

1999 Annual Meeting  
Hingham Institution for Savings  
President Robert H. Gaughen Jr. Remarks

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Last year's Annual Meeting occurred at the time of the release of Jack Nicholson's popular film "As Good As It Gets." In my comments to you, I told you that the title said it all in terms of both the economy in general and our Bank's performance in particular. So much for my ability as a soothsayer. The story of this past year, both in terms of our Bank's performance and that of the economy at large, was it could and did get better. In fact, if we were to continue our search for an appropriate film title for this past year, we might abandon all caution and simply go with Roberto Benigni's "Life is Beautiful."

While there were clearly storm clouds on the international horizon, first in Asia and then in South America, our national and regional economies continued to boom. Our local real estate markets continued to flourish. And the strengths which we as a bank developed in the mid-1990s allowed us to continue to grow in all significant categories.

Assets increased from \$222 million to \$260 million. In fact, by the end of the first quarter of 1999, they had increased by an additional \$8 million.

This is a growth rate which, in fact, has been accelerating since early 1997.

The growth in assets reflects the success of our efforts to increase our lending and deposit gathering activities. Our loan portfolio increased from \$172.8 million to \$204.8 million, a \$32 million net increase, up from a \$21 million increase in 1997. This increase was the result of total loan originations in excess of \$81 million in 1998, up from approximately \$54 million in 1997. Again, this very strong growth in 1998 continues to accelerate in 1999 with originations for the first quarter totaling \$23 million. Keep in mind that this has traditionally been our weakest quarter for loan originations. In review of my comments for the 1994 annual meeting, I was very pleased to report that our entire loan portfolio at year end 1993 had increased to \$80 million, over \$1 million less than this year's originations.

This loan growth was funded principally by deposit growth with assistance from increases in FHLB borrowing.

The deposit growth of \$18 million or approximately 11% was particularly heartening because in large measure, it was achieved by growth in our core deposits such as checking account balances, money market, and regular savings accounts. These less expensive deposit accounted for 68% of our growth in 1998.

In many organizations, the kind of growth in loans and deposits that we have achieved is accomplished at the expense of operating efficiencies. Staff is expanded, marketing and advertising expense balloons upward, et cetera. This is not the case here.

This chart shows the Bank's operating expense as a percent of the total assets. Since 1994, we have operated at a lower percentage of our total assets than a peer group of banks here in Massachusetts. This past year, our performance in control of operating expense, both on an objective basis and a comparative basis, was the best yet. For the first time, we brought operating expenses in at less than 2% of total assets - a reduction of 12 basis points - at the same time that our competitors were actually experiencing an increase from 2.36% to 2.39%. I like to point this number out because this savings translates directly to the bottom line. The spread of 40 basis points - the difference between our expenses and others - equals about \$1,072,000 in pretax earnings on our current asset size of approximately \$268 million.

The growth in the balance sheet and continued improvements in expense control resulted in a very strong increase on the bottom line. Earnings increased from \$2.6 million to \$3 million, a 13% increase, our fourth consecutive year of such increases. These are the highest earnings in our 165-year history. These earnings are reflected in the \$2.3 million increase to stockholder's equity in 1998 and the additional \$½ million increase in the first quarter of 1999.

These earnings, both in their amount and their stability, and our core capital ratio of 9.27%, allowed the directors to increase the dividends declared to shareholders from \$0.40 per share to \$0.49 per share. It is really very gratifying to see the kind of increases in dividends we have been able to pay, especially the increases experienced by those shareholders who supported the independence of the Bank back in 1993.

Notwithstanding this very strong performance, our stock price, along with that of virtually all small cap banks' stocks, has languished. We need to place this past year's stock performance in perspective. Indeed, for a purchaser in 1993, they have enjoyed at 37% per annum return on their investment.

My only other observation relative to stock performance is to reiterate my belief that in the long run, the market is rational. It rewards earnings and growth in earnings. It remains our job to safeguard our past gains and to continue to chart a course which will provide for continued progress.

We were very pleased this year to open our third new branch in recent years, bringing us to a total of six offices. The South Weymouth branch has met with the same positive results we have achieved in Cohasset and North Scituate. It is assisting with the generation of new loan originations as well as the growth in core deposits.

We have also continued to improve our technology with the recent introduction of our new website. We recently received our first loan application from an individual shopping the web for a

loan. I suspect that in a few years we will look back on that application as a true milestone in the history of the way our success is conducted.

One of the other significant changes during this past year is the announcement of the acquisition of Bank Boston by Fleet, resulting in the passing from the scene of the last of the old-line regional banks. I indicated earlier that in preparation for this meeting I reviewed my comments from past meetings. In 1994, we were commenting on the acquisition of South Shore National Bank by Bank of Boston and Hull Cooperative Bank by Abington. Despite the passage of only five years, it seems almost a world away. While the pace of change has increased, so have the opportunities that are presented to us.

This is a very unique institution. You have seen the very concrete evidence of the efforts of all of the individuals who are part of this Bank's family. We have a very involved Board of Directors, an extraordinary staff, a strong management team, and some very special shareholders. Many of the individuals who contribute to this success are very visible and receive a good deal of recognition and acknowledgement. Sometimes those people who are not in the public eye are those who are truly key to the success of an operation.

I want to take this opportunity to recognize Marilyn Jacobs, our Assistant Vice President/Accounting Officer, as just such an individual. Marilyn has been with the Bank since July 1993. If there is any accomplishment of which I am proud, it is in the attracting of dedicated and skilled people to the Bank. Marilyn's ability and dedication have resulted in significant improvements to our accounting area. Her efforts in asset/liability management, her assistance in Senior Vice President Jackson's Year 2000 effort, her work on data center conversion, and her willingness to supply a reliable answer to people from any department in the Bank, are hallmarks of a professional upon whom we greatly rely. On behalf of the Board of Directors, senior management and staff, I would ask Marilyn to come up and be recognized.

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 to answer them.