

1996 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

Annual meetings are an opportunity to step back and assess the past performance of a company, review its present condition, and consider its future direction.

A great deal of scrutiny is given to the vital financial statistics. What was the return on assets? What was the return on equity? What kind of deposit and loan growth was generated? How large a dividend is being paid? How much did the stock price go up or down?

The answer to these questions constitute what I call collective the "financial bottom line." These are certainly necessary considerations when reviewing the condition of your company.

Nonetheless, there is another bottom line that must be considered. This bottom line is measured in terms of an organization's human capital -- its people, their contributions, the heart and soul of the company, independent of numbers, bricks, and mortar.

I'd like to briefly discuss with you the condition of our bank from both of these perspectives.

First, the financial. By virtually any standard, 1995 was an extremely successful one for your company.

In the area of growth, our total assets grew from \$153 million to \$175 million or a health 14%.

The principal growth in assets took place in the loan portfolio. It increased from \$100 million to \$119 million or approximately 69% of total assets. We continue to believe that local banks serve their shareholders and communities most effectively by doing what they are most skilled at -- assessing local risks and making local loans. That belief, which we enunciated back in 1993, is at the core of our operating strategy, and our actions have been consistent with it. Loans as a percentage of total assets have increased from a low of less than 50% in mid-1993 to 69% at year end 1995. It is our intention to continue to increase that percentage to approximately 75% in the future.

The growth of the Bank is also evident in the increase in our deposit base. Deposits grew by 14% in 1995 from \$116 million to \$133 million. After many years of sub-par growth, we have moved to the forefront in this area. Of the twenty savings banks in the state with assets between \$150-220 million, we had the third highest deposit growth rate; and of the 102 savings banks in the state, we were 11th.

This growth has continued into 1996 as indicated by a 5.8% growth in the first quarter alone. Some of the growth in deposits, as well as loans, can be attributed to the opening of our Scituate and Cohasset offices in late 1995. These branches have been very well received by their communities and we believe will be of great assistance in helping achieve our 1996 growth goals.

This growth has been achieved with no sacrifice in the quality of our assets.

Indeed, non-performing assets again decreased in both actual and relative terms. This consists of all loans two or more payments past due and foreclosed property. You can see this continued reduction from \$944,000 to only \$672,000. This number is really quite remarkable when you consider that at the end of 1991 it wasn't \$600,000 but rather \$11.6 million.

Despite pressure on the net interest margin in 1995, this growth allowed us to achieve a dramatic increase in our pre-tax earnings. Our pre-tax bottom line increased from \$2.3 million in 1994 to almost \$3 million in 1995. This is a 28% increase.

All of these accomplishments allowed us to steadily increase our quarterly dividend to shareholders up to 8 cents per share in the fourth quarter and to also declare a special dividend of an additional 8 cents.

The long term impact on shareholder value is depicted in both actual and relative terms on our final chart of the afternoon.

This chart is a blow-up of that contained in your proxy statement this year. It compares our 5-year stock price performance with the total NASDAQ and also with all publicly traded thrifts in New England. We have significantly outperformed both of these indexes during the past year, with our stock increasing 44% in value. We have also outperformed both of them over a 5 year period. \$100 invested in Hingham stock 5 years ago had increased to \$716.80 at the end of 1995.

As I stated at the outset, the financial bottom line, from a shareholder's perspective, is very strong and relatively easy to define.

The other bottom line, while no less important to the Bank's future, is not as susceptible to charting and graphing. Both of these bottom lines are decisive. This other bottom line assesses the quality of an organization's human capital, its collective will and ability, and its loyalty and dedication to the objectives of the company. By "human capital," I mean the collective quality of the ability, ambition, and commitment of the people who make up that organization. The sum of both of these bottom lines is really what determines our full value to both our stockholders and the communities that we serve.

How do we go about assessing the nature of our "human capital?"

I think it requires a review of the various groups that supervise, organize, and staff an organization. Beginning at the top, with our Board of Directors. There are some very important distinctions that can be made between this bank and other community banks. The first involves how these individuals came to the task of serving on our Board. In the unusual case, board members arrive at their positions through a process of comfortable accretion. They are members of the local community who are asked to serve and are elected in a process that involves no controversy and very limited commitment. In our case, quite the opposite is true. Our Board members, by and large, were elected in a process that initially involved considerable controversy and very substantial personal and financial commitment. They exposed themselves to considerable stress and some contention in their efforts to restructure management and to preserve the independence of the Bank. In the process, they became as heavily invested, emotionally and financially, as any board of which I am aware. That is why, in large measure, they have such an outstanding record in assisting management in the growth of the Bank.

The Board has in many respects set the pace for the rest of the organization. Their commitment to developing a strong and independent community bank has allowed us to recruit and retain management and staff with very strong credentials. Not only do customers want to do business with a bank that is both efficient and also human in its scale, but talented bankers (lenders, financial officers, and others) want to work for and commit themselves to an organization which, because of its size and philosophy, they can impact in a real way. Most of our senior managers have worked for larger institutions, they have experienced the frustrations of the bureaucracies of such companies, and they very much believe in the value of a community bank and the service it can provide. Likewise, our staff have brought their talents, commitment and loyalty to this organization providing invaluable resources to the day to day operation of this Institution.

The development of our management and staff produced the financial results we have reviewed this afternoon and will provide us with the energy and enthusiasm necessary to continue to grow and excel.

In considering these qualities of commitment, enthusiasm, investment, and ability, an individual came to mind who really symbolizes in many respects all of our people. I would like to take this opportunity on behalf of the Board to recognize this individual.

This individual is our most senior employee, having been a part of this Bank for over 35 years. She has maintained throughout that time a high level of enthusiasm for the changing demands of the Bank and has committed herself both financially as a significant stockholder and personally as a dedicated officer. I would like to ask Assistant Treasurer Helen Fuda to please step forward.

Your work is said to be an extension and reflection of yourself. HElen has brought her graciousness and manners to this Institution. She, and indeed, each member of our staff, have, through their contributions and interaction, brought a sense of community to a group of

individuals. She exemplifies the spirit of this Institution within its four walls and by her acts and example, its spirit is shared with the community at large.

It is with great respect, admiration, and thanks that I present this to you.

As I have said at the outset, in assessment of an institution, we have to look at both the numbers and the people.

From both perspectives, we are exceedingly well positioned to take advantage of the opportunities of 1996.

I thank you for your attendance and attention, and if you have any questions, I'd be pleased to try to answer them.