

2005 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

2004 was a year in which our Bank continued to achieve at a level of excellence that we have all come to expect.

Experienced senior managers and seasoned staff allowed us to grow at well above average rates in both deposits and loans, to maintain an outstanding level of cost control, to produce strong earnings, and for the 11th consecutive year, to increase the dividends declared to stockholders.

The philosophy reflected in our slogan of simple banking, honest value, and happy customers has again produced benefits for all of our constituencies: stockholders, customers, and staff.

Let me review the highlights of those results with you.

First, our growing balance sheet. In 2004, we achieved an approximately 15% increase in total deposits from \$291 million to \$334 million.

In assessing just how strong this performance was, this next chart compares our deposit growth for the last four years with our peer group of 12 similarly sized savings banks in Massachusetts and also all 72 savings banks in the state. As you can see, in each of the past four years, we have grown faster than the average of the peer group and also the average of all the savings banks in the state. In fact, we had the highest growth rate of the 12 banks in our peer group and the third highest out of all 72 of those banks last year.

On the loan side, we also had a strong year, increasing our loan portfolio by 16% from \$358 million to \$415 million. Again, on a comparative basis, we exceeded the average growth rate of our peers and all 72 banks in the state not only last year but for each of the past four years.

Total assets increased last year by 13% from \$484 million to \$547 million and again you see the four year comparison with your bank far exceeding the average of both the peer group and the state average.

These comparisons are something that your Directors and managers follow quite closely. Unlike the citizens of Garrison Keilor's fictional Lake Wobegon, in reality, not everyone gets to be above average. The banking marketplace is a very competitive one. There are winners and there are losers, but unless you pay close attention to the scoreboard, you can easily be misled as to the state of play.

Banks are in the business of making loans. They are hopefully also in the business of being repaid on those loans. This next chart, non-current loans as a percentage of total loans for both Hingham and our peer group. We both saw an even lower level of non-current loans in 2004 over 2003 with our non-current loans remaining significantly lower than theirs. At the end of the first quarter of 2005, out of 2,732 loans on our books, we had only three that were over 60 days late, and of those, three had a balance under \$50,000 and one was with a single mother on a payment plan she has been abiding by for over a year.

We talk a great deal about maintaining cost control at the Bank and this next chart compares our efficiency ratio against that of our peer group and also all savings banks in the state. As you can see, in each of the past four years, we have been the most efficient of the 12 banks in our peer group and, with the exception of this past year when we, through some failing on our part, dropped to #2 out of 72, we have been the most efficient of all the savings banks in the state. This efficiency, combined with our strong growth, has a very significant impact on our earnings. This past year, our net income increased from \$5.4 million to \$5.8 million. There are a number of items that have had significant impact on this bottom line over the last few years and while they are described in great detail in the management discussion and analysis contained in the Annual Report, let me just remind you that in 2002 we had the benefit of the significant mass income tax reduction provided by the use of a REIT; in 2003 we, and the approximately 50 others banks in the state that utilized this device, settled with the state for an approximate \$700,000 net charge to the bottom line. We also had an offsetting approximately \$400,000 gain on sale of securities. The strength of these earnings can again be seen best when compared to others.

This next chart depicts the most common measure of strength of earnings, return on equity. As you can see, this past year we had the highest return on equity of all of the savings banks in the state. In fact, we have had the strongest ROE of all 72 savings banks in the state in three out of the last four years, and in 2003, we had the second strongest.

Taking the comparison beyond savings banks to all sorts of banks operating in our area, you again see the strength of our earnings when compared with others from the larger savings bank brethren like Eastern Bank and South Shore Savings to the smaller cooperative banks or federal savings and loans such as Weymouth Bank, Pilgrim, or Scituate Federal, you can see that, with the sole exception of Rockland Trust, we have the highest return on equity. Sometimes analysts like to also look at earnings as a return on average assets. Personally, I think this is an inferior method of measuring earnings, but in either case, you can again see that of the savings banks, we are #1 out of 72 for three of the past four years, having been #2 out of 72 this past year.

By any measure, these earnings are enviable. They have translated into the strong and steady increase in our stockholders equity from \$29.5 million at the end of 2000 to \$44.3 million at the end of 2005. They have also allowed us to increase our dividends declared per share for the 11th consecutive year from \$0.90 in 2003 to \$0.94 in 2004.

The competitive environment in which we achieved these results continues to provide us with significant challenges. Bank of America's entry into the marketplace will surely provide stronger retail competition than did Fleet Bank. Rising rates will continue to result in some level of margin compression between yield on assets and cost of funds. Compliance issues such as Sarbanes-Oxley and the Bank Secrecy Act will also challenge us.

This past year we can point with some pride to our ability to adequately address compliance with Sarbanes-Oxley and other regulatory requirements without allowing costs to escalate. We can also be proud of our efforts to continue to broaden and strengthen our relationships to the real estate investor community that forms such a significant part of our borrower base.

We were successful in competing with other local banks for permission to install a branch bank in the 1700 plus unit senior condominium project at Linden Ponds in South Hingham. That branch has performed quite well, with over \$14 million in deposits in less than six months, a very high percentage of which is less expensive core deposits.

All of what we have accomplished this past year can be attributed to the experienced management and seasoned staff of your Bank. The majority of senior officers have been with the Bank for over seven years. They have developed the knowledge and skills that allow us to do more, better, and with less expense.

Each year, we take the opportunity presented by this meeting to recognize an individual whose performance serves as an example for each of us. This year, I want to recognize that individual whose voice so many of you might recognize as the one that greets each incoming phone call at the Bank. One of the features that continues to distinguish us from so many competitors both large and small is that we insist on having a real human being manning our switchboard. In fact, a very charming human being. Dorothy Burns, through her graciousness and good manners, has communicated to literally thousands of individuals this Bank's appreciation for its customers and their business. Dorothy, 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 you may have.