2001 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

2000. Our 167th year.

This past year was characterized by tremendous volatility, change, and a pervasive sense that unusual and unsettling events were occurring. The year opened with great, although short-lived, apprehension over the Y2K threat, NADSAQ's wild ride up to 5,000 in the early spring was followed by its subsequent downhill slalom. The Fed's focus on inflation fighting produced a series of rate increases continuing right up until the early fall when, without pause, we moved directly to a series of aggressive rate cuts in an attempt to stimulate the economy. Even, perhaps especially, the political process seemed turned on its head with the year-end stalemate over the presidential election recount.

I am pleased to report that our performance at Hingham reflected none of these unsettling elements. Instead, while we set new records in almost all significant categories from earnings to loan and deposit growth to asset quality, the statistics reveal that this performance is really a continuation of a carefully constructed and effectively implemented strategy. It represents just one more step, albeit a large one, in the development of the South Shore's premier community bank.

Let's start by reviewing our growth this past year.

Deposits grew by $32 million this past year, a 17% increase; and while this is a record both in percentage and in total dollars, it is really a continued and accelerating reflection of our ability to attract deposit customers to the kind of service that we offer. It is especially noteworthy that we generated this record increase without the added expense of any new branches.

The growth in our loan portfolio was equally impressive. The total portfolio grew from $229 million to $266 million or 16%. Again, you can see the consistency of this performance over the last five years. In fact, our originations this past year totaled $92 million which was exactly the size of our entire loan portfolio when so many of us joined the Bank in the early 1990s.

This growth in deposits and loans is reflected in our total assets which reached a record $337 million at year end.

This asset growth of 16% is especially impressive when you view it in comparison to other savings banks in Massachusetts. This next graph compares our growth over a four-year period with that of a peer group of similar size and also all savings banks in the state. As you can see, this past year we were in fact the fastest growing bank of our size in the state. Again, this is truly remarkable if you consider that we didn't need any new branches to accomplish this record.

A question that is asked by both ourselves as managers, as well as by investors and regulators, is how well is the growth being managed? Are expenses under control, is asset quality being sacrificed, is the growth producing real earnings gains or is it merely “empire building” to create the illusion of progress?

Let’s start with expense control. The efficiency ratio is probably the best way to measure expense control. It is the percentage of operating expense to earnings. How many cents do you spend to produce a dollar of earnings? This chart compares ourselves to all of the 88 savings banks in Massachusetts and further to those 16 banks of roughly our size. As you can see, at #2 out of 16 and 6 out of 88, we have done an outstanding job at controlling those expenses.

I am particularly proud of having accomplished that while at the same time FDIC statistics confirm that we have compensation per employee that is higher than that of our peer groups. We have employees that are more productive in terms of handling more loans and deposits per employee than our peers, and, as a result, they are rightly paid more.

The next question that this growth prompts relates to asset quality. While we have grown dramatically over the past decade, we have never altered what I believe is the foundation of our effort to maintain quality loans. That is the fact that our Executive Committee, composed of experienced and significantly invested Directors, reviews and approves prior to commitment all real estate mortgage loans. This is not a rubber stamp, ratify-and-approve process. It is a real dialogue with the lenders that, when combined with the judgement and experience of those lenders, produced results that are extraordinary. This chart represents a comparison of noncurrent loans to loans at year end for all savings banks $300 to $500 million in assets and HIFS. As you can see, our process and its quality are reflected in these figures. Our ratio is less than 1/7th that of our competitors. In fact, for the sixth year in a row we have not taken back any property by foreclosure. For the past three years, recoveries of previously charged off loans exceeded any charge offs. Both at year end and first quarter end, we had no loans 90 days or more past due.

Did all of this activity and growth produce real results? In recent years, we have seen some banks pat themselves on the back for rapid growth when what they have really done is simply gone out and unprofitably purchased market share with the vague promise of future benefit to the bottom line.

As you can see by our very dramatic increase of 30% in net earnings from $3.2 million to $4.2 million, that is not the case here. While our formation of a real estate investment trust certainly aided our efforts, this increase was primarily produced by the growth in the balance sheet and the effective cost control. On a comparative basis, we continue to pull away from both our peer group and the other savings banks in the state, with the actual spread widening even more. In the first quarter of this year, we reported another increase of 26% with earnings of $1.2 million and a return on equity in excess of 16%.

These earnings resulted in a record increase in stockholders' equity of $3.3 million, giving us a very strong 8.7% capital base upon which we can build additional growth.

These earnings allowed us to continue to reward our loyal stockholders by increasing the cash dividends declared from $0.58 to $0.68 per share. Again the five year trend is a source of great pride to all of us - a 126% increase over five years. Additionally, in the first quarter of this year, the Board gain increased the quarterly dividend.

Last year at this time, I suggested to this meeting that, while it seemed too early to tell, that people appeared to be rediscovering value investing and that it might have some positive implications for the stocks of high performing banking companies. I know that I was a little frustrated by a world in which every time the television was on, you would see that purple-haired teenager lecturing his high school principal over his investing habits and how he should really be using E-Trade to buy what you can be quite sure were not shares in a local, though very profitable, bank.

We should all be glad that the purple haired fellow is gone and that at the same time, our stock has benefited from a return to popularity of the careful assessment of a company's quality.

These statistics all confirm the fundamental merit of our strategy of developing a focused community bank emphasizing a unique level of flexible personal service. They also confirm the quality of the effort to execute that strategy.

This past year, we have emphasized service quality by proactively dealing with adjustable rate borrowers to limit prepayment speeds and maintain our loan portfolio. In order to be accomplished effectively, this requires a major effort by our lenders to stay in touch with customers and assess their needs on an ongoing basis.

On the deposit side, we invested a significant amount of time and effort in introducing our online banking product and improving our telephone banking product. The impact can be seen in increased usage. I was surprised to see recently that our telephone banking service now receives over 10,000 calls per month. Our free checking and debit card products continue to expand.

Our challenge this next year will be to continue to try to incorporate the level of organizational structure and procedure necessary for our expanding size while at the same time avoiding the tendency to merely build a smaller version of our larger, more bureaucratized brethren. To remain agile while continuing to grow. In the immediate future, some of these efforts will entail the introduction next month of a relationship premium money market account, the closing on a recent agreement to acquire the Eastern Bank branch building here in the Square and the conversion of the same to a drive-up facility, and also the conversion to a new teller and customer service operating system that will both speed transaction time and aid in cross sales. We will also continue to look for new branch opportunities that are cost effective.

As in the past, our ability to meet the challenge can be measured in the quality of our people. We continue to have a committed and heavily involved Board of Directors setting policy and a very experienced and able senior management group. In fact, I believe that the stability in our senior management group has been absolutely essential to our success.

If you look at that group -- our Senior Vice President and Treasurer Deborah J. Jackson has been with us now for six years, our Vice President and Senior Commercial Lender Peter R. Smollett has been with us for eight years, Vice President - Administration William M. Donovan Jr. for eleven years, Vice President and Retail Lending Officer Michael J. Sinclair for six years, Vice President and Commercial Lender Shawn T. Sullivan for five years, and Vice President Edward P. Zec for sixteen years.

These people understand their jobs and they are very good at them.

This year we have added Tom Chew as Vice President of Branch Operations. Tom started his banking career at the Old Plymouth Home National Bank and has served as a Vice President at Eastern for many years. We are very pleased to have such a qualified and experienced hand joining us.

We are also pleased that Ed Zec, his predecessor, who has served the Bank well for many years, although retiring, will continue as a member of our team on a part-time basis.

The strength and stability in senior management is really only the tip of the iceberg -- the next level of officers and staff, whether in Accounting, Loan Servicing, Quality Control, Personnel, Operations, and in the branches, also has great depth of experience.

Each year we use this occasion to recognize an individual whose dedication and professionalism have served as an example to all of us.

On behalf of the Board of Directors and myself, this year that recognition is given to Assistant Vice President Rosalie Tarantino. Rosalie, please come up.

When a loan portfolio grows as quickly as ours, the lenders rightfully receive significant credit as the sales force. Nonetheless, the back office operation that sets up and services all those loans is presented with a tremendous challenge. Rosalie, who has been with the Bank for five years now, has done a tremendous job, in coordinating and supervising a great group of servicing people. For that she deserves our appreciation.