



PRESS RELEASE

FROM: Robert H. Gaughen, Jr., President
Hingham Institution for Savings
Hingham, MA (NASDAQ: HIFS)

DATE: April 12, 2018

CONTACT: Patrick R. Gaughen, Executive Vice President (781) 783-1761

HINGHAM REPORTS FIRST QUARTER 2018 RESULTS

HINGHAM INSTITUTION FOR SAVINGS (NASDAQ: HIFS), Hingham, Massachusetts announced earnings for the first quarter ended March 31, 2018.

Net income for the quarter ended March 31, 2018 was \$8,912,000 or \$4.18 per share basic and \$4.08 per share diluted, as compared to \$6,112,000 or \$2.87 per share basic and \$2.80 per share diluted for the same period last year. For the first quarter of 2018, the Bank's annualized return on average equity was 18.56% and the annualized return on average assets was 1.56%, as compared to 14.77% and 1.21%, respectively, for the same period in 2017. This represents a 46% increase in diluted earnings per share over the same period last year.

Effective January 1, 2018, the Bank adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-01, *Financial Instruments – Overall, (Subtopic 825-10)*, which requires changes in the unrealized gains on certain equity securities, net of deferred taxes, to be recognized through the income statement. Prior to the adoption of ASU 2016-01, these changes were recorded in stockholders' equity through accumulated other comprehensive income, and only realized gains on sale of securities were recognized through the income statement. Excluding the after-tax gains on securities, both realized and unrealized, net income for the first quarter of 2018 was \$8,159,000 or \$3.83 per share basic and \$3.73 per share diluted, representing a core return on average equity of 16.99% and a core return on average assets of 1.43%. This represents a 33% increase in diluted earnings per share over the same period last year.

Growth in the first quarter of 2018 was modest, as deposits increased to \$1.532 billion at March 31, 2018, representing 7% annualized growth year-to-date and 9% growth from March 31, 2017. Net loans increased to \$1.872 billion, representing 8% annualized growth year-to-date and 15% growth from March 31, 2017. Total assets decreased to \$2.240 billion, representing a 2% decline from December 31, 2017. During the first quarter of 2018, the Bank used a portion of its cash balances to reduce outstanding Federal Home Loan Bank advances and listing services time

deposits, in order to minimize the carrying cost of its on-balance sheet liquidity. Total assets have increased 10% from March 31, 2017. Book value per share was \$91.14 as of March 31, 2018, representing 18% annualized growth year-to-date and 16% growth from March 31, 2017. In addition to the increase in book value per share, the Bank declared \$1.68 in dividends per share since March 31, 2017, including a special dividend of \$0.34 per share declared during the fourth quarter of 2017.

Key credit and operational metrics remained strong in the first quarter. At March 31, 2018, non-performing assets totaled 0.08% of total assets, compared to 0.07% at December 31, 2017 and 0.09% at March 31, 2017. Non-performing loans as a percentage of the total loan portfolio totaled 0.10% at March 31, 2018, compared to 0.09% at December 31, 2017 and 0.08% at March 31, 2017. The Bank recorded \$1,000 of net recoveries for the first three months of 2018, as compared to zero net charge-offs for the same period last year. At March 31, 2018 and December 31, 2017, the Bank did not own any foreclosed property and at March 31, 2017, the Bank owned only one piece of foreclosed property valued at \$563,000. The efficiency ratio improved to 30.41% for the first quarter of 2018, as compared to 32.45% for the same period last year. Non-interest expense as a percentage of average assets fell to 0.89% in the first quarter of 2018, as compared to 1.02% for the same period last year.

President Robert H. Gaughen Jr. stated, “We are pleased to report that returns on equity and assets remained satisfactory in the first quarter of 2018. At Hingham, we take seriously our role as stewards of shareholders’ capital. Our emphasis on careful capital allocation, defensive underwriting, process improvement, and disciplined cost control continues to serve our owners well. Performance in any one period should be viewed cautiously. The real test of performance in banking is a company’s record of compounding shareholder capital through all stages of the credit cycle. On this measure, our team strives to set a high bar.

Beginning this quarter, we are confronted by a communication challenge because of the new accounting standard impacting our equity investments. The Bank views its equity investments as long-term partnership interests in operating companies and consequently does not view short-term fluctuation in market value, whether positive as it was this quarter, or negative as it surely will be at some point in the future, as indicative of the change in the intrinsic value of the portfolio holdings. The performance of these holdings should be evaluated on the basis of their contribution to growth in book value per share over time, not via quarterly adjustments to net income. We have historically avoided reporting adjustments to our GAAP income, as such adjustments are often used by management teams to obscure rather than clarify the real economic performance of a company. We believe that in this instance, however, it is important that our owners understand that *quarterly changes* in the value of the equity portfolio, whether gains or losses, are impostors just the same.”

Hingham Institution for Savings is a Massachusetts-chartered savings bank located in Hingham, Massachusetts. Incorporated in 1834, it is one of America’s oldest banks. The Bank’s Main Office is located in Hingham and the Bank maintains offices on the South Shore, in Boston (South End and Beacon Hill), and on the island of Nantucket. The Bank is also an active commercial real estate lender in the Greater Washington D.C. metropolitan area.

The Bank’s shares of common stock are listed and traded on The NASDAQ Stock Market under the symbol HIFS.

HINGHAM INSTITUTION FOR SAVINGS
Selected Financial Ratios

<i>(Unaudited)</i>	Three Months Ended	
	March 31,	
	2017	2018
Key Performance Ratios		
Return on average assets (1)	1.21 %	1.56 %
Return on average equity (1)	14.77	18.56
Core return on average assets (1) (5)	1.21	1.43
Core return on average equity (1) (5)	14.77	16.99
Interest rate spread (1) (2)	3.00	2.75
Net interest margin (1) (3)	3.12	2.93
Non-interest expense to average assets (1)	1.02	0.89
Efficiency ratio (4)	32.45	30.41
Average equity to average assets	8.21	8.41
Average interest-earning assets to average interest bearing liabilities	116.78	117.83

<i>(Unaudited)</i>	March 31, 2017	December 31, 2017	March 31, 2018	
	Asset Quality Ratios			
	Allowance for loan losses/total loans	0.69 %	0.68 %	0.68 %
Allowance for loan losses/non-performing loans	846.59	735.74	691.27	
Non-performing loans/total loans	0.08	0.09	0.10	
Non-performing loans/total assets	0.07	0.07	0.08	
Non-performing assets/total assets	0.09	0.07	0.08	
Share Related				
Book value per share	\$ 78.29	\$ 87.29	\$ 91.14	
Market value per share	\$ 176.85	\$ 207.00	\$ 206.00	
Shares outstanding at end of period	2,132,750	2,132,750	2,132,750	

- (1) Annualized.
- (2) Interest rate spread represents the difference between the yield on interest-earning assets and cost of interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by average interest-earning assets.
- (4) The efficiency ratio represents non-interest expense, divided by the sum of net interest income and non-interest income, excluding gain on equity securities.
- (5) Non-GAAP measurements that represent return on average assets and return on average equity, excluding the after-tax gain on equity securities.

HINGHAM INSTITUTION FOR SAVINGS

Consolidated Balance Sheets

<i>(In thousands, except share amounts)</i> <i>(Unaudited)</i>	March 31, 2017	December 31, 2017	March 31, 2018
ASSETS			
Cash and due from banks	\$ 6,548	\$ 10,852	\$ 8,901
Federal Reserve and other short-term investments	310,130	344,377	262,367
Cash and cash equivalents	316,678	355,229	271,268
CRA investment	7,341	7,341	7,724
Debt securities available for sale	26	17	17
Other equity securities	21,343	26,946	30,089
Securities, at fair value	28,710	34,304	37,830
Federal Home Loan Bank stock, at cost	24,920	27,102	24,530
Loans, net of allowance for loan losses of \$11,285 at March 31, 2017, \$12,537 at December 31, 2017 and \$12,823 at March 31, 2018	1,634,263	1,833,987	1,872,114
Foreclosed assets	563	—	—
Bank-owned life insurance	12,029	12,221	12,289
Premises and equipment, net	14,314	14,068	13,947
Accrued interest receivable	3,576	4,398	4,240
Deferred income tax asset, net	2,226	1,301	1,103
Other assets	2,217	1,989	2,816
Total assets	\$ 2,039,496	\$ 2,284,599	\$ 2,240,137
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing deposits	\$ 1,248,381	\$ 1,320,487	\$ 1,345,639
Non-interest-bearing deposits	154,622	185,375	186,169
Total deposits	1,403,003	1,505,862	1,531,808
Federal Home Loan Bank advances	455,281	579,164	499,124
Mortgage payable	855	812	797
Mortgagors' escrow accounts	5,787	6,424	6,551
Accrued interest payable	396	575	774
Other liabilities	7,207	5,604	6,695
Total liabilities	1,872,529	2,098,441	2,045,749
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; 2,132,750 shares issued and outstanding	2,133	2,133	2,133
Additional paid-in capital	11,619	11,750	11,794
Undivided profits	150,008	165,596	180,461
Accumulated other comprehensive income	3,207	6,679	—
Total stockholders' equity	166,967	186,158	194,388
Total liabilities and stockholders' equity	\$ 2,039,496	\$ 2,284,599	\$ 2,240,137

HINGHAM INSTITUTION FOR SAVINGS
Consolidated Statements of Income

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2018</u>
<i>(In thousands, except per share amounts)</i>		
<i>(Unaudited)</i>		
Interest and dividend income:		
Loans	\$ 17,968	\$ 20,417
Debt securities	—	—
Equity securities	353	479
Federal Reserve and other short-term investments	609	1,241
Total interest and dividend income	<u>18,930</u>	<u>22,137</u>
Interest expense:		
Deposits	2,518	3,567
Federal Home Loan Bank advances	960	2,093
Mortgage payable	13	12
Total interest expense	<u>3,491</u>	<u>5,672</u>
Net interest income	15,439	16,465
Provision for loan losses	255	285
Net interest income, after provision for loan losses	<u>15,184</u>	<u>16,180</u>
Other income:		
Customer service fees on deposits	219	206
Increase in cash surrender value of bank-owned life insurance	67	68
Gain on equity securities	—	966
Miscellaneous	45	44
Total other income	<u>331</u>	<u>1,284</u>
Operating expenses:		
Salaries and employee benefits	3,146	3,212
Occupancy and equipment	464	466
Data processing	297	341
Deposit insurance	258	273
Foreclosure	43	5
Marketing	124	138
Other general and administrative	786	668
Total operating expenses	<u>5,118</u>	<u>5,103</u>
Income before income taxes	10,397	12,361
Income tax provision	4,285	3,449
Net income	<u>\$ 6,112</u>	<u>\$ 8,912</u>
Cash dividends declared per common share	<u>\$ 0.32</u>	<u>\$ 0.34</u>
Weighted average shares outstanding:		
Basic	<u>2,133</u>	<u>2,133</u>
Diluted	<u>2,181</u>	<u>2,186</u>
Earnings per share:		
Basic	<u>\$ 2.87</u>	<u>\$ 4.18</u>
Diluted	<u>\$ 2.80</u>	<u>\$ 4.08</u>

HINGHAM INSTITUTION FOR SAVINGS
Net Interest Income Analysis

Three Months Ended March 31,

	<u>2017</u>			<u>2018</u>		
	<u>AVERAGE BALANCE</u>	<u>INTEREST</u>	<u>YIELD/ RATE (8)</u>	<u>AVERAGE BALANCE</u>	<u>INTEREST</u>	<u>YIELD/ RATE (8)</u>
<i>(Dollars in thousands)</i>						
<i>(Unaudited)</i>						
Loans (1) (2)	\$ 1,625,525	\$ 17,968	4.42 %	\$ 1,866,138	\$ 20,417	4.38 %
Securities (3) (4)	47,643	353	2.96	53,517	479	3.58
Federal Reserve and other short-term investments	309,143	609	0.79	326,375	1,241	1.52
Total interest-earning assets	<u>1,982,311</u>	<u>18,930</u>	<u>3.82</u>	<u>2,246,030</u>	<u>22,137</u>	<u>3.94</u>
Other assets	34,405			38,003		
Total assets	<u>\$ 2,016,716</u>			<u>\$ 2,284,033</u>		
Interest-bearing deposits (5)	\$ 1,229,476	2,518	0.82	\$ 1,362,569	3,567	1.05
Borrowed funds	467,988	973	0.83	543,607	2,105	1.55
Total interest-bearing liabilities	<u>1,697,464</u>	<u>3,491</u>	<u>0.82</u>	<u>1,906,176</u>	<u>5,672</u>	<u>1.19</u>
Demand deposits	148,841			180,375		
Other liabilities	4,849			5,381		
Total liabilities	<u>1,851,154</u>			<u>2,091,932</u>		
Stockholders' equity	165,562			192,101		
Total liabilities and stockholders' equity	<u>\$ 2,016,716</u>			<u>\$ 2,284,033</u>		
Net interest income		<u>\$ 15,439</u>			<u>\$ 16,465</u>	
Weighted average spread			<u>3.00 %</u>			<u>2.75 %</u>
Net interest margin (6)			<u>3.12 %</u>			<u>2.93 %</u>
Average interest-earning assets to average interest-bearing liabilities (7)			<u>116.78 %</u>			<u>117.83 %</u>

- (1) Before allowance for loan losses.
- (2) Includes non-accrual loans.
- (3) Excludes the impact of the average net unrealized gain or loss on securities available for sale.
- (4) Includes Federal Home Loan Bank stock.
- (5) Includes mortgagors' escrow accounts.
- (6) Net interest income divided by average total interest-earning assets.
- (7) Total interest-earning assets divided by total interest-bearing liabilities.
- (8) Annualized.