

2007 Annual Meeting
Hingham Institution for Savings
President Robert H. Gaughen Jr. Remarks

2006 was a year of unprecedented challenges for community banks and at Hingham a year of significant accomplishment. The unprecedented challenge was presented by the longest inverted yield curve in our national history. For community banks, whose primary source of profits is produced by borrowing from depositors or others at lower short term rates and lending to others at higher intermediate term rates, this challenge goes to the heart of our operating strategy.

At Hingham, despite this challenge, we were successful in maintaining a reasonable degree of profitability with a 9.23% return on equity. This was achieved by maintaining our strong growth momentum and continuing to effectively control operating expenses. We believe that we are well positioned to realize benefits from any trend toward a more normalized shape to the yield curve.

Let me review with you the numbers that confirm these assertions.

First, the growth.

2006 was another year of double digit growth at the Bank. We grew deposits by 12% from \$364.3 to \$408.3 million. This was more than double that of the average of all 70 savings banks in Massachusetts and was at least the fourth year in a row that we have grown faster than our peer group or state-wide averages. On the loan side, we also had another year of double digit growth with our total portfolio growing from \$488.1 million to \$539.1 million or 10.5%. Again, you can see that this loan growth was, for the thirteenth year in a row, greater than the average of peer and state banks.

This growth in the primary components of our balance sheet was reflected in the growth of total assets from \$628.3 million to \$697.1 million and you can see how this growth compares quite favorably with peer and state averages.

The quality of our asset growth has also remained quite high. Despite the slow down in the New England real estate market and a slight increase in unemployment here in Massachusetts, you can see that our non-current loans to total loans remained very low at 0.03% while the peer group increased slightly to 0.21%. We again experienced absolutely no loan losses in 2006.

In terms of cost control, you can see that we again performed in the top tanks of our industry. Number 2 out of 12 in our peer group and Number 3 out of the 70 savings banks in the state.

What these statistics confirm is that in those elements of executing our business strategy that are under our control -- the gathering of additional deposits, the development of new and quality loan relationships and the control of operating expenses -- the officers, staff, and Board continue to perform in an admirable fashion. This execution has helped us to avoid in significant measure the anemic levels of earnings that the industry has generally experienced. This next chart captures just how unusual the shape of the yield curve currently is and why it is so challenging to us. It shows you the spread between 3-month treasuries and 10-year treasuries over the last 24 years. The average appears to be about 1.6% with 13 of those years around 2% and above. You can also see that in each of the last two occasions of a flat yield curve, the spread has rebounded quickly. You can also see that for the first time in that quarter of a century we have experienced an inverted yield curve, i.e.: 3-month rates higher than 10-year rates, not just for one year but now into a second consecutive year. While there are some commentators who believe we may see less volatility and a less steep yield curve in the future, there are virtually no experts that suggest that an inverted yield curve makes sense on a protracted basis. So the good news is that this can't last forever that while our earnings are not what we would like, we have sustained a reasonable degree of profitability during the most difficult of circumstances. As you can see, we had after-tax earnings of \$4.6 million for 2006. We remained quite close to the very top of our industry with a 9.23% return on equity (2nd out of 12 in the peer group, 2nd out of 70 savings banks). Our stockholders equity increased from \$48.5 million to \$51.8 million and for the 13th consecutive year we increased dividends declared to stockholders, albeit by only \$0.01.

As I indicated in my initial remarks, this success rests in significant measure upon our somewhat unique combination of growth momentum and cost control. This past fall, we opened our eighth office, this one in the South End of Boston. This branch allows us to expand the commercial real estate lending that we have done in the city for many years and also to attempt to attract related deposits. To date, our belief that this office will provide us with an opportunity to continue to grow both deposits and loans is being confirmed. In terms of our branch network, we also accomplished a major renovation of our Hull Branch. We have also continued to enhance our online banking products and the quality of our support for those products. This next chart confirms the impact that technology is having in the world of community banking. As you can see, over the last 9 years we have increased the number of deposit accounts at the Bank from about 21,000 to 31,000. During the same period of time our teller transactions at 650,000 per annum are approximately the same. This is despite the 50% increase in the number of accounts, the increase in total deposits from \$160 million to \$408 million and the addition of more branches. The difference is in non-teller transactions - including electronic funds transfers, online banking, telephone banking and the like and you can see that doubling (from \$1.1 million to \$2.1 million) during the last 7 years. While a physical presence and branch network remain absolutely necessary, our continued growth will also rely on our ability to quickly and efficiently implement new and improved technologies required by our customer base.

Each year at this time we recognize a member of our staff for significant contributions to our success.

The individual being recognized this year has been a major contributor in the area of effectively implementing the very improvements in online banking that have allowed us to effectively compete.

Leigh Hemmings has been with the Bank for the last 9 years and over that period of time has been a key part of the design and implementation of our online banking products. She has brought a level of professionalism and intelligence that is appreciated by both fellow staff members and customers alike.

Leigh, please accept this on behalf of myself and the Board of Directors.

That concludes my prepared remarks. I would be happy to answer any questions you may have.