

ITEM 1 - FINANCIAL STATEMENTS
HINGHAM INSTITUTION FOR SAVINGS

CONSOLIDATED BALANCE SHEETS

| | March 31, 1991 | December 31, 1990 |
|--|-------------------|----------------------|
| | (In Thousands) | |
| ASSETS | (Unaudited) | |
| Cash and due from banks | \$3,103 | \$2,603 |
| Interest-bearing deposits in banks | 5,158 | 958 |
| | ----- | ----- |
| Total cash and cash equivalents | 8,261 | 3,561 |
| Investment securities | 36,889 | 33,434 |
| Loans, net of allowance for possible loan losses of \$1,152,000 in 1991 and \$1,414,000 in 1990 | 87,402 | 93,953 |
| Real estate owned or substantively repossessed | 9,397 | 9,637 |
| Real estate held for investment | 3,122 | 2,951 |
| Income taxes receivable | -- | 850 |
| Accrued interest receivable | 1,686 | 1,542 |
| Federal Home Loan Bank stock, at cost. | 949 | 949 |
| Banking premises and equipment, net. | 1,925 | 1,946 |
| Other assets | 499 | 439 |
| | ----- | ----- |
| | \$150,130 | \$149,262 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits | \$119,942 | \$119,211 |
| Federal Home Loan Bank advances | 15,000 | 15,000 |
| Accrued interest payable | 747 | 754 |
| Mortgagors' escrow | 564 | 285 |
| Other liabilities | 355 | 261 |
| | ----- | ----- |
| Total liabilities | 136,608 | 135,511 |
| | ----- | ----- |
| 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 |
| Retained earnings | 4,196 | 4,406 |
| | ----- | ----- |
| | 13,817 | 14,027 |
| Net unrealized loss on marketable equity securities. | (295) | (276) |
| | ----- | ----- |
| Total stockholders' equity | 13,522 | 13,751 |
| | ----- | ----- |
| | \$150,130 | \$149,262 |
| | ===== | ===== |

See accompanying Notes to Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)
HINGHAM INSTITUTION FOR SAVINGS

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended March 31, | |
|--|---|----------|
| | 1991 | 1990 |
| | (In Thousands, Except Per Share Amounts) | |
| | (Unaudited) | |
| Interest and dividend income: | | |
| Loans | \$2,379 | \$2,660 |
| Investment securities | 760 | 454 |
| Interest bearing deposits and short-term investments. | 39 | 168 |
| | ----- | ----- |
| Total interest income | 3,178 | 3,282 |
| | ----- | ----- |
| Interest expense: | | |
| Deposits | 2,020 | 2,121 |
| Federal Home Loan Bank advances | 308 | 346 |
| | ----- | ----- |
| Total interest expense | 2,328 | 2,467 |
| | ----- | ----- |
| Net interest income | 850 | 815 |
| Provision for possible loan losses | 100 | 1,100 |
| | ----- | ----- |
| Net interest income (expense), after provision for possible loan losses | 750 | (285) |
| | ----- | ----- |
| Non-interest income: | | |
| Fees on deposit accounts | 56 | 54 |
| Other | 27 | 26 |
| | ----- | ----- |
| Total non-interest income | 83 | 80 |
| | ----- | ----- |
| Non-interest expense: | | |
| Salaries and employee benefits | 369 | 377 |
| Data processing | 82 | 81 |
| Occupancy and equipment | 84 | 86 |
| Foreclosed properties, net | 188 | 190 |
| Real estate held for investment, net | 37 | (3) |
| Legal | 66 | 97 |
| Deposit insurance | 59 | 35 |
| Other | 158 | 173 |
| | ----- | ----- |
| Total non-interest expense | 1,043 | 1,036 |
| | ----- | ----- |
| Loss before income tax benefit | (210) | (1,241) |
| | ----- | ----- |
| Income tax benefit | -- | (498) |
| | ----- | ----- |
| Net loss | \$ (210) | \$ (743) |
| | ===== | ===== |
| Loss per common share | (\$.17) | (\$.59) |
| | ===== | ===== |

See Accompanying Notes to Consolidated Financial Statements

HINGHAM INSTITUTION FOR SAVINGS
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED
MARCH 31, 1991 and 1990

| | Common stock | Additional paid-in capital | Retained earnings | Net unrealized loss on marketable equity securities | Total stock- holders' equity |
|---|-----------------|----------------------------------|----------------------|--|---------------------------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance December 31, 1989 | \$1,250 | \$8,371 | \$8,568 | (\$190) | \$17,999 |
| Net Loss | | | (743) | | (743) |
| Cash Dividend Paid (\$.08 per share) | | | (100) | | (100) |
| Increase in net unrealized loss on marketable equity securities | | | | (3) | (3) |
| | ----- | ----- | ----- | ----- | ----- |
| Balance March 31, 1990 (unaudited) | \$1,250 | \$8,371 | \$7,725 | (\$193) | \$17,153 |
| | ===== | ===== | ===== | ===== | ===== |
| Balance at December 31, 1990 | \$1,250 | \$8,371 | \$4,406 | (\$276) | \$13,751 |
| Net Loss | | | (210) | | (210) |
| Increase in net unrealized loss on marketable equity securities | | | | (19) | (19) |
| | ----- | ----- | ----- | ----- | ----- |
| Balance March 31, 1991 (unaudited) | \$1,250 | \$8,371 | \$4,196 | (\$295) | \$13,522 |
| | ===== | ===== | ===== | ===== | ===== |

ITEM 1 - FINANCIAL STATEMENTS

HINGHAM INSTITUTION FOR SAVINGS

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 1991 | 1990 |
| | (In thousands) (Unaudited) | |
| Cash flows from operating activities | | |
| Net loss | (\$210) | (\$743) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Provision for possible loan losses | 100 | 1,100 |
| Provision for loss on real estate owned | 89 | - |
| Amortization of discount on investment securities, net of accretion | (1) | 2 |
| Increase (decrease) deferred loan fees | 25 | 1 |
| Depreciation | 77 | 41 |
| (Increase) decrease in income taxes receivable | 850 | 53 |
| (Increase) decrease in accrued interest receivable | (144) | 123 |
| (Increase) decrease in other assets | (60) | (82) |
| Increase (decrease) in mortgagors' escrow | 279 | 312 |
| Increase (decrease) in accrued interest payable and other liabilities | 87 | 65 |
| | ----- | ----- |
| Net cash provided by operating activities | 1,092 | 872 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| (Increase) decrease in short-term investments, net | - | 1,000 |
| Proceeds from maturities of investment securities | 1,000 | 4,000 |
| Proceeds from sales of investment securities | 1,051 | - |
| Principal payments received on mortgage-backed securities | 17 | 15 |
| Purchase of investment securities | (5,541) | (6,659) |
| (Increase) decrease in loans, net | 5,178 | (344) |
| Additions to real estate owned | (150) | (122) |
| Proceeds from sales of real estate owned | 1,339 | 410 |
| Additions to banking premises and equipment | (17) | (14) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities. | 2,877 | (1,714) |
| | ----- | ----- |

HINGHAM INSTITUTION FOR SAVINGS

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 1991 | 1990 |
| | (In thousands) (Unaudited) | |
| Cash flows from financing activities: | | |
| Increase (decrease) in deposits, net | 731 | 655 |
| Cash dividends paid | - | (100) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | 731 | 555 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 4,700 | (287) |
| Cash and cash equivalents: | | |
| Beginning of year | 3,561 | 6,886 |
| | ----- | ----- |
| End of period | \$8,261 | \$6,599 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$2,335 | \$2,476 |
| Supplemental disclosure of non-cash investing activities: | | |
| Loans transferred to real estate owned or substantively repossessed | 1,248 | 6,580 |
| Real estate owned or substantively repossessed, transferred to real estate held for investment | 210 | - |
| Loans transferred to real estate held for investment | - | 363 |
| Loans charged-off, net of recoveries | 362 | 682 |
| Real estate owned or substantively repossessed charged-off | 84 | - |

See accompanying Notes to Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS

Notes to Unaudited Financial Statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited quarterly consolidated financial statements of Hingham Institution for Savings presented herein should be read in conjunction with the consolidated financial statements of Hingham Institution for Savings for the year ended December 31, 1990.

Financial information as of March 31, 1991 and the results of operations and the changes in cash flows for the three months ended March 31, 1991 and 1990 are unaudited, and in the opinion of management reflect all adjustments 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

On April 11, 1990, a lawsuit against the Bank by its former president was dismissed by the court without liability to the Bank. The Bank's claims against its former president will continue to be vigorously pursued as the Bank contends that a substantial portion of the losses it has sustained result from the former president's alleged conduct. The Bank is pursuing recovery of damages with its insurance carrier as such losses are believed to be covered under the Bank's insurance policy, subject to the deductible amount. 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 claim.

In connection with the alleged conduct of the Bank's former president, several individuals have threatened claims against the Bank. The Bank will vigorously defend itself against any and all such claims if or when they are filed.

The Bank is currently a defendant in two lawsuits relating to lender liability. One of these lawsuits was brought by one borrower who has subsequently initiated two additional suits. The Bank has obtained partial summary judgment in the initial suit. The additional lawsuits were dismissed in March, 1991 on the basis that they were duplicative of the borrower's original complaint. The second lawsuit was brought by a separate borrower of the Bank. The borrower has alleged that the Bank committed various torts and breached its contract with respect to the borrower's application for funds. The Bank has answered by denying these claims and counter claimed against the borrower for breach of contract with respect to

several outstanding promissory notes held by the Bank. The Bank will vigorously defend itself against the claims asserted by this borrower.

The outcome of and the ultimate liability of the Bank, if any, from these actions cannot be predicted at this time and, accordingly, the Bank has made not provision for these matters in its financial statements. The Bank believes that it has meritorious defenses to the claims and intends to pursue them through the appropriate legal process.

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

HINGHAM INSTITUTION FOR SAVINGS

THREE MONTHS ENDED MARCH 31, 1991 AND 1990

GENERAL:

The net loss for the quarter ended March 31, 1991 totaled \$210,000 or \$0.17 per share as compared with net loss of \$743,000 or \$0.59 per share for the quarter ended March 31, 1990.

The reduction in the net loss for the first quarter of 1991 primarily reflects a provision for possible loan losses of \$100,000 compared to a \$1,100,000 provision for possible loan losses in the comparable quarter of 1990.

Assets totaled \$150,130,000 at March 31, 1991, and \$149,262,000 at December 31, 1990; an increase of .6%. During this period, stockholders' equity decreased from \$13,751,000 to \$13,522,000 primarily due to the net loss for the quarter.

NET INTEREST INCOME:

Net interest income increased to \$850,000 for the first quarter of 1991 from \$815,000 for the comparable 1990 quarter. The weighted average interest rate spread increased to 2.79% in the first quarter of 1991 from 1.69% in the first quarter of 1990.

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments decreased by \$104,000 for the first quarter of 1991 compared to the first quarter of 1990. This decrease is attributable to an increased mix of investment securities whose yield is lower than loans as well as a reduced level of average interest-earning assets during the quarter ended March 31, 1991 versus the quarter ended March 31, 1990. Non-accrual loans were \$4,382,000 and \$11,340,000 at March 31, 1991 and 1990, respectively. At December 31, 1990 such loans amounted to \$5,263,000. The yield on all earning assets increased to 9.70% for the quarter ended March 31, 1991 from 9.14% for the quarter ended March 31, 1990. The increase in yield was due primarily to the transfer of non-accrual loans to real estate owned or substantively repossessed in the amounts shown above.

INTEREST EXPENSE:

Total interest expense decreased \$139,000 for the quarter ended March 31, 1991 compared to the quarter ended March 31, 1990 with interest on deposits decreasing by \$101,000. Interest paid on the Federal Home Loan Bank advances for the first quarter of 1991 as compared to the comparable quarter in 1990 decreased by \$38,000. The reductions in interest expense are due to lower weighted average rates paid during the 1991 quarter. The average cost of funds decreased to 6.91% in the first quarter of 1991 from 7.45% in the comparable 1990 quarter.

PROVISION FOR POSSIBLE LOAN LOSSES:

The provision for possible loan losses was \$100,000 for the first quarter of 1991 as compared to \$1,100,000 for the comparable quarter of 1990. In the first quarter of 1990, the provision of \$1,100,000 reflects the effects of a regulatory examination which was completed during the quarter. The balance of the allowance for possible loan losses as of March 31, 1991 was \$1,152,000 as compared to \$2,631,000 on March 31, 1990 and \$1,414,000 as of December 31, 1990. Loan charge-offs during the first quarter of 1991 and 1990 were \$362,000 and \$682,000, respectively.

NON-INTEREST EXPENSE:

Total non-interest expense increased to \$1,043,000 from \$1,036,000 when comparing the first quarter of 1991 to the first quarter of 1990, represented an increase of \$7,000 or .7%.

Expenses relating to real estate held for investment, net of rental income represents the largest single item increase comparing the first quarter of 1991 expense of \$37,000 to the first quarter of 1990 income of \$3,000. The increase is attributable to the operations of a motel beginning in August 1990. Deposit insurance costs increased in the first quarter of 1991 to \$59,000 as compared to the same comparable quarter in 1990 of \$35,000, due to an increase in the rate charged by the F. D. I. C. The 1991 first quarter

NON-INTEREST EXPENSE (continued):

legal fees were reduced to \$66,000 from \$97,000 in the first quarter of 1990 due to the settlement of litigation which existed in 1990. Other non-interest expense and salaries and employee benefits were reduced by a total of \$23,000 when comparing 1991 and 1990 first quarter results.

INCOME TAXES:

No income tax benefit was recorded for the 1991 quarter as the Bank has fully recovered all available income tax benefits. The 1990 income tax benefit was based upon the estimated effective rate of recovery expected for the full year.

HINGHAM INSTITUTION FOR SAVINGS

WEIGHTED AVERAGES FOR
THE QUARTER ENDED

| | March 31, | |
|--|---------------|---------------|
| | ----- 1991 | 1990 ----- |
| Weighted average yield earned on: | | |
| Loans (1)(2) | 10.17% | 9.28% |
| Investment securities and Federal Home Loan Bank stock (3) | 8.66% | 8.66% |
| Interest bearing deposits in banks and short-term investments | 6.59% | 8.45% |
| Total interest-earning assets | 9.70% | 9.14% |
| Weighted average rate paid on: | | |
| Deposits and mortgagors' escrow | 6.74% | 7.22% |
| FHLB Advances | 8.21% | 9.23% |
| Total interest-bearing liabilities | 6.91% | 7.45% |
| Weighted average interest rate spread (4) | 2.79% | 1.69% |

- (1) Non-accrual loans are included in the average loan balances.
- (2) Before deducting average allowance for possible loan losses.
- (3) Before deducting average net unrealized loss on marketable equity securities.
- (4) Represents the weighted average yield on interest-earning assets during the quarter less the weighted average rate paid on interest-bearing liabilities.

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: 5/14/91 1991 s/s Paul E. Bulman
President & Chief Executive Officer

Date: 5/14/91 1991 s/s Robert F. Cass,
Vice President and Treasurer