2002 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

2001, our 168th year.

I again have the privilege of reporting a record performance for the past year. Records were achieved in virtually all aspects of our institution's operations. Equally important to the new records we established in earnings, asset size, loan originations, asset quality efficiency, and stock performance are the trend lines that demonstrate the consistency of these financial patterns and what they say about the reliability and sustainability of this performance.

This past year was marked by significant changes in our national economic outlook. In the first quarter, with the entry of a new administration, we heard the first tentative confirmation of a nascent recession. The Federal Reserve responded with a continuation of the most dramatic interest rate decreases of the century. Unemployment continued to rise, a major tax cut was enacted, and the stock market continued to languish.

And of course, in September, our national sense of security as well as our economy received a shocking body blow.

Interestingly, none of these factors appears to have significantly affected the incremental improvements in our balance sheet, operations, and income statement which we continue to make year after year.

In 2001, our deposits grew by 11% to $250 million. As you can see, this was the fifth consecutive year that deposits grew by at least 10%. We continued to enhance our deposit base by successfully introducing a new business online service for commercial customers and a new premium relationship account, the "Gold Link Money Market Account." At year end, we opened a new drive up facility for the convenience of our Main Office customers.

Our lending efforts were equally successful. In 2001, we originated a record $105 million in new loans, and our portfolio increased to $282.4 million. I am pleased to report that at the end of the first quarter of 2002, that portfolio now stands at about $300 million.

We had net growth in the portfolio in the first quarter of this year of $17 million compared to $16 million for all of last year. Basically, what has happened is the payoffs associated with the "refi-boom" have slowed and yet our lenders have been able to maintain their same origination pace. Throughout the first quarter, our total assets reflect this growth in our loan portfolio. In 2001, assets grew by a very solid 14%. In the first quarter of 2002, we grew at an approximately 12% per annum pace.

On a comparative basis, this chart indicates that in each of the last two years (2000 and 2001), our rate of growth has exceeded that of our peer group of similarly sized savings banks in Massachusetts and also the average of all savings banks in the state.

I think it is helpful to look at our performance in comparison to what other banks are achieving so that you have some perspective on how strong your bank's performance is.

We have shown you the strong asset growth, but it is equally important to make sure that growth is in solid quality assets. Given the fact that our investment portfolio consists almost exclusively of Treasuries or agencies and cash, quality concern is always focused on our loan portfolio. This chart compares our noncurrent loans (loans more than two months past due) to those of the other 85 savings banks in the state. As you can see, this past year our competitions' nonperformers increased slightly from 0.18% to 0.35% while ours decreased from a minimal 0.03% to absolutely zero. I am pleased to report that "zero" was also the case at the end of the first quarter of 2002.

So 2001 saw strong and consistent growth and a continuation of the outstanding quality of our assets. This next chart speaks to the issue of expense control. Banks do not operate on large margins and it is absolutely critical that they control expenses if they are to sustain profitability. This chart entitled "efficiency ratio" compares our ratio of expense to income with that of our peers and all 85 savings banks in the state over the past four years. What it demonstrates is that we are considerably more efficient than the average of both our peers and all savings banks in the state. Indeed, we are ranked 2 of 18 and 3 of 85, and the margin of difference is increasing. This solid growth and vigorous expense control have resulted in very impressive earnings growth. As you can see, we increased earnings by 20% in 2001 to almost $5.1M after tax. When you consider it on a five year basis, we have almost doubled the $2.6M earned in 1997 and the good news has continued in the first quarter of 2002, with a 12% increase over the first quarter 2001 bottom line.

The most common measure of profitability is earnings expressed as a percentage of return on equity.

The next two charts compare our return on equity with that of other banks. The first chart gives us a 4 year comparison of our ROE and that of a peer group of savings banks and all 85 savings banks in the state.

As you can see, we continue to outperform and the margin is indeed increasing. This past year, we were second out of 18 in our peer group and third out of 85 savings banks. In fact as you can see, we continued to improve our ROE while the average of others experienced an actual decline this past year. We are twice as profitable as these averages.

The next chart is a comparison of the profitability of our bank and that of each of our local competitors. Some of these banks are larger such as Rockland Trust, Eastern Bank, South

Shore Savings and Abington; some are smaller such as Horizon or Pilgrim Cooperative; some are stockholder owned; some are mutual. There is certainly a great deal of diversity in this group. In fact, it seems the two obvious features that they share are first, the fact that they compete against us here on the South Shore and next, in the most common measure of profitability - to put it politely - they all come in no better than second in that competition. Our Board and staff should be very proud of the accomplishment represented by this comparison.

This performance resulted in strong growth in our stockholders equity during 2001. At year end, we had a very strong capital ratio of 8.98% which provides us with future leveraging options. These earnings also allowed us to again increase dividends declared to stockholders by 12%. You can see the strong and steady progress we have made with the dividend over the last 5 years from $0.40 to $0.76 and then in the first quarter of 2002, the Board again increased our regular quarterly dividend. All of this progress caught the attention of investors this past year when our stock experienced an approximate 40% increase while the S&P experienced a 10% decrease.

It is beyond my ability to understand the mentality of the marketplace, but what stands out to me when I look over these statistics is the consistency of them all. The consistent growth patterns in all categories: loans and deposits, the consistent trends in efficiency ratios and earnings performance. What these trends tell me is that our strategy of strong controlled internal growth, of maintaining a loan portfolio equal to about 80% of assets, of focusing our lending equally between residential and commercial real estate and having close and active Board involvement in the lending process works. The consistent efforts of our energetic and talented staff effectively implementing that strategy will produce consistent results.

There are many challenges ahead. It is important that we continue to invest in technology. This past year, we replaced our teller operating system and virtually all of our branch hardware. On an operational basis, we are continuing to use technology to implement new efficiencies. We will also be challenged by the possible reversal of recent trends in interest rates. We all know that the rates which have dropped so precipitously have the potential to move just as quickly in the opposite direction, and this will require careful management of such risk. Additionally, current real estate values require an increasingly skeptical review.

All of these challenges require the kind of dedicated effort we have received from the Board, management, and staff of this bank. I spoke earlier in the meeting and, in fact, in preceding meetings about the importance of expense control to the successful operation of this bank. An absolutely key ingredient in maintaining a corporate culture that values expense control is the extraordinary oversight of the individual responsible for purchasing and supplies as well as personnel. Rose Leibfarth has been with our bank for over 20 years. You are perhaps all familiar with the TV ad this past year in which you are shown a group of people at a business meeting and they need to write something down and they call out of the meeting to get the “company pen,” the single pen which all share. While Rose doesn’t go that far, it is very apparent that the same frugality that you would apply to your own funds, she also applies to the expenditure of shareholders' money.

Every year, we recognize a staff member who has contributed in an outstanding fashion to the success of our Bank. Rose's recognition is long overdue. Rose, on behalf of the Board, the shareholders, and all of us at the Bank, please accept this token of our appreciation.

That concludes my presentation and I would be happy to respond to any question you may have.