1998 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

A few days ago, at the end of the day, I walked out of our office across the street into a beautiful spring evening. The buds on the trees were opening and the air had that wonderfully fresh quality. I had just finished reviewing our quarterly earnings which were up 13% over those of the same quarter last year, which were up 48% over those of the year before. I had also reviewed our growth numbers and our loan watch list and confirmed that at quarter end only two loans out of 1,871 total loans were more than 31 days past due and that these loans had a combined principal balance of only $87,000 out of a total portfolio of $179 million.

As I stood on the sidewalk that evening, I looked up the street and I saw a message on the marquee on the Loring Hall Cinema. This message, which was facing the Bank, seemed at that time to be almost a divine commentary and warning intended to both summarize and temper my feelings of well being. The marquee was announcing Jack Nicholson's latest movie, and it read "As Good As It Gets."

In many ways, it is difficult to perceive how things could be much better. Our national economy is now in the longest expansion in modern history. Our Bank continues to flourish and produce a truly remarkable financial performance.

This afternoon I want to talk about this performance, to talk about what has been achieved, and what we believe can be achieved in the future, but also to suggest to you, and to remind ourselves, that it is during times like these that the prudence and judgement of banks and bankers can be sorely tested.

First, let's review the performance of the last few years.

Despite the national and local trend of consolidation, despite the common assumption that community banks may be anachronisms, we are growing, we are earning more, and we are changing and adapting.

Our strategy is as simple as most people's banking needs - a safe and convenient place to put money with minimum fees and good rates and a consistent lender with good rates and fast and reliable service.

The numbers indicate that we are supplying the local consumers with what they want.

Let's review the hard numbers that support our confidence in the belief that this bank has positioned itself to compete effectively.

Let's look at the growth of our balance sheet.

Keep in mind that in the five year period we are reviewing, all growth in both deposits and loans has been internally generated - we have not gone out and purchased deposits or loans - we have grown them the old fashioned way - one customer at a time. First, deposits. As you can see after bottoming out in 1994, we grew deposits by approximately $17 million in both 1995 and 1996 and $10 million in 1997. In 1998, we grew deposits by approximately $3 million in the first quarter.

Our present deposit balances represent a 40% increase over those of year end 1994.

The loan growth is even more impressive. An increase of over $20 million in the last year alone. An increase of 140% since 1993. This momentum has carried over in 1998 with over $14 million in new loan originations in the first quarter. All this activity is reflected in the growth of our overall balance sheet.

From $147 million at the end of 1993 to $222 million at the end of 1997 and $231 million at the end of the first quarter.

It took us 159 years to grow from 0 to $147 million and a little over five years to increase that by 62%. This is the power of compounding.

Obviously these numbers are quite small in universal terms, but they do clearly establish our ability to grow. If you can grow and grow profitably, you can survive and flourish.

Let's examine the profit trends.

One of the crucial components to any business profit strategy is control of operating expenses.

This chart compares our operating expenses to other savings banks in Massachusetts when measured as a percentage of assets.

As you can see since the horrific expenses we encountered in 1993, we have consistently operated more efficiently than the average of our competitors. These standings also hold true if you were to compare us to a national peer group. While that percentage differential may seem small - a difference between ourselves and our peer group of similarly sized savings banks - on our present base it amounts to a savings of about $785,000 per year on a pre-tax basis.

The growth experienced and the control of operating expense have quite predictably generated tremendous earnings. The trend can best be highlighted by reviewing the growth of pre tax earnings. The 1993 number is, in fact, a negative of $280,000. The subsequent increases from

$2.3 to $2.9 to $3.4 to $4.2 million stand as a strong rebuttal to the notion that a well managed community bank is a quaint anachronism.
These pre tax increases of 27% in 1994 to 1995, 17% in 1995 to 1996, 23% in 1996 to 1997, and the 15% pretax and 13% post-tax increase in the first quarter of 1998 have resulted in some very obvious gains for stockholders.

Stockholders equity has increased by 50% from 1993 to date, from $14 million to almost $22 million.

We have gone from declaring no dividends in 1993 to $0.59 per share in 1997 and an additional increase in our quarterly dividend declared in the first quarter of 1998, our ninth increase in recent years.

Our stock price has reflected these accomplishments, having increased by over 350% from $9.75 to over $35 per share today.

It seems the good news is everywhere. It is in the growth, the earnings, the asset quality, the dividends, and the stock price.

The temptation is to simply bask in the glow of this performance.

What’s to worry about?

The answer is - plenty.

There are many serious challenges. They can all be met, but we must understand and acknowledge them if we are to continue to grow and prosper as an independent bank.

I believe that our first challenge, now as always, is credit quality. While banks may rightfully focus on interest rate risk, the challenge of rapidly changing delivery systems, the year 2000, the market clout of newly emerging national chains, and other important issues, I believe that it is easy to overlook the principle danger to the safety and soundness of banks from time immemorial -- bad loans. It is easy to begin to believe that the business cycle has been repealed, that real estate values can continue to escalate at staggering rates, that the Dow can continue to go up, and that developers will not overbuild in response to existing demand.

It is easy, but it is wrong. This boom cannot last forever. It is not a question of whether there will be another recession - it is a question of when and how deep. We must be certain that our loan portfolio is built to withstand a reasonably strong wind.

We must also confront the challenge of changing technology. This past year we spent a great deal of time, talent, and dollars on preparing ourselves so that we will be in a position to offer the technological bells and whistles that the consumer has come to expect. While this challenge is substantial, the cost of technology continues to drop, and the systems continue to become more user friendly.

While community banks may not be able to afford the role of innovator, we can certainly afford to provide the customer with the requisite level of technological competence.

I believe that the principal challenge that technology may present to community banks may lay in the possible choke points that electronic interfaces may present for national chains intent on developing anti competitive monopolies. ATM surcharging may very well be the just the tip of the iceberg in this area. I read with interest last week of a compact between six of the country's largest banks to begin to develop and implement a private payments settlement system outside of the Federal Reserve through the use of the Internet. It seems to me that as the consumer becomes more reliant on the delivery of banking services by computer, if access to the delivery channels can be manipulated by a handful of large national chains, a very real threat exists to the survival of community banks. This is a threat which may in the end depend on legislative willpower for resolution. I think we are beginning to see this issue creep onto the national stage and into the discussions in the popular press.

Last but not least among the challenges facing all community banks is what I term a "crisis in confidence." Not the consumers' confidence in us, but our confidence in ourselves. I have observed in recent years many community bankers who have begun to believe the pundits who predict an end to the system of community banks. This erosion of confidence precedes a breakdown in a bank's will to survive and succeed, and in many instances that bank ends up in the digestive tract of a more carnivorous, larger bank.

When I review with you our recent successes, I do so not for the purpose of being boastful, but to demonstrate that our intention to remain independent is not wishful thinking but is based upon a track record that indicates we can and will compete and compete successfully.

In closing, we are all aware that our success is in large measure based upon the dedication and quality of our staff. I want to use this opportunity to acknowledge the contribution of three individuals who are retiring in the next few months. These individuals have each represented the kind of caring and thoughtful customer service that distinguishes this bank. Helen Fuda is retiring this year after 35 years with this bank. Jeanne Magner is retiring after 21 years, and Phyllis Falletti is retiring after working in one bank or another with me for over 25 years. I would like each of you to come up here for a moment.

On behalf of the Board of Directors, myself, and the entire staff, I want to thank you for all of your efforts. I want to say that I am very pleased that we have convinced two of you to come back on a part-time basis, and Jeanne, I haven't given up on convincing you.

With that, I want to thank all of you for your time and attention, and if you have any questions at all, I'd be pleased to try and answer them.