

ITEM 2 - Management's Discussion and Analysis of the Financial Condition
and Results of Operations.

HINGHAM INSTITUTION FOR SAVINGS

SIX MONTHS ENDED JUNE 30, 1990 AND 1989

GENERAL:

The net loss for the six months ended June 30, 1990 totaled \$978,000 or \$0.78 per share as compared with net income of \$444,000 or \$0.36 per share for the six months ended June 30, 1989. The loss resulted from reduced net interest income, an increase of \$1,096,000 in the provision for possible loan losses and increased operating expenses, principally real estate owned and legal expenses, during the first six months of 1990.

The increase in reserves during the first six months reflects the concern of our Management and Board of Directors for the current conditions of the Massachusetts real estate market. It is clear that the market will take longer than originally anticipated to absorb the condominium and residential production of previous years. Our capital adequacy and underlying earning power remain strong.

NET INTEREST INCOME:

Net interest income decreased to \$1,643,000 for the six months of 1990 from \$2,179,000 for the comparable 1989 six months. The weighted average rate spread decreased to 1.84% in the first six months of 1990 from 2.31 in the first six months of 1989.

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments decreased by \$129,000 for the first six months of 1990 as compared to the first six months of 1989. This decrease is attributable to a shift in the mix of loans and investments and the increase in non-earning loans. Loans on a non-accrual status amounted to \$10,923,000 and \$8,913,000 at June 30, 1990 and 1989, respectively. At December 31, 1989 such loans amounted to \$16,468,000. The yield on all earning assets decreased to 9.26% for the six months ended June 30, 1990 from 9.51% for the six months ended June 30, 1989.

INTEREST EXPENSE:

Total interest expense increased \$407,000 with interest on deposits increasing by \$66,000. The interest paid on the Federal Home Loan Bank advances for the first six months of 1990 as compared to the comparable period in 1989 increased by \$341,000 due to the higher level of borrowed funds during the 1990 quarter. The average cost of funds increased to 7.42% in the first six months of 1990 from 7.20% in the comparable 1989 period.

OTHER EXPENSES:

Total operating expenses increased to \$2,122,000 from \$1,664,000 when comparing the first six months of 1990 to the first six months of 1989, representing an increase of \$458,000. This is in part due to an increase in legal expenses of \$71,000 due principally to the increased legal fees paid in connection with the legal proceedings as discussed in Footnote 2. In addition real estate owned expenses (net) have increased \$346,000.

INCOME TAXES:

The income tax benefit for the first six months of 1990 was based on the estimated effective rate of recovery anticipated for the full year. Should the full year's results differ from those presently estimated, the effective rate of recovery and thus future quarterly tax benefits could fluctuate significantly.

ITEM 1 - FINANCIAL STATEMENTS
HINGHAM INSTITUTION FOR SAVINGS

BALANCE SHEETS

	September 30, 1990	December 31, 1989
	(In thousands)	
	(Unaudited)	(Audited)
ASSET		
Cash and due from banks	\$ 3,103	\$ 3,150
Interest bearing deposits	<u>7,249</u>	<u>3,736</u>
Total cash and cash equivalents	10,352	6,886
Other short-term investments	0	2,000
Investment securities net	27,175	21,455
Loans, net of allowance for possible loan losses of \$1,622,000 in 1990 and \$3,381,000 in 1989	101,924	113,138
Banking premises and equipment, net	1,988	2,076
Other real estate owned	9,378	2,368
Accrued interest receivable	1,490	1,552
Income taxes receivable	862	794
Other assets	<u>422</u>	<u>364</u>
Total assets	<u>\$153,591</u>	<u>\$150,633</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$121,035	\$116,345
Advances from Federal Home Loan Bank of Boston	15,000	15,000
Mortgagors' escrow payments	617	340
Accrued expenses	243	101
Accrued interest payable	708	778
Other liabilities	<u>238</u>	<u>70</u>
Total liabilities	<u>137,841</u>	<u>132,634</u>
Commitments and Contingencies (Note 2)		
Stockholders' equity :		
Preferred stock, \$1.00 par value, 2,500,000 shares authorized; none issued	---	---
Common stock, \$1.00 par value, 5,000,000 shares authorized; 1,250,000 shares issued and outstanding	1,250	1,250
Additional paid-in capital	8,371	8,371
Undivided profits	<u>6,371</u>	<u>8,568</u>
	15,992	18,189
Net unrealized loss on marketable equity securities	<u>(242)</u>	<u>(190)</u>
Total stockholders' equity	<u>15,750</u>	<u>17,999</u>
Total liabilities and stockholders' equity	<u>\$153,591</u>	<u>\$150,633</u>

See Accompanying Notes to Financial Statements

ITEM 1 - FINANCIAL STATEMENTS
HINGHAM INSTITUTION FOR SAVINGS

STATEMENTS OF OPERATIONS

DESCRIPTION	Three Months Ended September 30,		Nine Months Ended September 30,	
	1990	1989	1990	1989
	(In Thousands, Except Per Share Amounts) (Unaudited)			
Interest and dividend income:				
Interest on loans	\$2,670	\$2,520	\$7,959	\$8,398
Interest and dividend income on investments and mortgage backed securities.	602	315	1,646	814
Interest on short-term investments.	<u>112</u>	<u>184</u>	<u>335</u>	<u>492</u>
Total interest and dividend income	3,384	3,019	9,940	9,704
Interest expense:				
Interest on deposits	2,175	2,150	6,407	6,316
Interest on Federal Home Loan Bank advances	<u>333</u>	<u>304</u>	<u>1,014</u>	<u>644</u>
Total interest expense	2,508	2,454	7,421	6,960
Net interest income	876	565	2,519	2,744
Provision for possible loan losses	<u>680</u>	<u>3,000</u>	<u>1,880</u>	<u>3,104</u>
Net interest income, after provision for possible for possible loan losses.	196	(2,435)	639	(360)
Other income:				
Fees on deposit accounts	57	52	167	191
Miscellaneous	<u>22</u>	<u>26</u>	<u>90</u>	<u>114</u>
Total other income	79	78	257	305
Operating expenses:				
Salaries and employee benefits	376	342	1155	1,106
Equipment expenses	48	55	148	165
Occupancy expenses	33	31	100	91
Data processing expenses	85	74	257	227
Legal expenses	60	66	251	186
Real estate owned expenses, net	483	0	833	4
Other general and administrative expenses	<u>205</u>	<u>205</u>	<u>668</u>	<u>658</u>
Total operating expenses	1,290	773	3,412	2,437
Income (loss) before income taxes	(\$1,015)	(3,130)	(\$2,516)	(2,492)
Income tax expense (benefit).	<u>(\$96)</u>	<u>(\$742)</u>	<u>(\$619)</u>	<u>(\$548)</u>
Net income (loss).	<u>(\$919)</u>	<u>(\$2,388)</u>	<u>(\$1,897)</u>	<u>(\$1,944)</u>
Earnings (loss) per share	<u>(\$0.74)</u>	<u>(\$1.91)</u>	<u>(\$1.52)</u>	<u>(\$1.56)</u>

See Accompanying Notes to Financial Statements

ITEM 1 - FINANCIAL STATEMENTS
 HINGHAM INSTITUTION FOR SAVINGS

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE NINE MONTHS ENDED
 SEPTEMBER 30, 1990 and 1989

	Common Stock	Additional Paid in Capital	Undivided Profits	Unrealized Loss on Marketable Equity Securities	TOTAL
Balance December 31, 1989	\$1,250	\$8,371	\$8,568	(\$190)	\$17,999
Net Income (Loss)			(1,897)		(1,897)
Increase in net unrealized loss on marketable equity securities				(52)	(52)
Cash dividend paid			(200)		(200)
Balance September 30, 1990 (unaudited)	<u>\$1,250</u>	<u>\$8,371</u>	<u>\$6,471</u>	<u>(\$242)</u>	<u>\$15,850</u>
Balance December 31, 1988	\$1,250	\$8,371	\$11,194	(\$51)	20,764
Net Income (Loss)			(1,944)		(1,944)
Increase in net unrealized loss on marketable equity securities				(63)	(63)
Cash Dividend Paid			(186)		(186)
Balance September 30, 1989 (unaudited)	<u>\$1,250</u>	<u>\$8,371</u>	<u>\$9,064</u>	<u>(\$114)</u>	<u>\$18,571</u>

See Accompanying Notes to Financial Statements

ITEM 1 - FINANCIAL STATEMENTS
HINGHAM INSTITUTION FOR SAVINGS

STATEMENT OF CASH FLOWS

	Nine Months Ended September 30,	
	1990	1989
	(In thousands)	
	(Unaudited)	
Cash flows from operating activities		
Net income (Loss)	(\$1,897)	(\$1,944)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for possible loan losses	1,880	3,104
Amortization of discount on investment securities, net	(5)	56
Amortization of deferred loan fees	(40)	(120)
Depreciation expense	126	129
(Gain) loss sale of investments	1	1
(Increase) decrease in accrued interest receivable	62	68
(Increase) decrease in other assets	(58)	591
Change in accrued income taxes	(68)	(1,268)
Increase (decrease) in accrued interest payable	(70)	(60)
Increase (decrease) in accrued expenses	142	(286)
Increase (decrease) in other liabilities	168	(24)
Net cash provided by operating activities	<u>241</u>	<u>247</u>
Cash flows from investing activities:		
Proceeds from maturities of other short-term investments	2,000	6,000
Purchase of other short-term investments	---	(2,000)
Proceeds from sales and/or maturities of investment securities	8,328	6,221
Purchase of investment securities	(14,131)	(9,251)
Principal payments received on mortgage-backed securities	35	39
Decrease (Increase) in loans, net	9,115	2,487
Proceeds from sale of student loans	259	284
(Increase) decrease in other real estate owned, net	(7,010)	(2,686)
Additions to banking premises and equipment	(38)	(1,160)
Net cash provided (used) in investing activities	<u>(1,442)</u>	<u>(66)</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	4,690	(8,476)
Proceeds from Federal Home Loan Bank Advances	---	15,000
Repayment of Federal Home Loan Bank Advance	---	(10,000)
Net increase (decrease) in mortgagors' escrow accounts	277	396
Cash dividends paid on common stock	(300)	(186)
Net cash provided by (used in) from financing activities	<u>4,667</u>	<u>(3,266)</u>
Net increase (decrease) in cash and cash equivalents	3,466	(3,085)
Cash and cash equivalents at beginning of period	<u>6,886</u>	<u>13,893</u>
Cash and cash equivalents at end of period	<u>\$10,352</u>	<u>\$10,808</u>

See Accompanying Notes to Financial Statements

HINGHAM INSTITUTION FOR SAVINGS

Notes to Unaudited Financial Statements

September 30, 1990

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements of Hingham Institution for Savings presented herein should be read in conjunction with the financial statement of Hingham Institution for Savings for the year ended December 31, 1989.

Financial information as of September 30, 1990 and the results of operations and the changes in cash flows for the nine months ended June 30, 1990 and 1989 are unaudited, and in the opinion of management reflect all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation of such information. Interim results are not necessarily indicative of results to be expected for the entire year.

2) LEGAL PROCEEDINGS

Special counsel for the Bank has indicated the following: On February 3, 1989, the Bank filed a civil suit against Mr. Wilfred Creighton, former President and Chief Executive Officer of the Bank. In its complaint, the Bank alleged that "Creighton engaged in a continuing pattern and practice of fraud, negligence, criminal and civil violations of banking law and other breaches of his duties and obligations to the Bank, the losses from which cannot currently be calculated due to the hidden nature of the fraud." The Bank seeks an accounting from Mr. Creighton and to recover from him any damages that may result from his conduct.

Mr. Creighton has answered the Bank's complaint denying the charges and has asserted counterclaims alleging the breach of employment contract, intentional and negligent infliction of emotional distress, defamation, violation of his civil rights, and the filing of a frivolous suit.

Mr. Creighton was a party to an Executive Employment and Insurance Agreement (the "Agreement") with the Bank. The Agreement, as amended, provided, in part, for Mr. Creighton's employment until the age of 65, unless he elected to retire earlier pursuant to the Agreement, and for certain early retirement benefits payable over a 15-year period if Mr. Creighton elected to retire at age 58 or 60. The Agreement further provided, in part, that "if at any time the employment of Mr. Creighton is terminated by the Bank for cause, he shall not be entitled to payment of benefits provided herein after such date of termination." Under the Agreement, "cause" is defined as "fraud, misappropriation of funds, material damage to the business of the Corporation, gross negligence, or commission of a felony."

SIGNATURES

Under the requirements of the Securities Exchange Act of 1934, the bank has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HINGHAM INSTITUTION FOR SAVINGS

Date: August 13, 1990

/s/ Paul E. Bulman
President & Chief Executive Officer

Date: August 13, 1990

/s/ Robert F. Cass
Vice President and Treasurer

Mr. Creighton's counterclaims were dismissed by the Trial Court on April 11, 1990. Mr. Creighton petitioned for an interlocutory appeal of the dismissal. The Appellate Court denied Mr. Creighton's appeal. The Bank's claims against Mr. Creighton will be vigorously pursued through the discovery process. No determination can be made at this time as to the extent to which the Bank will recover damages if it is successful in pursuing its claims against Mr. Creighton.

On September 18, 1989, Joseph Crossen, a borrower of the Bank and a builder, filed a civil suit against the Bank. In his complaint, Joseph Crossen alleges that the Bank engaged in breach of contract, negligent and fraudulent misrepresentation, negligent supervision, negligent appraisal, negligence, unjust enrichment, equity, and negligent and intentional infliction of emotional distress. The Bank has answered denying the claims and has counterclaimed against Joseph Crossen asserting breach of contract with respect to several outstanding promissory notes held by the Bank. The Bank has also filed crossclaims against Mr. Creighton for indemnity and contribution. Joseph Crossen's first and second motions to amend his complaint were denied. The Bank was granted an attachment on March 8, 1990, in the amount of \$570,000 on Joseph Crossen's property. The Bank was enjoined from foreclosing on Mr. Crossen's personal residence and another property owned by Mr. Crossen. On June 4, 1990, the court granted partial summary judgment to the Bank on the breach of contract claims brought by Mr. Crossen. On July 2, 1990, the court dissolved the injunction which had prevented the Bank from foreclosing on Mr. Crossen's residence and another property owned by Mr. Crossen. Mr. Crossen filed a petition for reorganization pursuant to Chapter 11 of the United States Bankruptcy Code. The Bankruptcy Court has ordered relief from the stay originally entered but has also allowed debtor time to sell or refinance the property at issue. On September 26, 1990, Mr. Crossen filed a second civil suit against the Bank. The Bank's Motion To Dismiss this action is currently pending before the Court. The Bank will continue vigorously to defend against Mr. Crossen's allegations and pursue its rights in both State court and Bankruptcy court.

On January 23, 1990, Ralph Crossen, a borrower of the Bank filed a civil suit against the Bank. In his complaint, Ralph Crossen alleges that the Bank, with respect to funds borrowed from the Bank by Ralph Crossen, committed fraud, breach of contract, breach of covenant of good faith and fair dealings, defamation, negligent supervision and unfair trade practices. The Bank has answered denying the claims and asserted breach of contract claims with respect to several outstanding promissory notes held by the Bank. The Bank will vigorously defend itself against the claims asserted by Ralph Crossen.

HINGHAM INSTITUTION FOR SAVINGS

	Interest spread for the Nine months ended September 30,	
	1990	1989
Weighted average yield earned on:		
Loans	9.59%	9.41%
Investment securities	8.64%	7.54%
Short-term investments	8.26%	8.93%
All earning assets	9.37%	9.19%
Weighted average rate paid on:		
Deposits	7.18%	7.25%
FHLB Borrowings	9.01%	9.13%
All interest-bearing liabilities	7.39%	7.37%
Weighted average rate spread	1.98%	1.82%

ITEM 2 - Management's Discussion and Analysis of the Financial Condition
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HINGHAM INSTITUTION FOR SAVINGS

THREE MONTHS ENDED SEPTEMBER 30, 1990 AND 1989

GENERAL:

The net loss for the quarter ended September 30, 1990 totaled \$919,000 or \$0.74 per share as compared with net loss of \$2,388,000 or \$1.91 per share for the quarter ended September 30, 1989.

The loss for the third quarter of 1990 reflects a provision for possible loan losses of \$680,000 as compared to a \$3,000,000 provision for loan losses in the comparable quarter in 1989.

NET INTEREST INCOME:

Net interest income increased to \$876,000 for the third quarter of 1990 from \$565,000 for the comparable 1989 quarter. The weighted average rate spread increased to 2.27% in the third quarter of 1990 from 0.87% in the third quarter of 1989.

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments increased by \$365,000 for the third quarter of 1990 compared to the third quarter of 1989. This increase is attributable to a shift in the mix of loans and

In connection with the conduct of Mr. Creighton, six other individuals may assert claims against the Bank at a future date. Management would vigorously defend against such claims if they were filed. No determination can be made at this time as to the success of any defense.

In the normal course of business, various other legal claims arise from time to time and, in the opinion of management, those claims will have no material effect on the Bank's financial statements.

A provision for any potential liability on the forgoing litigation has not been reflected in the financial statements.

HINGHAM INSTITUTION FOR SAVINGS

	Interest spread for the Three months ended September 30,	
	1990	1989
Weighted average yield earned on:		
Loans	9.95%	8.55%
Investment securities	8.69%	8.12%
Short-term investments	8.39%	9.62%
All earning assets	9.65%	8.56%
Weighted average rate paid on:		
Deposits	7.19%	7.51%
FHLB Borrowings	8.88%	9.54%
All interest-bearing liabilities	7.38%	7.69%
Weighted average rate spread	2.27%	0.87%

INTEREST AND DIVIDEND INCOME (Continued)

investments and the decrease in non-earning loans. Loans on a non-accrual status amounted to \$8,449,000 and \$17,861,000 at September 30, 1990 and 1989, respectively. At December 31, 1989 such loans amounted to \$16,468,000. The yield on all earning assets increased to 9.65% for the quarter ended September 30, 1990 from 8.56% for the quarter ended September 30, 1989.

INTEREST EXPENSE:

Total interest expense increased \$54,000 with interest on deposits increasing by \$25,000. The interest paid on the Federal Home Loan Bank advances for the third quarter of 1990 as compared to the comparable quarter in 1989 increased by \$29,000 due to a higher level of borrowed funds during the 1990 quarter. The average cost of funds decreased to 7.38% in the third quarter of 1990 from 7.69% in the comparable 1989 quarter.

OTHER EXPENSES:

Total operating expenses increased to \$1,290,000 from \$773,000 when comparing the third quarter of 1990 to the third quarter of 1989, representing an increase of \$517,000. This is mainly due to an increase in real estate owned expenses (net) of \$483,000. The increase in real estate owned expenses (net) included \$350,000 of further writedowns in the valuation of properties held in other real estate owned. Other real estate owned amounted to \$9,378,000 and \$3,320,000 at September 30, 1990 and 1989, respectively. At December 31, 1989, other real estate owned amounted to \$2,368,000.

INCOME TAXES:

The income tax benefit for the 1990 quarter was based on the estimated effective rate of recovery anticipated for the full year. Should the full year's results differ from those presently estimated, the effective rate of recovery and thus future quarterly tax benefits could fluctuate significantly.

ITEM 2 - Management's Discussion and Analysis of the Financial Condition
and Results of Operations.

HINGHAM INSTITUTION FOR SAVINGS

NINE MONTHS ENDED SEPTEMBER 30, 1990 AND 1989

GENERAL:

The net loss for the nine months ended September 30, 1990 totaled \$1,897,000 or \$1.52 per share as compared with net loss of \$1,944,000 or \$1.56 per share for the nine months ended September 30, 1989.

The increase in reserves and the further writedowns of properties held as other real estate owned during the first nine months reflects the concern of our Management and Board of Directors for the current conditions of the Massachusetts real estate market. It is clear that the market will take longer than originally anticipated to absorb the condominium and residential production of previous years. Our capital adequacy and underlying earning power remain strong.

NET INTEREST INCOME:

Net interest income decreased to \$2,519,000 for the nine months of 1990 from \$2,744,000 for the comparable 1989 nine months. The weighted average rate spread increased to 1.98% in the first nine months of 1990 from 1.82% in the first nine months of 1989.

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments increased by \$236,000 for the first nine months of 1990 as compared to the first nine months of 1989. This increase is attributable to a shift in the mix of loans and investments and the a reduction in non-earning loans and other real estate owned collectively. Loans on a non-accrual status amounted to \$8,499,000 and \$17,861,000 at September 30, 1990 and 1989, respectively. At December 31, 1989 such loans amounted to \$16,468,000. The yield on all earning assets increased to 9.37% for the nine months ended September 30, 1990 from 9.19% for the nine months ended September 30, 1989.

INTEREST EXPENSE:

Total interest expense increased \$461,000 with interest on deposits increasing by \$91,000. The interest paid on the Federal Home Loan Bank advances for the first nine months of 1990 as compared to the comparable period in 1989 increased by \$370,000 due to the higher level of borrowed funds during the first nine months of 1990. The average cost of funds increased to 7.39% in the first nine months of 1990 from 7.37% in the comparable 1989 period.

OTHER EXPENSES:

Total operating expenses increased to \$3,412,000 from \$2,437,000 when comparing the first nine months of 1990 to the first nine months of 1989, representing an increase of \$975,000. This is in part due to an increase in legal expenses of \$65,000 due principally to the increased legal fees paid in connection with the legal proceedings as discussed in Footnote 2. Real estate owned expenses (net) have increased \$829,000 which included \$350,000 of further writedowns in the valuation of

OTHER EXPENSES Continued

properties held in other real estate owned. Other real estate owned amounted to \$9,378,000 and \$3,320,000 at September 30, 1990 and 1989 respectively. At December 31, 1989, other real estate owned amounted to \$2,368,000.


INCOME TAXES:


The income tax benefit for the first nine months of 1990 was based on the estimated effective rate of recovery anticipated for the full year. Should the full year's results differ from those presently estimated, the effective rate of recovery and thus future quarterly tax benefits could fluctuate significantly.

SIGNATURES

Under the requirements of the Securities Exchange Act of 1934, the bank has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HINGHAM INSTITUTION FOR SAVINGS

Date: 11-9-90 1990 s/s 
President & Chief Executive Officer

Date: Nov. 9 1990 s/s 
Vice President and Treasurer