



ITFM 1 - FINANCIAL STATEMENTS  
HINGHAM INSTITUTION FOR SAVINGS

DESCRIPTION	June 30,	December 31,
	1990	1989
	(In thousands)	
	(Unaudited)	(Audited)
<b>ASSETS</b>		
Cash and due from banks . . . . .	\$ 3,196	\$ 3,150
Interest bearing deposits . . . . .	<u>2,496</u>	<u>3,736</u>
Total cash and cash equivalents . . . . .	5,692	6,886
Other short-term investments . . . . .	0	2,000
Investment securities, net . . . . .	27,045	21,455
Loans, net of allowance for possible loan losses of \$1,499,000 in 1990 and \$3,381,000 in 1989 .	107,093	113,138
Banking premises and equipment, net . . . . .	2,015	2,076
Other real estate owned . . . . .	7,742	2,368
Accrued interest receivable . . . . .	1,359	1,552
Income taxes receivable . . . . .	766	794
Other assets . . . . .	<u>368</u>	<u>364</u>
Total assets	<u>\$152,080</u>	<u>\$150,633</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits . . . . .	\$118,973	\$116,345
Advances from Federal Home Loan Bank of Boston .	15,000	15,000
Mortgagors' escrow payments . . . . .	324	340
Accrued expenses . . . . .	125	101
Accrued interest payable . . . . .	691	778
Other liabilities . . . . .	<u>162</u>	<u>70</u>
Total liabilities . . . . .	<u>135,275</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>7,390</u>	<u>8,568</u>
	17,011	18,189
Net unrealized loss on marketable equity securities . . . . .	<u>(206)</u>	<u>(190)</u>
Total stockholders' equity . . . . .	<u>16,805</u>	<u>17,999</u>
Total liabilities and stockholders' equity	<u>\$152,080</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 June 30,		Six Months Ended June 30,	
	1990	1989	1990	1989
	(In Thousands, Except Per Share Amounts) (Unaudited)			
Interest and dividend income:				
Interest on loans . . . . .	\$2,629	\$2,963	\$5,289	\$5,878
Interest and dividend income on investments and mortgage backed securities. . . . .	590	225	1,044	499
Interest on short-term investments. . . . .	<u>55</u>	<u>155</u>	<u>223</u>	<u>308</u>
Total interest and dividend income . . . . .	3,274	3,343	6,556	6,685
Interest expense:				
Interest on deposits . . . . .	2,111	2,097	4,232	4,166
Interest on Federal Home Loan Bank advances . . . . .	<u>335</u>	<u>224</u>	<u>681</u>	<u>340</u>
Total interest expense . . . . .	2,446	2,321	4,913	4,506
Net interest income . . . . .	828	1,022	1,643	2,179
Provision for possible loan losses . . . . .	<u>100</u>	<u>40</u>	<u>1,200</u>	<u>104</u>
Net interest income, after provision for possible for possible loan losses . . . . .	728	982	443	2,075
Other income:				
Fees on deposit accounts . . . . .	56	69	110	139
Miscellaneous . . . . .	<u>42</u>	<u>37</u>	<u>68</u>	<u>88</u>
Total other income . . . . .	98	106	178	227
Operating expenses:				
Salaries and employee benefits . . . . .	402	393	779	764
Equipment expenses . . . . .	50	51	100	110
Occupancy expenses . . . . .	31	28	67	60
Data processing expenses . . . . .	91	77	172	153
Legal expenses . . . . .	94	62	191	120
Real estate owned expenses, net . . . . .	163	4	350	4
Other general and administrative expenses . . . . .	<u>255</u>	<u>221</u>	<u>463</u>	<u>453</u>
Total operating expenses . . . . .	1,086	836	2,122	1,664
Income (loss) before income taxes . . . . .	(260)	252	(1,501)	638
Income tax expense (benefit). . . . .	<u>(25)</u>	<u>17</u>	<u>(523)</u>	<u>194</u>
Net income (loss). . . . .	<u>\$ (235)</u>	<u>\$ 235</u>	<u>\$ (978)</u>	<u>\$ 444</u>
Earnings (loss) per share . . . . .	<u>\$ (0.19)</u>	<u>\$ 0.19</u>	<u>\$ (0.78)</u>	<u>\$ 0.36</u>

See Accompanying Notes to Financial Statements

ITEM 1 - FINANCIAL STATEMENTS  
 HINGHAM INSTITUTION FOR SAVINGS

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 FOR THE SIX MONTHS ENDED  
 JUNE 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 Loss			(978)		(978)
Increase in net unrealized loss on marketable equity securities				(16)	(16)
Cash Dividend Paid			(200)		(200)
Balance June 30, 1990 (unaudited)	<u>\$1,250</u>	<u>\$8,371</u>	<u>\$7,390</u>	<u>(\$206)</u>	<u>\$16,805</u>
December 31, 1988	\$1,250	\$8,371	\$11,194	(\$51)	\$20,764
Net Income			444		444
Increase in net unrealized loss on marketable equity securities				(26)	(26)
Cash Dividend Paid			(87)		(87)
Balance June 30, 1989 (unaudited)	<u>\$1,250</u>	<u>\$8,371</u>	<u>\$11,551</u>	<u>(\$77)</u>	<u>\$21,095</u>

See Accompanying Notes to Financial Statements

ITEM 1 - FINANCIAL STATEMENTS  
HINGHAM INSTITUTION FOR SAVINGS

STATEMENTS OF CASH FLOWS

Six Months Ended  
June 30,  
1990                      1989

(In thousands)  
(Unaudited)

Cash flows from operating activities		
Net income (loss) . . . . .	(\$978)	\$444
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for possible loan losses . . . . .	1,200	104
Amortization of discount on investment securities, net . . . . .	(1)	35
Amortization of deferred loan fees . . . . .	(28)	(101)
Depreciation expense . . . . .	83	87
(Increase) decrease in accrued interest receivable . . . . .	193	(46)
(Increase) decrease in other assets. . . . .	(4)	582
Change in accrued income taxes . . . . .	28	(567)
Increase (decrease) in accrued interest payable. . . . .	(87)	(54)
Increase (decrease) in accrued expenses. . . . .	24	(192)
Increase (decrease) in other liabilities . . . . .	<u>92</u>	<u>(16)</u>
Net cash provided by operating activities . . . . .	<u>522</u>	<u>276</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 . . . . .	6,000	5,414
Purchase of investment securities . . . . .	(11,630)	(1,828)
Principal payments received on mortgage-backed securities . . . . .	25	25
Decrease (increase) in loans, net . . . . .	4,614	(1,010)
Proceeds from sale of Student Loans. . . . .	259	284
(Increase) decrease in other real estate owned, net. . . . .	(5,374)	(830)
Additions to banking premises and equipment. . . . .	<u>(22)</u>	<u>(1,124)</u>
Net cash provided by (used in) investing activities . . . . .	<u>(4,128)</u>	<u>4,931</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits . . . . .	2,628	(9,938)
Proceeds from Federal Home Loan Bank Advances . . . . .	---	12,000
Repayment of Federal Home Loan Bank Advance . . . . .	---	(10,000)
Net increase (decrease) in mortgagors' escrow accounts . . . . .	(16)	23
Cash dividends paid on common stock . . . . .	<u>(200)</u>	<u>(87)</u>
Net cash provided by (used in) financing activities . . . . .	<u>2,412</u>	<u>(8,002)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	(1,194)	(2,795)
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>\$5,692</u>	<u>\$11,098</u>

See Accompanying Notes to Financial Statements

# HINGHAM INSTITUTION FOR SAVINGS

## Notes to Unaudited Financial Statements

June 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 June 30, 1990 and the results of operations and the changes in cash flows for the six 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."

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. The Bank will vigorously defend this lawsuit.

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.

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  
June 30,  
1990      1989

Weighted average yield earned on:

Loans	9.56%	9.87%
Investment securities	8.87%	7.06%
Short-term investments	7.52%	9.25%
All earning assets	9.39%	9.59%

Weighted average rate paid on:

Deposits	7.16%	7.34%
FHLB Borrowings	8.93%	9.43%

All interest-bearing liabilities	7.36%	7.49%
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Weighted average rate spread	2.03%	2.10%
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HINGHAM INSTITUTION FOR SAVINGS

	Interest spread for the six months ended June 30,	
	1990	1989
Weighted average yield earned on:		
Loans	9.41%	9.82%
Investment securities	8.77%	7.49%
Short-term investments	8.20%	8.15%
All earning assets	9.26%	9.51%
Weighted average rate paid on:		
Deposits	7.21%	7.12%
FHLB Borrowings	9.08%	8.65%
All interest-bearing liabilities	7.42%	7.20%
Weighted average rate spread	1.84%	2.31%

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

HINGHAM INSTITUTION FOR SAVINGS

THREE MONTHS ENDED JUNE 30, 1990 AND 1989

GENERAL:

The net loss for the quarter ended June 30, 1990 totaled \$235,000 or \$0.19 per share as compared with net income of \$235,000 or \$0.19 per share for the quarter ended June 30, 1989.

The loss for the quarter reflects reduced net interest income, an increase of \$60,000 to the provision for possible loan losses and increased operating expenses.

NET INTEREST INCOME:

Net interest income decreased to \$828,000 for the second quarter of 1990 from \$1,022,000 for the comparable 1989 quarter. The weighted average rate spread decreased to 2.03% in the second quarter of 1990 from 2.10% in the second quarter of 1989.

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments decreased by \$69,000 for the second quarter of 1990 compared to the second quarter 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 9.39% for the quarter ended June 30, 1990 from 9.59% for the quarter ended June 30, 1989.

INTEREST EXPENSE:

Total interest expense increased \$125,000 with interest on deposits increasing by \$14,000. The interest paid on the Federal Home Loan Bank advances for the second quarter of 1990 as compared to the comparable quarter in 1989 increased by \$111,000 due to a higher level of borrowed funds during the 1990 quarter. The average cost of funds decreased to 7.36% in the second quarter of 1990 from 7.49% in the comparable 1989 quarter.

OTHER EXPENSES:

Total operating expenses increased to \$1,086,000 from \$836,000 when comparing the second quarter of 1990 to the second quarter of 1989, representing an increase of \$250,000. This is in part due to an increase in legal expenses of \$32,000 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 \$159,000.

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.