2006 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

2005 was a year of very significant accomplishments for our bank. These accomplishments were again recognized with our being awarded the designation as one of the best small thrift institutions in the country by a major trade publication and our continued inclusion in all of the "best companies" in Massachusetts listings.

The statistics confirm these conclusions. Despite 2005 being the second year of consistently increasing short term rates with very little increase in intermediate and long-term rates, we produced the highest earnings in our 171-year history. These earnings were fueled by the very powerful momentum in balance sheet growth and some truly remarkable cost control.

Let's review the applicable figures.

First, the growth. Deposits increased by approximately $30 million to $364.3 million. This was fueled in large measure by the great succes of our linden ponds branch here in Hingham. On a comparative basis, you can see that for the fourth year in a row, we have outperformed the average of all savings banks in the state and that we also significantly outperformed the peer group of similarly sized savings banks. On the loan side, the growth was even more impressive with a net increase of $72.6 million in our portfolio or 17.4%. As you can see, for the fourth consecutive year we grew at a much faster pace than our peers or the average of all the other 69 savings banks in the state. These increases are reflected in our total asset growth of $81.2 million with our balance sheet increase to $628 million at year end. You can see the performance versus peers reflecting the same strength portrayed in earlier comparisons. The quality of this growth is again reflected in the fact that we had absolutely no loan losses in 2005 - none - 0. At year end, we had no foreclosed property and out of the thousands of loans in our bank, we had only one that was more than 60 days past due and that was well secured and complying with an established payment plan. On a comparative basis, you can see that our nonperformers dropped from 0.04% to 0.03%, substantially lower than that of our peers.

So the growth continues to not only be quite strong, but it continues to be of very high quality. We are also quite pleased that our audit committee this past year engaged a new independent loan review consultant to perform our quarterly loan reviews. This firm has approximately 200 bank clients in New England and has really taken this risk management effort to a much higher level.

So much for the growth.

Some comments in cost control. This chart depicts our efficiency ratio, i.e. how many cents do we spend to make a dollar? As you can see, we remain much more efficient than our peers or state averages. Indeed, we were the second most efficient bank in the state and continue to strive to be the absolute best. Another indicia of our cost control efforts is revealed in our most recent quarterly earnings announcement. You all have received a copy of this release and if you turn to page 4 of 4, you will see some truly remarkable numbers. Compare our total operating expense for the first quarter of 2005 with those of the first quarter of 2006. Now remember that we grew total assets by 15%, loans by 17%, but look - our general operating expenses barely budged, $2,406,000 to $2,495,000 (low single digit increase). That is really a great testimony to all the officers and staff that played a part in negotiating prices with vendors, controlling the use of consultants, wisely spending advertising dollars, and all of the other efforts that produced this result.

The product of this effort was a record bottom line of $6.2 million for 2005. Our return on equity remained the highest of the 70 savings banks in the state. We have been the most profitable of these banks for three out of the last four years. We also perform very well against all area banks (not just savings banks) with ourselves and Rockland Trust being the two banks that consistently outperform all the others. You can also see that if you compare our return on assets against others, we perform very near the top despite the fact that many of the others carry significantly higher and inefficient levels of capital.

These earnings resulted in another $4 million plus increase in stockholders' equity as well as record dividends declared to our stockholders of $0.99 per share.

While this performance can only be described as outstanding, 2006 is certainly not a year that anyone can rest on their laurels. The first quarter results demonstrate just how difficult a year this may be. We all read about the impact of rising short-term rates and so-called margin compression on our earnings. This next chart is an attempt to graphically depict this compression and also provoke some thought with regard to its possible duration. This chart gives us a history of the spread between 3-month treasury bills and 10-year treasury bonds. I use these two rates as proxies, if you will, for our deposit and borrowing cost (most of our deposits are short term and our CD costs track 3- to 6- month treasuries pretty closely -- and 10-year treasuries which I use as a proxy for our loan yields). Obviously, our loan portfolio has some loans that adjust monthly and some with longer fixed rates, but by and large, most of a real estate lender's rates will, to some extent, be tracking 5-10 year treasuries. We are impacted not so much by how high rates are but by what is the relationship between short and intermediate term raets. Well, as you can see, we are now at the point that there is virtually no difference between 3-month and 10-year rates (roughly 21 basis points). That is the challenge. The good news is that despite this environment, we are producing a reasonable return on equity (10% plus first quarter annualized) and also that this is a situation that has in the past been one of relatively short duration.

So while we buckle our seatbelts for what we hope is a relatively mild patch of turbulence, we remain optimistic that the people that produced these results will sustain our future momentum. We look forward to the opening of a new branch in the South End of Boston in the fall, our ongoing training efforts continue to improve our skill at developing new accounts, and the operational discipline will continue to improve.

Each year, we take this opportunity to recognize a member of our staff who contributes in a very significant way to our success. This year we wish to recognize an individual whose dedication and attention to detail have quietly earned her the respect of every single member of our staff. For over 20 years, her meticulous scrutiny of every single expense at the Bank has resulted in an error-free and efficient bookkeeping effort. In fact, Ann Bongarzone would make a Swiss watch maker look disorganized.

Ann, please accept this token of appreciation on behalf of the Board of Directors and myself.

That concludes my remarks and I would be pleased to answer any questions.