

1994 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

At this time last year, I stood before you as a fellow shareholder and as a director of the Bank. I spoke to the issues of management competence and the future independence of the Bank. At this time last year, you, the shareholders voted overwhelmingly to endorse a change in management and to preserve our identity as an independent locally controlled bank.

It is with great pride and pleasure that I can stand before you today, at this 160th Annual Meeting, to review with you some of the more significant accomplishments of the past year.

Our primary goal at the outset was to restore the Bank to a position of competitive health from which it can initiate efforts to reclaim its position as the leading financial institution in the communities which we serve.

In order to effectuate these changes, a new and experienced management team was assembled. The determined efforts of this group have produced significant results in the reduction of problem assets and the development of a competitive lending effort. Both of these accomplishments were necessary preconditions to the desired end result : strengthened operating earnings.

In recent years, non-performing assets constituted a serious drain on the earnings of this bank. During the past twelve months, non-performing assets were reduced from \$7 million to \$1.8 million. This 74% reduction leaves our non-performers at 1.2% of total assets. We have changed our position from that of an institution with a level of problem assets higher than the industry average to one with significantly fewer than average problem assets. The taming of our problem assets will have a very positive impact on our 1994 operating earnings.

In addition to addressing our problem assets, management was also charged with the task of reviving our lending function. In the early 1990s, this Bank's share of the local lending market experienced a steady decline. The significance of this decline and its impact on earnings cannot be overstated. Community banks may on occasion produce significant gains from securities activities. They will certainly augment interest income with increased fee income.

Nonetheless, consistent earnings performance can only be achieved by doing what local banks are uniquely situated to do -- assessing local risks and making local loans.

One year ago, our loan portfolio had dwindled to only \$68 million or 47% of total assets. Through the fine efforts of our Board, management, and staff, we have increased the portfolio to \$80 million or 53% of assets. This 17% increase was accomplished at a time when many local

institutions were finding it difficult to simply maintain portfolios at current levels. The additional effort required to achieve this increase can be demonstrated by a comparison of new loan originations in the last nine months versus those of the same period last year. In the last nine months, we lent \$33 million as compared to only \$16 million in the nine months preceding last year's Annual Meeting. Management is committed to a major restructuring of our balance sheet with substantial reductions in our investment portfolio and the corresponding increase of our loan portfolio to a level of approximately 70% of total assets by the end of 1995.

On the issue of earnings, I was pleased to report to you that despite the unfortunate \$1.5 million expense incurred by prior management in attempting to disenfranchise certain shareholders, we finished the year with a modest profit

It is my belief that a review of first quarter 1994 earnings is more informative on the question of present and future earnings performance. We earned \$683,000 or \$0.54 per share for the first quarter. Of that sum, \$299,000 was from non-recurring items. The balance of approximately \$400,000 we believe represents core earnings, which if annualized would produce approximately a 1% return on assets and an approximate 11% return on equity. While we all realize the dangers inherent in annualizing the results of one quarter, I think it is reasonable to conclude that if current efforts are maintained, we can expect to approximate this level of profitability for the balance of 1994.

As I stated at the outset, the primary goal of our Board and Management is to reestablish the Bank's position of preeminence in our local market and to position the Bank so as to preserve our identity as an independent locally controlled institution. The importance that we place on our relationship with the community is underscored by such activities as the financing of the expansion of such facilities as our local synagogue and the Hingham Visiting Nurses Association.

We believe that the recent mergers and sales of local competitors including the Hull Cooperative Bank, Cohasset Savings, and the South Shore National do not represent the inevitable disappearance of community banking.

Indeed, we believe that this activity provides this Bank with an opportunity to demonstrate to our marketplace the important distinction between locally controlled capital and that controlled by individuals who have no familiarity with or roots in the communities they will attempt to serve.

We look forward to the many challenges this environment will present. We are gratified that this past year's achievements allowed by the payment of our first cash dividend since 1990, and we remain committed to a continuation of this progress.

I thank you most sincerely for your support, and if you have any questions, please feel free to ask them.