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FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 204529

F O R M F - 4

QUARTERLY REPORT UNDER SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934 FOR

THE QUARTER ENDED JUNE 30, 1994

FDIC CERTIFICATE NUMBER - 90211-0

HINGHAM INSTITUTION FOR SAVINGS
(Exact name of bank as specified in its charter)

Massachusetts
(State of Incorporation)

04-1442480
(I.R.S. Employer Identification Number)

55 Main Street, Hingham, MA
(Address of Principal Executive Offices)

02043
(Zip Code)

(617) 749-2200
(Bank's Telephone Number, including area code)

Indicate by check mark whether the bank (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the bank was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) YES _____ X _____ NO _____

(2) YES _____ X _____ NO _____

Indicate the number of shares outstanding of each of the bank's classes of common stock, as of the latest practicable date:

At July 31, 1994 there were 1,279,300 shares of common stock outstanding.

ITEM 1 - FINANCIAL STATEMENTS

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 1994	December 31, 1993
	-----	-----
(Unaudited)	(In Thousands)	
ASSETS		
Cash and due from banks	\$2,669	\$3,272
Interest-bearing deposits	1,241	1,617
	-----	-----
Cash and cash equivalents	3,910	4,889
Investment securities, fair value \$48,863,000 in 1994, and \$58,827,000 in 1993	50,062	58,904
Loans, net of allowance for loan losses of \$1,245,000 in 1994 and \$1,191,000 in 1993	88,062	76,936
Foreclosed real estate, net	1,334	2,384
Banking premises and equipment, net	1,635	1,549
Accrued interest receivable	850	902
Deferred income tax asset	1,052	872
Federal Home Loan Bank stock, at cost.	994	994
Other assets	1,259	459
	-----	-----
	\$149,158	\$147,889
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$118,382	\$117,717
Federal Home Loan Bank advances	15,000	15,000
Accrued interest payable	306	311
Mortgagors' escrow accounts	238	190
Other liabilities	787	597
	-----	-----
Total liabilities	134,713	133,815
	-----	-----
Commitments and Contingencies	--	--
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; 1,279,300 and 1,277,340 shares issued and outstanding.	1,279	1,277
Additional paid-in capital	8,459	8,453
Undivided profits	5,442	4,292
	-----	-----
	15,180	14,022
Net unrealized gain (loss) on securities available for sale	(735)	52
	-----	-----
Total stockholders' equity	14,445	14,074
	-----	-----
	\$149,158	\$147,889
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	1994	1993	1994	1993
	(In Thousands, Except Per Share Amounts)			
Interest and dividend income:				
Loans	\$1,719	\$1,421	\$3,283	\$2,891
Investment securities	687	889	1,355	1,836
Interest bearing deposits	36	22	63	38
Total interest and dividend income.	<u>2,442</u>	<u>2,332</u>	<u>4,701</u>	<u>4,765</u>
Interest expense:				
Deposits	886	1,025	1,761	2,094
Federal Home Loan Bank advances	187	164	351	345
Total interest expense	<u>1,073</u>	<u>1,189</u>	<u>2,112</u>	<u>2,439</u>
Net interest income	1,369	1,143	2,589	2,326
Provision for loan losses	50	63	80	63
Net interest income after provision for loan losses	<u>1,319</u>	<u>1,080</u>	<u>2,509</u>	<u>2,263</u>
Other income:				
Customer service fees	88	64	166	122
Gain (loss) on sale of investments, net	(42)	218	(51)	572
Gain on sale of loans, net	0	0	26	0
Litigation settlement	0	0	282	0
Fidelity bond insurance settlement.	0	0	0	515
Other	57	41	101	65
Total other income	<u>103</u>	<u>323</u>	<u>524</u>	<u>1,274</u>
Operating expenses:				
Expenses related to proxy contest	0	1,398	0	1,508
Salaries and employee benefits	438	374	854	749
Data processing	71	73	143	149
Occupancy and equipment	69	87	140	167
Foreclosed and other real estate, net	18	468	122	549
Real estate held for investment, net	0	0	0	291
Legal	55	30	97	69
Deposit insurance	77	88	153	176
Other	225	201	452	364
Total operating expenses	<u>953</u>	<u>2,719</u>	<u>1,961</u>	<u>4,022</u>
Income (loss) before income taxes.	469	(1,316)	1,072	(485)
Income tax provision (benefit)	(90)	1	(180)	2
Net income (loss)	<u>\$ 559</u>	<u>\$(1,317)</u>	<u>\$1,252</u>	<u>\$(487)</u>
Income (loss) per common share	<u>\$ 0.44</u>	<u>\$(1.04)</u>	<u>\$ 0.98</u>	<u>\$(0.39)</u>
Weighted average shares outstanding	<u>1,278</u>	<u>1,267</u>	<u>1,278</u>	<u>1,262</u>

See accompanying Notes to Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED
JUNE 30, 1994 and 1993
(In Thousands)

(Unaudited)	Common stock	Additional Paid-in Capital	Undivided Profits	Net Unrealized Loss on Marketable Equity Securities	Net Unrealized Gain (Loss) on Securities Available for Sale	Total Stockholders' Equity
Balance at December 31, 1992	\$1,253	\$8,380	\$4,103	(\$24)	\$0	\$13,712
Net Loss	0	0	(487)	0	0	(487)
Decrease in net unrealized loss on marketable equity securities	0	0	0	24	0	24
Stock options exercised.	15	45	0	0	0	60
Balance at June 30, 1993	\$1,268	\$8,425	\$3,616	\$0	\$0	\$13,309
Balance at December 31, 1993	\$1,277	\$8,453	\$4,292	\$0	\$52	\$14,074
Net Income	0	0	1,252	0	0	1,252
Change in net unrealized gain (loss) on securities available for sale	0	0	0	0	(787)	(787)
Stock options exercised.	2	6	0	0	0	8
Cash dividend declared (\$.08 per share)	0	0	(102)	0	0	(102)
Balance at June 30, 1994	\$1,279	\$8,459	\$5,442	\$0	(\$735)	\$14,445

See accompanying Notes to Consolidate Financial Statements

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 1994	
	1994	1993
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$1,252	(\$487)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	80	63
Provision for loss on foreclosed real estate.	52	412
Provision for loss and write-downs on real estate held for investment.	0	271
Amortization of discount on investment securities, net of accretion	159	311
Amortization of deferred loan fees, net	(25)	(17)
Depreciation	57	80
Loss (gain) on sale of investments, net	51	(572)
Loss (gain) on sale of loans.	(26)	0
Decrease in accrued interest receivable.	52	30
Increase in deferred income tax asset	(180)	0
Increase in other assets.	(800)	(62)
Increase in accrued interest payable and other liabilities	185	141
Net cash provided by operating activities	857	170
Cash flows from investing activities:		
Proceeds from maturities of investment securities	0	0
Proceeds from sales of investment securities.	6,604	17,034
Principal payments received on mortgage-backed securities.	6,277	9,011
Purchase of investment securities	(5,036)	(22,567)
Loan payments received (loans originated), net.	(13,220)	2,709
Proceeds from sale of loans	2,394	0
Additions to foreclosed real estate, net of payments and recoveries.	3	8
Proceeds from sales of foreclosed real estate	666	857
Additions to real estate held for investment.	0	(14)
Additions to banking premises and equipment	(143)	(22)
Net cash provided by (used in) investing activities	(2,455)	7,016

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Six Months Ended June 30, 1994	
	1994	1993
	(In thousands) (Unaudited)	
Cash flows from financing activities:		
Increase (decrease) in deposits, net	\$665	(\$1,206)
Increase in mortgagors' escrow accounts.	48	4
Proceeds from stock options exercised	8	60
Cash dividends paid on common stock.	(102)	0
Proceeds from Federal Home Loan Bank Advances < 3 months .	1,790	0
Repayment of Federal Home Loan Bank Advances < 3 months. .	(1,790)	0

Net cash provided by (used in) financing activities. . .	619	(1,142)

Net increase (decrease) in cash and cash equivalents	(979)	6,044
Cash and cash equivalents at beginning of year	4,889	3,450

Cash and cash equivalents at end of period	\$3,910	\$9,494
	=====	
Supplementary information:		
Interest paid on deposit accounts.	\$1,773	\$2,171
Interest paid on borrowed funds.	344	357
Loans transferred to foreclosed real estate.	855	1,920
Financed sales of foreclosed real estate	898	1,487
Foreclosed real estate transferred to loans.	286	0
Real estate held for investment transferred to foreclosed real estate	0	2,526

See Accompanying Notes to Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS

Notes to Unaudited Financial Statements

June 30, 1994 and 1993

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, 1993 filed on Form F-2.

Financial information as of June 30, 1994 and the results of operations and cash flows for the six months ended June 30, 1994 and 1993 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.

Certain amounts in prior year financial statements have been reclassified to reflect the current year's presentation.

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

REGULATORY MATTERS

In March of 1992, the Bank entered into a Memorandum of Understanding with the FDIC and the Massachusetts Commissioner of Banks. The Memorandum sets forth plans for reducing classified assets, improving the earnings of the Bank, and revises the Bank's Fund's Management Policy to address liquidity needs as well as monitoring interest rate sensitivity. Lending, investment and budget policies have been incorporated into a comprehensive business plan, which has been submitted to the FDIC and the Commissioner of Banks. In addition, specific goals were established under this Memorandum for reducing the ratio of non-performing loans to total loans.

DIVIDEND PAYMENT

On June 22, 1994, the Board of Directors, with the approval of the FDIC and the Massachusetts Commissioner of Banks, declared a \$0.04 cash dividend to all stockholders of record as of July 11, 1994 payable July 21, 1994.

LIQUIDITY AND CAPITAL RESOURCES

Assets totaled \$149.2 million at June 30, 1994, as compared to \$147.9 million at December 31, 1993, an increase of 0.86%. During the six month period ended June 30, 1994, stockholders' equity increased by \$371,000 to \$14.4 million, primarily due to net income of \$1.3 million for the period and the exercise of stock options, offset by the increase in the net unrealized loss on securities available for sale of \$787,000 and the declaration of cash dividends.

Massachusetts-Chartered Savings Banks that are insured by the FDIC are subject to minimum capital maintenance requirements. At June 30, 1994, the Bank's total capital of \$14.4 million was equal to 9.68% of total assets and exceeded all FDIC minimum capital requirements.

During the first six months of 1994, foreclosed real estate net decreased by \$1.1 million or 44% to \$1.3 million at June 30, 1994, from \$2.4 million at December 31, 1993. At June 30, 1994 foreclosed real estate, net, was .89% of total assets as compared to 1.61% at December 31, 1993. Management is continuing its aggressive posture in divesting properties previously foreclosed and remains optimistic because of the promising increase in residential real estate activity that the region is currently experiencing.

During the first six months of 1994, total loans outstanding increased by \$11.2 million to \$88.1 million on June 30, 1994, from \$76.9 million at December 31, 1993 attributable primarily to \$23.0 million in loans originated offset by amortization, pay-offs and transfers to foreclosed real estate. On June 30, 1994, loans outstanding represented 59% of total assets. Loans totaling \$9,000 and \$286,000 were classified as non-accrual at June 30, 1994 and December 31, 1993, respectively.

LIQUIDITY AND CAPITAL RESOURCES continued:

Investment securities were \$50.1 million, or 34% of total assets, at June 30, 1994, a decrease of \$8.8 million from \$58.9 million at December 31, 1993. Effective December 31, 1993, the Bank adopted the provisions of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." The Statement establishes standards for all debt securities and for equity securities that have readily determinable fair values. As required under SFAS No. 115, prior year financial statements have not been restated.

SFAS No. 115 requires investments in debt securities that management has the positive intent and ability to hold to maturity be classified as "held to maturity" and reflected at amortized cost. Investments that are purchased and held principally for the purpose of selling them in the near term are classified as "trading securities" and are reflected on the balance sheet at fair value, with unrealized gains and losses included in earnings. Investments not classified as either of the above are classified as "available for sale" and are reflected on the balance sheet at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. The cumulative effect of the change in accounting principle at December 31, 1993 was to increase stockholders' equity by \$52,000. There was no effect on net income for the year ended December 31, 1993 relating to the adoption of SFAS No. 115.

At June 30, 1994 debt securities available for sale at fair value totaled \$19.6 million. Securities held to maturity at amortized cost totaled \$30.5 million with a fair value of \$29.3 million. During the first six months of 1994, proceeds from the sales of \$6.6 million in available for sale securities were used to fund the growth in the loan portfolio.

LIQUIDITY AND CAPITAL RESOURCES continued:

Deposits increased by \$665,000 to \$118.4 million at June 30, 1994 from \$117.7 million at December 31, 1993. Core deposits, which include regular, money market, NOW and demand deposits, were \$81.9 million, or 69% of total deposits, at June 30, 1994. Core deposits were 72% of total deposits at December 31, 1993. Certificate accounts were \$36.5 million at June 30, 1994 an increase of \$3.5 million over the \$33.0 million at December 31, 1993.

Deposit Balances by Type

	<u>June 30, 1994</u>	<u>December 31, 1993</u>
	(In Thousands)	
Non-certificate accounts:		
Regular	\$ 36,517	\$ 36,209
Money Market Deposits	28,755	31,681
NOW	10,900	10,593
Demand	<u>5,758</u>	<u>6,220</u>
Total non-certificate accounts	<u>81,930</u>	<u>84,703</u>
Term certificates less than \$100,000	29,785	27,286
Term certificates \$100,000 or more	<u>6,667</u>	<u>5,728</u>
Total certificate accounts	<u>36,452</u>	<u>33,014</u>
Total Deposits	<u>\$118,382</u>	<u>\$117,717</u>

Federal Home Loan Bank (FHLB) advances were \$15.0 million at June 30, 1994 and December 31, 1993. The Bank can borrow up to approximately \$55.0 million from the FHLB to meet liquidity needs.

RESULTS OF OPERATIONS:

THREE MONTHS ENDED June 30, 1994 AND 1993

GENERAL

The Bank reported net income of \$559,000, or \$0.44 per share for the quarter ended June 30, 1994 as compared with a net loss of \$1.3 million, or \$1.04 per share for the same period in 1993. During the quarter ended June 30, 1993, the Bank incurred \$1.4 million in expenses related to the Proxy Contest. There were no such expenditures in 1994.

NET INTEREST INCOME

Net interest income increased to \$1.4 million for the second quarter of 1994 from \$1.1 million for the comparable 1993 quarter. The weighted average interest rate spread increased to 3.47% in the second quarter of 1994 from 2.96% in the second quarter of 1993. Net interest margin, which is calculated by dividing net interest income by average earning assets, increased by 53 basis points to 3.80% for the second quarter of 1994 from 3.27% for the same period last year.

NET INTEREST INCOME continued:

WEIGHTED AVERAGES FOR
THE QUARTER ENDED

	June 30,	
	1994	1993
Weighted average yield earned on:		
Loans (1)(2)	8.09%	8.17%
Investment securities and Federal Home Loan Bank stock (3)	4.97%	5.28%
Interest bearing deposits in banks and short-term investments	3.70%	2.80%
Total interest-earning assets	6.78%	6.66%
Weighted average rate paid on:		
Deposits and mortgagors' escrow	3.09%	3.61%
FHLB Advances	4.98%	4.37%
Total interest-bearing liabilities	3.31%	3.70%
Weighted average interest rate spread (4)	3.47%	2.96%
Net interest margin (5)	3.80%	3.27%

- (1) Non-accrual loans are included in the average loan balances.
- (2) Before deducting average allowance for 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.
- (5) Represents net interest income divided by average earning assets before deduction of the average allowance for loan losses.

INTEREST AND DIVIDEND INCOME

Interest and dividend income increased by \$110,000 for the second quarter of 1994 compared to the second quarter of 1993. This increase is primarily attributable to an increase of approximately \$4.1 million in the volume of average earning assets during the quarter ended June 30, 1994 compared to the quarter ended June 30, 1993. Interest income on loans increased by \$298,000 over the same two periods primarily as a result of an increase of approximately \$15.4 million in average loans outstanding. Over the same two periods, interest and dividends on investments decreased by \$202,000 due to sales and principal paydowns on investment securities along with a decline in the weighted average yield. The yield on total interest-earning assets increased to 6.78% for the quarter ended June 30, 1994 as compared to 6.66% for the quarter ended June 30, 1993.

Total interest expense decreased \$116,000 for the quarter ended June 30, 1994 compared to the quarter ended June 30, 1993. Interest on deposits decreased by \$139,000 as a result of lower weighted average rates paid on deposits and lower average deposit volumes. Interest paid on Federal Home Loan Bank advances for the second quarter of 1994 increased by \$23,000 as compared to the same quarter in 1993 as a result of a higher weighted average rate. The average rate on interest-bearing liabilities decreased to 3.31% in the second quarter of 1994 from 3.70% in the comparable 1993 quarter.

PROVISION FOR LOAN LOSSES

At June 30, 1994, and 1993 management's review of the allowance for loan losses concluded that the balance was adequate to provide for potential losses based upon evaluation of risk in the loan portfolio. A \$50,000 provision for loan losses was charged to operations for the second quarter of 1994 as compared to \$63,000 for the 1993 comparable quarter. The balance of the allowance for loan losses at June 30, 1994 and December 31, 1993 was \$1.2 million.

OTHER INCOME

Total other income decreased to \$103,000 for the quarter ended June 30, 1994 from \$323,000 for the same quarter of 1993. The decrease is mainly attributable to losses on sales of investments of \$42,000 in the second quarter of 1994 compared to \$218,000 in gains for the comparable quarter of 1993.

OPERATING EXPENSES:

Total operating expenses were \$953,000 for the quarter ended June 30, 1994 as compared to \$2.7 million for the same quarter of 1993. This \$1.8 million decrease was due primarily to \$1.4 million in non-recurring expenses related to the Proxy Contest during the second quarter of 1993. In addition, expenses relating to foreclosed properties and other real estate, net, decreased \$450,000 to \$18,000 for the second quarter of 1994 as compared to \$468,000 for the same quarter in 1993. During this period in 1994 there was \$40,000 in gains on sales of foreclosed and other real estate, \$23,000 in writedowns and \$35,000 in other expenses, net of rental income.

INCOME TAXES

The Bank recognizes income taxes under the asset and liability method established in Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are established for the temporary difference between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. The Bank's deferred tax asset is reviewed quarterly and adjustments to such asset are recognized as deferred income tax expense or benefit based on management's judgement relating to the realizability of such asset.

During the second quarter of 1994, the Bank recognized an additional deferred tax benefit of \$90,000 based on anticipated future income. During the second quarter of 1993, no quarterly tax benefits were recognized.

RESULTS OF OPERATIONS:

SIX MONTHS ENDED June 30, 1994 AND 1993

GENERAL

The Bank reported net income of \$1.3 million, or \$0.98 per share, for the six month period ended June 30, 1994 as compared with a net loss of \$487,000 or \$0.39 per share, for the same period in June 1993.

The increase in net income is primarily the result of \$1.5 million in expenses related to a proxy contest which were incurred in 1993. Further, there was a \$263,000 improvement in net interest income and the receipt of a \$282,000 litigation settlement during 1994. Partially offsetting these increases was \$51,000 in losses on sales of investments during 1994 as compared to \$572,000 in gains in 1993. Also, during 1993 the Bank received \$515,000 in a Fidelity bond insurance settlement.

NET INTEREST INCOME

Net interest income increased to \$2.6 million for the first six months of 1994 as compared to \$2.3 million for the same period in 1993. The weighted average interest rate spread increased to 3.35% in the first six months of 1994 from 3.01% in the first six months of 1993. Net interest margin increased by 34 basis points to 3.66% for the first six months of 1994.

NET INTEREST INCOME continued:

	WEIGHTED AVERAGES FOR THE SIX MONTHS ENDED	
	June 30, 1994	1993

Weighted average yield earned on:		
Loans (1)(2)	8.03%	8.26%
Investment securities and Federal Home Loan Bank stock (3)	4.84%	5.44%
Interest bearing deposits in banks and short-term investments	3.41%	2.90%
Total interest-earning assets	6.64%	6.80%
Weighted average rate paid on:		
Deposits and mortgagors' escrow	3.11%	3.68%
FHLB Advances	4.68%	4.60%
Total interest-bearing liabilities	3.29%	3.79%
Weighted average interest rate spread (4)	3.35%	3.01%
Net interest margin (5)	3.66%	3.32%

- (1) Non-accrual loans are included in the average loan balances.
- (2) Before deducting average allowance for 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.
- (5) Represents net interest income divided by average earning assets before deduction of the average allowance for loan losses.

NET INTEREST INCOME continued:

Interest and dividend income decreased by \$64,000 for the first six months of 1994 compared to the first six months of 1993. This decrease is primarily attributable to a decrease in the weighted average yield during the six months ended June 30, 1994 compared to the six months ended June 30, 1993. The yield on total interest earning assets decreased to 6.64% for the six months ended June 30, 1994 as compared to 6.80% for the six months ended June 30, 1993. Average investment securities decreased by approximately \$11.5 million over the same two periods, resulting in a \$481,000 decrease in interest and dividend income. Interest on loans increased by \$392,000 primarily as a result of an \$11.8 million increase in the average volume of loans.

Total interest expense decreased \$327,000 for the six months ended June 30, 1994 compared to the six months ended June 30, 1993. Interest on deposits decreased by \$333,000 primarily as a result of lower weighted average rates paid on deposits. Interest paid on the Federal Home Loan Bank advances for the first six months of 1994 as compared to the same period in 1993 increased by \$6,000. The average rate on interest-bearing liabilities decreased to 3.29% in the first six months of 1994 from 3.79% in the comparable 1993 period.

PROVISION FOR LOAN LOSSES

At June 30, 1994 and 1993, management's review of the allowance for loan losses concluded that the balance was adequate to provide for potential losses based upon evaluation of risk in the loan portfolio. An \$80,000 provision for loan losses was charged to operations for the six month period ended June 30, 1994 as compared to \$63,000 for the 1993 comparable period. The balance of the allowance for loan losses as of June 30, 1994 and December 31, 1993 was \$1.2 million.

OTHER INCOME

Total other income decreased to \$524,000 for the six month period ended June 30, 1994 from \$1.3 million for the same period of 1993. The decrease is mainly attributable to three factors. First, in 1993 the Bank received \$515,000 in a Fidelity bond insurance settlement. There was no such income in 1994. Second, the Bank received \$282,000 in a litigation settlement in 1994. There was no such item in 1993. Both the litigation and insurance settlements were related to the actions of a former president of the Bank. Finally, the Bank reported \$51,000 in losses on the sale of investments in 1994 as compared to \$572,000 in gains during 1993.

OPERATING EXPENSES

Total operating expenses decreased to \$2.0 million from \$4.0 million when comparing the first six months of 1994 to the same period of 1993. Non recurring expenses related to the Proxy Contest amounted to \$1.5 million during the first half of 1993.

Expenses relating to foreclosed and other real estate, net, decreased comparing the first six months of 1994 expense of \$122,000 to the same period of 1993 expense of \$549,000. The decrease is mainly attributable to \$73,000 in provisions for loss on real estate owned in 1994 versus \$412,000 for the 1993 comparable quarter.

Expenses relating to real estate held for investment, net of rental income, decreased when comparing the first six months of 1994 expense of \$0 to the first six months of 1993 expense of \$291,000 in that all properties held for investment were transferred to foreclosed real estate as of December 31, 1993.

INCOME TAXES

The Bank recognizes income taxes under the asset and liability method established in Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are established for the temporary difference between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. The Bank's deferred tax asset is reviewed quarterly and adjustments to such asset are recognized as deferred income tax expense or benefit based on management's judgement relating to the realizability of such asset.

During the six month period ended June 30, 1994, the Bank recognized an additional tax benefit of \$180,000 based upon anticipated future income. During the same period in 1993, no tax benefits were recognized.

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 11, 1994

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