

2003 Annual Meeting  
Hingham Institution for Savings  
President Robert H. Gaughen Jr. Remarks

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This is the Bank's 169th annual meeting. It is my tenth annual meeting as President of this Bank. I can recall with vivid detail my first day at work at the Bank in 1993. Coupled with anticipation, I walked through those doors that morning with a degree of trepidation and a sense of the unknown. During the past decade, the world has seen a number of wars in places like Bosnia, Kosovo, Afghanistan, and now Iraq. We saw Whitewater, the OJ Simpson trial, a presidential impeachment, the introduction of the Euro, the return of Hong Kong to China, the Y2K scare, and a stock market that soared and swooned. From a personal perspective, while that day ten years ago seems as if it were yesterday, much has changed. My children, who at the time were attending grammar school just up the street, have grown. The oldest has graduated from college and is working in Washington and the youngest is finishing her first year in college. While so much has changed, our strategy and direction for this institution has remained constant. We have remained focused on providing quality basic retail loans and deposit products and aggressively seeking out multifamily and commercial real estate lending opportunities.

And for the tenth year, I have the privilege of reporting record achievement and positive trends.

The story of our past ten years is one of a simple but solid strategy supported by the faith and efforts of so many of you present here today. I will also never forget the tremendous support we received from two men who are no longer here with us - my father, Robert Gaughen, and our great friend, Tom Youngworth. As we look at the stellar earnings, the consistent growth, and the strong stock performance, we should recall the efforts of my Dad, Tom, and all of you who helped us initiate the rebirth of this 169-year-old institution.

So much has been reported this past year on the issue of corporate governance. The enactment last summer of the Sarbanes-Oxley Act was an attempt to focus on the proper role of the Board of Directors in protecting shareholders' interests. We can be very proud of the fact that our Board of Directors asserted its authority ten years ago this spring and insisted that stockholders' interests came first. Our policies and procedures since then have always required the involvement of knowledgeable and personally invested directors. Whether in the scrutiny of significant loan proposals or close supervision of internal auditors, that involvement has made us a much stronger organization.

The results speak for themselves.

In 2002, deposits grew by \$25.6 million from \$250 million to \$275.6 million. Even more encouraging than the total increase is the fact that almost \$20 of the \$25 million increase was in lower cost core deposit accounts.

Our loan originations increased by 50% from approximately \$102 million in 2001 to \$158 million in 2002. Our loan portfolio increased by \$38.3 million from \$282.4 million to \$320.7 million. Loans as a percentage of our total assets at year end were 85%, up from 73% at year end 2001.

Total assets grew from \$386.2 million to \$426.4 million.

This growth was achieved with no real impact on asset quality. We again experienced a net recovery as opposed to a charge to our loan loss reserve. In fact, we had absolutely no chargeoffs in 2002. This chart shows that our noncurrent loans at 0.16% of total loans, while up slightly from zero last year, are still lower than the average of our peers. It is interesting to note that at the beginning of 1993, ten years ago, that percent was 12.5% or \$9.3 million on a \$75 million portfolio as opposed to \$519,000 on a \$320 million portfolio.

The growth in our balance sheet was accomplished with not only no sacrifice in quality but also with the kind of extraordinary efficiency that we have come to expect. The efficiency ratio depicted on this chart compares our ratio of operating expense to income with that of similarly sized savings banks and all savings banks in Massachusetts. As you can see, we again had the lowest expense ratio of our peers and were second out of 80 savings banks in the state.

The continued growth in our balance sheet and effective cost control contributed to a very strong increase in our bottom line, with almost \$6 million in net income for 2002. At the beginning of the 1990s, our entire stockholders equity was less than twice that amount.

The most common measure of profitability is earnings expressed as a percentage of return on equity. This past year at 16.7%, we again had the highest earnings of the thirteen banks in our peer group and the second highest of the 80 savings banks in the state.

While that comparison involves only savings banks, it is also interest to compare those earnings against those of the banks that we compete against here on the South Shore. As you can see, this survey includes a variety of different-sized institutions, commercial banks such as Horizon Bank and Rockland and small cooperative banks such as Weymouth Bank and Pilgrim and larger savings banks such as Eastern, South Shore, and Abington. As you can see, again this year our ROE is significantly higher than that of any local competitor.

The continued strength in our earnings performance has again resulted in a very healthy increase to stockholders' equity. It has also allowed the Board to continue to pay a very healthy dividend, with dividends declared increasing from \$0.76 per share to \$0.84 per share.

Put as succinctly as possible, 2002 was a year of tremendous accomplishment.

But what have you done for me lately?

Unemployment is rising, the Commonwealth is desperately in search of additional revenues, and asset yields are plummeting.

Despite the \$1.4 million in retroactively imposed taxes resulting from legislation approved last month and despite the economy and competitive pressures, we have great confidence in our fundamental strategy.

We are growing, we are generating quality loans, we are attracting growing numbers of core deposits, and our income numbers reflect the consistency of our progress.

In the first quarter of 2003, net interest income increased from \$3,633,000 in the the first quarter of 2002 to \$3,897,000 for 2003.

Pretax income also reflects this trend with an increase from \$2,100,000 in the first quarter of 2002 to \$2,558,000 in the first quarter of 2003. This next chart shows you adjusted pretax income by quarter for the past two years. It has been adjusted by deleting certain significant nonrecurring items, i.e. the SBERA dissolution and gains and losses on securities and interest on taxes due. As you can see, first quarter 2003 represents a slight increase over 2002. Looking at some of the graphs this afternoon, one can get the impression that there will always be straight line consistent increases in all categories. Life is never quite that simple. There is no holiday from history. There will be years in which we have some gains from securities trades or benefits such as that from the dissolution of the pension plan. We can be negatively impacted by changes in tax laws. Nonetheless, our underlying strategies are continuing and apparent. And these net interest income and pretax income numbers from the first quarter confirm the soundness of those strategies.

The market seems to appreciate the fundamental strength of our core earnings. During calendar 2002, the stock saw a 27% increase; and since year end, we have seen another approximately \$3 per share increase.

This chart actually goes back over ten years. Many of you are long-time holders of our stock, having purchased prior to our change in management ten years ago. This represents an approximately 1,300% increase in value per share. In addition to that capital appreciation, we have paid those shareholders total cash dividends of \$4.56 per share, or a 205% return from cash dividends alone.

When viewed from this perspective, this performance is a very powerful argument for the kind of director involvement and good corporate governance we fought for all those years ago.

We also know that this is only possible through the day to day efforts of a stable and talented management and staff. Each year, we take this opportunity 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 and Manager of our Cohasset branch, Joanne REynolds.

In a business as competitive as retail banking, quality service is absolutely crucial. Joanne, who has been with us now for 6 ½ years, brings not only great experience and knowledge but also consistent charm. During the course of the year, not a week goes by that I don't hear from a customer as to the great work Joanne does.

Joanne, on behalf of all of us, thank you. Please accept this token of our appreciation.

That concludes my remarks. I am happy to respond to any questions that you may have.