deregulation of various controls on insured deposits has allowed the Bank to be more competitive in obtaining funds and has given the Bank greater flexibility to reduce deposit outflows, but has also resulted in a more volatile cost of funds. The Bank's cost of funds, and its ability to attract and maintain deposits, have been, and will continue to be, significantly affected by economic and competitive conditions.

The following table shows the deposit accounts of the Bank by classification of deposits at the dates indicated.

	At December 31,						At September 30, 1988		
	1985		1986		1987				
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Weighted Average Interest Rate
	(Dollars in Thousands)								
Demand	$ 2,492	2.5%	$ 3,999	3.3%	$ 3,318	2.7%	$ 3,696	3.0%	—%
NOW	5,315	5.2	5,821	4.8	8,187	6.7	7,113	5.7	5.20
Money-market deposits	35,784	35.2	37,354	30.9	32,096	26.1	29,447	23.7	6.55
Regular and special notice	20,166	19.9	23,438	19.4	26,661	21.7	27,663	22.2	5.68
Total non-certificate accounts	63,757	62.8	70,612	58.4	70,262	57.2	67,919	54.6	5.70
Term certificates:									
Less than $100,000	34,504	34.0	43,524	36.0	45,867	37.4	49,340	39.7	8.38
$100,000 and over	3,252	3.2	6,714	5.6	6,659	5.4	7,084	5.7	8.08
Total term certificates	37,756	37.2	50,238	41.6	52,526	42.8	56,424	45.4	8.34
Total deposits	$101,513	100.0%	$120,850	100.0%	$122,788	100.0%	$124,343	100.0%	6.90%

The following table presents an analysis of the Bank's term certificates by maturity and interest rate category at September 30, 1988.

	At September 30, 1988				
	Within One Year	After One Year Through Two Years	After Two Years Through Three Years	After Three Years	Total
			(In Thousands)		
Term certificates with rates:					
under 6.99%	$ 1,162	$ —	$ —	$ —	$ 1,162
7.00% to 7.99%	20,816	3,416	1,062	—	25,294
8.00% to 8.99%	5,164	2,558	4,728	2,522	14,972
9.00% to 9.99%	1,741	1,781	—	—	3,522
10.00% to 10.99%	8,091	1,149	—	—	9,240
11.00% to 11.99%	2,234	—	—	—	2,234
Total term certificates	$39,208	$8,904	$5,790	$2,522	$56,424

At September 30, 1988, the Bank had outstanding $7.1 million of term certificates in amounts of $100,000 or more, maturing as follows:

Period Ending	Amount in Thousands
September 30, 1989	$5,006
September 30, 1990	1,143
September 30, 1991	428
Thereafter	507
Total for all maturities	$7,084

Borrowings

The Bank has been a member of the FHLB of Boston since August 5, 1986. As a member, the Bank may borrow from the FHLB of Boston amounts which under presently applicable guidelines could be up to $44.0 million. This arrangement allows the Bank to obtain advances from the FHLB of Boston rather than relying on commercial bank lines of credit. At September 30, 1988, the Bank had $10.0 million in borrowings from the FHLB of Boston, all of which are secured. See "Lending Activities—Origination, Purchase and Sale of Loans" above.

Competition

Competition with the Bank for deposits has traditionally come from other thrift institutions and from commercial banks located in its market area. The Bank retains its strong competitive position by providing a full range of deposit products, offering competitive rates, and by supporting a strong network of conveniently located branches with extended banking hours. In addition, the Bank is a member of three ATM networks which provide customers access to their accounts from ATMs located throughout the United States and in Canada. The Bank has a competitive advantage over commercial banks and various other financial institutions because its depositors' funds are fully insured by the FDIC and the Central Fund.

Competition for real estate loans is based primarily on interest rates, fees, and the quality of service provided to borrowers and real estate brokers. Principal competitors for loan originations are savings banks, mortgage banking companies, and commercial banks. The Bank is recognized in its market area as the leading provider of mortgage funds. Competition for consumer and commercial loans comes from commercial banks, savings banks, and other financial service organizations.

Recent legislation permitting interstate banking in the New England area has significantly increased the competition faced by the Bank. Bank regulation is undergoing significant change with an increased number of bank mergers and acquisitions, changes in the products and services banks can offer and involvement in nonbanking activities by bank holding companies. Although recent legislation and regulations have expanded the activities in which savings institutions may engage, the same legislation has reduced or eliminated some of the competitive advantages which savings institutions formerly held over commercial banks, such as interest rate differentials which permitted savings institutions to offer a higher rate of interest to attract deposits. There are a number of pending legislative and regulatory proposals that may further alter the structure, regulations and competitive relationships of financial institutions.

Personnel

At September 30, 1988, the Bank had 45 full-time employees and 10 part-time employees. The Bank provides its full-time employees with a comprehensive range of employee benefit programs, including a profit sharing plan, a pension plan and life, health, travel accident and long-term disability insurance. None of the employees of the Bank are represented by a labor union or other collective bargaining group, and management believes that its employee relations are very good.

Banking Premises

The following table sets forth certain information relating to real estate owned by the Bank at September 30, 1988.

	Location	Year Acquired	Net Book Value (Thousands)
Main Office:			
55 Main Street Hingham, MA 02043	Hingham	1950	$ 96
Branch Offices:			
37 Whiting Street Hingham, MA 02043	South Hingham	1979	339
788 Washington Street Hanover, MA 02339	Hanover	1974	68
401 Nantasket Ave. Hull, MA 02045	Hull	1976	88
Drive-up:			
Central Street Hingham, MA 02043	Hingham	1974	49
			$640

The Bank's main office in downtown Hingham has a full service banking office with one ATM, a nearby drive-up facility, a mortgage and loan center, administrative offices and an operations center.

The Bank entered into a purchase and sale agreement to purchase an office building located immediately adjacent to the Bank's headquarters. The Bank expects to consummate the transaction sometime in December 1988 for total consideration of $950,000. The Bank intends to expand its headquarters to include the building and plans to renovate the two buildings to create one complex with interior access from building to building.

Legal Proceedings

The Bank from time to time, and currently, is involved in various legal actions incident to its business. None of those actions are believed to be material, either individually or in the aggregate, to the financial condition of the Bank.

POWERS AND REGULATION

General

The Bank is extensively regulated under federal and state law. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable law or regulation may have a material effect on the business and prospects of the Bank. The operations of the Bank may be affected by legislative changes and by the policies of various regulatory authorities.

This regulation is intended primarily for the protection of depositors of the Bank, rather than the Bank's stockholders.

Massachusetts Law

Massachusetts-chartered savings banks, such as the Bank, are regulated and supervised by the Massachusetts Commissioner of Banks (the "Commissioner"). The Commissioner is required to examine each state-chartered bank at least once every two years. The Commissioner's approval is required to establish or close branches, merge with other banks, form a bank holding company and undertake many other activities.

Any Massachusetts bank that does not operate in accordance with the Commissioner's regulations, policies and directives may be subject to sanctions for non-compliance. The Commissioner may, under certain circumstances, suspend or remove trustees, directors or officers who have violated the law, conducted the bank's business in a manner which is unsafe, unsound or contrary to the depositors' interests or been negligent in the performance of their duties. If the stockholders' equity of a bank falls below regulatory requirements, the Commissioner may take various supervisory actions, including, in severe cases, requiring the merger of a bank with another financial institution, the liquidation of a bank or other supervisory actions, which could result in the loss by a bank stockholder of a substantial portion or all of his investment.

Major changes in Massachusetts law in 1982 and 1983 substantially expanded the powers of Massachusetts savings banks. First, the powers of Massachusetts savings banks were made virtually identical to those of state-chartered commercial banks. Second, interstate banking operations were authorized throughout New England on a reciprocal basis with other New England states. The powers which Massachusetts savings banks can exercise under these laws are summarized below.

Deposits. Demand, savings and time deposits of any kind may be accepted.

Residential Mortgage Loans. A wide variety of mortgage loans may be made in accordance with applicable regulations, including fixed-rate loans, variable-rate loans, participation loans, graduated payment loans, construction loans, condominium and cooperative loans and second mortgage loans. Mortgage loans may be made on real estate in Massachusetts or in another New England state if a bank has an office there or under certain other circumstances. In addition, certain mortgage loans may be made on improved real estate located anywhere in the United States.

Commercial Loans. Loans may be made to corporations and other commercial enterprises with or without security. With certain exceptions, such loans may be made without regard to geographic limitations.

Consumer and Personal Loans. Consumer and personal loans may be made without geographic limitation and with or without security.

Limitations on Loans to a Single Borrower. Prior to the Conversion, loans to a single borrower generally are limited to 20% of the Bank's surplus account. After the Bank has converted to stock form, with certain exceptions, loans to a single borrower generally will be limited to 20% of the total of the Bank's capital stock, surplus account and undivided profits.

Investments. Debt investments may be made without geographic limitation, subject to the limitations on loans to a single borrower. Among other permitted equity investments, a Massachusetts savings bank may invest up to 15% of its assets in shares of stock listed on a national securities exchange or quoted on NASDAQ. It may also invest up to 4% of its deposits in preferred or common stock of any corporation organized under the laws of the United States or of any state, whether or not the stock is listed on an exchange or quoted on NASDAQ. In addition, Massachusetts savings banks may invest in the stocks of other banks and bank holding companies located in Massachusetts, subject to certain limitations and the requirements of the federal and state bank holding company and change in bank control acts. See "ANTI-TAKEOVER PROVISIONS—Certain Federal and State Restrictions on Acquisition of Stock."

Branches. With the approval of the Commissioner, bank branches may be established in any city or town within Massachusetts or, to the extent permitted under the laws of another New England state, in such other New England state.

Automated Teller Machines. Massachusetts savings banks may operate ATMs at any of their existing offices or, with the approval of the Commissioner, anywhere in Massachusetts without geographic restriction. Sharing of ATMs or "networking" is also permitted with the approval of the Commissioner. Massachusetts savings banks may also operate ATMs outside of Massachusetts if permitted to do so by the law of the jurisdiction where the ATM is located.

Interstate Operations. Massachusetts savings banks may establish branch offices and merge with banks in any other New England state, provided the Commissioner approves such action and provided the other state authorizes the action. All of the New England states have adopted interstate banking legislation. Such provisions provide the Bank with a broader range of acquisition and merger opportunities than are available to thrift institutions in other states which have not enacted comparable legislation.

Foreign Operations. Banks with capital stock and surplus of at least $5 million may also establish branches in United States dependencies and in foreign countries with the approval of the Commissioner and compliance with the laws of the foreign location.

Other Powers. Massachusetts savings banks may also engage in the leasing of machinery and equipment, act as trustee or custodian for tax-qualified retirement plans, provide payroll services for their customers, issue or participate with others in the issuance of mortgage-backed securities, and establish mortgage banking companies and discount brokerage operations. Subject to certain limits, a Massachusetts savings bank may also invest an amount equal to no more than 2% of its deposits in any single investment not otherwise legally permitted to be made by a bank, and no more than 5% of its deposits in the aggregate for such investments, provided that any such amounts which exceed 3% of deposits must be invested in companies organized for the purpose of acquiring, constructing, rehabilitating, leasing, financing and disposing of housing. This "leeway" authority cannot be used to alter statutory limits on the aggregate amounts that can be invested in any specific class of investment.

Some of the above-mentioned activities require the prior approval of the Commissioner.

Deposit Insurance: The FDIC and the Central Fund

The Bank's deposit accounts are insured by the FDIC up to a maximum of $100,000 per insured depositor. Additionally, deposits in excess of that amount are insured in full by the Deposit Insurance Fund of the Central Fund.

FDIC. The FDIC imposes an annual assessment of $\frac{1}{12}$ of 1% of deposits. Based upon the Bank's deposits at September 30, 1988, this assessment would be approximately $104,000. The FDIC issues regulations, conducts periodic examinations, requires the filing of reports and generally supervises the operations of its insured banks. The approval of the FDIC is required prior to any merger or consolidation, or the establishment or relocation of any branch office. This supervision and regulation is intended primarily for the protection of depositors.

The FDIC has regulations regarding the capital adequacy requirements of FDIC-insured institutions. These regulations require banks which are well-managed and exhibit no material financial weaknesses to have minimum "primary" capital (as defined by the FDIC) equal to 5.5% of total assets, and "total" capital (as defined by the FDIC) equal to 6.0% of total assets. At September 30, 1988, the Bank's primary and total capital ratios for FDIC purposes were both 7.7%. Assuming receipt of the estimated midpoint pro forma net conversion proceeds, these ratios on that date would both have been 14.3%. In addition, the FDIC has proposed new risk-based capital rules which would supplement existing capital requirements. If adopted, the rules would require FDIC-insured institutions to maintain a minimum risk-based capital ratio of 7.25% (of which at least 3.25% should be common stockholders' equity) by December 31, 1990. These ratios will be increased to 8% and 4%, respectively, by December 31, 1992. Assets and off-balance sheet items will be assigned to five risk categories, with higher levels of capital required for the categories perceived as representing greater credit risk. The resulting capital ratios will represent equity and (to the extent permitted) non-equity capital as a percentage of total risk-weighted assets and off-balance sheet items. The proposed risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. See "PRO FORMA DATA."

Any FDIC-insured bank which does not operate in accordance with FDIC regulations, policies and directives may be sanctioned for non-compliance. Proceedings may be instituted against any FDIC-insured bank or any director, officer or employee of such bank who engaged in unsafe and unsound practices, including the violation of applicable laws and regulations. The FDIC has the authority to terminate insurance of accounts pursuant to the procedures established for that purpose and to impose civil money penalties.

Central Fund. All Massachusetts savings banks are required to be members of the Central Fund. The Central Fund maintains the Deposit Insurance Fund which insures all deposits in member banks not covered by federal insurance (which, in the case of the Bank, are its deposits in excess of $100,000 per insured depositor). In recent years, a premium of $^1/_{24}$ of 1% of deposits not federally insured has been assessed annually on member banks such as the Bank for this deposit insurance. During the past several years, many member banks have obtained FDIC insurance, thereby reducing substantially the amount of deposits insured by the Central Fund. This has resulted in excess amounts accumulated in the insurance fund, and, as a result, the Central Fund paid special dividends and distributions to member banks in 1984, 1985 and 1986, including a special distribution of $66,000 to the Bank in 1985, in addition to special dividends of $69,000, $380,000 and $423,000 paid by the Central Fund to the Bank in fiscal years 1984, 1985 and 1986, respectively. These dividends were extraordinary and cannot be expected to occur in future years. No such dividends were paid in 1987 or thus far in 1988. The Bank continued to pay a premium to the Central Fund in the years it received back special dividends.

Federal Reserve Board Regulations

In 1980, Congress enacted legislation which imposes reserve requirements (under "Regulation D") of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Regulation D imposes non-earning reserve requirements on all depository institutions, including the Bank, that maintain transaction accounts (primarily NOW and regular checking accounts) or non-personal time deposits. These reserves may be in the form of cash, or non-interest bearing deposits with the regional Federal Reserve Bank. Demand deposit accounts, NOW accounts and certain other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to Regulation D requirements. Under Regulation D, the Bank currently must establish reserves equal to 3% of the first $40.5 million of net transaction accounts, and 12% of the remainder. The reserve requirement on non-personal time deposits with original maturities of less than 18 months (which include money market deposit accounts when held by other than a natural person) is now set at 3%. These reserve requirements can be adjusted (within certain statutory limits) by the Federal Reserve and are subject to certain exemptions set forth in Regulation D. As of September 30, 1988, the Bank met applicable reserve requirements of the Federal Reserve.

Interest Rate Regulation

Interest rates payable by the Bank on deposit accounts are no longer subject to federal regulation. In 1980, Congress established the objective of phasing out interest rate regulation of deposit accounts by 1986. The Garn–St Germain Act of 1982 accelerated the movement towards deregulation of interest rates by permitting banks to offer money market deposit accounts that are competitive with money market mutual funds. The Garn–St Germain Act also eliminated, effective January 1, 1984, the interest rate differentials which had formerly allowed thrift institutions to offer slightly higher interest rates than commercial banks on most deposit accounts. The last remaining interest limitations on interest-bearing deposits expired on March 31, 1986. However, FDIC regulations prohibit the payment of interest on demand deposits (as defined by the FDIC). These developments have intensified competition for deposits within the banking industry and have made it possible for banks to compete more effectively with other financial institutions for deposit funds. However, these developments may also increase the average cost of funds for institutions, such as the Bank, that historically have had a low cost of funds.

Restrictions on Payment of Dividends

Under applicable Massachusetts and federal law, the Bank may only pay dividends on its capital stock if such payment would not impair the Bank's capital stock and surplus account or reduce its net worth below the amount required for the liquidation account referred to under "THE CONVERSION—Effects of the Conversion—Liquidation Rights." If, on the date of declaration of a common stock dividend, the ratio of capital stock and surplus to total deposits is less than 10%, there must be a transfer from net profits to the surplus account before the dividend may be paid. Further, the Federal Deposit Insurance Act prohibits the Bank from paying dividends on its capital stock if it is in default in the payment of any assessment to the FDIC.

Earnings appropriated to the allowance for possible loan losses and deducted for federal income tax purposes are not available for dividends without the payment of taxes at then current income tax rates. See "TAXATION."

Other Aspects of Federal and State Law

The Bank is also subject to federal and state statutory and regulatory provisions covering, among other things, security procedures, currency transactions reporting, insider and affiliated party transactions, management interlocks, community reinvestment, truth-in-lending, electronic funds transfers, funds availability, truth-in-savings and equal credit opportunity.

TAXATION

Federal Taxation

For federal income tax purposes, the Bank has reported its income and expenses under the cash method of accounting, but commencing with the taxable year beginning November 1, 1987 the Bank has changed to the accrual method of accounting. The Bank is subject to the maximum federal corporate rate of 34% of its taxable income.

The federal income tax provisions regarding taxation of corporations generally, and financial institutions in particular, were extensively revised by the Tax Reform Act of 1986 (the "Act"). Except as specifically noted, the discussion below relates to the provisions of the Internal Revenue Code of 1986, as amended (the "Code") as those provisions were amended by the Act.

Under applicable provisions of the Code, savings banks such as the Bank, which qualify by meeting certain definitional tests primarily relating to their assets and the nature of their business, are permitted to establish a reserve for bad debts and to make annual additions thereto. Such additions may be deducted in arriving at a savings bank's taxable income.

In order to qualify, at least 60% of a savings bank's assets must consist of "qualifying assets," which include, among other things, cash, obligations of the United States or state or local governments, certificates of deposit of certain corporations, various real estate residential loans, educational loans, property used in the conduct of its business and certain other types of assets. As of October 31, 1987, 72% of its assets were "qualifying assets," and the Bank anticipates that it will continue to meet such test in the immediate future, but there can be no guarantee to that effect.

In the event that the Bank did not meet the 60% test, it would be treated as a commercial bank for purposes of the bad debt deduction. Under that method, the Bank would be required to use the experience method, as described below. Moreover, if in any year the adjusted basis of its average assets exceeded $500,000,000, it would be treated as a "large bank" and ineligible to use the reserve method of computing deductions for losses on bad debts.

For purposes of computing the bad debt reserve deduction, loans are separated into "qualifying real property loans" (in general, loans secured by interests in real property) and all other loans ("nonqualifying loans"). Savings banks may elect to calculate the bad debt reserve deduction for "qualifying real property loans" based upon (i) actual loss experience (the "experience method"), or (ii) the percentage of taxable income before such deduction (the "percentage of taxable income method"). Under the percentage of taxable income method, the bad debt deduction is generally 8% of a savings bank's taxable income before such deduction. Prior to the changes enacted by the Act, the bad debt deduction under this method was effectively equal to 32% of taxable income subject to certain adjustments. Even at the lower percentage, the availability of the percentage of taxable income method permits a qualifying savings bank to be taxed at a lower maximum effective marginal federal income tax rate than that applicable to corporations generally.

Under the experience method, the Bank may deduct the greater of losses based upon a six-year moving average or an amount determined with respect to the Bank's bad debt reserve for a base year.

A savings bank's total bad debt deduction for a taxable year is subject to several additional limitations. First, the deduction for "qualifying real property loans" is reduced by an amount equal to part or all of the deduction for "nonqualifying loans" unless that addition was also determined under the experience method.

The bad debt reserve deduction computed under the percentage of taxable income method for an addition to the reserve for losses on "qualifying real property loans" cannot exceed the amount necessary to increase the balance in such reserve to an amount equal to 6% of such loans outstanding at the end of the taxable year. Based on past experience, the 6% limitation will not limit the bad debt reserve deduction of the Bank. Further, the bad debt deduction is limited to the amount by which 12% of the total deposits or withdrawable accounts of depositors at the close of a taxable year exceeds the sum of surplus, undivided profits and reserves at the beginning of the year. At October 31, 1987, the 12% limitation did not limit the bad debt deduction of the Bank.

During the recent years through fiscal 1986, the Bank has used the percentage of taxable income method and has subsequently used the experience method in computing the amount of its additions to its bad debt reserves. In future tax years, the Bank will use whichever method of calculation is most advantageous, determined annually.

At October 31, 1987, the Bank's bad debt reserves for federal income tax purposes totaled approximately $3.8 million. If the accumulated bad debt reserves are used for any purpose other than to absorb bad debt losses on qualifying and nonqualifying loans, federal income taxes will be imposed at the then applicable rates. Thus, earnings appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of cash dividends, or other distributions to stockholders, including distributions in redemption, dissolution, or liquidation, without payment of federal income taxes (at the then current corporate income tax rate) by the Bank on the amount of such earnings removed from the reserves for such distribution. To the extent any dividend distribution to stockholders were to exceed the Bank's available earnings and profits, or if the Bank were to make a distribution in redemption, dissolution, or liquidation, and assuming a 34% tax rate, the Bank would be deemed: (i) to have removed from its reserves an amount that, after taxes on such amount, would equal the amount actually distributed to the stockholders, and (ii) to have received taxable income in such amount, on which the Bank would be subject to federal income taxes at the 34% corporate rate.

Under provisions enacted in the Act, any interest expense allocable to any tax-exempt obligations acquired after August 7, 1986 (subject to certain exceptions for qualified small issues) is not deductible. Such portion is determined by a ratio of (i) the average adjusted basis during the taxable year of tax-exempt obligations acquired after August 7, 1986, and (ii) the average adjusted basis of all assets held by the financial institution. With respect to tax-exempt obligations acquired between January 1, 1983 and August 7, 1986, 20% of the interest deduction is disallowed.

As a result of changes produced by the Act, the corporate minimum tax was changed from an add-on tax to an alternative minimum tax at a rate of 20%. The alternative minimum tax will apply to a base of regular taxable income plus certain tax preferences and will be payable to the extent that it exceeds the regular tax liability of the corporate taxpayer. Tax preference items include (i) for years beginning in 1987, 1988 and 1989 one-half of the excess of the corporate taxpayer's pre-tax adjusted net income for financial reporting purposes over a minimum tax base, and for years beginning after 1989, this preference item is replaced with a new preference item relating to "adjusted current earnings" as specially computed; (ii) the excess of the bad debt reserve deduction under the percentage of taxable income method over the amount that would have been allowable under the experience method; and (iii) interest on certain tax exempt private activity bonds issued after August 7, 1986.

In addition, for the taxable years beginning after December 31, 1986 and before January 1992, the Bank will be subject to a deductible environmental tax of .12% of its alternative minimum taxable income (computed without regard to its net operating losses and prior to the deduction for this tax, and subject to a standard deduction of $2.0 million), regardless of whether the Bank is subject to the alternative minimum tax.

The Bank was audited by the IRS for the taxable year ended October 31, 1983, which year is now closed.

Potential Tax Legislation

Preliminary versions of the Act would have either eliminated the use of the bad debt reserve method or reduced the percentage of taxable income method to a percentage even lower than 8%. Neither the final version of the Act nor the Technical Corrections and Miscellaneous Revenue Act of 1988 (which was passed by Congress on October 23, 1988) contains such provisions. It is possible that future legislative changes could reduce or eliminate the benefits of the bad debt reserve method, which would adversely affect the Bank. In addition, future legislation could have other adverse effects such as raising the federal marginal income tax rates for banks or providing for changes to the corporate alternative minimum tax.

Massachusetts Taxation

Savings banks in Massachusetts are taxed at the rate of 12.54% on their state taxable income. State taxable income includes income from all sources, without exclusion, for the taxable year, less the deductions, but not the credits, allowable under the provisions of the Code in effect for the taxable year. However, no deductions are allowed for dividends received or for losses incurred in other taxable years.

Accounting for Income Taxes

In December 1987, the Financial Accounting Standards Board (the "FASB") released Statement of Financial Accounting Standards No. 96 entitled "Accounting for Income Taxes." The Statement in general requires enterprises to change from the deferred method to the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book cost and the tax basis of assets and liabilities. The resulting deferred tax liabilities and assets in some cases are adjusted to reflect changes in the tax laws or rates (the "deferred method"). This change could result in a reduction in net income and net worth. This Statement would have been effective for fiscal years beginning after December 15, 1988, with earlier adoption encouraged but not required. Previous pronouncements that required the "deferred method" would be superseded. However, recently the FASB has issued an Exposure Draft which proposes to extend for one year the required effective date. Consequently, the effective date is currently uncertain.

MANAGEMENT

Trustees and Executive Officers of the Bank

As a mutual savings bank, the direction and control of the Bank is vested in its Board of Trustees, members of which are elected by the Corporators of the Bank to staggered three-year terms. The Board of Trustees currently consists of seventeen persons. Upon consummation of the Conversion, the Bank will be governed by a Board of Directors which, under the Bank's Amended and Restated Charter and amended By-Laws, may have no fewer than seven and no more than twenty-five members. At that time, certain of the Bank's present Trustees will become Directors of the Bank. Directors will serve for staggered three-year terms, and, as nearly as practicable, one-third of the Directors will be elected by the Bank's stockholders at each annual meeting. On September 1, 1988, one additional executive officer of the Bank, Paul E. Bulman, the current Executive Vice President, was elected to the Board of Trustees and will become a Director upon Conversion. See "ANTI-TAKEOVER PROVISIONS—Certain Provisions in the Charter and By-Laws—Directors."

Officers of the Bank will be elected or appointed annually by or under the direction of the Board of Directors of the Bank and will hold office until their respective successors have been elected and qualified.

Trustees. The following table sets forth certain information about the Trustees of the Bank.

Name	Age	Position(s)	Held Since	Term Expires
Paul E. Bulman	50	Executive Vice President and Trustee	1988	1989
Robert F. Cass	46	Vice President, Treasurer and Trustee	1988	1991
Wilfred H. Creighton	55	President, Chief Executive Officer and Trustee	1966	1990
J. Robert Crowley	64	Clerk of Corporation and Trustees and Trustee	1971	1989
Jon S. Davis	45	Trustee	1980	1989
Kenneth M. Garland	72	Trustee	1983	1990
Carleton N. Goff	74	Trustee	1978	1989
Richard B. Lane	55	Trustee	1980	1991
John R. Lombardo	55	Trustee	1982	1991
Herbert T. McMeekin, Jr.	67	Trustee	1978	1989
Vito A. Nardo	55	Trustee	1983	1991
Warren B. Noble	58	Trustee	1980	1991
Gerard W. Pyne	57	Chairman of the Board of Trustees	1965	1991
Russell G. Sears	44	Trustee	1981	1990
Herbert E. Soini	63	Trustee	1978	1991
Helen Summers	66	Trustee	1983	1989
David L. Wightman	51	Trustee	1985	1990

Paul E. Bulman is the Executive Vice President of the Bank. He joined the Bank in June 1988. Prior to that, he was a Senior Vice President of the New Bedford Institution for Savings, headquartered in New Bedford, Massachusetts. From 1984 to 1987, Mr. Bulman was the Commissioner of Banks for the Commonwealth of Massachusetts. Prior to his appointment as Commissioner, Mr. Bulman served in various other capacities with the Massachusetts Bank Commissioner's Office.

Robert F. Cass has been Vice President and Treasurer of the Bank for the past five years.

Wilfred H. Creighton, with 30 years of banking experience, has been the President and Chief Executive Officer of the Bank for 16 years. He has been a Trustee of the Bank since 1966 and has been a member of the Board of Investment for 16 years.

J. Robert Crowley has been the Marketing Manager for the Bank for the past six years. Prior to that, he served in various management positions with the Bell Telephone System, retiring in 1982.

Jon S. Davis is a partner with the law firm of Driscoll & Davis in Marshfield. He also holds a directorship in Cape Cod Melody Tent, Inc.

Michael Donahue has been with the Bank for 11 years and has been the Chief Lending Officer since 1984. He oversees the administration of the Bank's consumer, commercial and construction lending. He is the only executive officer who is not a Trustee.

Kenneth M. Garland is retired. Prior to his retirement in 1981, he was the east coast marine representative for Texaco, Inc.

Carleton N. Goff is retired. Prior to his retirement in 1985, he was the Resident Architect for the Massachusetts General Hospital, a position he held for 37 years.

Richard B. Lane is a partner in the law firm of Lane, Lane and Kelly, located in Braintree, Massachusetts.

John R. Lombardo is the President, Treasurer and Owner of High Vacuum Equipment Corp. located in Hingham, Massachusetts. He is also the Chairman of the Board of High Vacuum Systems International located in Mississuaga, Canada.

Herbert T. McMeekin, Jr. is retired. Prior to his retirement in 1986, he was a Partner and Vice President of Research Administration of Loomis Sayles & Co., Inc., an investment counsel firm.

Vito A. Nardo is the President of BLT Spirits, Inc., a full license liquor retail store located in Hingham, Massachusetts.

Warren B. Noble is the President of Noble's Camera Shops, Inc. located in Hingham, Massachusetts.

Gerard W. Pyne, the Chairman of the Board of Trustees for the last two years, is an accountant with John J. Pyne, C.P.A., P.C.

Russell G. Sears is the President and Chief Executive Officer of Developmental Expeditions, Inc., a firm specializing in courses for self development and located in Hingham, Massachusetts. From 1978 to 1985 he was the President of Walsh and Packard, Inc., a hardware firm located in Hingham, Massachusetts.

Herbert E. Soini is the Senior Mechanical Engineer for Thermo Electron Corporation in Waltham.

Helen Summers, a former member of the Town of Hingham Advisory Committee, is retired.

David L. Wightman is the Vice President of Acewife Land Corporation, a subsidiary of W.R. Grace & Co. Since 1981, he has also been the Vice President—Administration of Construction Products Division of W.R. Grace & Co. located in Connecticut.

Committees of the Board of Trustees and Board of Directors

The Board of Trustees has three principal committees: the Board of Investment, the Auditing Committee and the Personnel Committee.

The Board of Investment, composed of five Trustee members, acts as an executive committee that oversees the management policies and affairs of the Bank. The Board currently meets monthly. The current members of the Board of Investment are Wilfred H. Creighton, J. Robert Crowley, Carleton N. Goff, Gerard W. Pyne and Herbert E. Soini.

The Auditing Committee, composed of three Trustee members, approves the Bank's annual audit and presents the audit report to the Board of Trustees. This committee meets several times a year as needed. The current members of the Auditing Committee are John P. Lombardo, Warren B. Noble and David L. Wightman.

The Personnel Committee, composed of six Trustee members, reviews existing compensation and makes recommendations on executive compensation to the Board of Directors in order to ensure that the Bank is able to recruit and retain highly qualified personnel. This committee meets approximately twice a year. The current members are Wilfred H. Creighton, J. Robert Crowley, John R. Lombardo, Herbert T. McMeekin, Gerard W. Pyne and David L. Wightman.

Upon consummation of the Conversion, as required by Massachusetts law, the Board of Directors will elect an Executive Committee, in lieu of its present Board of Investment. It is currently anticipated that the members of the Executive Committee will be Messrs. Creighton, Crowley, Bulman, Cass, Pyne and Wightman and that the Committee will meet on a monthly basis or as necessary. It is expected that there will be an Auditing Committee and a Personnel Committee which will essentially continue with their noted responsibilities, and the formation of a Stock Option Committee is also anticipated.

The Stock Option Committee will meet as appropriate to review and administer the Bank's stock option plans pursuant to the terms of such plan. See "1988 Stock Option Plan" below.

Executive Compensation

The following table sets forth the cash and cash equivalent forms of compensation of the four most highly compensated principal officers or Trustees of the Bank whose total cash and cash equivalent compensation (exclusive of contingent compensation) exceeded $50,000, and all principal officers and Trustees as a group, for the year ended December 31, 1987.

Cash and Cash Equivalent Forms of Compensation

Name of Individual or Number of Persons in Group(1)	Capacities in Which Served	Salaries, Fees, and Bonuses(2)	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits	Aggregate Contingent Forms of Compensation(3)
Wilfred H. Creighton	President, Chief Executive Officer and Trustee	$119,365	$2,083	$18,358
Robert F. Cass	Vice President, Treasurer and Trustee	67,761	910	9,120
Michael Donahue	Vice President—Lending	57,557	818	5,949
David L. Delano	Assistant Vice President	57,596	871	7,815
All principal officers and Trustees as a group (21 persons)		$362,044	$4,682	$41,242

(1) Does not include Paul E. Bulman, the Executive Vice President of the Bank, who joined the Bank in June 1988. Although Mr. Bulman has received compensation and benefits for only part of a fiscal year, his annual rate of salary is approximately $80,000, with other benefits commensurate with those of the rest of the executive management of the Bank.

(2) Does not include trustee fees, except for the total for all persons given above. See "Trustees and Directors Fees" below.

(3) Includes amounts designated for the above named persons pursuant to the Retirement Plan for the Bank under the Savings Banks Employees Retirement Association.

Trustees and Directors Fees

Trustees of the Bank receive $60 for each Board of Trustees meeting they attend. No such fees are paid to members of the Board of Trustees who are also employees of the Bank. The Clerk of the Bank receives an annual fee of $250. After the Conversion, the Bank's Directors who are not also employees of the Bank will be paid $300 for each Board of Directors meeting attended. The Chairman of the Board of Trustees receives an annual fee of $10,000. After the Conversion, this will be raised to $13,000 for the Chairman of the Board of Directors. The Bank has held Board of Trustees meetings quarterly in the past and anticipates holding Board of Directors meetings on a monthly basis after the Conversion.

Members of the Board of Investment of the Board of Trustees receive an annual fee of $4,500 per non-employee member. The Clerk of the Board of Investment receives $240 annually. Members of the Audit Committee receive an annual fee of $400 per non-employee member, and a fee of $25 per meeting attended is paid to non-employee members of the Personnel Committee. After the Conversion, each member of the Executive Committee of the Board of Directors will receive an annual fee of $6,000. Each member of the Audit Committee of the Board of Directors will receive $100 for each committee meeting attended with the committee chairman receiving $125 for each meeting attended. Each member of the Personnel Committee and the Stock Option Committee will receive $75 for each meeting attended, and the respective chairmen of each committee will receive $100 for each committee meeting attended. None of these fees will apply to any Director who is also an employee of the Bank.

Employment Agreements, Executive Retirement Benefits and Special Termination Agreements

The Bank is currently a party to an employment agreement with Mr. Wilfred H. Creighton, the Bank's President and Chief Executive Officer. In connection with the Conversion, the Bank proposes to enter into a new employment agreement with Mr. Creighton and a special termination agreement. Additionally, the Bank expects to enter into employment agreements and special termination agreements with certain other officers.

The Executive Employment and Insurance Agreement entered into with Mr. Creighton on January 1, 1985 and amended on August 4 and November 3, 1988 (the "1985 Agreement"), provides that he will serve the Bank in an executive capacity at a salary determined annually by the Bank (presently $110,000) until he reaches age 65 or elects an earlier retirement at ages 58 or 60. The 1985 Agreement may be terminated sooner if Mr. Creighton terminates his employment with the Bank for reasons other than death or disability before he is 58; or the Bank terminates his employment for cause, or if, while receiving benefits under the 1985 Agreement, Mr. Creighton is associated in any capacity with any other banking or thrift institution in Norfolk or Plymouth Counties of Massachusetts. The 1985 Agreement also provides Mr. Creighton with life insurance and retirement benefits above the benefits provided by the Bank's Pension Plan. In the event of Mr. Creighton's death prior to his retirement, his designated beneficiary will receive a lump sum benefit of approximately twice his current compensation. Eligibility for this benefit terminates upon Mr. Creighton's retirement and the commencement of his other retirement or survivorship benefits. After retirement at age 58, Mr. Creighton will receive a special retirement benefit payable in equal monthly installments for 15 years. This benefit, after taking into account certain other retirement benefits provided by the Bank and 50% of Social Security retirement benefits, will be approximately 60% of his highest annual salary in any of the last three years of employment, excluding bonuses and profit sharing awards. The 1985 Agreement also provides certain disability benefits at 100% of current salary reduced by other disability payments provided by the Bank and 50% of Social Security disability benefits until Mr. Creighton retires, dies, or reaches age 60, which ever occurs earliest.

Subject to the consummation of the Conversion and ratification by the Board of Directors of the Bank thereafter, the Bank intends to enter into an employment agreement with each of Wilfred H. Creighton, Paul E. Bulman, Robert F. Cass and Michael Donahue (the "Employment Agreements") and special termination agreements with each of them (the "Special Termination Agreements"). The Employment Agreements will provide these executives with salary and benefits in accordance with the Bank's general policies as currently in effect. The Employment Agreement for Mr. Creighton would be for the same term as the 1985 Agreement. Mr. Bulman's Employment Agreement would be for a three-year term and the Employment Agreements for Mr. Cass and Mr. Donahue would be for one-year terms, and all would be extended automatically for successive one-year periods unless the Bank or the officer elects not to so extend before the expiration of the initial term and of each renewal term thereafter. The Bank would be able to terminate the officer's employment without further liability for "cause," which includes, generally, deliberate dishonesty by the officer with respect to the Bank, conviction of the officer of any crime involving moral turpitude, or the gross and willful failure of the officer to perform a substantial portion of his duties and responsibilities. The Bank may also terminate such officer's employment without cause upon a two-thirds vote of its Directors. In the event of termination of employment by the officer where there has been a breach of the agreement by the Bank, or by the Bank without cause (to the extent permitted by law), the officer would be entitled to receive his full salary for the duration of what would otherwise have been the term of his employment under the agreement. In addition, the officer would continue to be treated as an employee for purposes of the Bank's benefit plans (excluding cash bonus plans) for such period, or would be entitled to an equivalent economic benefit.

The new Employment Agreement for Mr. Creighton would incorporate certain of the economic terms of the 1985 Agreement and would not cause a diminution of the benefits he is entitled to under the 1985 Agreement. For example, Mr. Creighton's disability benefits would be based on 100% of his annual salary, as opposed to a rate of 60% of annual salary which is what the other Employment Agreements are expected to provide. Disability payments will continue until Mr. Creighton reaches the age of 60 as long as he remains disabled. Disability benefits under the Employment Agreements for the other officers would terminate at the expiration date of the Employment Agreement. Also, in the event of Mr. Creighton's death prior to his retirement under his Employment Agreement, his designated beneficiary would receive a lump sum benefit of approximately twice his current annual salary. The Employment Agreements for the other officers are expected to provide preretirement death benefits for three months equal to current annual salary.

The Special Termination Agreements to be entered into with Messrs. Creighton, Bulman, Cass and Donahue provide for severance payments if the officer's employment with the Bank is terminated following a change in control of the Bank (as defined in the agreements) under certain circumstances, including termination of the officer by the Bank or resignation by the officer following a reduction in compensation, a significant change in the officer's authority or responsibility, or a determination by the officer that the officer is unable to exercise his prior authority or responsibility as a result of such change in control. In such event, Messrs. Creighton, Bulman, Cass and Donahue would each receive an amount equal to approximately three times his average annual compensation over the five years prior to the change in control. Under the Special Termination Agreement, the officer would be entitled to collect benefits under either his Employment Agreement or the Special Termination Agreement, but not under both agreements.

Employee Incentive Plan

The Bank maintains an incentive plan whereby employees are eligible to receive a bonus based on their respective salaries and years of service dependent on the Bank's earnings. Total expense under the incentive plan for the years ended December 31, 1985, 1986 and 1987 amounted to $185,000, $156,000 and $168,000, respectively. Such expense for the (unaudited) nine months ended September 30, 1987 and 1988 amounted to $119,000 and $135,000, respectively.

The following table sets forth benefits received under the plan for the executive management of the Bank, with the exception of Mr. Bulman who joined the Bank in June, 1988.

	Annual Benefits For Years Ended December 31,		
Name of Individual	1985	1986	1987
Wilfred H. Creighton	$31,464	$38,292	$45,146
Robert F. Cass	1,188	2,280	3,636
Michael Donahue	13,596	13,596	13,596

Benefits

Insurance and Medical Plans. The Bank's full-time officers and employees, without contribution by or expense to them, are provided with master medical, life, travel accident, and salary continuation insurance under group plans which are available generally and on the same basis to all qualified full-time employees. Medical and life insurance for spouses and dependents is also provided. The Bank also maintains and funds a short-term and long-term sick leave plan.

Pension Plan. The Bank provides a retirement plan for all eligible employees through the Savings Banks Employees Retirement Association ("SBERA"), an unincorporated association of savings banks operating within Massachusetts and any other organization providing services to or for savings banks. SBERA's sole purpose is to enable the participating employers to provide pensions and other benefits for their employees.

Each full-time and part-time employee reaching the age of 21 and having completed at least 1,000 hours of service in a consecutive twelve-month period beginning with such employee's date of employment becomes a participant of the retirement plan. Participants become 100% vested after three years of service.

The retirement plan is a qualified defined benefit plan which does not require the employee to make any contribution to become a participant and to earn benefits under the plan. The benefits provided at age 65 are equal to 2% of the average compensation for each year of service with a member bank of SBERA with a maximum of 30 years (25 years in the case of the Bank's plan), reduced by 2% of the participant's social security benefits at age 65 for each year of service with a member bank of SBERA up to a maximum of 30 years (again, 25 years for the Bank). Normal retirement age under the plan is 65; a reduced early retirement benefit is payable from age 50 to age 65 under certain conditions. At October 31, 1987 the latest date for which information is available, the present value of accumulated benefits was fully funded by the market values of related available assets.

The following table illustrates annual pension benefits for retirement at age 65 under the most advantageous plan provisions available for various levels of compensation and years of service. The figures in this table are based upon the assumption that the plan continues in its present form and certain other assumptions regarding social security benefits and compensation trends.

	Annual Pension Benefit on Years of Service(1)				
Compensation(2)	5 Years	10 Years	15 Years	20 Years	25 Years
$ 20,000	$ 1,220	$ 2,440	$ 3,660	$ 4,880	$ 6,100
40,000	3,040	6,080	9,120	12,160	15,200
60,000	4,994	9,989	14,983	19,978	24,972
80,000	6,994	13,989	20,983	27,978	34,972
100,000	8,994	17,989	26,983	35,978	44,972
120,000	10,994	21,989	32,983	43,978	54,972
140,000	12,994	25,989	38,983	51,978	64,972
150,000	13,994	27,989	41,983	55,978	69,972
170,000	15,994	31,989	47,983	63,978	79,972
200,000	18,994	37,989	56,983	75,978	94,023(3)

(1) Benefits computed on the basis of a straight-life annuity.

(2) Average compensation for purposes of this table is based on the three years immediately preceding retirement.

(3) Federal law does not permit defined benefit payments in excess of $94,023 for plan years beginning after January 1, 1988 (or after November 1, 1988 for SBERA).

In addition to the pension benefit described above which is funded entirely by contributions from the Bank, each participant in the plan may make contributions to the plan on a purely voluntary basis.

The following table sets forth estimated retirement benefits under the plan at normal retirement dates for certain officers of the Bank who are eligible for participation in the plan, based upon assumptions comparable to those referred to above.

Name of Individual	Years of Credited Service at Age 65	Estimated Annual Pension Benefit at Age 65(1)
Wilfred H. Creighton	39	$49,372
Paul E. Bulman	15	20,511
Robert F. Cass	24	25,707
Michael Donohue	36	19,266

(1) Current federal law does not permit defined benefit plans to provide an annual benefit in excess of $94,023 for plan years beginning after January 1, 1988 (or after November 1, 1988 for SBERA).

1988 Stock Option Plan

Subject to approval of the stockholders of the Bank after the consummation of the Conversion and to any required regulatory approvals, the Board of Trustees of the Bank has adopted a 1988 Stock Option Plan (the "Option Plan") for the benefit of the Bank's officers, other employees and "Eligible Directors" (directors who are also full-time employees of the Bank). The purpose of the Option Plan is to provide performance incentive to officers and employees and Eligible Directors by facilitating their purchase of a stock interest in the Bank. Under the Option Plan, shares of Common Stock not exceeding an amount equal to ten percent of the shares of Common Stock issued upon Conversion will be reserved for possible issuance pursuant to options granted thereunder. No options granted prior to the approvals of the Option Plan by the Commissioner and the stockholders of the Bank shall be exercised or otherwise implemented until such approvals have been obtained.

The Option Plan provides for an initial grant to the Eligible Directors, officers and certain employees of options on up to approximately 10% of the shares of Common Stock to be issued in the Conversion. The Option Plan provides for the grant of options that are intended to qualify as "incentive options" under Section 422A of the Act, as well as non-qualified options. The market value of all stock available for the first time in any year under all Incentive Stock Options granted to any person under the Plan is limited to $100,000. For this purpose, the value of the stock is determined at the date of grant of each such Option. The Option Plan will be administered by an Option Committee of not less than three disinterested administrators. The Option Committee will determine the terms of those options subject to the initial grant and whether or not such options will be incentive options. The Option Committee will also have authority to select the Eligible Directors, officers and other employees to whom the remaining options may be granted, the number of shares of Common Stock subject to such options and their terms.

For federal income tax purposes, no gain or loss will be recognized by the Bank or the employee as a result of the grant or exercise of an incentive stock option, and any gain realized by an optionee at the time of sale of the shares acquired upon exercise of an incentive stock option will be treated as a capital gain, provided that such shares are held by the optionee for at least one year after the date of exercise and two years after the date of grant. However, as a result of changes made by the Act, the amount by which the fair market value of the stock at the time of the exercise exceeds the exercise price under the option must be treated by the employee as a tax preference for purposes of the alternative minimum tax. Only in the event that an optionee disposes of these shares prior to the close of the holding periods, will the Bank be entitled to claim a tax deductible expense, in an amount equal to the spread at exercise between the fair market value and exercise price.

In the case of nonqualified stock options, an optionee will be deemed to receive income taxable at ordinary income rates upon exercise of a nonqualified stock option in an amount equal to the difference between the exercise price and the fair market value of the stock on the date of exercise. The amount of such taxable income will be a deductible expense to the Bank.

All options granted under the Stock Option Plan are required to have an exercise price per share equal to at least the fair market value of a share of stock on the date the option is granted. No option granted under the Plan is exercisable after the tenth anniversary of the date on which the option was granted or, if earlier, the termination of the Optionee's employment for cause, one year following the termination of the Optionee's employment on account of death or disability and 90 days following the termination of the Optionee's employment for any other reason. Payment for shares purchased pursuant to an option may be made in cash or check. To facilitate the exercise of options, the Stock Option Committee may establish a loan program on such terms and conditions as it deems appropriate.

Subject to the foregoing, any options will be exercisable at such time or times as the Option Committee determines at the grant of the option. However, all options will become exercisable in the event of a "Change in Control" (as defined in the Option Plan). Because all outstanding options will be exercisable upon a Change in Control, it may be more expensive for companies or persons to acquire control of the Bank. This could result in deterrence of offers to the stockholders which might be viewed by such stockholders to be in their best interest and which might be at prices in excess of the then market value of the Bank's stock.

Anticipated initial grants at the Actual Purchase Price are as follows:

Employee Name	Number of Shares
Wilfred H. Creighton	20,625
Paul E. Bulman	15,000
Robert F. Cass	12,375
Michael Donahue	9,562
David L. Delano	9,562
	67,124
Other officers (4 persons)	20,312
Other employees	37,564
	125,000

Employee Stock Ownership Plan

The Bank has no Employee Stock Ownership Plan at present. After the Conversion, the Board of Directors may decide to implement such a plan.

Certain Transactions with Management and Associates

Indebtedness of Management and Associates. The Bank makes loans and extends credit to Trustees and officers of the Bank, and their associates, subject to the limitations of Massachusetts General Laws, Chapter 168, Section 19 and administrative guidelines issued thereunder. Additionally, the Bank is subject to FDIC regulations which require that loans to executive officers, Trustees, and any other business that they control, be made at the same rates of interest and terms and conditions as those offered to unaffiliated third parties, and also impose approval procedures and limits on the amounts of such loans.

All such loans, as well as all loans to other employees of the Bank, are made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons and do not involve more than the normal risk of collectibility or present other unfavorable features to the Bank.

The following table sets forth certain information with respect to all loans or extensions of credit by the Bank to its Trustees, principal officers and, to the best knowledge of the Bank, their associates whose total aggregate loan balances exceeded $50,000 at any time during the year ended December 31, 1987.

Name, Position and Loan Type	Year of Loan	Rate of Interest	Highest Outstanding Balance During Year Ended December 31, 1987	Amount Outstanding at September 30, 1988
Jon S. Davis, Trustee				
Residential mortgage	1985	10.50%	$172,702	$171,820
Vito A. Nardo, Trustee				
Residential mortgage	1986	10.375	76,385	74,357
Commercial mortgage	1987	10.00	167,675	165,411
Commercial auto loan	1987	10.00	9,751	7,519
Personal loan	1987	15.00	14,234	12,194
Russell G. Sears, Trustee				
Residential mortgage	1987	10.50	194,606	193,764
Auto loan	1985	14.00	5,193	2,879
David L. Wightman, Trustee				
Residential mortgage	1984	10.25	86,251	85,851

Other Transactions. In addition to banking and financial transactions, the Bank may have had additional transactions with, or used products or services of, various organizations in which Trustees may have interests or of which Trustees of the Bank may be directors, officers or partners. However, any amounts so involved have in no case been material in relation to the business of the Bank, and it is believed that they have not been material in relation to the business of such other organizations in that the amount involved in any such transaction or series of transactions did not exceed $50,000, except for the following:

Since January 1, 1987, the Bank has paid legal fees amounting to $199,500 to the law firm of Driscoll & Davis, of which Jon S. Davis, a Trustee of the Bank, is a partner. At no time have such fees exceeded 5% of the gross revenues of that firm for any fiscal year. Such fees have been paid in connection with routine real estate matters on behalf of the Bank and have been reasonable in relation to the services provided. Moreover, most of such fees have been for matters in which the Bank was reimbursed for legal fees. It is expected that the Bank will continue to have similar transactions with, and use products or services of, such organizations in the future.

Subscriptions By Management

The Trustees and principal officers of the Bank propose to subscribe for an aggregate of 69,565 Shares of Common Stock, or 5.56% of all of the Shares offered, at an estimated aggregate purchase price of $800,000, assuming the issuance of 1,250,000 Shares at the Maximum Purchase Price.

The following table sets forth certain information with respect to such subscriptions. To the extent that the Actual Purchase Price is less than assumed, the information set forth below will change.

Name	Number of Shares Proposed To Be Subscribed For	Estimated Aggregate Purchase Price(1)	Percentage of Shares Offered in the Conversion
Wilfred H.Creighton	13,391	$154,000	1.07%
Paul E. Bulman	6,957	80,000	0.56
Robert F. Cass	2,174	25,000	0.17
Michael Donahue	1,739	20,000	0.14
Trustees (not including any of the above)	45,304	521,000	3.62
All principal officers and Trustees as a group (21 persons)	69,565	$800,000	5.56%

(1) Estimated aggregate purchase price is calculated at the Maximum Purchase Price of $11.50 per Share.

All shares purchased by Trustees and officers of the Bank in the Conversion will be subject to the restriction that without the prior written consent of the Commissioner, such Shares may not be sold or otherwise disposed of for value for a period of one year following the date of purchase, except for any disposition of such Shares following the death or substantial disability (as determined by the Commissioner) of the original purchaser. Any Shares of Common Stock of the Bank issued pursuant to a stock dividend, stock split, or otherwise with respect to restricted Shares will be subject to the same restrictions on resale. Also, in accordance with the requirements of Massachusetts banking regulations, no Trustee or officer of the Bank, and no associate of any such person, may purchase from the Bank any capital stock of the Bank for three years following the Conversion, without the prior written approval of the Commissioner. After the Conversion and upon registration of the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended, the Directors and executive officers of the Bank will be subject to certain other restrictions pursuant to Section 16(b) of such Act relating to the purchase and sale of Shares of Common Stock.

THE CONVERSION

THE COMMISSIONER HAS APPROVED THE BANK'S PLAN OF CONVERSION. THE COMMISSIONER'S APPROVAL, HOWEVER, DOES NOT CONSTITUTE A RECOMMENDATION OR ENDORSEMENT OF THE PLAN OF CONVERSION.

General

On September 1, 1988, the Bank's Board of Trustees adopted by the requisite two-third's vote, subject to approval by the Commissioner and the Corporators of the Bank, the Plan of Conversion pursuant to which the Bank would be converted from a Massachusetts-chartered savings bank in mutual form to a Massachusetts-chartered savings bank in stock form. The Commissioner approved the Plan of Conversion, as amended, on September 23, 1988, and it was subsequently approved by the Bank's Corporators at a special meeting held on October 6, 1988 (the "Special Meeting").

As part of the Conversion, the Bank is offering its Common Stock in a Subscription and Community Offering of Shares in the priorities described below to (i) depositors who held certain deposit accounts of $50 or more ("Qualifying Deposits") with the Bank on May 31, 1988 ("Eligible Account Holders"), (ii) Trustees, officers and employees of the Bank, and (iii) certain Community Purchasers. Massachusetts banking regulations require that all Shares offered in the Conversion be sold in order for the Conversion to become effective. All Shares not sold in the Subscription and Community Offering will, if feasible, be sold to the Underwriters for sale by them in the Public Offering. Massachusetts banking regulations also require that the Public Offering be completed within 45 days after expiration of the Subscription and Community Offering unless extended by the Bank with the approval of the Commissioner. If the Public Offering is determined not to be feasible, an occurrence that is not presently anticipated, the Board of Trustees of the Bank will determine, subject to the approval of the Commissioner, an appropriate alternative method of selling all unsubscribed Shares. The Plan of Conversion provides that the Conversion must be completed by September 1, 1990.

The Bank currently expects that the Public Offering or other sale of unsubscribed Shares offered in the Conversion will commence shortly after completion of the Subscription and Community Offering. The commencement and completion of the Public Offering, however, will be subject to market and financial conditions at the time of the Public Offering. No assurance can be given as to the length of time that will be required to complete the Public Offering or other sale of the Shares to be issued in the Conversion. If delays are experienced, significant changes may occur in the estimated pro forma market value of the Shares, together with corresponding changes in the offering price and the net proceeds realized by the Bank from the sale of the Shares. The Bank may also incur substantial additional printing, legal and accounting expenses in completing the Conversion.

In the event that the Plan of Conversion is terminated by the Board of Trustees following the Subscription Offering, the Conversion will not be completed, and the Bank will remain in mutual form. If the Conversion is terminated, all funds submitted in the Subscription and Community Offering will be refunded with interest, and payments in the form of authorized withdrawals will be cancelled. See "Procedures in Subscription Offering—Refunds."

The Amended and Restated Charter (the "Charter") and the amended By-Laws (the "By-Laws") of the Bank are integral parts of the Conversion and were approved by the Corporators of the Bank at the Special Meeting. The Charter will become effective upon its filing with, and acceptance by, the Secretary of State of Massachusetts and will authorize the Bank to issue capital stock and operate as a capital stock savings bank under the laws of Massachusetts. The Charter provides for, among other things, the authorization of Common Stock and serial preferred stock, including the Shares offered hereby. In addition, the Charter provides that following the Conversion there will be initially fifteen Directors of the Bank, all of whom will be individuals presently serving on the Bank's existing Board of Trustees. See "MANAGEMENT—Trustees and Executive Officers of the Bank." See also "ANTI-TAKEOVER PROVISIONS—Certain Provisions in the Charter and By-Laws."

The summary of terms of the Plan of Conversion contained in this Offering Circular is qualified in its entirety by the actual provisions of the Plan of Conversion, a complete copy of which is available for inspection at the main office of the Bank, 55 Main Street, Hingham, Massachusetts 02043 and at the office of the Commissioner, 100 Cambridge Street, Boston, Massachusetts 02202.

Business Purposes of the Conversion

The Board of Trustees of the Bank believes that conversion is the most effective means of providing the Bank with a substantial increase in its capital. As a mutual institution, the Bank has historically been restricted by its need to rely on surplus to build its capital account. The proceeds of the Conversion will substantially increase the Bank's capital and will facilitate future growth. The estimated net conversion proceeds to the Bank of $11,450,000 from the sale of the Common Stock at the midpoint price of $10.00 per Share would have increased the Bank's net worth at September 30, 1988 by 104.0%, and its pro forma net worth to assets ratio to 14.1% based upon pro forma net worth of $22.5 million and pro forma assets of $159.0 million. See "PRO FORMA DATA." The proceeds from the Conversion will enable the Bank to expand its lending, investment and deposit-taking activities. The additional capital derived from the Conversion will permit the Bank to make certain expenditures on manpower and technology necessary to work toward delivering the competitive and diversified package of financial services required to compete in the current climate of the financial services industry. The Bank may also employ some portion of the net proceeds to expand its facilities, to enlarge its market area by establishing additional branches and to make acquisitions when such opportunities arise. See "USE OF PROCEEDS."

The serial preferred stock and additional Common Stock being authorized in connection with the Conversion will also be available for possible future acquisitions of other financial service providers, both bank and non-bank, and for issuance and sale to raise additional equity capital, subject to market conditions. Such future issuances of capital stock by the Bank would be subject to the approval of the Commissioner. There can be no assurance that any such acquisitions or issuances will actually take place. The stock form of organization will also offer increased flexibility and will further enable the Bank to operate in the form used by commercial banks and most commercial and industrial businesses, as well as by an increasing number of thrift institutions.

The Bank is also expected to benefit from its Directors, officers and employees owning its stock because stock ownership is viewed as an effective performance incentive and a means of attracting, compensating and retaining key personnel. The Board of Trustees has adopted such an incentive program through the Stock Option Plan, subject to any required regulatory or stockholder approvals. See "MANAGEMENT—1988 Stock Option Plan."

The capital stock structure will also permit adoption of a holding company structure, subject to regulatory approval, which might enhance the Bank's operating flexibility. The Bank may consider forming a holding company after the Conversion.

Effects of the Conversion

General. The Conversion will have no effect upon the Bank's business of accepting deposits and investing its funds in loans and other investments permitted by law. The Bank will continue to be subject to regulation by the Commissioner. The Conversion will not result in a change in the services provided to depositors and borrowers.

Voting Rights. Since the Bank currently is a Massachusetts-chartered savings bank in mutual form, voting rights, including the right to elect Trustees, are vested exclusively in its Corporators. Following the Conversion, the Bank will no longer have Corporators and voting rights will be vested exclusively in the Bank's stockholders. Holders of Common Stock will be entitled to one vote per share on any matters subject to stockholder approval, including the election of Directors. After the Conversion, the Bank could issue preferred stock having voting rights. The Charter will not provide for cumulative voting in connection with the election of Directors.

Deposits and Loans. The deposit accounts in the Bank and existing FDIC and Central Fund insurance coverage will not be affected by the Conversion. The Conversion will not affect the terms, including the amount, interest rate, maturity of and security for any of the Bank's loans. See "POWERS AND REGULATIONS—Deposit Insurance: The FDIC and the Central Fund."

Liquidation Rights. The Bank has no plans to liquidate in the future. However if there should ever be a complete liquidation, either before or after Conversion, depositors would receive the protection of insurance by the FDIC and the Deposit Insurance Fund of the Central Fund up to applicable limits. After the Conversion each depositor, upon a complete liquidation, would have a claim of the same general priority as the claims of all other general creditors of the Bank. Therefore, except as described below, each depositor's claim would be solely in the amount of the balance in the depositor's accounts plus accrued interest. The depositor would have no interest in the value of the assets of the Bank above that amount.

As required by Massachusetts banking regulations, the Plan of Conversion provides that a liquidation account (the "Liquidation Account") be established for the benefit of Eligible Account Holders at the time of the Conversion in an amount equal to the net worth of the Bank as shown on its latest consolidated balance sheet contained in the final offering circular used for the Conversion. Eligible Account Holders would be entitled, in the event of the complete liquidation of the Bank and only in such event, to receive liquidating distributions from assets of the Bank remaining after payment of all applicable taxes and creditors' claims (including the claims of all depositors to the withdrawal values of their deposit accounts), but before any distributions are made on the Bank's capital stock, equal to their interest at that time in the Liquidation Account. Each Eligible Account Holder will have an initial interest in such Liquidation Account in the same proportion to the Liquidation Account as the amount of such person's Qualifying Deposit on May 31, 1988 was to the total Qualifying Deposits of all Eligible Account Holders on that date. However, if the amount in the deposit account on any subsequent annual closing date of the Bank's fiscal year (each December 31, or such other fiscal year-end as may hereafter be adopted by the Bank) is less than the amount in such account on May 31, 1988 or on any other subsequent annual closing date of the Bank's fiscal year, the Eligible Account Holder's interest in the Liquidation Account will be reduced by an amount equal to any reduction in the related deposit account and will not thereafter be increased despite any subsequent increase in the related deposit account. The amount of the Liquidation Account will never be increased, and will be reduced as related deposit accounts are reduced.

Any assets remaining after satisfaction of the above liquidation rights of Eligible Account Holders (and liquidation preferences of preferred stockholders, if any) would be distributed to the holders of the Common Stock in proportion to their Common Stock holdings. A merger, consolidation, purchase of bulk assets with assumption of deposit accounts and other liabilities, or similar transaction in which the Bank is not the surviving institution would not be viewed as a complete liquidation for purposes of the Liquidation Account. In such a transaction, the Liquidation Account would be assumed by the surviving institution.

Tax Consequences. Consummation of the Conversion is expressly conditioned upon prior receipt of either a ruling from the Internal Revenue Service or an opinion of counsel to the Bank to the effect that consummation of the transactions contemplated will not result in the recognition of gain to the Bank, or to the Eligible Account Holders of the Bank receiving withdrawable deposit accounts with identical balances in the converted Bank, interests in the distribution and liquidation account and non-transferable subscription rights, except to the extent, if any, the subscription rights are deemed to have a fair market value on the date such rights are issued.

The Bank has received an opinion from Bingham, Dana & Gould to the effect that the Conversion will qualify as a reorganization under Section 368(a)(1)(F) of the Code, and that the following federal income tax consequences, among others, will result in connection with the Conversion: (1) no gain or loss will be recognized to the Bank by reason of the proposed Conversion; (2) no gain or loss will be recognized to the Bank on the sale of its Common Stock in the Conversion; (3) the Bank's taxable year will not terminate as a result of the Conversion and following the Conversion it will succeed to and take into account the various pre-Conversion tax attributes such as earnings and profits and bad debt reserve; and (4) gain will be recognized to the Eligible Account Holders of the Bank upon the receipt by them of withdrawable deposit accounts with identical balances in the converted Bank, of interests in the distribution and liquidation account, and of non-transferable subscription rights to purchase Common Stock only to the extent, if any, that the subscription rights are deemed to have a fair market value on the date such rights are issued. Bingham, Dana & Gould also has rendered an opinion to the effect that the foregoing tax effects of the Conversion under Massachusetts law are substantially the same as they are under federal law.

Based upon past rulings received from the Internal Revenue Service ("IRS"), the opinion provides that the receipt of Subscription Rights by Eligible Account Holders and other subscribers under the Plan will be taxable to the extent, if any, that the Subscription Rights are deemed to have a fair market value. The Bank does not believe that the Subscription Rights have any value, because such Rights are acquired by the recipients without cost, are non-transferable and of short duration, and afford the recipients the right only to purchase Shares of the Common Stock at a price equal to its estimated fair market value, which will be the same price as the Public Offering Price for unsubscribed Shares of Common Stock. If the Subscription Rights are deemed to have a fair market value, the receipt of such Rights may only be taxable to those Eligible Account Holders and other subscribers who exercise their Subscription Rights. The Bank could also recognize a gain on the distribution of such Subscription Rights to the extent that such Rights had any value. Eligible Account Holders and other subscribers are encouraged to consult with their own tax advisers as to the tax consequences in the event the Subscription Rights are deemed to have a fair market value.

Unlike a private ruling, an opinion of counsel is not binding on the IRS and the IRS could disagree with the conclusions reached therein. In the event of such disagreement, there is no assurance that the IRS would not prevail in a judicial or administrative proceeding.

Subscription Offering

The Bank is making a Subscription Offering of Shares in the priorities described below to (i) Eligible Account Holders who held Qualifying Deposits with the Bank on May 31, 1988 and (ii) Trustees, officers and employees of the Bank.

The Subscription Offering expires at 3:00 p.m., Eastern Standard Time, on November 30, 1988, unless extended by the Bank with the approval of the Commissioner (the "Subscription Expiration Date").

It is anticipated that any remaining Shares unsold after the Subscription and Community Offering will be sold in an underwritten Public Offering. See "Purchase Limitations" below for information as to additional limitations on the purchase of Shares in the Subscription and Community Offering and the Public Offering.

Subscription Rights of Eligible Account Holders. Each Eligible Account Holder will receive non-transferable Subscription Rights to purchase on a first-priority basis an amount up to the greater of (i) 43,750 Shares, which represents 3.5% of the total number of Shares offered in the Subscription Offering, or (ii) fifteen times the product (rounded down to the next whole number) obtained by multiplying (the total number of Shares to be offered in the Subscription Offering) by a fraction of which the numerator is the Qualifying Deposit of the Eligible Account Holder and the denominator is $124,534,873 (the total amount of Qualifying Deposits of all Eligible Account Holders in the Bank), up to a maximum of 5% of the total number of Shares offered in the Subscription Offering. The exercise of Subscription Rights by Eligible Account Holders is subject to the availability of sufficient Shares and to the purchase limitations described below.

Under the Plan of Conversion, if Eligible Account Holders subscribe for more Shares than are available for purchase by them, subscriptions will be allocated among subscribing Eligible Account Holders first to permit each subscribing Eligible Account Holder, to the extent possible, to purchase the lesser of 100 Shares or the number of Shares subscribed for by such Eligible Account Holder. Any Shares remaining thereafter will be allocated among the subscribing Eligible Account Holders whose subscriptions remain unsatisfied pro rata in the same proportion which the Qualifying Deposit of each bears to the total Qualifying Deposits of all subscribing Eligible Account Holders, whose subscriptions remain unsatisfied, in a series of rounds until all Shares are allocated, provided that no fractional Shares will be allocated or issued.

Subscription Rights of Corporators, Trustees, Officers and Employees. Corporators, Trustees, officers and employees may also participate in the Subscription Offering if they were Eligible Account Holders as described above. To the extent that subscriptions by Corporators, Trustees and officers of the Bank and their associates are based upon increases in their deposit accounts in the Bank during the one-year period preceding May 31, 1988, such additional subscriptions will be filled only after subscriptions by all other Eligible Account Holders have been satisfied. The Subscription Rights of Corporators, Trustees, officers and employees may not exceed, in the aggregate, 30% of the Shares offered in the Subscription Offering. Each Trustee, officer and employee of the Bank (but not the Corporators of the Bank) will receive non-transferable Subscription Rights to subscribe for up to 43,750 Shares (3.5% of the total number of Shares offered in the Subscription Offering). The exercise of Subscription Rights by Trustees, officers and employees is subject to the availability of sufficient Shares and to the purchase limitations described below. See "Purchase Limitations."

If Trustees, officers and employees of the Bank subscribe for more Shares than are available for purchase by them, subscriptions will be allocated by the Board of Trustees or Board of Investment among the subscribing Trustees, officers and employees on an equitable basis, giving weight to such factors as the period of service and compensation and position of the individual, provided that no fractional Shares will be allocated or issued. However, the allocation of Shares subscribed for by Trustees, officers and employees as Eligible Account Holders will be governed by the allocation procedures described under "Subscription Rights of Eligible Account Holders." See "MANAGEMENT—Purchases by Management."

Community Offering

The Community Offering is being made concurrently with the Subscription Offering to Community Purchasers in accordance with the respective priorities and on the terms and conditions summarized below. After all subscriptions have been filled in the Subscription Offering, each Community Purchaser will be permitted to purchase up to 3.5% of the Shares offered in the Subscription and Community Offering.

Orders for Shares of Common Stock received in the Community Offering will be subject to the availability of Shares for purchase after satisfaction of all orders in the Subscription Offering. If valid purchase orders (as determined in the sole discretion of the Bank) are received during the period of the Community Offering for more Shares than are available for purchase in the Community Offering, purchase orders from Community Purchasers who are natural persons residing in the Bank's Community Reinvestment Act Area ("Category One") shall be filled first. In the event Community Purchasers in Category One request more Shares of Conversion Stock than are available, the available Shares shall be allocated so as to permit each such Category One Community Purchaser, to the extent practicable, to purchase the number of Shares equal to the lesser of one hundred Shares or the number of Shares requested by such Community Purchaser. Any Shares remaining after such allocation shall be allocated among the Category One Community Purchasers whose orders remain unsatisfied in the proportion that the unsatisfied number requested by each such Community Purchaser bears to the total unsatisfied number requested by all other Category One Community Purchasers. To the extent that Shares of Common Stock remain after filling the purchase orders from Category One Commmunity Purchasers, purchase orders from all other Community Purchasers who were on the Eligibility Record Date borrowers from the Bank ("Category Two") shall be filled, utilizing the same principles of allocation of such remaining Shares among Category Two Community Purchasers as is provided above for allocation among Category One Community Purchasers. To the extent that Shares of Common Stock remain after filling the purchase orders from Category Two Community Purchasers, purchase orders from all other Community Purchasers ("Category Three") shall be filled utilizing the same principles of allocation of such remaining Shares among Category Three Community Purchasers as is provided above for allocation among Category One Community Purchasers.

Except as described above, the purchase price, method of payment, expiration date, purchase limitations and other terms and conditions are the same for the Community Offering as for the Subscription Offering.

Non-transferability of Subscription and Purchase Rights. The Subscription Rights of Eligible Account Holders and Trustees, officers and employees of the Bank are non-transferable, directly or indirectly. Such rights may be exercised only by the person to whom they are granted and only for such person's own account. Similarly, Community Purchasers may not transfer rights to purchase Shares in the Community Offering. Each person exercising such Subscription Rights or purchase rights will be required to certify that such person is purchasing Shares for such person's own account, and that such person has no agreement or understanding for the sale or transfer of such Shares. The regulations of the Commissioner prohibit any such agreement or understanding to transfer the legal or beneficial ownership of Subscription Rights, purchase rights or Shares to the account of another person and authorize the Commissioner to take such remedial measures as he deems appropriate, including the revocation of purchases and the imposition of civil penalties. Prior to the consummation of the Conversion, no subscriber or Community Purchaser may (i) directly or indirectly transfer, or make or enter into any direct or indirect agreement or understanding to transfer, the legal or beneficial ownership of Subscription Rights or purchase rights, or the underlying securities, to the account of another person, (ii) make any direct or indirect agreement or arrangement to divide or share any profits or proceeds which may be realized on the sale or other disposition of the Shares with any person, (iii) use any funds to purchase Shares other than those available from the subscriber's or Community Purchaser's own assets or through the use of the subscriber's or Community Purchaser's own credit, or (iv) make any agreement or arrangement which otherwise would directly or indirectly permit any other person to profit or benefit in any way from the purchase of Shares provided, however, that the exercise of Subscription Rights of an Eligible Account Holder, Trustee, officer or employee of the Bank or of purchase rights by a Community Purchaser through the purchase of Shares by an Individual Retirement Account or Keogh Plan of which such person is a beneficiary shall not be deemed a violation of the non-transferability provisions described herein. Unless otherwise approved by the Bank, stock certificates for Shares purchased by persons exercising Subscription Rights or purchase rights will be registered only in the name(s) of the Eligible Account Holder exercising such Subscription Rights, in the form in which such Eligible Account Holder held the related deposit account(s) with the Bank, or in the name of the Community Purchaser exercising purchase rights, as the case may be.

Procedures in Subscription and Community Offerings

Use of Order Forms. A Subscription Order Form and a Subscription Order Certification along with a question and answer brochure which explains how Shares may be subscribed for in the Subscription Offering are enclosed with this Subscription and Direct Community Offering Circular. The Subscription Order Form contains information as to the maximum number of Shares which the recipient has the right to purchase and sets forth the Maximum Purchase Price. These materials are being sent to Eligible Account Holders, Trustees, officers and employees of the Bank, or such persons may obtain them at the Bank's Conversion Center, located at the Bank's South Hingham office, 37 Whiting Street, South Hingham, Massachusetts 02043 (the "Conversion Center").

Community Purchasers who have requested a copy of the Offering Circular and accompanying materials in response to the Bank's advertisements will receive by mail a copy of this Offering Circular together with a Community Offering Order Form, a Community Offering Order Certification and a question and answer brochure which explains how Shares may be purchased in the Community Offering.

Eligible Account Holders must use the Subscription Order Form and Subscription Order Certification, and Community Purchasers must use the Community Offering Form and Community Offering Order Certification to order Shares. The terms "Order Form" and "Order Certification" used throughout this Offering Circular refer to both types of stock Order Forms and Order Certifications. Additional Order Forms and Order Certifications are available from the Bank's Conversion Center.

In order to purchase Shares in the Subscription and Community Offering, recipients of Order Forms must return their Order Forms and Order Certifications, properly completed and accompanied by the full required payment for requested Shares (or appropriate instructions authorizing withdrawal from certain deposit accounts at the Bank), to the Bank, so that they are received by the Bank at the Conversion Center no later than 3:00 p.m., Eastern Standard Time, on November 30, 1988, the Subscription Expiration Date.

Order Forms and Order Certifications that have not been received by the Bank at the Conversion Center by the Subscription Expiration Date, *regardless of the mailing date or postmark thereon,* will be void. Under the Plan of Conversion, the Subscription Expiration Date may be extended by the Bank, with the approval of the Commissioner. All Subscription Rights and purchase rights under the Plan of Conversion will become void after the Subscription Expiration Date, whether or not the Bank has been able to locate persons entitled to such rights. Only one Subscription Order Form per Eligible Account Holder, Trustee, officer or employee will be accepted by the Bank. *All orders, once made, may not be supplemented, modified, withdrawn or cancelled without the consent of the Bank.*

Orders will not be accepted by the Bank until all Shares have been subscribed for or sold pursuant to the Subscription and Community Offering or the Public Offering or such other means of sale as may be implemented. If all Shares have not been subscribed for or sold within 45 days of the end of the Subscription and Community Offering (unless such period is extended by the Bank with the consent of the Commissioner), all payments by check, negotiable order of withdrawal or money order for Shares will be returned to subscribers or purchasers, together with interest at 5.5% per annum, and all authorizations for payment by withdrawals from deposit accounts will be cancelled with interest paid at the rates applicable to such accounts. See "Refunds; Termination of Conversion" below.

Payment for Shares. Full payment for Shares, computed on the basis of the maximum price of $11.50 per Share (the "Maximum Purchase Price"), must accompany each completed Order Form for subscriptions or purchases to be valid. Payment for Shares may only be made as follows: (i) by money order, by certified, treasurer's or bank cashier's check issued by any bank, or by check or negotiable order of withdrawal drawn on the Bank, in each case payable to the Bank directly and not by endorsement and provided that the foregoing will only be accepted subject to collection and payment, or (ii) by appropriate authorizations for withdrawal from certain deposit accounts with the Bank (excluding Individual Retirement Accounts, Keogh and other similar accounts, and also excluding insurance escrow and tax escrow accounts). *No other form of payment, such as cash, will be accepted.* In the case of payments for Shares made by check, negotiable order of withdrawal or money order, interest will be earned by subscribers and Community Purchasers at the rate of 5.5% per annum from the dates such funds are collected (i.e., available funds) by the Bank until the Subscription Expiration Date, November 30, 1988. Payments for Shares made by authorized withdrawal from certain deposit accounts with the Bank would continue to earn interest at the rates applicable to such accounts until the consummation or termination of the Conversion. See "Refunds; Termination of Conversion" below. Payment for Shares made through authorization of withdrawal from certificate accounts of the Bank will be accepted without assessment of penalties for premature withdrawal unless required by applicable laws or regulations. If the remaining balances of such certificate accounts after such withdrawals are less than the minimum qualifying balances under applicable rate control regulations, the certificates evidencing such accounts will be cancelled upon consummation of the Conversion, and the remaining balance will thereafter earn interest at the rate provided for in the certificates in the event of cancellation or, if no such rate is provided, at the rate payable on the Bank's regular savings accounts. If payment is made by authorization of withdrawal from a deposit or certificate account, the funds will not be withdrawn until the date of consummation of the Conversion and will continue to earn interest at the applicable rate specified thereon until such consummation, for payments withdrawn from such accounts on consummation of the Conversion in payment for Shares. Amounts authorized for withdrawal in excess of the aggregate Actual Purchase Price for purchased Shares will not be withdrawn and will earn interest at the applicable rate as if such amounts had never been withdrawn. Appropriate means by which such withdrawals may be authorized are contained in the Subscription Order Form. Once such a withdrawal has been authorized, the designated withdrawal amount will be "frozen" and may not be used for any purpose other than to purchase the Shares while the Plan of Conversion remains in effect. The Bank will segregate from its general operating accounts all amounts paid on subscriptions or purchases for Shares in the Conversion, and will be entitled to invest such amounts in federal funds or United States Treasury or agency securities for its own account until consummation or termination of the Conversion. The Bank may, in its sole discretion, waive any irregularity on any Order Form or Order Certification, require the submission of a corrected Order Form or Order Certification or require the remittance of all payments for Shares subscribed for or purchased by the Subscription Expiration Date or accept a lesser payment as payment in full for such number of Shares as such payment would cover, although the Bank is under no obligation to do so. If the Bank does waive any irregularity in any instance, such a waiver shall not be deemed to be a waiver in all cases of such irregularity or of any other irregularity.

Massachusetts banking regulations prohibit the extension of credit by the Bank to any person for the purpose of purchasing Shares.

All questions concerning the completeness and validity of the Order Form or Order Certification, including without limitation whether the payment offered is valid consideration, shall be determined by the Bank in its sole discretion and such determination shall be final, conclusive and binding on all persons. The Bank may take any remedial action, including, without limitation, rejecting the purchase or referring the matter to the Commissioner for action, as in its sole discretion the Bank may deem appropriate.

Refunds; Termination of Conversion. If the Actual Purchase Price is less than the Maximum Purchase Price, excess payments will be refunded, or authorized withdrawals reduced, as promptly as practicable after consummation of the Conversion, unless the subscriber or purchaser exercises the option provided in the Order Form to apply the excess payment to purchase additional available whole Shares at the Actual Purchase Price; in which case, subject to applicable purchase limitations, the subscriber's subscription or purchaser's order, as the case may be, will be increased by the amount of such additional Shares, if available, and any remaining portion of such excess will be refunded, or authorized withdrawal reduced. Interest on refunds will be paid at the rate of 5.5% for payments by check, negotiable order of withdrawal or money order from the date such funds were collected by the Bank, or at the rates applicable to accounts from which authorized withdrawals are made. In the event that the Conversion is terminated, the Bank will refund all amounts paid by check, negotiable order of withdrawal or money order, with interest thereon at the rate of 5.5% per annum from the date such funds were collected by the Bank through such termination date, and payments in the form of authorized withdrawals shall not be withdrawn and interest at the rates applicable to such accounts will be paid as if such withdrawals had not been made.

Delivery of Certificates. Certificates representing Shares issued in the Conversion will be mailed to the persons entitled thereto at the last addresses of such persons appearing on the account records of the Bank, as soon as practicable following consummation of the Public Offering or, if the Public Offering does not take place, as soon as practicable following any other sale of the Shares offered in the Conversion. Any certificates returned as undeliverable will be held by the Bank's transfer agent until claimed by the persons legally entitled thereto or otherwise disposed of in accordance with applicable law. Unless otherwise approved by the Bank, certificates for the Shares must be registered in the name or names of the Eligible Account Holder (in the form in which the account is held), Trustee, officer or employee subscribing for such Shares, or of the Community Purchaser purchasing Shares.

Undelivered Subscription Materials. The Subscription Rights of any persons whom the Bank is unable to locate or whose subscription materials are returned to the Bank by the United States Postal Service as undeliverable will expire on the Subscription Expiration Date.

Persons in Non-Qualified States or Other Jurisdictions. The Bank will make reasonable efforts to comply with the securities laws of all states in the United States in which persons entitled to subscribe for Shares pursuant to the Plan of Conversion reside. However, the Bank will not be required to offer Shares to any person who resides in any state of the United States, foreign country or other jurisdiction with respect to which the Bank determines that compliance with the securities laws of such state or jurisdiction would be impractical for reasons of cost or otherwise.

Purchase Limitations

The following purchase limitations apply to all Shares to be issued in the Subscription and Community Offering and the Public Offering, except for purchases by the Underwriters in the Public Offering:

(1) No fewer than 25 Shares may be purchased by any person purchasing any Shares in the Subscription and Community Offering.

(2) No more than 43,750 Shares, which represents 3.5% of the Shares offered in the Subscription Offering, may be subscribed for in the Subscription Offering individually by any Eligible Account Holder, Trustee, officer or employee; provided, however, that each Eligible Account Holder with a Qualifying Deposit in excess of $290,614 on May 31, 1988 (and any associated Eligible Account Holder or a group acting in concert) may subscribe for a number of Shares equal to 15 times the product (rounded down to the next whole number) obtained by multiplying (the total number of Shares to be offered in the Subscription Offering) by a fraction of which the numerator is the Qualifying Deposit of the Eligible Account Holder and the denominator is $124,534,873 (the total amount of Qualifying Deposits of all Eligible Account Holders in the Bank), up to 62,500 Shares, which represent 5% of the total number of Shares offered in the Subscription Offering.

(3) No more than 43,750 Shares, which represents 3.5% of the Shares offered in the Subscription and Community Offering, may be purchased in the Community Offering by any Community Purchaser and such person's associates or group acting in concert.

(4) No more than 43,750 Shares, which represents 3.5% of the Shares offered in the Subscription and Community Offering, may be purchased in the Public Offering in the aggregate by any person and his associates or a group acting in concert.

(5) No more than an aggregate of 62,500 Shares, which represents 5% of the Shares offered in the Subscription and Community Offering, may be subscribed for or purchased in the Subscription and Community Offering and the Public Offering in the aggregate by any person, together with any associate or a group acting in concert.

(6) No more than 30% of the total number of Shares offered in the Conversion may be purchased in the aggregate by Corporators, Trustees and officers of the Bank and their associates, whether as Eligible Account Holders or otherwise.

Notwithstanding the foregoing limitations, if the number of Shares offered in the Subscription and Community Offering is increased and the Actual Purchase Price is less than the Maximum Purchase Price, any subscriber or Community Purchaser who exercised the option in the Order Form to apply the excess payment to purchase additional Shares at the Actual Purchase Price may purchase such additional Shares as part of the Subscription and Community Offering.

The term "associate" of a person is defined to mean: (i) any corporation or organization (other than the Bank or any majority-owned subsidiary of the Bank) of which such person is an officer, partner or, directly or indirectly, the beneficial owner of 10% or more of any class of such corporation's equity securities; (ii) any trust or other estate in which such person has a substantial beneficial interest or serves as trustee or in a similar fiduciary capacity; or (iii) any relative or spouse of such person or any relative of such spouse, who has the same home as such person or who is a Trustee or officer of the Bank or any subsidiary. For example, a corporation in which a Trustee of the Bank serves as an officer would be an associate of such Trustee, and therefore all Shares purchased by such corporation would count against the number of Shares which the Trustee individually could purchase under the above limitations.

The term "group acting in concert" is defined to mean persons (i) seeking to combine or pool their voting or other interests in the securities of the Bank for a common purpose, pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise or (ii) who would be deemed to be acting as a group or syndicate within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, any persons who are beneficial owners (within the meaning of and as determined under Rule 13d-3 promulgated under Section 13(d) of the Exchange Act) of the same securities are deemed to be members of a "group acting in concert." When persons act together for any of the foregoing purposes, their group is deemed to have acted in concert in acquiring their stock. However, Corporators, Trustees, officers and employees will not be deemed to be associates or a group affiliated with each other or otherwise acting in concert in purchasing Shares in the Conversion solely as a result of their being Corporators, Trustees, officers or employees of the Bank.

The term "person" is defined to mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, any unincorporated organization or similar association, a government or political subdivision or a group acting in concert.

By purchasing Shares in the Conversion, each person will be deemed to confirm that such purchase does not conflict with the above purchase limitations. In the event that the Board of Trustees or the Board of Investment of the Bank determines that any persons are associates or a group acting in concert or that any purchase conflicts with, or any person has violated, the purchase limitations of the Plan of Conversion, such determination shall be conclusive and final.

Purchase Price and Number of Shares to be Issued

Purchase Price. The Actual Purchase Price of the Shares in the Subscription and Community Offering will be the same as the price at which Shares are initially offered to the general public in the Public Offering or, if the Public Offering does not take place, the same price as the price at which all Shares not subscribed for or purchased in the Subscription and Community Offering are sold. The Actual Purchase Price will not be determined until shortly before the commencement of the Public Offering (or if there is no Public Offering, as soon as practicable following the Subscription Expiration Date).

If the Actual Purchase Price is less than the Maximum Purchase Price, the difference will be refunded or the withdrawal authorization will be reduced by the appropriate amount, unless the subscriber or Community Purchaser has exercised the option provided in the Order Form to apply such excess payment to purchase additional available whole Shares at the Actual Purchase Price, subject to applicable purchase limitations, in which case the subscriber's subscription or Community Purchaser's order will be increased by the amount of such additional Shares, if available, and any remaining portion of such excess will be refunded. If it is determined that the Actual Purchase Price in the Subscription and Community Offering should be greater than the Maximum Purchase Price stated in the Order Form or accompanying materials, upon compliance with such requirements as may be imposed by the Commissioner, each person who subscribed for Shares will be permitted to (i) withdraw the subscription or order and have such person's payment for Shares returned in full, or (ii) make payment to the Bank of the additional amount necessary for the Shares subscribed for at the Actual Purchase Price in the manner and within the time prescribed by the Bank, or (iii) purchase such lesser whole number of Shares as such subscriber's or Community Purchaser's payment would entitle such person to purchase at such Actual Purchase Price and to receive a refund for any overpayment. Except as provided above, no interest will be paid on any amount so refunded.

Determination of Purchase Price. Massachusetts banking regulations require that the purchase price of equity securities of a converting mutual savings bank sold in connection with its conversion equal the aggregate pro forma market value of such securities as determined on the basis of an independent valuation. The Bank has retained Kaplan, Smith to prepare a valuation of the total pro forma market value of the Shares to be offered and sold in the Conversion. For its services in making this valuation, Kaplan, Smith will receive an appraisal fee of $20,000 and reimbursement of certain of its out-of-pocket expenses. The Bank has agreed to indemnify Kaplan, Smith against certain liabilities which might arise out of such appraisal.

In preparing the valuation, Kaplan, Smith has relied upon and assumed the accuracy and completeness of financial and statistical information provided by the Bank. Kaplan, Smith has also considered information based upon other publicly available sources which it believes are reliable. However, Kaplan, Smith cannot guarantee the accuracy and completeness of such information. Kaplan, Smith did not independently verify the financial statements and other information provided by the Bank, nor did it independently value the assets or liabilities of the Bank.

Kaplan, Smith provided a pro forma valuation of the aggregate market value of the Shares to be sold in the Conversion for submission to the Commissioner shortly before the commencement of the Subscription and Community Offering. On the basis of its consideration of the factors described below, Kaplan, Smith has advised the Bank that, in its opinion, at October 17, 1988, the estimated aggregate pro forma market value of the Shares to be issued in the Conversion was $12,500,000 with a resultant valuation range of approximately $10,625,000 to $14,375,000 or, assuming that 1,250,000 Shares are sold in the Conversion, between $8.50 and $11.50 per Share.

Such valuation was made by Kaplan, Smith on the basis of its evaluation of the operating and financial data of the Bank in comparison with the operating and financial data of comparable publicly-held thrift institutions as disclosed by those thrift institutions in filings with regulatory agencies. The valuation was made in reliance on the representation of the Bank that the information contained in this Offering Circular is accurate and Kaplan, Smith has made no independent verification of the accuracy of such information or of the information disclosed by the other thrift institutions. Kaplan, Smith also took into account other factors, such as the market for the stock of thrift institutions and the securities markets in general, the Bank's market area, the prevailing economic and demographic conditions which affect the operations of thrift institutions, and the competitive environment within which the Bank operates.

The total number of Shares to be offered in the Subscription and Community Offering and the Maximum Purchase Price referred to above have been determined on the basis of the foregoing valuation. The valuation will be reviewed and, if appropriate, revised by Kaplan, Smith shortly before commencement of the Public Offering or, if the Public Offering does not take place, as soon as practicable after expiration of the Subscription and Community Offering. The Actual Purchase Price for all Shares sold in the Conversion will be determined on the basis of this final valuation. See "Purchase Price" for a description of the procedures in the event the final estimated valuation is less or greater than the aggregate Maximum Purchase Price.

THE ESTIMATED VALUATION DESCRIBED ABOVE IS NOT INTENDED, AND MUST NOT BE CONSTRUED, AS A RECOMMENDATION OF ANY KIND AS TO THE ADVISABILITY OF PURCHASING THE SHARES OFFERED HEREBY. THE VALUATION CONSIDERS THE BANK ONLY AS A GOING CONCERN AND SHOULD NOT BE CONSIDERED AS AN INDICATION OF

THE LIQUIDATION VALUE OF THE BANK. MOREOVER, BECAUSE SUCH ESTIMATED VALUATION IS NECESSARILY BASED UPON ESTIMATES OF A NUMBER OF FACTORS (INCLUDING CERTAIN ASSUMPTIONS AS TO THE UNDERWRITING COMMISSION AND OTHER EXPENSE FACTORS AFFECTING THE NET PROCEEDS TO THE BANK FROM THE SALE OF ITS SHARES AND AS TO THE NET EARNINGS ON SUCH NET PROCEEDS), ALL OF WHICH ARE SUBJECT TO CHANGE FROM TIME TO TIME, NO ASSURANCE CAN BE GIVEN THAT PERSONS WHO PURCHASE SHARES IN THE CONVERSION WILL BE ABLE TO SELL SUCH SHARES AT COMPARABLE PRICES THEREAFTER. A COMPLETE COPY OF THE KAPLAN, SMITH VALUATION IS AVAILABLE FOR INSPECTION AT THE MAIN OFFICE OF THE BANK, 55 MAIN STREET, HINGHAM, MASSACHUSETTS 02043 AND AT THE OFFICE OF THE COMMISSIONER OF BANKS, 100 CAMBRIDGE STREET, BOSTON, MASSACHUSETTS 02202.

Number of Shares to be Issued. Depending on market conditions or changes in the estimated pro forma value of the Shares following the commencement of the Subscription and Community Offering, the Bank may, subject to approval of the Commissioner, significantly increase or decrease the total number of Shares to be issued in the Conversion or reduce the price per Share to be paid in the Conversion. Any such change in the total number of Shares to be issued and any reduction in the price per Share may be made without a resolicitation of subscriptions or orders by Community Purchasers, and without affording subscribers and Community Purchasers an opportunity to modify or cancel their subscriptions or orders. In the event of a material increase in the valuation of the pro forma market value of the Shares, the Bank anticipates that it will increase the total number of Shares to be issued in the Conversion so as to assure that the Actual Purchase Price does not exceed the Maximum Purchase Price. Any increase in the total number of Shares to be issued in the Conversion would decrease a subscriber's or Community Purchaser's proportionate ownership interest and the pro forma net income adjustment and pro forma net worth on a per Share basis, while increasing the pro forma net income adjustment and pro forma net worth on an aggregate basis. See "PRO FORMA DATA." However, as described above, subscribers and Community Purchasers may exercise their option on the Order Forms to apply any excess payments to purchase additional Shares at the Actual Purchase Price in the event the Actual Purchase Price is less than the Maximum Purchase Price.

A decrease following the commencement of the Subscription and Community Offering in the total number of Shares to be issued in the Conversion would affect Subscription Rights and purchase rights by reducing the maximum number of Shares that may be purchased under the various percentage purchase limitations but would not otherwise change the number of Shares that a subscriber or Community Purchaser may purchase. See "Purchase Limitations" above. See also "Public Offering" below, as to the possible issuance of additional Shares to cover over-allotments by the Underwriters in the Public Offering.

Public Offering

Massachusetts banking regulations require that all Shares offered in the Conversion be sold in order for the Conversion to become effective. The Plan of Conversion provides that, if feasible, all Shares not subscribed for in the Subscription and Community Offering will be sold to the Underwriters in a firm commitment underwriting for sale to the general public in the Public Offering. The Bank currently expects that the Public Offering or other sale of unsubscribed Shares offered in the Conversion will commence as soon as practicable following the Subscription Expiration Date. Massachusetts banking regulations also require that the Public Offering or other sale of Shares in the Conversion be completed within 45 days after the expiration of the Subscription and Community Offering unless extended by the Bank with the approval of the Commissioner. Keefe, Bruyette is expected to serve as the managing underwriter of the Public Offering.

It is expected that the Underwriters will purchase the unsubscribed Shares from the Bank at the Public Offering Price less an underwriting discount. The amount of the underwriting discount, which is currently estimated to be approximately 6.0% of the Public Offering Price, will be determined by negotiations between Keefe, Bruyette, as representative of the several Underwriters, and the Bank. No underwriting fees or discounts will be paid to the Underwriters with respect to any Shares sold in the Subscription and Community Offering. The proposed underwriting agreement in connection with the Public Offering will not be entered into between the Bank and the Underwriters until immediately prior to the Public Offering. Pursuant to the underwriting agreement, the Underwriters, subject to certain conditions, will be obligated to purchase all Shares which have not been subscribed for in the Subscription and Community Offering if any such Shares are purchased by the Underwriters. In addition, for a period of 30 days following the commencement of the Public Offering, the Underwriters may have an option to purchase a number of additional shares, which will not exceed 15% of the total number of Shares offered in the Conversion, on the same terms as other Shares purchased by the Underwriters in the Public Offering solely for the purpose of covering over-allotments, if any. Any exercise of the over-allotment option which causes the gross proceeds of the Conversion to exceed $14,375,000, the maximum of the current valuation range, would be subject to a revised valuation of the total pro forma market value of the Shares. The Bank has agreed with Keefe, Bruyette that if the Conversion takes place but there is no Public Offering, or a limited Public Offering, the Bank shall pay to Keefe, Bruyette certain minimum fees of $150,000 plus reasonable attorney's fees not to exceed $40,000 for financial advisory assistance provided to the Bank during the conversion process as well as certain of their out-of-pocket expenses.

In addition, the Bank will agree with the Underwriters that, for a period of 60 days following the closing of the Public Offering, the Bank will not sell, offer to sell, or grant any option (other than pursuant to the Bank's Stock Option Plan) for the purchase of any Shares of the Bank's Common Stock, and that the Bank will not, without the Underwriters' prior written consent, issue to the public any shares or securities convertible into, or warrants or other rights to purchase, any such Shares.

The Bank currently expects that the Public Offering will commence promptly after completion of the Subscription and Community Offering. The commencement and completion of the Public Offering, however, will be subject to market and financial conditions at the time of the Public Offering. No assurance can be given as to the length of time that will be required to complete the Public Offering or other sale of the Shares to be issued in the Conversion. If delays are experienced, significant changes may occur in the estimated total pro forma market value of the Shares, together with corresponding changes in the offering price and the net proceeds realized by the Bank from the sale of the Shares. The Bank could also incur substantial additional printing, legal and accounting expenses in completing the Conversion. If the Public Offering is determined not to be feasible, an occurrence that is not presently anticipated, the Bank's Board of Trustees will determine, subject to the approval of the Commissioner, an appropriate alternative method of selling all unsubscribed Shares.

Amendment and Termination

The Plan of Conversion may be amended as a result of comments from regulatory authorities or otherwise with the concurrence of the Commissioner. Unless all Shares have been sold and the Conversion is consummated by September 1, 1990, the Plan of Conversion will automatically terminate. Also, the Plan of Conversion provides that the transactions contemplated thereby may be terminated by the Board of Trustees at any time with the concurrence of the Commissioner, notwithstanding approval of the Plan of Conversion by the Corporators of the Bank at the Special Meeting.

ANTI-TAKEOVER PROVISIONS

Certain Provisions in the Charter and By-Laws

A number of provisions of the Bank's Charter and By-Laws which will become effective upon the consummation of the Conversion deal with matters of corporate governance and the rights of stockholders.

The following discussion is a general summary of certain provisions of the Charter and By-Laws relating to stock ownership and transfer, the Board of Directors and business combinations, which may be deemed to have an "anti-takeover" effect. These and other provisions affect stockholder rights and should be given careful attention. Although the Board of Trustees is not aware of any effort that might be made to gain control of the Bank after the Conversion, the Board of Trustees believes that it is appropriate to adopt certain provisions to encourage any would-be acquiror of the Bank to negotiate the terms of acquisition with the Bank. The following description of certain of these provisions is necessarily general and reference should be made in each case to the Charter and By-Laws of the Bank which are incorporated herein by reference. The Charter and By-Laws are part of the Bank's application to the Commissioner. A copy of the application is available for public inspection at the main office of the Bank, 55 Main Street, Hingham, Massachusetts 02043, and at the office of the Commissioner, 100 Cambridge Street, Boston, Massachusetts 02202.

Authorized Stock. The Charter authorizes the Board of Directors to issue any of the 5,000,000 shares of authorized Common Stock not issued in the Conversion, as well as the 2,500,000 shares of serial preferred stock, $1.00 par value (the "Preferred Stock"), which are authorized but unissued. Under current Massachusetts law, the issuance of any such stock would require the prior approval of the Commissioner. The Board of Directors is authorized to fix the designations, powers, preferences and relative or other special rights of the Preferred Stock, including voting rights (which could be multiple or as a separate class) and conversion rights. In the event of an attempt to gain control of the Bank, it is possible that the Board of Directors might seek to authorize the issuance of one or more series of Preferred Stock with rights and preferences that could impede such attempt to acquire control of the Bank. The Bank has no present plans or understandings for the issuance of any Preferred Stock.

Directors. The Charter and By-Laws contain certain provisions which may make it more difficult to change a majority of the Board of Directors. The Charter provides for three-year staggered terms for Directors, so that ordinarily no more than approximately one-third of the Bank's Directors will stand for election in any one year. The Charter provides that there will be no cumulative voting in the election of Directors. The By-Laws provide that the Board of Directors shall consist of not less than seven nor more than 25 Directors, with the exact number fixed by majority vote of the Board of Directors, unless there is an Interested Stockholder (as defined in the Charter to mean, among others, a beneficial owner of ten percent or more of the outstanding voting stock of the Bank or any affiliated person of such Interested Stockholder) at the time, in which case a majority vote of the Continuing Directors (as defined in the Charter to mean, generally, a Director who is not an affiliate or associate of an Interested Stockholder) is also required. Under the Charter, a Director may be removed only for Cause (as defined in the Charter) by the affirmative vote of at least (i) two-thirds of the total votes eligible to be cast by stockholders at a duly constituted meeting called expressly for such purpose, or (ii) two-thirds of the members of the Board of Directors then in office, unless at the time of such removal there is an Interested Stockholder, in which case the affirmative vote of at least two-thirds of the Continuing Directors then in office shall be required for removal by vote of the Board of Directors. The By-Laws provide that any vacancy occurring in the Board of Directors may be filled by vote of a majority of the remaining Directors, unless at the time there is an Interested Stockholder, in which case a majority vote of the Continuing Directors is instead required. Finally, the By-Laws impose certain advance notice and informational requirements on the nomination by stockholders of candidates for election to the Board of Directors and provide that the Board of Directors may reject any nomination by a stockholder not timely made or not satisfying such notice and informational requirements. If there is an Interested Stockholder, any determination by the Board of Directors related to such notice and informational requirements shall also require the concurrence of a majority of the Continuing Directors.

Interested Stockholder is defined in the Charter to include, among others, any person who is the beneficial owner of 10% or more of the outstanding voting stock of the Bank. Continuing Director is defined in the Charter to mean, generally, a Director who is not an affiliate or associate of an Interested Stockholder and who was a Director prior to the time the Interested Stockholder became an Interested Stockholder.

Meetings of Stockholders. The Charter and By-Laws provide that a special meeting of stockholders may be called at any time only by the Chairman of the Board, if one is elected, or by the President or by a majority of the Directors then in office, unless at the time there is an Interested Stockholder, in which case, a majority vote of the Continuing Directors is also required. Only those matters set forth in the call of the special meeting may be considered or acted upon at such special meeting, unless otherwise provided by law. With respect to annual meetings of stockholders, the By-Laws impose certain advance notice and informational requirements for any new business which a stockholder may wish to propose for consideration at the meeting.

Stockholder Vote Required to Approve Business Combinations with Interested Stockholders. The Charter contains a so-called "fair price" provision pursuant to which any Business Combination (as hereinafter defined) involving an Interested Stockholder of the Bank or any subsidiary would require approval by the affirmative vote of 80% of the outstanding shares of the Bank entitled to vote, voting together as a single class. The fair price provision provides that the 80% stockholder vote is not required if the Business Combination is approved by two-thirds of the Continuing Directors or if certain procedures and price requirements are met.

The term "Business Combination" is defined to include: (i) any plan of acquisition pursuant to Section 4A of Chapter 167A of the Massachusetts General Laws or any merger or consolidation of the Bank or any subsidiary with any Interested Stockholder or other corporation which is, or after such merger or consolidation would be, an affiliate of an Interested Stockholder; (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with any Interested Stockholder or any affiliate of any Interested Stockholder of any assets of the Bank or any subsidiary having an aggregate fair market value of $1 million or more; (iii) the issuance or transfer by the Bank or any subsidiary of any securities of the Bank or any subsidiary to any Interested Stockholder or any affiliate of any Interested Stockholder in exchange for cash, securities or other property having an aggregate fair market value of $1 million or more; (iv) the adoption of any plan or proposal for the liquidation or dissolution of the Bank proposed by or on behalf of any Interested Stockholder or any affiliate of any Interested Stockholder; or (v) any reclassification of securities or recapitalization of the Bank, or any merger or consolidation of the Bank with any of its subsidiaries or any other transaction which has the effect, directly or indirectly, of increasing the proportion of the outstanding shares of any class of equity or convertible securities of the Bank or any subsidiary which is directly or indirectly owned by any Interested Stockholder or any affiliate of any Interested Stockholder.

Provisions Relating to Exercise of Business Judgment by the Board of Directors. The Charter further provides that the Board of Directors of the Bank, when evaluating any offer of another "person" (as defined in the Charter) to: (i) make a tender or exchange offer for any equity security of the Bank, (ii) implement a plan of acquisition pursuant to Section 4A of Chapter 167A of the Massachusetts General Laws or merge or consolidate the Bank with another entity, or (iii) purchase or otherwise acquire all or substantially all of the properties and assets of the Bank, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Bank and its stockholders, give due consideration to all relevant factors including, without limitation, the social and economic effects of acceptance of such offer on the Bank's present and future account holders, borrowers and employees, and on the communities in which the Bank operates or is located and the ability of the Bank to fulfill the objectives of a Massachusetts-chartered stock form savings bank under applicable statutes and regulations. By having these standards in the Charter, the Board of Directors may be in a stronger position to oppose such a transaction if the Board concludes that on balance the transaction would not be in the best interests of the Bank and the holders of its Common Stock even if the price offered were greater than the then market price of the Common Stock.

Restrictions on Acquisitions of Securities. The Charter also provides that, for a period of five years from the date of consummation of the Conversion, no "person" (as defined in the Charter) shall directly or indirectly acquire or "offer" (as defined in the Charter) to acquire the beneficial ownership of more than 10% of any class of outstanding equity securities of the Bank. Shares acquired in excess of this limitation will not be entitled to vote and may be required to be sold through an independent trustee. The five-year limitation on beneficial ownership contained in the Charter is similar to the three-year restriction on beneficial ownership of more than 10% of the shares of any savings bank that converts to stock form contained in the regulations of the Commissioner governing conversions. Shares acquired in excess of this limitation will not be entitled to vote. However, the regulations provide for an exception to this prohibition if the bank involved is given notice and the Commissioner consents to the transaction. Although the Charter does not contain such an exception, it does provide for the following exceptions to the foregoing provisions: (i) any acquisition of shares of capital stock which has been approved in advance by a two-thirds vote of the Continuing Directors then in office; (ii) any offer with a view toward public resale made exclusively to the Bank, to any underwriter acting on behalf of the Bank or to a selling group acting on such underwriter's behalf, in connection with a public offering by the Bank of its capital stock; or (iii) a transaction in which the Bank forms a holding company without a change in the respective beneficial ownership of its stockholders other than pursuant to the exercise of any dissenter's appraisal rights. The Bank may consider forming a holding company after the Conversion.

In addition to the Charter provisions described above, acquisitions of control of the Bank through purchase of stock are subject to certain restrictions contained in federal and state law including regulation under the federal Bank Holding Company Act of 1956, as amended, and the Massachusetts "Change of Bank Control" Act of 1985 or the federal Change in Bank Control Act of 1978, as amended. See "Certain Federal and State Restrictions on Acquisition of Stock" below.

Provisions for Amendment of Charter and By-Laws. The Charter provides that it may be amended only if such amendment is first approved by an affirmative vote of two-thirds of the Board of Directors of the Bank then in office and thereafter approved by the affirmative vote of at least 80% of the total votes eligible to be cast at a meeting of stockholders called for such purpose, except that some of the provisions, if approved by the Board of Directors, may be amended by the affirmative vote of a majority of the total votes eligible to be cast by the stockholders of the Bank at a duly constituted meeting, and, if there has been an Interested Stockholder at any time within the sixty-day period immediately preceding the stockholder meeting at which such vote is to be taken, any amendment shall also require the affirmative vote of at least two-thirds of the Continuing Directors then in office, prior to approval of such amendment by the stockholders. The Charter provides that the By-Laws may be amended by (i) a vote of at least two-thirds of the Directors then in office, unless there is an Interested Stockholder at such time, in which case a two thirds vote of the Continuing Directors is also required, or (ii) a vote of two-thirds of the total votes eligible to be cast by the stockholders at a duly constituted meeting called expressly for such purpose if such proposed amendment is first submitted in writing at least sixty days prior to such meeting and approved by the affirmative vote of a majority of the Directors then in office, unless there is an Interested Stockholder at such time, in which case a majority vote of the Continuing Directors then in office is required instead of such Director approval.

Anti-takeover Effects. The foregoing provisions, as well as the state and federal provisions referred to below, could have the effect of discouraging an acquisition of the Bank, or stock purchases in furtherance of an acquisition, and could accordingly, under certain circumstances, discourage transactions which might otherwise have a favorable effect on the price of the Common Stock.

The Board of Trustees believes that the provisions described above are prudent and will reduce the Bank's vulnerability to takeover attempts and certain other transactions after the Conversion which are not negotiated with and approved by its Board of Directors. In the Board of Trustees' judgment, after the Conversion the Board of Directors will be in the best position to determine the true value of the Bank and to negotiate more effectively for what may be in the best interests of its stockholders. Accordingly, the Board of Trustees believes that it is in the best interests of the Bank and its stockholders to encourage potential acquirors to negotiate directly with the Board of Directors and that these provisions will encourage such negotiations and discourage hostile takeover attempts. It is also the Board of Trustees' view that these provisions should not discourage persons from proposing a merger or other transaction at prices reflective of the true value of the Bank and when the transaction is in the best interests of all stockholders.

Despite the Bank's belief as to the benefits to its stockholders of the foregoing provisions, these provisions may also have the effect of discouraging a future takeover attempt in which stockholders might receive a substantial premium for their shares over then current market prices. As a result, stockholders who might desire to participate in such a transaction may not have an opportunity to do so. The Board of Trustees, however, has concluded that the potential benefits of these provisions outweigh the possible disadvantages.

Indemnification. The By-Laws provide that Trustees, Directors and officers of the Bank shall, and in the discretion of the Board of Directors, non-officer employees may, be indemnified by the Bank against liabilities and expenses arising out of service for or on behalf of the Bank.

Such indemnification shall not be provided if it is determined that the action giving rise to the liability was not taken in good faith in the reasonable belief that the action was in the best interests of the Bank.

Certain Federal and State Restrictions on Acquisition of Stock

Massachusetts law relative to conversion of mutual savings banks to stock form savings banks provides that no person may acquire more than 10% of any class of stock of the converted bank within three years following the conversion without the prior consent of the Commissioner.

In addition, Massachusetts law prohibits any person from acquiring voting stock of a savings bank that would result in such person having the power, directly or indirectly, to direct the management or policies of any such bank or to vote 25% or more of any class of voting stock of such savings bank unless such person has provided the Commissioner with sixty days' prior notice and certain information in connection therewith, and the acquisition has not been disapproved by the Commissioner. An exemption from these requirements is provided for acquiring persons who have complied with substantially similar procedures under the federal law provisions outlined below. In addition, under Massachusetts law, Board of Bank Incorporation approval is required prior to any transaction which would result in any company acquiring the power to vote, directly or indirectly, 25% or more of any class of voting stock of two or more banking institutions thereby becoming a "bank holding company." Further, such approval is required prior to a bank holding company (i) acquiring voting stock of another banking institution if, as a result of the acquisition, such acquiror would, directly or indirectly, own or control more than 5% of the voting stock of such institution, or (ii) engaging in certain other transactions.

The FDIC has also adopted a regulation pursuant to the Change in Bank Control Act of 1978, as amended, which generally requires persons who at any time intend to acquire control of an FDIC-insured state-chartered non-member bank, including a converted savings bank such as the Bank after the Conversion, to provide 60 days' prior written notice and certain financial and other information to the FDIC. The 60-day notice period does not commence until the information is deemed to be substantially complete. Control for the purpose of this Act exists in situations in which the acquiring party has voting control of at least 25% of any class of the bank's voting stock or the power to direct the management or policies of the bank. However, under FDIC regulations, control is presumed to exist where the acquiring party has voting control of at least 10% of any class of the bank's voting securities if (i) the bank has a class of voting securities which is registered under Section 12 of the Exchange Act, or (ii) the acquiring party would be the largest holder of a class of voting shares of the bank. The statute and underlying regulations authorize the FDIC to disapprove the proposed acquisition on certain specified grounds.

Prior approval of the Federal Reserve would be required for an acquisition of control of the Bank by any company under the federal Bank Holding Company Act of 1956, as amended ("BHCA"). Control for purposes of the BHCA would be based on a 25% voting stock test or on the ability of the company otherwise to control the election of a majority of the Board of Directors of the Bank or if the company exerts a controlling influence over the management and policies of the Bank. As part of such acquisition, the acquiring company (unless already so registered) would be required to register as a bank holding company under the BHCA. A bank holding company's business activities are limited to those activities which the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

DESCRIPTION OF CAPITAL STOCK

The Bank will be authorized to issue up to 5,000,000 shares of Common Stock, $1.00 par value, and up to 2,500,000 shares of serial preferred stock, $1.00 par value. The Bank also has reserved 10% of the shares to be issued in the Subscription and Community Offering and the Public Offering (including, if applicable, any shares subject to the Underwriters' over-allotment option) for future issuance under its Stock Option Plan. See "MANAGEMENT—Stock Option Plan." At this time, the Bank has no plans to issue any additional shares subsequent to the Conversion, except pursuant to stock options granted under the Stock Option Plan. If additional Shares are issued, however, the percentage ownership interests of existing stockholders will be reduced. Depending on the terms pursuant to which new shares are issued, the book value and earnings per share of the outstanding stock may be diluted. Moreover, such additional share issuance could be construed as having an "anti-takeover" effect, since it would represent additional capital and voting rights required to be purchased by a potential acquiror. *The Common Stock will not be insured* by *the FDIC or the Central Fund.* For additional information relating to the Bank's authorized stock, see "DIVIDEND POLICY" and "ANTI-TAKEOVER PROVISIONS—Certain Provisions in the Charter and By-Laws."

Common Stock

Voting Rights. Since the Bank currently is a Massachusetts savings bank in mutual form, voting rights, including the right to elect Trustees, are vested exclusively in its Corporators. Following the Conversion, the Bank will no longer have Corporators, and voting rights will be vested exclusively in the Bank's stockholders. Stockholders will be entitled to one vote per share on any matters subject to stockholder approval, including the election of Directors, except to the extent that the Charter and regulations of the Commissioner limit the voting rights of stockholders who are in violation of the 10% beneficial ownership limitation. See "ANTI-TAKEOVER PROVISIONS—Certain Provisions in the Charter and By-Laws—Restrictions on Acquisitions of Securities." The Charter does not provide for cumulative voting in connection with the election of Directors, and therefore holders of a majority of the Common Stock will be able to elect all of the Directors eligible for election in each year. The By-Laws provide that the number of Directors shall not be less than seven nor more than 25, with the exact number to be fixed by the Board of Directors unless at the time there is an Interested Stockholder, in which case such action shall in addition require a majority vote of the Continuing Directors then in office. The By-Laws permit a majority of the Directors then in office to elect up to two additional Directors during the period between stockholders meetings so long as the total number of Directors is less than 25, unless at the time there is an Interested Stockholder, in which case such action shall in addition require a majority vote of the Continuing Directors then in office. Directors will be elected for three-year staggered terms, with approximately one-third of the Directors being elected in each year.

Dividends. The holders of the Common Stock will be entitled to share ratably in such cash dividends as may be declared from time to time by the Board of Directors out of funds legally available therefor, subject to certain restrictions. Depending on financial and other considerations, the Board of Directors may also declare stock dividends. If serial preferred stock is issued, the serial preferred stockholders may have a priority over the common stockholders with respect to receipt of dividends. See "DIVIDEND POLICY" and "POWERS AND REGULATION—Restrictions on Payment of Dividends."

Liquidation Rights. In the event of liquidation of the Bank, holders of Common Stock are entitled to receive any remaining assets of the Bank, in cash or in kind. Such payment will be made after payment or provision for payment of all debts and liabilities of the Bank, including all deposits and accrued interest thereon, and after payment of the Liquidation Account which will be established for the benefit of Eligible Account Holders who continue to hold their deposit accounts. See "THE CONVERSION—Effects of the Conversion—Liquidation Rights." If serial preferred stock is issued, the serial preferred stockholders may have a priority over the common stockholders in the event of liquidation.

Pre-emptive Rights. Holders of the Common Stock shall have no pre-emptive rights as to the purchase of any shares of capital stock of the Bank issued in the future. Therefore, the Board of Directors may sell shares of capital stock without first offering them to the then stockholders of the Bank. The Common Stock will not be subject to call or redemption.

Assessability. The Bank's Charter provides that its Common Stock is non-assessable.

Preferred Stock

Following the Conversion, the Board of Directors of the Bank will be authorized to issue, subject only to the approval of the Commissioner, preferred stock in series and to fix the voting powers, designations, preferences, or other special rights of the shares of each such series and the qualifications, limitations, and restrictions thereon. Such preferred stock issued by the Bank after the Conversion may rank prior to the Common Stock as to dividend rights, liquidation preferences, or both, may have full or limited voting rights, and may be convertible into shares of Common Stock. See "ANTI-TAKEOVER PROVISIONS—Certain Provisions in the Charter and By-Laws."

Transfer Agent and Registrar

The transfer agent and registrar for the Shares will be The Connecticut Bank and Trust Company of Hartford, Connecticut.

LEGAL OPINIONS

Bingham, Dana & Gould, 150 Federal Street, Boston Massachusetts 02110, has acted as special counsel for the Bank in connection with the Conversion, has rendered tax opinions with respect to state and federal law, and will pass upon the legality of the Shares being issued in the Conversion.

EXPERTS

The Financial Statements of the Bank at December 31, 1986 and 1987, and for each of the years in the three-year period ended December 31, 1987, appearing in this Offering Circular have been examined by Wolf & Company of Massachusetts, P.C., certified public accountants, as set forth in their report appearing elsewhere herein, and are included in reliance upon such report and upon the authority of said firm as experts in auditing and accounting.

The Bank has relied upon an opinion prepared by Kaplan, Smith as to the value of the Bank. Kaplan, Smith has consented to the summary herein of its appraisal report as to the estimated total pro forma market value of the Shares to be issued in the Conversion.

REGISTRATION REQUIREMENTS AND AVAILABLE INFORMATION

The Shares being issued in the Subscription and Community Offering and Public Offering will be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(2) of the Securities Act. After completion of the Conversion, the Bank will register the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended and in accordance with Sections 13 and 14 thereof, will file certain periodic reports with regulatory bodies and will make them available to stockholders as required. As an FDIC-insured bank, the Bank will file the above-referenced reports and information with the FDIC and such materials will then be available for inspection and copying at the public reference facilities maintained by the FDIC at 550 17th Street, N.W., Washington, D.C. 20429.

ADDITIONAL INFORMATION

The Bank has filed the Application with the Commissioner. This document omits certain information contained in the Application. The Application may be examined at the office of the Commissioner at 100 Cambridge Street, Boston, Massachusetts 02202 and at the main office of the Bank at 55 Main Street, Hingham, Massachusetts 02043.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Audit Committee of the Board of Trustees of
Hingham Institution for Savings:

We have audited the accompanying balance sheets of Hingham Institution for Savings as of December 31, 1986 and 1987, and the related statements of income, changes in surplus, and changes in financial position for each of the years in the three-year period ended December 31, 1987. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hingham Institution for Savings as of December 31, 1986 and 1987 and the results of its operations and changes in financial position for each of the years in the three-year period ended December 31, 1987, in conformity with generally accepted accounting principles.

WOLF & COMPANY OF MASSACHUSETTS, P.C.

Boston, Massachusetts
March 23, 1988, except for Note 14, as to which the
date is September 1, 1988

HINGHAM INSTITUTION FOR SAVINGS

BALANCE SHEETS

ASSETS

	December 31, 1986	December 31, 1987	September 30, 1988 (Unaudited)
		(In Thousands)	
Cash and due from banks	$ 2,483	$ 3,088	$ 3,073
Short-term investments (Note 2)	2,109	4,725	3,963
Investment securities—market value $23,723,000, $17,178,000 and $19,315,000 (Note 3)	23,713	17,593	19,728
Loans (Note 4)	100,338	106,723	118,096
Less allowance for possible loan losses	(1,008)	(525)	(602)
Loans, net	99,330	106,198	117,494
Banking premises and equipment, net (Note 5)	1,027	915	1,051
Real estate by foreclosure	1,627	—	433
Accrued interest receivable	1,200	1,292	1,339
Other assets	315	607	483
	$131,804	$134,418	$147,564

LIABILITIES AND SURPLUS

	December 31, 1986	December 31, 1987	September 30, 1988 (Unaudited)
Deposits (Note 6)	$120,850	$122,788	$124,343
Accrued interest payable	676	686	594
Advance from Federal Home Loan Bank (Note 7)	—	—	10,000
Mortgagors' escrow payments	280	311	631
Accrued taxes and expenses (Note 8)	609	297	792
Other liabilities	40	45	191
Total liabilities	122,455	124,127	136,551
Commitments and contingencies (Notes 9 and 14)	—	—	—
Surplus (Note 10)	9,446	10,361	11,051
Less unrealized loss on marketable equity securities (Note 3)	(97)	(70)	(38)
Total surplus	9,349	10,291	11,013
	$131,804	$134,418	$147,564

See accompanying notes to financial statements.

HINGHAM INSTITUTION FOR SAVINGS

STATEMENTS OF INCOME

	Years Ended December 31,			Nine Months Ended September 30,	
	1985	1986	1987	1987	1988
				(Unaudited)	
			(In Thousands)		
Interest and dividend income:					
Interest on loans	$ 8,532	$10,265	$10,651	$7,849	$8,519
Interest and dividend income on investment securities and mortgage-backed investments	1,772	1,455	1,626	1,269	1,089
Interest on short-term investments	866	546	251	158	302
Total interest and dividend income	11,170	12,266	12,528	9,276	9,910
Interest expense:					
Interest on deposits	7,621	8,123	8,228	6,140	6,374
Interest on Federal Home Loan Bank advance	—	—	—	—	179
Total interest expense	7,621	8,123	8,228	6,140	6,553
Net interest income	3,549	4,143	4,300	3,136	3,357
Provision for possible loan losses (Note 4)	107	723	1,038	808	283
Net interest income, after provision for possible loan losses	3,442	3,420	3,262	2,328	3,074
Other income:					
Loan origination and other loan fees	507	680	349	261	36
Fees on deposit accounts	235	240	232	175	170
Gain (loss) on sales of investment securities, net	(111)	(48)	29	29	(23)
Gain on sales of mortgage loans, net	—	99	—	—	—
Mutual Savings Central Fund, Inc. dividends (Note 11)	446	423	—	—	—
Miscellaneous	107	103	127	102	101
Total other income	1,184	1,497	737	567	284
Operating expenses:					
Salaries and employee benefits (Note 12)	1,207	1,396	1,461	1,096	1,161
Equipment expenses (Note 5)	153	158	173	130	142
Occupancy expenses (Note 5)	110	101	110	85	81
Data processing expenses	134	169	212	153	236
Other general and administrative expenses	408	566	585	449	487
Repossession expenses	—	—	136	136	—
Total operating expenses	2,012	2,390	2,677	2,049	2,107
Income before income taxes	2,614	2,527	1,322	846	1,251
Provision for income taxes (Note 8)	1,012	1,132	407	261	561
Net income	$ 1,602	$ 1,395	$ 915	$ 585	$ 690

See accompanying notes to financial statements.

HINGHAM INSTITUTION FOR SAVINGS

STATEMENTS OF CHANGES IN SURPLUS

	Undivided Profits	Net Unrealized Loss on Marketable Equity Securities	Total
		(In Thousands)	
Balance at December 31, 1984	$ 6,449	$(64)	$ 6,385
Net income	1,602	—	1,602
Decrease in net unrealized loss on marketable equity securities (Note 3)	—	19	19
Balance at December 31, 1985	8,051	(45)	8,006
Net income	1,395	—	1,395
Increase in net unrealized loss on marketable equity securities (Note 3)	—	(52)	(52)
Balance at December 31, 1986	9,446	(97)	9,349
Net income	915	—	915
Decrease in net unrealized loss on marketable equity securities (Note 3)	—	27	27
Balance at December 31, 1987	10,361	(70)	10,291
Net income (unaudited)	690	—	690
Decrease in net unrealized loss on marketable equity securities (unaudited) (Note 3)	—	32	32
Balance at September 30, 1988 (unaudited)	$11,051	$(38)	$11,013

See accompanying notes to financial statements.

HINGHAM INSTITUTION FOR SAVINGS

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31,			Nine Months Ended September 30,	
	1985	1986	1987	1987	1988
				(Unaudited)	
			(In Thousands)		
Financial resources provided by:					
Operations:					
Net income	$ 1,602	$ 1,395	$ 915	$ 585	$ 690
Non-cash charges (credits)—provisions for depreciation, loan losses and deferred income taxes, and investment accretion, net of amortization	70	1,180	1,519	1,180	685
Financial resources provided by operations	1,672	2,575	2,434	1,765	1,375
Increase (decrease) in deposits:					
Demand	278	1,507	(681)	(618)	378
NOW	708	506	2,366	1,344	(1,074)
Regular and special notice	770	3,272	3,223	3,403	1,002
Money market deposits	1,284	1,570	(5,258)	(3,714)	(2,649)
Term certificates	5,652	12,482	2,288	1,142	3,898
	8,692	19,337	1,938	1,557	1,555
Increase in Federal Home Loan Bank advance	—	—	—	—	10,000
Funds provided by deposits and other financing activities	8,692	19,337	1,938	1,557	11,555
Other activities—changes in non-earning assets and liabilities:					
Cash and due from banks	1,105	(895)	(605)	(480)	15
Real estate by foreclosure	(1,347)	(280)	1,627	1,317	(433)
Other, net	446	(836)	(695)	(171)	624
Financial resources provided by (applied to) other activities	204	(2,011)	327	666	206
Increase in financial resources invested in earning assets	$10,568	$19,901	$4,699	$3,988	$13,136
Increase (decrease) in earning assets:					
Short-term investments	$ 3,750	$(6,240)	$2,616	$2,470	$ (762)
Investment securities	(10,142)	9,453	(5,823)	(3,691)	2,319
Loans, net	16,960	16,688	7,906	5,209	11,579
Increase in earning assets	$10,568	$19,901	$4,699	$3,988	$13,136

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 1985, 1986 and 1987 and the Unaudited Nine Months Ended September 30, 1987 and 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Hingham Institution for Savings (the "Bank") is a state-chartered mutual savings bank whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") and the Mutual Savings Central Fund, Inc., a corporation formed by the Massachusetts legislature.

Accounting policy change

In December, 1986, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." The Bank has adopted the provisions of this Statement for lending transactions initiated and commitments granted on or after January 1, 1988. Accordingly, loan origination and commitment fees and certain direct loan origination costs subsequent to January 1, 1988 are being deferred, and the net amount amortized as an adjustment of the related loan's yield. The Bank is generally amortizing these amounts over the contractual life of the related loans. In 1987 and prior years, the Bank recognized loan origination and commitment fees as income in the period the loan or commitment was granted. As a result of adopting this change in accounting, at September 30, 1988, the Bank has deferred net loan fees of $179,000 that would have otherwise been reflected as income. As of September 30, 1988, approximately $85,141,000 or 72.46% of the loans included in the Bank's financial statements were accounted for under the prior policy.

Short-term investments

Short-term investments generally mature within one year and are carried at cost, which approximates market value.

Investment securities

Investment securities other than marketable equity securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Marketable equity securities are stated at the lower of aggregate cost or market, as further described in Note 3. Gains and losses on disposition of investment securities are computed by the specific identification method.

Mortgage-backed investments are stated at amortized cost, reduced by principal payments. Unearned discount and premiums are recognized in income over the estimated terms of the investments by the straight-line method, the results of which do not differ materially from the interest method.

Loans

Loans, as reported, have been reduced by unadvanced loan funds, deferred loan fees, net and the allowance for possible loan losses.

Interest on loans is not accrued for loans past due 90 days or more or when, in the opinion of management, the collectibility of the principal or interest becomes doubtful.

The adequacy of the allowance for possible loan losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(Continued)

economic conditions and their effect on borrowers and the performance of individual loans in relation to contract terms. The provision for possible loan losses charged to operating expense is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb possible losses. Loan losses are charged against the allowance when management believes the collectibility of the principal is unlikely.

Real estate by foreclosure

Real estate by foreclosure is stated at cost which approximates net realizable value.

Banking premises and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

It is general practice to charge the cost of maintenance and repairs to earnings when incurred; major expenditures for betterments are capitalized and depreciated.

Retirement plan

It is the Bank's policy to fund pension plan costs in the year of accrual.

Income taxes

Provisions for deferred income taxes are made as a result of timing differences between financial and income tax methods of accounting.

Interim financial information

The interim financial statements relating to September 30, 1988 and for the nine-month periods ended September 30, 1987 and 1988 have not been examined by independent accountants, but in the opinion of the Bank's management all adjustments (none of which were other than normal recurring accruals) necessary for a fair presentation of results for such interim periods have been included. Interim results are not necessarily indicative of results which may be expected for the entire year.

2. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	December 31,		September 30, 1988
	1986	1987	(Unaudited)
		(In Thousands)	
Federal funds sold	$1,109	$3,225	$1,963
Interest-bearing deposits	1,000	1,500	2,000
	$2,109	$4,725	$3,963

3. INVESTMENT SECURITIES

The carrying value and approximate market value of investment securities follows:

	December 31, 1986		December 31, 1987		September 30, 1988	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
					(Unaudited)	
			(In Thousands)			
U.S. Government obligations	$ 3,017	$ 3,062	$ —	$ —	$ 1,502	$ 1,481
Federal agency obligations	5,629	5,707	4,555	4,546	7,086	7,006
Public service obligations	2,017	1,868	1,546	1,377	851	700
Banking and finance obligations	8,781	8,851	7,099	6,992	5,693	5,622
Other bonds and obligations	2,395	2,380	2,780	2,742	2,759	2,743
Total bonds and obligations	21,839	21,868	15,980	15,657	17,891	17,552
Mortgage-backed investments	750	731	688	596	639	565
Marketable equity securities	651	554	425	355	436	398
Less valuation allowance for marketable equity securities	(97)	—	(70)	—	(38)	—
Marketable equity securities, net	554	554	355	355	398	398
Federal Home Loan Bank stock	570	570	570	570	800	800
Total marketable and other equity securities	1,124	1,124	925	925	1,198	1,198
Total investment securities	$23,713	$23,723	$17,593	$17,178	$19,728	$19,315

At December 31, 1986 and 1987 and (unaudited) September 30, 1988, there were no unrealized gains on marketable equity securities.

A schedule of the maturity distribution of investment bonds and obligations follows:

	December 31, 1986		December 31, 1987		September 30, 1988	
	Carrying Value	Percent to Total	Carrying Value	Percent to Total	Carrying Value	Percent to Total
					(Unaudited)	
			(In Thousands)			
Within one year	$ 3,642	16.7%	$ 5,943	37.2%	$10,420	58.2%
Over 1 year to 5 years	16,848	77.2	8,190	51.2	6,222	34.8
Over 5 years to 10 years	598	2.7	1,050	6.6	1,050	5.9
Over 10 years to 20 years	751	3.4	797	5.0	199	1.1
	$21,839	100.0%	$15,980	100.0%	$17,891	100.0%

4. LOANS, NET

A summary of the balances of loans follows:

	December 31, 1986	December 31, 1987	September 30, 1988 (Unaudited)
	(In Thousands)		
Mortgage loans:			
Residential	$ 51,961	$ 56,183	$ 63,253
Commercial	16,927	25,223	17,713
Residential construction	12,777	13,247	23,946
Commercial construction	8,343	5,301	5,670
Home equity	3,719	4,700	6,389
Second mortgages	1,980	1,503	1,362
	95,707	106,157	118,333
Less unadvanced loan funds	(7,345)	(5,816)	(5,683)
Mortgage loans, net	88,362	100,341	112,650
Commercial loans:			
Secured	5,767	693	464
Total commercial loans	5,767	693	464
Consumer loans:			
Personal installment	4,075	3,747	3,561
Education	1,230	1,112	874
Passbook and stock secured	147	20	3
Revolving credit	757	810	723
Total consumer loans	6,209	5,689	5,161
Total loans	100,338	106,723	118,275
Deferred loan fees, net	—	—	(179)
Allowance for possible loan losses	(1,008)	(525)	(602)
Loans, net	$ 99,330	$106,198	$117,494

At December 31, 1986 and 1987 and (unaudited) September 30, 1988, the amounts unadvanced under home equity lines of credit amounted to $2,319,000, $2,872,000 and $4,944,000, respectively.

An analysis of the allowance for possible loan losses follows:

	Years Ended December 31, 1985	1986	1987	Nine Months Ended September 30, 1988 (Unaudited)
	(In Thousands)			
Balance at beginning of period	$182	$ 287	$ 1,008	$ 525
Provision for possible loan losses	107	723	1,038	283
Recoveries	1	8	2	13
	290	1,018	2,048	821
Loans charged off	(3)	(10)	(1,523)	(219)
Balance at end of period	$287	$1,008	$ 525	$ 602

5. BANKING PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of banking premises and equipment and their estimated useful lives follows:

	December 31,		September 30,	Estimated Useful
	1986	1987	1988	Lives
			(Unaudited)	
	(In Thousands)			
Banking premises:				
Land	$ 173	$ 173	$ 173	—
Buildings	840	840	840	5–50 years
Equipment	712	737	978	3–25 years
	1,725	1,750	1,991	
Less accumulated depreciation	(698)	(835)	(940)	
	$1,027	$ 915	$1,051	

Depreciation expense for the years ended December 31, 1985, 1986 and 1987 amounted to $121,000, $127,000 and $137,000, respectively. For the (unaudited) nine months ended September 30, 1987 and 1988, depreciation expense amounted to $104,000 and $105,000, respectively.

6. DEPOSITS

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

	December 31		September 30,
	1986	1987	1988
			(Unaudited)
		(In Thousands)	
Demand	$3,999	$3,318	$3,696
NOW	5,821	8,187	7,113
Regular and special notice	23,438	26,661	27,663
Money market deposits	37,354	32,096	29,447
Total non-certificate accounts	70,612	70,262	67,919
Term certificates:			
Term certicates of less than $100,000	43,524	45,867	49,340
Term certificates of $100,000 and over	6,714	6,659	7,084
Total term certificates	50,238	52,526	56,424
Total deposits	$120,850	$122,788	$124,343

A summary of term certificates, by maturity, as of September 30, 1988, is as follows:

	Amount (In Thousands)	Weighted Average Rate
	(Unaudited)	
Within 1 year	$39,208	8.38%
Over 1 year to 2 years	8,904	8.35
Over 2 years to 3 years	5,790	8.12
Over 3 years	2,522	8.35
	$56,424	8.34%

7. ADVANCE FROM FEDERAL HOME LOAN BANK

The advance from the Federal Home Loan Bank of Boston on (unaudited) September 30, 1988 consists of $10,000,000 at an interest rate of 8.25% due January 13, 1989.

8. INCOME TAXES

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

	Years Ended December 31,			Nine Months Ended September 30,	
	1985	1986	1987	1987	1988
				(Unaudited)	
			(In Thousands)		
Current tax provision:					
Federal	$ 810	$ 777	$276	$174	$453
State	244	252	112	71	189
	1,054	1,029	388	245	642
Deferred tax provision (benefit):					
Federal	(27)	81	14	12	(63)
State	(15)	22	5	4	(18)
	(42)	103	19	16	(81)
	$1,012	$1,132	$407	$261	$561

The deferred income tax provision (benefit) is a result of certain income and expense items being accounted for in different time periods for financial reporting purposes than for income tax purposes. The tax effects of these differences are as follows:

	Years Ended December 31,			Nine Months Ended September 30,	
	1985	1986	1987	1987	1988
				(Unaudited)	
			(In Thousands)		
Cash basis accounting for tax purposes	$(311)	$ 51	$34	$26	$(15)
Book versus tax basis of investment securities	243	41	(11)	(8)	(52)
Other	26	11	(4)	(2)	(14)
	$ (42)	$103	$19	$16	$(81)

As of December 31, 1986 and 1987 and (unaudited) September 30, 1988, the balance sheets include deferred income taxes payable of $167,000, $186,000 and $105,000, respectively.

8. INCOME TAXES—(Continued)

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

	Years Ended December 31,			Nine Months Ended September 30,	
	1985	1986	1987	1987	1988
				(Unaudited)	
			(In Thousands)		
Statutory rates	46.0%	46.0%	40.0%	40.0%	34.0%
Increase (decrease) resulting from:					
State taxes, net of federal tax benefit	4.7	5.9	5.4	5.4	9.0
Bad debt deduction allowed for tax purposes	(12.3)	(6.2)	(15.8)	(15.8)	2.2
Other, net	.3	(.9)	1.2	1.2	(.4)
Effective tax rates	38.7%	44.8%	30.8%	30.8%	44.8%

9. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the financial statements.

Firm commitments to grant loans amounted to approximately $3,926,000 at December 31, 1987 and (unaudited) $3,390,000 at September 30, 1988.

At (unaudited) September 30, 1988, the Bank has also committed to purchase a $1,000,000 participation interest in a $12,700,000 commercial real estate loan with various other lending institutions at a rate equal to the base rate of the First National Bank of Boston plus 1.50%.

At December 31, 1987, the Bank had entered into an agreement to purchase land and a building located in Hingham. A deposit of $40,000 is included in other assets. During the (unaudited) nine months ended September 30, 1988, the agreement expired and was renewed at a purchase cost of $950,000.

10. SURPLUS

As a federally insured savings institution, the Bank is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC"). The capital maintenance requirements of the FDIC call for a minimum of 5.5% in primary capital and a maximum of .5% in secondary capital, or a total regulatory capital of 6%, in terms of adjusted total assets. At December 31, 1987 and (unaudited) September 30, 1988, the Bank's total regulatory capital exceeded these requirements.

At October 31, 1987, the date of filing of income tax returns, the total reserve for loan losses for federal income tax purposes amounted to approximately $3,798,000. If this amount, or any portion thereof, is used for purposes other than to absorb the losses for which established, an amount up to approximately twice the amount actually used must be included in gross income for federal income tax purposes in the fiscal year in which used. As the Bank does not intend to use the reserves for purposes other than to absorb loan losses, deferred taxes have not been provided on these amounts.

11. MUTUAL SAVINGS CENTRAL FUND, INC. DIVIDENDS

In recent years, most banks whose deposits were previously insured only by the Mutual Savings Central Fund, Inc. obtained FDIC insurance. This has resulted in excess amounts being accumulated in the Fund because the Fund's insurance covers only deposits in excess of FDIC insurance limitations for FDIC-insured banks. As a result, liquidation dividends received in 1985 and 1986 amounted to $380,000 and $423,000, respectively, and in addition a special dividend amounting to $66,000 was recorded in income in 1985.

12. PENSION AND EMPLOYEE INCENTIVE PLANS

Pension plan

The Bank provides basic and supplemental pension benefits for eligible employees through the Savings Banks Employees Retirement Association Pension Plan ("SBERA"). The Bank's normal cost for each participant is determined by the individual aggregate method. Actuarial gains or losses are spread into future normal costs.

According to the Association's actuary, the present value of accumulated benefits and the market value of the related assets, at October 31, 1987, were as follows:

	(In Thousands)
Present value of accumulated benefits:	
Vested	$1,288
Non-vested	—
Total	$1,288
Market value of related assets	$1,658

The assumed rates of return used in determining the actuarial present value of accumulated plan benefits, for the year ended October 31, 1987, the Plan's year end, were 8.25% to retirement and 6% thereafter.

Total pension expense for the years ended December 31, 1985, 1986 and 1987 were $60,000, $106,000 and $99,000, respectively. Total pension expense for the (unaudited) nine months ended September 30, 1987 and 1988 amounted to $73,000 and $71,000, respectively.

Executive retirement benefits

The Bank has entered into an executive retirement benefit agreement with the President and Chief Executive Officer which provides for annual retirement benefits above amounts provided by SBERA. The present value of future payments is accrued monthly over the remaining term of employment and amounted to $55,000 annually for the years ended December 31, 1985, 1986 and 1987. Such expense for the (unaudited) nine months ended September 30, 1987 and 1988 amounted to $41,000 and $56,000, respectively.

Employee incentive plan

The Bank maintains an incentive plan whereby employees are eligible to receive a bonus based on their respective salaries and years of service dependent on the Bank's earnings. Total expense under the

12. PENSION AND EMPLOYEE INCENTIVE PLANS—(Continued)

incentive plan for the years ended December 31, 1985, 1986 and 1987 amounted to \$185,000, \$156,000 and \$168,000, respectively. Such expense for the (unaudited) nine months ended September 30, 1987 and 1988 amounted to \$119,000 and \$135,000, respectively.

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to its officers and trustees and their affiliates. The total amount of such loans amounted to \$1,421,000 at December 31, 1986 and \$1,629,000 at December 31, 1987 and (unaudited) \$939,960 at September 30, 1988. During the year ended December 31, 1987, total principal additions were \$1,284,000 and total principal payments were \$1,076,000.

14. CONVERSION TO STOCK FORM OWNERSHIP

On September 1, 1988, the Board of Trustees adopted a Plan of Conversion to convert from a Massachusetts-chartered savings bank in mutual form to a Massachusetts-chartered savings bank in stock form (the "Conversion"). The Bank plans to issue shares of common stock at a price equal to its pro forma market value as determined by an independent appraiser. A Subscription and Direct Community Offering of the shares of common stock will be made to (i) Eligible Account Holders who held deposit accounts of \$50 or more at the Bank on May 31, 1988, (ii) Trustees, officers and employees of the Bank and (iii) qualifying persons in the community. All the shares of common stock to be issued must be sold for the Conversion to become effective. Any shares of common stock not sold in the Subscription and Direct Community Offerings will be sold to the Underwriters for resale to the general public.

At the time of the Conversion, the Bank will establish a liquidation account in an amount equal to its total surplus at September 30, 1988. The liquidation account will be maintained for the benefit of Eligible Account Holders who continue to maintain their accounts in the Bank after the Conversion. The liquidation account will be reduced annually to the extent that Eligible Account Holders have reduced their Qualifying Deposit. Subsequent increases will not restore an Eligible Account Holder's interest in the liquidation account. In the event of a complete liquidation, each Eligible Account Holder will be entitled to receive a distribution from the liquidation account in an amount equal to their current adjusted liquidation account balance to the extent that funds are available.

The Bank may not declare or pay cash dividends on its shares of common stock if the effect thereof would cause its stockholders' equity to be reduced below applicable capital maintenance requirements or below the liquidation account balance, or if such declaration and payment would otherwise violate regulatory requirements.

On September 1, 1988 the Board of Trustees adopted a Stock Option Plan under which options may be granted to Directors and such officers and other employees as the Board may determine. This plan will become effective at the time of the Conversion and is subject to the approval of the stockholders not later than one year after the Conversion. The maximum number of shares reserved for the plan will be equal to 10% of the total number of shares issued at the Conversion.

Subject to ratification by the Board of Directors after consummation of the Conversion, the Bank intends to enter into Employment Agreements and Termination Agreements with the President and three senior officers providing for annual compensation and the continuance of benefits in accordance with the Bank's general policies as currently in effect. The Employment Agreements may be terminated with or without cause. The Termination Agreements generally provide for certain severance payments following a "change of control", as defined in the Agreements.

Conversion costs will be deferred and deducted from the proceeds of the shares sold in the Conversion. If the Conversion is not completed, all costs incurred will be charged to expense.

No person has been authorized to give any information or to make any representation other than as contained in this Subscription and Direct Community Offering Circular in connection with the offering made hereby, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Hingham Institution for Savings. This Subscription and Direct Community Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation would be unlawful or in which the person making such offer or solicitation is not authorized to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Subscription and Direct Community Offering Circular nor any sale hereunder shall under any circumstance create any implication that there has been no change in the affairs of the Hingham Institution for Savings since any of the dates as of which information is furnished herein or since the date hereof.

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1,250,000 Shares

HINGHAM INSTITUTION FOR SAVINGS

Common Stock

SUBSCRIPTION AND DIRECT COMMUNITY OFFERING CIRCULAR

November 8, 1988