2000 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

1999. Our 166th year.

The end of the second century in which this Bank has operated and the beginning of a third. This bank was founded at a time when people were still talking about their experiences in the "American Revolution." We went on to participate in the expansion produced by the Industrial Revolution and we are here to reap the benefits of the "Information Revolution."

Our operating results demonstrate a remarkable consistency of record accomplishments. They prove once again just how durable is our vision of what this bank can be.

The records - record loan originations, record deposit increases, record total loan balances, record total deposits, record number of deposit accounts, record number of loan customers, and finally, record earnings and record dividends to stockholders.

In the early nineties, we established a business plan which acknowledged that a small community bank needed to focus on its strength (an understanding of local conditions) by maximizing its local lending effort. We established a goal of creating a loan portfolio equaling about 75% to 80% of total assets and about equally divided between 1-4 family residential loans and multifamily and commercial real estate loans. We understood the new authorities that were becoming available to us but also realized that for a community bank, the path to the greatest success might be an increased focus on our core business as opposed to an attempt at becoming a financial supermarket. We continue to adhere to this belief. We continue to believe that providing quality basic banking products on both the deposit and loan sides of the Bank, priced competitively and delivered with a degree of flexibility available only in community-based institutions, satisfies a real market need.

Let's review the results

Loans.

In 1999, we originated $87 million in new loans, almost evenly divided between 1-4 family residential and multifamily/commercial. The result of these record originations was a net increase in our loan portfolio of $25 million, a 12.2% increase. The quality of this portfolio is attested to by the markedly low percentage of nonperforming loans. At first quarter end, out of a total loan portfolio of $241 million, we had only $193,000 in total loans past due (less than a tenth of 1%), none of which were more than 2 payments past due. Never in the almost thirty years in which I have served as an officer or director of a bank have I seen such performance.

Deposits

Deposits also grew significantly from $178.7 million to $193.5 million or 89.30%. That trend continues with deposits exceeding $200 million at the end of the first quarter. In fact, the first quarter has been especially heartening because of the substantial number of checking accounts that we are opening as a direct result of the Fleet/Bank Boston and Citizens/US Trust consolidations and the attendant public concern over perceived decreases in service and increases in fees.

Assets

The growth in the balance sheet is summarized by the 12% increase in total assets from $260 million to $291 million and that has also continued through the first quarter with March 31 assets totaling $302 million. The $300 million mark is somewhat of a milestone for me personally. When I joined the Bank in 1993, we had total assets of less than $147 million.

These growth rates are impressive when viewed alone. The nature of the achievement becomes even more apparent when viewed in comparison to the performance of other banks. This chart represents a comparison of our asset growth and that of a peer group of savings banks in Massachusetts and then all savings banks in Massachusetts. As you can see, in each of the last four years, our Bank has grown at a consistently faster pace than either the peer group or the average of all 89 savings banks in Massachusetts. This growth has continued in the first quarter with an annualized growth rate of 16%.

In many instances, growth of this sort is accompanied by significant growth in operating expense. You frequently see comments on the expense of certain banks' growth strategies, particularly those with expensive grocery store branching strategies.

I am pleased to report that while our growth has outpaced that of our peers, our operating expenses remain lower than theirs. This chart compares our operating efficiency with that of our peer group and also the average of all savings banks in the state. This is the one chart where it is good to be the lowest. This ratio represents the operating expense as a percentage of income. As you can see, for the last three years we operated more efficiently than each and every one of our peers (1 out of 16). This efficiency level has been achieved by a strategy of purchasing relatively inexpensive branch sites and controlling the size of the staff, while at the same time making sure that our compensation levels are above industry averages and that we work to improve and expand employee benefits packages.

This strong growth, combined with continued operating efficiency, has produced strong increases in our bottom line. Earnings increased to $3.2 million in 1999 and then in the first quarter of 2000, with some improved tax planning and continued growth, we increased those earnings to $984,000 for the quarter, an increase of 31%. These earnings are even more impressive when compared to our peers. This next chart compares our return on equity to that of our peers and that of all banks in the state. As you can see, we have not only maintained a consistently higher ROE, given the 14.76% ROE for the first quarter (not displayed here). I think it is fair to say that we are widening the margin. These earnings have allowed us to both build stockholder equity and increase our dividends. As indicated on the next chart, we increased stockholder equity from $23.7 million to $26.6 million this year. This is notwithstanding the fact that we again raised our dividend declared to stockholders by a substantial amount; from $0.49 per share to $0.58 per share (an 18% increase which followed the previous year's 23% increase). In addition, we recently increased the regular quarterly dividend to $0.13 per share.

In addition to the record accomplishments represented in these numbers, we had a number of other notable achievements this past year. We dealt successfully with the Y2K issue. While on a general basis this was somewhat of a non-event, it still had the potential to be a serious situation. Our staff put in significant effort to make sure that we would encounter no difficulties. We also recognize that there will be ongoing operational benefits from our experience with this issue. 1999 saw the opening of our third new branch in recent years, and our South Weymouth location is well ahead of schedule in attracting new business in that area.

We also reorganized our operational efforts under one roof under new and more centralized management. We believe that this effort will create the framework needed for the support of continued expansion of the Bank, both geographically and in terms of our product line. In that regard, we introduced a much improved telephone banking product this past year and have recently contracted with Digital Insights for a very high quality internet banking product for both consumer and business customers which is scheduled for testing at the end of June and implementation later in the summer.

When we look at the success of the past year, it is only reasonable to ask "With the bank doing so well, what about the stock price?"

There are a number of points that need to be made in this regard.

First, a reflection. In the last two years our earnings have increased (quarter to quarter $715K in first quarter 1998 to $984K in first quarter 2000) by 37%. During the same period, our stock price has declined by approximately the same percentage. If you review the stock performance chart contained in the proxy which compares our five year total return performance to that of a small thrift stock index and a N.E. stock index, it is cold comfort to say that, yes, our stock has declined less.

This industry-wide decline, which did not discriminate in any way between those banks with quality performance and others, was an exact opposite image to the boom in technology stocks. While it is not in our province to prognosticate, it seems quite reasonable to suppose that the recent rediscovery of value investing may have some positive implications for the stocks of high-performing banking companies.

I remain convinced, both as President of this bank and as its largest shareholder, that in the long run when it comes to the market value of a company, earnings is really the beginning and the end of the analysis.

This Bank is blessed with a talented management group, a dedicated staff, an involved Board, and a fantastic market. Consolidation has provided us with a decade-long opportunity that is showing every sign of actually increasing. The radio talk shows and business pages are full of criticism of the regional giants and praise for the local community bank.

Our ability to take advantage of these opportunities is based in large measure on the ability of our staff to execute day in and day out. Each year we take this opportunity to recognize an individual whose daily contributions are representative of the sort of effort that makes this bank so successful. This year it is my pleasure to recognize the assistant manager of our Main Office, Mrs. Teresa Tseng. Teresa, would you come up please. Teresa has been with the Bank since 1993. I also worked with her for a number of years at our previous bank. Teresa's performance has always been recognized by the customers she assists and by the staff with which she works. Teresa, on behalf of us all, please accept this token of our appreciation.

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.