2004 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

2003 marked the 11th year of implementing an essentially unchanged and continuously successful strategy. This strategy relies upon the incremental and organic growth of a service-oriented community bank whose balance sheet is composed to a higher-than-average degree of local real estate loans, equally divided between owner-occupied and commercial/investment property loans. It is not a complex strategy. While we certainly supply our customer with an appropriate amount of products and technology, we have taken great care in not attempting to provide services or products that are of limited appeal and tend to distract attention from the details involved in executing our core activities. Unlike so many of our competitors, we have not attempted to develop insurance or investment products or any of the myriad of other tangential businesses.

Instead, we have focused on the details involved in delivering core services in a fashion and at a price that customers desire. In 2003, this focus again produced very strong and consistent results.

Let's look at some of the financial highlights.

First, the basics of our balance sheet. Our deposits, for the 11th consecutive year, experienced a strong increase - an 8% increase from $276 million to $291 million. Additionally, we had continuing reallocation within categories of deposits, with very substantial increases in less expensive core deposits, with very substantial increases in less expensive core deposits and some actual shrinkage in the more costly high-rate CDs. On the asset side of the balance sheet, our loan portfolio increased by $38 million from $320.7 million to $358.8 million. Total loan originations increased by almost 33% during 2003, from approximately $150 million in 2002 to over $200 million in 2003. This was the primary driver of the $58 million total increase in assets during 2003 from $426.4 million to $484.0 million.

The quality of our loan portfolio, as measured by noncurrent loans to total loans, actually improved on both an objective and comparative basis. As indicated in this chart, our noncurrents declined from 0.16% at the end of 2002 to 0.05% at the end of 2003. As you can see, our peer group of similarly sized savings banks in Massachusetts actually saw their noncurrents increase to 0.29%. We again experienced absolutely no loan chargeoffs, not a single dollar, in 2003. These loan quality numbers are especially impressive in light of our aggressive efforts to grow both our residential and commercial portfolios. Our peers did not achieve the kind of portfolio growth or origination activity on a comparative basis as we did (both peer group and state bank showed loan portfolio shrinking as a percent of assets from 62%+64% to 60%+62% as opposed to our 79%), and yet contrary to what many might expect based on a softer general economy, our asset quality has actually improved. Again, this growth has been accomplished while maintaining very careful control of expenses. This next chart compares our expense ratio with that of the other 79 savings banks in Massachusetts and also those 13 of roughly comparable size. As you can see, we have the second best ratio of all 79 savings banks in the state.

As I like to point out each year, if we were to be merely average in controlling expenses, that would mean a bottom line approximately $2,000,000 lower than what we achieved.

We should not underestimate and can never take for granted the discipline required to maintain this control. There are innumerable occasions during the course of the year when each of us at the Bank looks at a competitor that might be throwing money at an ad campaign or an impressive new branch building, hiring officers whose sole function is administrative or retaining expensive consultants to help with things like risk assessment, compensation studies, or Sarbanes-Oxley compliance and we are tempted. That is where each of us remind ourselves to ask the questions - Is there a less expensive way? What will this effort really achieve? It is relatively easy to create the temporary illusion of success through expenditure described as “investments.” It is much more difficult to sustain consistent increases in the profitability of your core business.

This balance sheet growth and continued operational efficiency resulted in significant increases to our pretax net income from $9.1 million to $9.8 million. Our GAAP net income or “post-tax” net was $5.4 million which was impacted by the net $700K settlement of the real estate investment trust issue between the Commonwealth and the approximately 60 banks that had employed that tax savings technique. The legislation that was passed in early 2003 prompted the $700K net retroactive settlement and also resulted in a material change in our overall effective tax rate.

Effective tax rates are something over which we have limited control. While they have real and concrete impact on our bottom line, changes in them can distort and conceal underlying trends in earnings. That is why I have utilized the pretax number for the purpose of communicating very real operating improvements this past year.

The most important measure of any company’s success remains its return on equity. As you can see, despite the impact of the REIT settlement (and its impact was generally greater on us than on other institutions because of the degree to which we utilized it), our return on equity remained strong on both an objective and a comparative basis. In fact, we continued to be number one in our peer group and number two in the entire group of 79 state-chartered savings banks. It is also useful to compare this most important measure of profitability to those other local institutions against whom we compete most directly.

This chart compares our return on equity to nine area banks of varying sizes. They range from smaller cooperative banks such as Pilgrim Cooperative to larger savings banks such as South

Shore Savings and Eastern. As you can see, with the sole exception of Rockland Trust Company which has approximately the same ROE, we continue to be significantly more profitable than all the others.

This profitability is again reflected in the continuing increase in stockholders' equity from $38.2 million to $40.9 million in 2003 and in the continued increase in the dividends declared per share from $0.84 per share in 2002 to $0.90 per share in 2003.

This chart shows the performance of our stock over the past approximately 12 years.

In addition to the recognition the market accorded us, your company's performance merited other accolades. For the 2nd year in a row, we were designated the nation's number one small savings institution by the SNL Thrift Investor as well as ranked in both the Globe and the Herald's 100 best publicly traded companies.

This success is the product of sound and consistent strategy coupled with careful attention to the details of efficient implementation. Each year we take this opportunity to recognize an individual whose dedication and professionalism serve as an example to us all. On behalf of the Board of Directors and myself, this year that recognition is given to our Deposit Operations Supervisor Doris Dehay. If the difference really is in the details, part of our competitive advantage is in having an individual like Doris Dehay supervising so many of our key deposit operations such as ACH and ATM settlements. In the eleven years that Doris has been with us, she has earned a reputation among the branch managers and others for being the lady with the answers.

Doris, on behalf of all of us, thank you.

Please accept this as a token of our appreciation for your tremendous contributions.

That concludes my remarks today. I am happy to respond to any questions.