

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 204529

FORM F - 4

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

THE QUARTER ENDED SEPTEMBER 30, 1995

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 October 31, 1995 there were 1,295,000 shares of common stock outstanding.

ITEM 1 - FINANCIAL STATEMENTS

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands) (Unaudited)	<u>September 30, 1995</u>	<u>December 31, 1994</u>
ASSETS		
Cash and due from banks	\$ 3,972	\$ 3,897
Interest-bearing deposits	<u>1,652</u>	<u>11</u>
Cash and cash equivalents	5,624	3,908
Securities available for sale, at fair value	17,476	13,866
Securities held to maturity	28,969	29,064
Loans, net of allowance for loan losses of \$1,245,000 in 1995 and \$1,338,000 in 1994	111,802	100,398
Foreclosed real estate, net	35	439
Banking premises and equipment, net	2,292	1,699
Accrued interest receivable	1,197	835
Deferred income tax asset	1,402	1,557
Federal Home Loan Bank stock, at cost	1,200	994
Other assets	<u>314</u>	<u>432</u>
Total assets	<u>\$170,311</u>	<u>\$153,192</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$126,033	\$116,684
Federal Home Loan Bank advances	24,000	19,000
Accrued interest payable	457	358
Mortgagors' escrow accounts	325	252
Other liabilities	<u>1,897</u>	<u>917</u>
Total liabilities	<u>152,712</u>	<u>137,211</u>
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; 1,295,000 and 1,293,000 shares issued and outstanding	1,295	1,293
Additional paid-in capital	8,597	8,584
Undivided profits	<u>7,803</u>	<u>6,629</u>
	17,695	16,506
Net unrealized loss on securities available for sale, after tax effect	<u>(96)</u>	<u>(525)</u>
Total stockholders' equity	<u>17,599</u>	<u>15,981</u>
Total liabilities and stockholders' equity	<u>\$170,311</u>	<u>\$153,192</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statement of Income

(In Thousands, Except Per Share Amounts) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
Interest and dividend income:				
Loans	\$2,382	\$1,877	\$6,844	\$5,160
Investment securities	614	667	1,835	2,022
Interest-bearing deposits	<u>52</u>	<u>22</u>	<u>148</u>	<u>85</u>
Total interest and dividend income	<u>3,048</u>	<u>2,566</u>	<u>8,827</u>	<u>7,267</u>
Interest expense:				
Deposits	1,221	867	3,345	2,628
Federal Home Loan Bank advances	<u>306</u>	<u>214</u>	<u>873</u>	<u>565</u>
Total interest expense	<u>1,527</u>	<u>1,081</u>	<u>4,218</u>	<u>3,193</u>
Net interest income	1,521	1,485	4,609	4,074
Provision for loan losses	<u>30</u>	<u>10</u>	<u>90</u>	<u>90</u>
Net interest income after provision for loan losses ...	<u>1,491</u>	<u>1,475</u>	<u>4,519</u>	<u>3,984</u>
Other income:				
Customer service fees	85	88	255	254
Loss on sale of investments	—	(37)	(49)	(88)
Gain on sale of loans, net	—	—	—	26
Litigation settlement	—	—	—	282
Other	<u>44</u>	<u>44</u>	<u>141</u>	<u>145</u>
Total other income	<u>129</u>	<u>95</u>	<u>347</u>	<u>619</u>
Operating expenses:				
Salaries and employee benefits	458	397	1,346	1,251
Data processing	74	71	220	214
Occupancy and equipment	76	68	221	208
Foreclosed and other real estate, net	9	121	35	243
Legal	(7)	35	53	132
Deposit insurance	(6)	78	146	231
Other	<u>236</u>	<u>198</u>	<u>674</u>	<u>650</u>
Total operating expenses	<u>840</u>	<u>968</u>	<u>2,695</u>	<u>2,929</u>
Income before income taxes	780	602	2,171	1,674
Income tax provision (benefit)	<u>280</u>	<u>(46)</u>	<u>751</u>	<u>(226)</u>
Net income	<u>\$ 500</u>	<u>\$ 648</u>	<u>\$1,420</u>	<u>\$1,900</u>
Income per common share	<u>\$ 0.39</u>	<u>\$ 0.50</u>	<u>\$ 1.10</u>	<u>\$ 1.48</u>
Cash dividends declared per common share	<u>\$ 0.07</u>	<u>\$ 0.04</u>	<u>\$ 0.19</u>	<u>\$ 0.12</u>
Weighted average shares outstanding	<u>1,294</u>	<u>1,288</u>	<u>1,293</u>	<u>1,281</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended
September 30, 1995 and 1994

(In Thousands) (Unaudited)	Common Stock	Additional Paid-in Capital	Undivided Profits	Net Unrealized Gain (Loss) on Securities Available for Sale	Total Stockholders' Equity
Balance at December 31, 1993	\$1,277	\$8,453	\$4,292	\$ 52	\$14,074
Net Income	—	—	1,900	—	1,900
Change in net unrealized gain (loss) on securities available for sale	—	—	—	(798)	(798)
Stock options exercised	16	106	—	—	122
Cash dividends declared (\$0.12 per share)	—	—	(154)	—	(154)
Balance at September 30, 1994	<u>\$1,293</u>	<u>\$8,559</u>	<u>\$6,038</u>	<u>\$(746)</u>	<u>\$15,144</u>
Balance at December 31, 1994	\$1,293	\$8,584	\$6,629	\$(525)	\$15,981
Net Income	—	—	1,420	—	1,420
Change in net unrealized loss on securities available for sale, net of tax effect	—	—	—	429	429
Stock options exercised, including tax effect	2	13	—	—	15
Cash dividends declared (\$0.19 per share)	—	—	(246)	—	(246)
Balance at September 30, 1995	<u>\$1,295</u>	<u>\$8,597</u>	<u>\$7,803</u>	<u>\$(96)</u>	<u>\$17,599</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS

Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	1995	1994
(In Thousands)		
(Unaudited)		
Cash flows from operating activities:		
Net income	\$ 1,420	\$1,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	90	90
Provision for loss on foreclosed real estate	20	123
Amortization of premium on investment securities, net of accretion	220	427
Amortization of deferred loan fees, net	(43)	(37)
Depreciation	92	86
Loss on sale of investments, net	49	88
Gain on sale of loans	—	(26)
Gain on sale of foreclosed and other real estate	(3)	(35)
Increase in accrued interest receivable	(362)	(139)
Increase in deferred income tax asset	(151)	(278)
(Increase) decrease in other assets	38	(352)
Increase in accrued interest payable and other liabilities	<u>988</u>	<u>154</u>
Net cash provided by operating activities	<u>2,358</u>	<u>2,001</u>
Cash flows from investing activities:		
Proceeds from sales of securities available for sale	1,463	8,480
Purchase of securities available for sale	(4,882)	(2,036)
Purchase of securities held to maturity	(2,183)	(3,000)
Proceeds from maturities of securities available for sale	—	100
Principal payments received on mortgage-backed securities	2,560	7,815
Loans originated, net of payments received	(11,117)	(17,843)
Proceeds from sale of loans	—	2,394
Additions to foreclosed and other real estate, net of payments	(112)	3
Proceeds from sales of foreclosed and other real estate	245	929
Increase in Federal Home Loan Bank Stock	(206)	—
Additions to banking premises and equipment	<u>(685)</u>	<u>(166)</u>
Net cash used in investing activities	<u>(14,917)</u>	<u>(3,324)</u>

(continued)

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS

Consolidated Statements of Cash Flows (concluded)

	Nine Months Ended September 30,	
	1995	1994
(In Thousands)		
(Unaudited)		
Cash flows from financing activities:		
Increase (decrease) in deposits, net	\$ 9,349	\$ (344)
Increase in mortgagors' escrow accounts	73	116
Proceeds from stock options exercised	8	122
Cash dividends paid on common stock	(155)	(102)
Proceeds from Federal Home Loan Bank Advances 3 months and greater . . .	38,500	5,000
Repayment of Federal Home Loan Bank Advances 3 months and greater	<u>(33,500)</u>	<u>(3,000)</u>
Net cash provided by financing activities	<u>14,275</u>	<u>1,792</u>
Net increase in cash and cash equivalents	1,716	469
Cash and cash equivalents at beginning of year	<u>3,908</u>	<u>4,889</u>
Cash and cash equivalents at end of period	<u>\$ 5,624</u>	<u>\$5,358</u>
Supplementary information:		
Interest paid on deposit accounts	\$3,262	\$2,641
Interest paid on borrowed funds	857	557
Income taxes paid (refunded)	(2)	—
Loans transferred to foreclosed real estate	—	913
Financed sales of foreclosed real estate	205	1,078
Foreclosed real estate transferred to loans	129	286

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

September 30, 1995 and 1994

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited 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, 1994 filed on Form F-2.

Financial information as of September 30, 1995 and the results of operations and cash flows for the three and nine month periods ended September 30, 1995 and 1994 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.

BRANCH EXPANSION

During the month of June 1995, the Bank purchased two buildings in the towns of Cohasset and Scituate, which were formerly occupied by Cohasset Savings Bank. During the third quarter of 1995 the Bank received approval from the Massachusetts Commissioner of Banks and the Federal Deposit Insurance Corporation to operate branches in each of these locations. On October 2, 1995 the branch at 400 Gannett Road in Scituate opened for business and it is anticipated that the branch at 13 Elm Street in Cohasset will open by the end of 1995.

ACCOUNTING POLICY CHANGE

In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." The Statement requires that impaired loans be measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The statement is applicable to all creditors and to all loans, except large groups of smaller balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at the lower of cost or fair value, leases, and convertible or nonconvertible debentures and bonds and other debt securities.

SFAS No. 114 also limits the classification of loans as in-substance foreclosures to situations where the creditor actually receives physical possession of the debtor's assets.

This statement was adopted by the Bank as of January 1, 1995. As of September 30, 1995 loans classified as impaired amounted to \$497,000, which required no valuation allowance to be established in accordance with SFAS No. 114.

COMMITMENTS

At September 30, 1995, there were outstanding commitments to advance construction funds, to advance existing home equity and other credit lines and to originate loans in the amount of \$16.6 million.

REGULATORY MATTERS

Effective May 8, 1995, the Federal Deposit Insurance Corporation and the Massachusetts Commissioner of Banks removed the Memorandum of Understanding which had been in place since March of 1992. The Memorandum had set forth plans for reducing classified assets and improving the earnings of the Bank, and revised the Bank's Fund's Management Policy to address liquidity needs as well as monitoring interest rate sensitivity. The Memorandum was removed because the Bank was found to be in general compliance with the provisions contained in the Memorandum and had demonstrated material improvement in its financial condition.

DIVIDEND PAYMENT

On September 27, 1995, the Board of Directors declared a \$0.07 cash dividend to all stockholders of record as of October 11, 1995, payable October 21, 1995.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED

SEPTEMBER 30, 1995 AND 1994

GENERAL

The Bank reported net income of \$500,000, or \$0.39 per share for the quarter ended September 30, 1995. Earnings for the same period in 1994, which were positively impacted by tax benefits, were \$648,000, or \$0.50 per share. On a pre-tax basis, third quarter 1995 earnings were \$780,000, an increase of \$178,000, or 30%, above the \$602,000 in earnings reported for the same period last year.

NET INTEREST INCOME

Net interest income increased by \$36,000 to \$1.5 million for the third quarter of 1995 as compared to the same quarter last year. Net interest margin, which is calculated by dividing net interest income by average earning assets, decreased by 22 basis points to 3.88% for the third quarter of 1995 from 4.10% for the same period last year. The weighted average rate spread declined to 3.32% for the quarter from 3.72% for the same quarter last year. The declines in the net interest margin and weighted average rate spread are primarily attributed to higher rates paid on deposits and borrowings resulting from higher market interest rates.

Three months ended September 30, (In Thousands)	1995			1994		
	<u>AVERAGE BALANCE</u>	<u>INTEREST</u>	<u>YIELD</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST</u>	<u>YIELD</u>
Loans (1) (2)	\$110,939	\$2,382	8.59%	\$92,259	\$1,877	8.14%
Investment securities (3)	42,538	614	5.77%	50,785	667	5.25%
Short-term investments	<u>3,459</u>	<u>52</u>	6.01%	<u>1,803</u>	<u>22</u>	4.88%
Total earning assets	156,936	<u>3,048</u>	7.77%	144,847	<u>2,566</u>	7.09%
Other assets	<u>6,395</u>			<u>6,725</u>		
Total assets	<u>\$163,331</u>			<u>\$151,572</u>		
Deposits	\$118,047	1,221	4.14%	\$112,154	867	3.09%
FHLB borrowings	<u>19,333</u>	<u>306</u>	6.33%	<u>16,328</u>	<u>214</u>	5.24%
Total interest-bearing liabilities	137,380	<u>1,527</u>	4.45%	128,482	<u>1,081</u>	<u>3.37%</u>
Weighted average rate spread (4)			<u>3.32%</u>			<u>3.72%</u>
Demand deposits	6,654			7,348		
Other liabilities	<u>1,919</u>			<u>947</u>		
Total liabilities	145,953			136,777		
Stockholders' equity	<u>17,378</u>			<u>14,795</u>		
Total liabilities and stockholders' equity	<u>\$163,331</u>			<u>\$151,572</u>		
Net interest income		<u>\$1,521</u>			<u>\$1,485</u>	
Net interest margin (5)			3.88%			4.10%

- (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 securities available for sale.
- (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.

Interest and dividend income increased by \$482,000 for the third quarter of 1995 compared to the third quarter of 1994. This increase is attributable to an increase of approximately \$12.1 million in the volume of average earning assets during the quarter ended September 30, 1995 compared to the quarter ended September 30, 1994 combined with a 68 basis point rise in the average yield over the same two periods. Interest income on loans increased by \$505,000 over the same two periods primarily as a result of an increase of approximately \$18.7 million in average loans outstanding. Over the same two periods, interest and dividends on investments decreased by \$53,000 due to sales and principal paydowns on investment securities partially offset by an increase in the weighted average yield.

Total interest expense increased \$446,000 for the quarter ended September 30, 1995 compared to the quarter ended September 30, 1994. Interest on deposits increased by \$354,000 as a result of higher weighted average rates paid on deposits accompanied by changes in the deposit mix. Interest paid on Federal Home Loan Bank advances for the third quarter of 1995 increased by \$92,000 as compared to the same quarter in 1994 primarily as a result of a higher weighted average rate accompanied by a \$3.0 million increase in average borrowings. The average rate on interest-bearing liabilities increased to 4.45% for the third quarter of 1995 from 3.37% in the comparable quarter of 1994.

PROVISION FOR LOAN LOSSES

At September 30, 1995 and 1994, 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 \$30,000 provision for loan losses was charged to operations for the third quarter of 1995 as compared to a \$10,000 provision which was charged for 1994. The balance of the allowance for loan losses at September 30, 1995 and September 30, 1994 was \$1.2 million and \$1.3 million, respectively.

OTHER INCOME

Total other income was \$129,000 for the quarter ended September 30, 1995 as compared to \$95,000 for the same quarter of 1994. During the third quarter of 1994 the Bank sold \$2.0 million in securities to fund loan growth at a net loss of \$37,000. In the third quarter of 1995, there were no sales of securities.

OPERATING EXPENSES

Total operating expenses were \$840,000, or an annualized 2.1% of average total assets, for the quarter ended September 30, 1995 as compared to \$968,000, or 2.6%, for the same quarter of 1994. This improvement is primarily attributable to a \$112,000 decrease in foreclosed and other real estate expenses which resulted from a decline in foreclosed real estate. At September 30, 1995 foreclosed real estate was \$35,000 as compared to \$1.1 million at September 30, 1994.

Third quarter expenses were also positively impacted by a \$76,000 premium refund received from the Federal Deposit Insurance Corporation ("FDIC") resulting from a reduction in premium rates which became effective on June 1, 1995. In addition, legal fees were favorably impacted by the

reimbursement of fees previously expensed. Partially offsetting these expense improvements was a \$61,000 increase in salary and employee benefits expense which occurred primarily to the addition of employees which were hired and trained in anticipation of the opening of the new Scituate branch.

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 judgment relating to the realizability of such asset.

During the third quarter of 1995, the Bank recorded \$331,000 in tax expense. Offsetting this expense, the Bank recognized an additional deferred tax benefit of \$51,000 based on anticipated future income. The Bank enhanced its tax position by holding certain securities in its wholly-owned subsidiary, Hingham Security Corporation, which is taxed at a Massachusetts State rate of 1.32%. As a result, the Bank was taxed at an approximate combined effective rate of 35.9%. During the third quarter of 1994, \$46,000 in tax benefits were recognized.

RESULTS OF OPERATIONS FOR THE NINE MONTH PERIODS ENDED

SEPTEMBER 30, 1995 AND 1994

GENERAL

The Bank reported net income of \$1.4 million, or \$1.10 per share for the nine months ended September 30, 1995 as compared with \$1.9 million or \$1.48 per share for the same period in 1994. Earnings for 1994 were positively impacted by tax benefits and also included \$282,000 in income related to a litigation settlement. Pre-tax income for the nine months ended September 30, 1995 and 1994, excluding the effect of the litigation settlement in 1994, was \$2.2 million and \$1.4 million, respectively, an increase of \$779,000.

NET INTEREST INCOME

Net interest income increased to \$4.6 million for the nine months ended September 30, 1995 from \$4.1 million for the comparable period in 1994. The weighted average interest rate spread increased to 3.50% for the first nine months of 1995 from 3.48% for the same period in 1994. Net interest margin, which is calculated by dividing net interest income by average earning assets, increased by 21 basis points to 4.02% for the first nine months of 1995 from 3.81% for the same period last year.

Nine months ended September 30, (In Thousands)	1995			1994		
	<u>AVERAGE BALANCE</u>	<u>INTEREST</u>	<u>YIELD</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST</u>	<u>YIELD</u>
Loans (1) (2)	\$106,982	\$6,844	8.53%	\$ 85,401	\$5,160	8.06%
Investment securities (3)	42,706	1,835	5.73%	54,279	2,022	4.97%
Short-term investments	<u>3,296</u>	<u>148</u>	5.99%	<u>3,010</u>	<u>85</u>	3.77%
Total earning assets	152,984	<u>8,827</u>	7.69%	142,690	<u>7,267</u>	6.79%
Other assets	<u>5,980</u>			<u>7,356</u>		
Total assets	<u>\$158,964</u>			<u>\$150,046</u>		
Deposits	\$115,244	3,345	3.87%	\$112,986	2,628	3.10%
FHLB borrowings	<u>19,139</u>	<u>873</u>	6.08%	<u>15,454</u>	<u>565</u>	4.87%
Total interest-bearing liabilities	134,383	<u>4,218</u>	4.19%	128,440	<u>3,193</u>	<u>3.31%</u>
Weighted average rate spread (4)			<u>3.50%</u>			<u>3.48%</u>
Demand deposits	6,150			6,180		
Other liabilities	<u>1,643</u>			<u>817</u>		
Total liabilities	142,176			135,437		
Stockholders' equity	<u>16,788</u>			<u>14,609</u>		
Total liabilities and stockholders' equity	<u>\$158,964</u>			<u>\$150,046</u>		
Net interest income		<u>\$4,609</u>			<u>\$4,074</u>	
Net interest margin (5)			4.02%			3.81%

- (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 securities available for sale.
- (4) Represents the weighted average yield on interest-earning assets during the period less the weighted average rate paid on interest-bearing liabilities.
- (5) Represents net interest income divided by average earning assets.

Interest and dividend income increased by \$1.6 million for the first nine months of 1995 compared to the same period in 1994. This increase is primarily attributable to an increase of approximately \$10.3 million in the volume of average earning assets during the period ended September 30, 1995 compared to the period ended September 30, 1994 combined with a 90 basis point rise in the average yield over the same two periods. Interest income on loans increased by \$1.7 million over the same two periods primarily as a result of an increase of approximately \$21.6 million in average loans outstanding. Over the same two periods, interest and dividends on investments decreased by \$187,000 due to sales and principal paydowns on investment securities partially offset by an increase in the weighted average yield.

Total interest expense increased \$1.0 million for the nine month period ended September 30, 1995 compared to the same period in 1994. Interest on deposits increased by \$717,000 as a result of higher weighted average rates paid on deposits, an increase in average volume and by changes in the deposit mix. Interest paid on Federal Home Loan Bank advances for the nine month period ended September 30, 1995 increased by \$308,000 as compared to the same period in 1994 primarily as a result of a higher weighted average rate accompanied by a \$3.7 million increase in average borrowings. The average rate on interest-bearing liabilities increased to 4.19% for the first nine months of 1995 from 3.31% for the comparable period in 1994.

PROVISION FOR LOAN LOSSES

At September 30, 1995 and 1994, 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 \$90,000 provision for loan losses was charged to operations in the first nine months of both 1995 and 1994. The balance of the allowance for loan losses at September 30, 1995 and September 30, 1994 was \$1.2 million and \$1.3 million, respectively.

OTHER INCOME

Total other income was \$347,000 for the nine months ended September 30, 1995 as compared to \$619,000 for the same period in 1994, a decrease of \$272,000 which is primarily attributable to a \$282,000 settlement, related to the actions of a former president, which was received in 1994.

OPERATING EXPENSES

Total operating expenses were \$2.7 million, or an annualized 2.3% of average total assets, for the nine months ended September 30, 1995 as compared to \$2.9 million, or 2.6%, for the same period in 1994. The improvement in operating expenses was the result of a \$208,000 decrease in foreclosed and other real estate expenses due to a significant decline in foreclosed properties held. In addition, during the third quarter of 1995 the Bank received a \$76,000 premium refund from the FDIC resulting from a reduction in premium rates which became effective on June 1, 1995. Partially offsetting these improvements was a \$95,000 increase in salaries and employee benefits expense attributable to increases in the average pay rate combined with the hire of staff in anticipation of the opening of the new Scituate branch.

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 judgment relating to the realizability of such asset.

During the first nine months of 1995, the Bank recorded \$902,000 in tax expense. Offsetting this expense, the Bank recognized an additional deferred tax benefit of \$151,000 based on anticipated future income. As a result, the Bank was taxed at an approximate effective rate of 34.6%. During the first nine months of 1994, \$226,000 in tax benefits were recognized.

BALANCE SHEET ANALYSIS - COMPARISON AT SEPTEMBER 30, 1995 TO

DECEMBER 31, 1994

Assets totaled \$170.3 million at September 30, 1995, as compared to \$153.2 million at December 31, 1994, an increase of 11%.

INVESTMENT SECURITIES

Investments in debt securities that management has the positive intent and ability to hold to maturity are 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.

Investment securities were \$46.4 million, or 27% of total assets, at September 30, 1995, a decrease of \$3.5 million from \$42.9 million at December 31, 1994. At September 30, 1995, securities held to maturity at amortized cost totaled \$29.0 million with a fair value of \$28.5 million, and debt securities available for sale at fair value totaled \$17.5 million. The net unrealized loss on securities available for sale, net of tax was \$96,000 at September 30, 1995, an improvement of \$429,000 from December 31, 1994.

LOANS

During the first nine months of 1995, total loans outstanding increased by \$11.4 million to \$111.8 million on September 30, 1995, from \$100.4 million at December 31, 1994 attributable primarily to \$25.0 million in originated loans offset by amortization, pay-offs and transfers to foreclosed real estate. On September 30, 1995 and December 31, 1994, loans outstanding represented 66% of total assets. Loans totaling \$504,000 and \$505,000 were classified as non-accrual at September 30, 1995 and December 31, 1994, respectively.

Loan Balances by Type

(In Thousands)	September 30, <u>1995</u>	December 31, <u>1994</u>
Mortgage loans:		
Residential	\$ 60,602	\$ 57,671
Commercial	39,756	33,763
Construction	6,875	6,404
Equity lines-of-credit	5,298	3,687
Second mortgages	<u>321</u>	<u>249</u>
	112,852	101,774
Less unadvanced loan funds	<u>(1,476)</u>	<u>(1,755)</u>
Total mortgage loans, net	<u>111,376</u>	<u>100,019</u>
Commercial loans:		
Secured	963	888
Unsecured	<u>37</u>	<u>71</u>
Total commercial loans	<u>1,000</u>	<u>959</u>
Consumer loans:		
Personal installment	864	934
Education	23	30
Revolving credit	<u>76</u>	<u>81</u>
Total consumer loans	<u>963</u>	<u>1,045</u>
Total loans	113,339	102,023
Less: Allowance for loan losses	(1,245)	(1,338)
Net deferred interest and loan fees	<u>(292)</u>	<u>(287)</u>
Loans, net	<u>\$111,802</u>	<u>\$100,398</u>

At September 30, 1995, included in the above table are \$497,000 in loans which have been classified as impaired pursuant to the adoption of SFAS No. 114. See accompanying Notes to Unaudited Consolidated Financial Statements.

Loans are carried net of the allowance for loan losses. The allowance is maintained at a level to absorb possible losses within the loan portfolio. At September 30, 1995, the allowance had a balance of \$1.2 million, which included no reserves allocated to loans classified as impaired pursuant to the adoption of SFAS No. 114. At December 31, 1994 the allowance had a balance of \$1.3 million.

During the first nine months of 1995, foreclosed real estate, net decreased by \$404,000 or 92% to \$35,000 at September 30, 1995, from \$439,000 at December 31, 1994. Effective January 1, 1995, two properties totalling \$129,000 which were classified as "in-substance" foreclosure were transferred from the foreclosed real estate category and reclassified as impaired/non-accrual loans pursuant to the adoption of SFAS No. 114. At September 30, 1995, foreclosed real estate, net, was .02% of total assets as compared to 0.29% at December 31, 1994.

Non-Performing Assets

	September 30, 1995	December 31, 1994
(In Thousands)		
Non-accrual loans:		
Mortgage loans (1)	\$498	\$432
Commercial loans (2)	6	48
Installment loans	<u>—</u>	<u>25</u>
Total non-accrual loans	504	505
Foreclosed real estate, net	<u>35</u>	<u>439</u>
Total non-performing assets, net	<u>\$539</u>	<u>\$944</u>
Percentage of non-accrual loans to:		
Loans, net	0.45%	0.50%
Total assets	0.30%	0.33%
Percentage of non-performing assets, net to:		
Loans, net and foreclosed real estate, net	0.48%	0.94%
Total assets	0.32%	0.62%

(1) Includes home equity loans.

(2) Includes lines of credit.

DEPOSITS

Deposits increased by \$9.3 million to \$126.0 million at September 30, 1995 from \$116.7 million at December 31, 1994. Core deposits, which include regular, money market, NOW and demand deposits, were \$68.4 million, or 54.3% of total deposits, at September 30, 1995. Core deposits were 63.5% of total deposits at December 31, 1994. Certificate accounts were \$57.6 million at September 30, 1995 an increase of \$15.0 million over the \$42.6 million at December 31, 1994.

Deposit Balances by Type

	September 30, <u>1995</u>	% of <u>Total</u>	December 31, <u>1994</u>	% of <u>Total</u>
(Dollars in Thousands)				
Non-certificate accounts:				
Regular	\$30,514	24.2%	\$ 32,888	28.2%
Money market deposits	19,306	15.3	23,934	20.5
NOW	10,605	8.4	10,584	9.1
Demand	<u>7,972</u>	<u>6.4</u>	<u>6,687</u>	<u>5.7</u>
Total non-certificate accounts	<u>68,397</u>	<u>54.3</u>	<u>74,093</u>	<u>63.5</u>
Term certificates less than \$100,000	46,133	36.6	34,679	29.7
Term certificates \$100,000 or more	<u>11,503</u>	<u>9.1</u>	<u>7,912</u>	<u>6.8</u>
Total certificate accounts	<u>57,636</u>	<u>45.7</u>	<u>42,591</u>	<u>36.5</u>
Total deposits	<u>\$126,033</u>	<u>100.0%</u>	<u>\$116,684</u>	<u>100.0%</u>

BORROWINGS

Federal Home Loan Bank (FHLB) advances were \$24.0 million at September 30, 1995 and \$19.0 million at December 31, 1994. A \$5.0 million advance was taken during the third quarter of 1995 to fund the purchase of investment securities. At September 30, 1995, advances were fixed rate in nature and had remaining maturities of less than three years.

CAPITAL

During the nine month period ended September 30, 1995, stockholders' equity increased by \$1.6 million to \$17.6 million, primarily due to net income for the nine month period of \$1.4 million and the increase in the value of securities available for sale, offset by the declaration of three cash dividends totalling \$0.19 per share.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's primary sources of liquidity are deposit balances, available-for-sale securities, principal and interest payments on loans and investment securities and FHLB advances.

At September 30, 1995, the Bank held \$17.5 million in available-for-sale securities and during the first nine months of 1995 the Bank received \$2.5 million in principal payments on its entire investment portfolio. Deposits increased by \$9.3 million during the same nine month period.

The Bank is a member of the Federal Home Loan Bank and is eligible to obtain both short and long term credit advances. Borrowing capacity is limited to the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages and certain investment securities. At December 31, 1994, the Bank's qualified collateral totalled \$79.6 million. At September 30, 1995, the Bank had \$24.0 million in credit advances outstanding with maturities of less than two years.

The Bank can also enter into repurchase agreement transactions should the need for additional liquidity arise. At September 30, 1995, the Bank had no repurchase agreements outstanding.

At September 30, 1995, the Bank had capital of \$17.6 million, or 10.3% of total assets, as compared to \$16.0 million, or 10.4%, at December 31, 1994. Massachusetts chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets.

Regulatory Capital

(Dollars in Thousands)

	<u>September 30, 1995</u>	<u>December 31, 1994</u>
Total Risk-Weighted Assets	\$98,579	\$87,603
Tier 1 Capital as a Percentage of Risk-Weighted Assets	17.95%	18.84%
Total Capital as a Percentage of Risk-Weighted Assets	19.20%	20.09%
Leverage Ratio	10.83%	10.88%

At September 30, 1995, the Bank exceeded all of the minimum regulatory capital ratio requirements.

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: November 13, 1995

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

Date: November 13, 1995

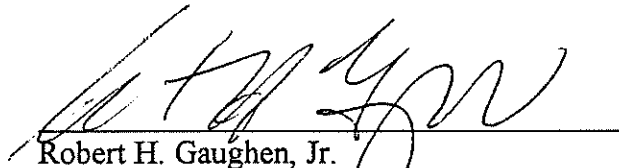
/s/ Deborah J. Jackson
Vice President & Treasurer

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.

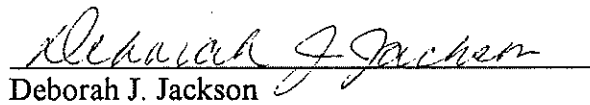
HINGHAM INSTITUTION FOR SAVINGS

Date: November 13, 1995



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

Date: November 13, 1995



Deborah J. Jackson
Vice President & Treasurer