

Balance Sheets

	September 30, 1989	December 31, 1988
	(In thousands)	
ASSETS	(Unaudited)	(Audited)
Cash and due from banks	\$3,276	\$3,733
Federal funds sold	<u>7,532</u>	<u>10,160</u>
Total cash and cash equivalents	10,808	13,893
Other short-term investments	2,000	6,000
Investment securities	17,818	14,947
Loans, net	112,386	118,141
Banking premises and equipment, net	2,074	1,043
Other real estate owned	3,320	634
Accrued interest receivable	1,302	1,370
Income taxes recoverable	830	0
Other assets	<u>421</u>	<u>1,012</u>
Total assets	<u>\$150,959</u>	<u>\$157,040</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$115,745	\$124,221
Advance from Federal Home Loan Bank	15,000	10,000
Mortgagors' escrow payments	671	275
Accrued taxes and expenses	169	893
Accrued interest payable	699	759
Other liabilities	<u>104</u>	<u>128</u>
Total liabilities	<u>132,388</u>	<u>136,276</u>
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>9,064</u>	<u>11,194</u>
Net unrealized loss on marketable equity securities	18,685	20,815
Net unrealized loss on marketable equity securities	<u>(114)</u>	<u>(51)</u>
Total stockholders' equity	<u>18,571</u>	<u>20,764</u>
Total liabilities and stockholders' equity	<u>\$150,959</u>	<u>\$157,040</u>

Statements of Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1989	1988	1989	1988
	<u>(In Thousands, Except Per Share Amounts</u>			
	(Unaudited)			
Interest and dividend income:				
Interest on loans	\$2,520	\$2,975	\$8,398	\$8,519
Interest and dividend income, on investment securities and mortgage-backed investments.	315	381	814	1,089
Interest on short-term investments	<u>184</u>	<u>118</u>	<u>492</u>	<u>302</u>
Total interest and dividend income	<u>3,019</u>	<u>3,474</u>	<u>9,704</u>	<u>9,910</u>
Interest expense:				
Interest on deposits	2,150	2,137	6,316	6,374
Interest on Federal Home Loan Bank advance.	<u>304</u>	<u>179</u>	<u>644</u>	<u>179</u>
Total interest expense	<u>2,454</u>	<u>2,316</u>	<u>6,960</u>	<u>6,553</u>
Net interest income	565	1,158	2,744	3,357
Provision for possible loan losses	<u>3,000</u>	<u>162</u>	<u>3,104</u>	<u>283</u>
Net interest income, after provision for possible loan losses	<u>(2,435)</u>	<u>996</u>	<u>(360)</u>	<u>3,074</u>
Other income:				
Loan origination and other loan fees	0	14	9	36
Fees on deposit accounts	53	55	191	170
Gain (loss) on investment securities, net	(1)	(1)	(1)	(23)
Miscellaneous	<u>26</u>	<u>41</u>	<u>102</u>	<u>101</u>
Total other income	<u>78</u>	<u>109</u>	<u>301</u>	<u>284</u>
Operating expenses:				
Salaries and employee benefits	342	388	1,106	1,161
Equipment expenses	55	49	165	142
Occupancy expenses	31	23	91	81
Data processing expenses	74	85	227	236
Other general and administrative expenses	<u>271</u>	<u>165</u>	<u>844</u>	<u>487</u>
Total operating expenses	<u>773</u>	<u>710</u>	<u>2,433</u>	<u>2,107</u>
Income (loss) before income taxes	(3,130)	395	(2,492)	1,251
Provision (benefit) for income taxes	<u>(742)</u>	<u>177</u>	<u>(548)</u>	<u>561</u>
Net income (loss)	<u>(\$2,388)</u>	<u>\$ 218</u>	<u>(\$1,944)</u>	<u>\$ 690</u>
Earnings (loss) per share	<u>(\$1.91)</u>	*	<u>(\$1.56)</u>	*

* Per data share is not presented as the Bank converted from a mutual to a stock form of ownership in December, 1988

HINGHAM INSTITUTION FOR SAVINGS
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 1989 and 1988

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Undivided Profits</u>	<u>Unrealized Loss on Marketable Equity Securities</u>	<u>TOTAL</u>
Balance					
December 31, 1988	\$1,250	\$8,371	\$11,194	(\$51)	\$20,764
Net Income (Loss)			(1,944)		(1,944)
Increase in net unrealized loss on marketable equity securities				(63)	(63)
Cash dividend paid	_____	_____	(186)	_____	(186)
Balance, September 30, 1989 (unaudited)	<u>\$1,250</u>	<u>\$8,371</u>	<u>\$9,064</u>	<u>(\$114)</u>	<u>\$18,571</u>
Balance, December 31, 1987	\$0	\$0	\$10,361	(\$70)	\$10,291
Net Income			690		690
Decrease in net unrealized loss on marketable equity securities	_____	_____	_____	32	32
Balance, September 30, 1988 (unaudited)	<u>\$0</u>	<u>\$0</u>	<u>\$11,051</u>	<u>(\$38)</u>	<u>\$11,013</u>

HINGHAM INSTITUTION FOR SAVINGS
STATEMENT OF CASH FLOWS

(Unaudited)
Nine Months Ended
SEPTEMBER 30
1989 1988
(In thousands)

Cash flows from operating activities		
Net income (Loss)	(\$1,944)	\$ 690
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible loan losses	3,104	283
Amortization of investment securities, net of accretion	56	154
Amortization of deferred loan fees	(120)	(129)
Deferred tax benefit	(27)	(81)
Depreciation expense	129	106
(Gain) loss sale of investments	1	23
(Increase) decrease in accrued interest receivable	68	(47)
(Increase) decrease in other assets	591	125
Increase (decrease) in accrued income taxes payable	(1,241)	381
Increase (decrease) in accrued interest payable	(60)	(92)
Increase (decrease) in accrued expenses	(286)	195
Increase (decrease) in other liabilities	<u>(24)</u>	<u>147</u>
Net cash provided by operating activities	247	1,755
Cash flows from investing activities:		
Proceeds from maturities of other short-term investments	6,000	3,500
Purchase of other short-term investments	(2,000)	(4,000)
Proceeds from sales of investment securities	6,221	8,358
Purchase of investment securities	(9,251)	(10,683)
Principal payments received on mortgage-backed investments	39	49
Principal payments received on loans	16,289	12,239
Proceeds from sale of student loans	284	332
Loans originated	(13,802)	(24,027)
(Increase) decrease in real estate by foreclosure, net	(2,686)	(433)
Purchase of banking premises and equipment	<u>(1,160)</u>	<u>(242)</u>
Net cash provided (used) in investing activities	(66)	(14,907)
Cash flows from financing activities:		
Net increase (decrease) in deposits, excluding certificate accounts	(6,983)	(2,343)
Proceeds from issuance of certificates of deposit	18,422	22,387
Payments for maturing certificates of deposit	(19,915)	(18,489)
Proceeds of advance from Federal Home Loan Bank	5,000	10,000
Net increase (decrease) in mortgagors' escrow accounts	396	320
Cash dividend paid on capital stock	<u>(186)</u>	<u>0</u>
Net cash provided (used) by financing activities	<u>(3,266)</u>	<u>11,875</u>
Net increase (decrease) in cash and cash equivalents	(3,085)	(1,277)
Cash and cash equivalents at beginning of year	<u>13,893</u>	<u>6,313</u>
Cash and cash equivalents at end of year	<u>\$10,808</u>	<u>\$ 5,036</u>

HINGHAM INSTITUTION FOR SAVINGS

Notes to Unaudited Financial Statements

September 30, 1989

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, 1988.

Financial information as of September 30, 1989 and the results of operations and the changes in cash flows for the nine months ended September 30, 1989 and 1988, 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) CONVERSION TO STOCK FORM OF OWNERSHIP

On December 20, 1988, the Bank completed conversion from a Massachusetts chartered savings bank in mutual form to a Massachusetts chartered savings bank in stock form by the sale of 1,250,000 shares of common stock at \$8.50 per share. The gross proceeds to the Bank were \$10,625,000. Conversion costs of \$1,004,000 have been netted against the proceeds.

3) LEGAL PROCEEDINGS

Reference is made to a Current Report on Form F-3 filed with the FDIC on February 28, 1989 for Hingham Institution for Savings (the "Bank"), in which the Bank reported that it had filed a civil action for injunctive relief and money damages in Massachusetts' Plymouth County Superior Court against the Bank's former President and Chief Executive Officer, Wilfred H. Creighton. On or about April 3, 1989, Mr. Creighton responded to the Bank's complaint by filing an answer and counterclaims against the Bank. The answer generally denies all the substantive claims against Mr. Creighton, and it invokes Mr. Creighton's Fifth Amendment privileges. The counterclaims allege that the Bank breached its Employment Agreement with Mr. Creighton by terminating his employment without cause and that the Bank's complaint is frivolous and unmeritorious, and that Mr. Creighton suffered intentional and negligent infliction of emotional distress, defamation of character, violation of his civil rights, and wrongful removal as a director and trustee. Mr. Creighton has asked for damages of \$500,000 for the Breach of Employment Agreement counterclaim, and an unspecified amount for all other counterclaims.

On April 24, 1989, the Bank filed its answer to Mr. Creighton's counterclaim in which the Bank denies all of the substantive counterclaims.

HINGHAM INSTITUTION FOR SAVINGS

Interest spread for the
three months ended
September 30,
1989 1988

Weighted average yield earned on:		
Loans	8.55%	10.43%
Investment securities	8.12%	7.62%
Short-term investments	9.62%	9.32%
All earning assets	8.56%	9.98%
Weighted average rate paid on:		
Deposits	7.51%	6.83%
FHLB borrowings	9.54%	9.55%
Other	1.64%	0.88%
All interest-bearing liabilities	7.69%	6.96%
Weighted average rate spread	0.87%	3.02%

HINGHAM INSTITUTION FOR SAVINGS

	Interest spread for the Nine months ended September 30,	
	1989	1988
Weighted average yield earned on:		
Loans	9.41%	10.42%
Investment securities	7.54%	7.47%
Short-term investments	8.93%	7.59%
All earning assets	9.19%	9.88%
Weighted average rate paid on:		
Deposits	7.25%	6.84%
FHLB borrowings	9.13%	7.96%
Other	1.29%	0.99%
All interest-bearing liabilities	7.37%	6.85%
Weighted average rate spread	1.82%	3.03%

HINGHAM INSTITUTION FOR SAVINGS

Management's discussion and analysis of the financial condition and results of operations for the three-month period ended September 30, 1989, with appropriate comparisons to the comparable 1988 period follows:

GENERAL:

The bank converted from a mutual to stock form of ownership on December 20, 1988, with net conversion proceeds amounting to \$9,621,000.

The net loss for the quarter ended September 30, 1989, totaled \$2,388,000 or \$1.91 per share as compared with net income of \$218,000 for the quarter ended September 30, 1988. The loss resulted from an addition of \$3,000,000 to the provision for possible loan losses during the third quarter of 1989.

Increasing reserves at this time reflects the concern of our Management and Board of Directors for the current conditions of the local real estate market. It is clear that the market will take longer than originally anticipated to absorb the condominium and residential production of previous years. Our capital adequacy and underlying earning power remain strong and we expect a return to profitable operations for the fourth quarter.

NET INTEREST INCOME

Net interest income decreased to \$565,000 for the third quarter of 1989 from \$1,158,000 for the comparable 1988 quarter. The weighted average rate spread decreased to .87% in the third quarter of 1989 from 3.02% in the third quarter.

HINGHAM INSTITUTION FOR SAVINGS

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments decreased by \$455,000 for the third quarter of 1989 as compared to the third quarter of 1988. This decrease is attributable to the increase in non-earning loans and other real estate owned.

The yield on all earning assets decreased to 8.56% for the quarter ended September 30, 1989 from 9.98% for the quarter ended September 30, 1988.

INTEREST EXPENSE:

Total interest expense increased \$138,000 with interest on deposits increasing by \$13,000. The interest paid of \$304,000 on the Federal Home Loan Bank advances for the third quarter of 1989 as compared to \$179,000 for the comparable quarter in 1988 accounts for the overall increase.

Average deposits decreased by \$10,690,000 from the quarter ended September 30, 1988 to the comparable 1989 quarter. The average cost of funds increased to 7.69% in the third quarter of 1989 from 6.96% in the comparable 1988 quarter.

PROVISION FOR INCOME TAXES:

The lower than average benefit for income taxes in 1989 as compared to the provision in 1988 is attributable to the extraordinary provision for loan losses of \$3,000,000 which exceeded charge-offs of loan losses permitted for income tax purposes.

HINGHAM INSTITUTION FOR SAVINGS

OTHER EXPENSES:

Total operating expenses increased to \$773,000 from \$710,000 when comparing the third quarter of 1989 to the third quarter of 1988, representing an increase of \$63,000. This is primarily due to an increase in other general and administrative expenses which have increased \$106,000 due principally to the increased legal and auditing fees paid in connection with the legal proceedings as outlined in the following section Legal Proceedings. Salaries and employee benefits have decreased by \$46,000. Occupancy and equipment expenses have increased \$8,000 due principally to the installation of four (4) new ATM Machines at all offices and various other equipment.

LEGAL PROCEEDINGS:

The response to this item is incorporated by reference from the information which appears in the Form F-3 - Current Reports for February 1989 and April 1989, attached as Exhibits (A) and (B).

HINGHAM INSTITUTION FOR SAVINGS

Management's discussion and analysis of the financial condition and results of operations for the nine-month period ended September 30, 1989, with appropriate comparisons to the comparable 1988 period follows:

GENERAL:

The bank converted from a mutual to stock form of ownership on December 20, 1988, with net conversion proceeds amounting to \$9,621,000.

The net loss for the nine months ended September 30, 1989, totaled \$1,944,000 as compared with net income of \$690,000 for the nine months ended September 30, 1988. The loss resulted from an addition of \$3,000,000 to the provision for possible loan losses during the third quarter of 1989.

Increasing reserves at this time reflects the concern of our Management and Board of Directors for the current conditions of the local real estate market. It is clear that the market will take longer than originally anticipated to absorb the condominium and residential production of previous years. Our capital adequacy and underlying earning power remain strong and we expect a return to profitable operations for the fourth quarter.

NET INTEREST INCOME

Net interest income decreased to \$2,744,000 for the first nine months of 1989 from \$3,357,000 for the comparable 1988 period. The weighted average rate spread decreased to 1.82% in the nine-month period of 1989 from 3.03% in the nine-month period in 1988.

HINGHAM INSTITUTION FOR SAVINGS

INTEREST AND DIVIDEND INCOME:

Interest and dividend income on loans and investments decreased by \$206,000 for the first nine months of 1989 as compared to the first nine months of 1988 period. This decrease is attributable to the increase in non-earning loans and other real estate owned. The yield on all earning assets decreased to 9.19% for the first nine months ended September 30, 1989 from 9.88% for the nine months ended September 30, 1988.

INTEREST EXPENSE:

Total interest expense increased \$407,000 with interest on deposits decreasing by \$58,000. The interest paid of \$644,000 on the Federal Home Loan Bank advances for the nine months ended September 30, 1989 as compared to \$179,000 for the comparable period in 1988 accounts for the overall increase.

Overall average deposits decreased by \$8,048,000 from the quarter ended September 30, 1988 to the comparable 1989 quarter. The average cost of funds increased to 7.37% for the first nine months of 1989 from 6.85% in the comparable 1988 quarter.

PROVISION FOR INCOME TAXES:

The lower than average benefit for income taxes in 1989 as compared to the provision in 1988 is attributable to the extraordinary provision for loan losses of \$3,000,000 which exceeded charge-offs of loan losses permitted for income tax purposes.

HINGHAM INSTITUTION FOR SAVINGS

OTHER EXPENSES:

Total operating expenses increased to \$2,433,000 from \$2,107,000 when comparing the first nine months of 1989 to the comparable period of 1988, representing an increase of \$326,000. This is due primarily to an increase in other general and administrative expenses which have increased \$357,000 due principally to the increased legal and auditing fees paid in connection with the legal proceedings as outlined in the following section Legal Proceedings. Salaries and employee benefits decreased by \$55,000. Occupancy and equipment expenses have increased \$10,000 due principally to the installation of four (4) new ATM Machines at all offices and various other equipment.

LEGAL PROCEEDINGS:

The response to this item is incorporated by reference from the information which appears in the Form F-3 - Current Reports for February 1989 and April 1989, attached as Exhibits (A) and (B).

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 _____ 19 89 s/s _____
President & Chief Executive Officer

Date _____ 19 89 s/s _____
Vice President and Treasurer