

My commitment to Hingham dates back to 1989. First, as a shareholder, then as a Director, and for the last two years in my present position as President. This commitment was always and continues to be, to return Hingham to a position of financial strength, a position from which it can initiate efforts to claim its position as the leading financial institution in the communities which we serve. With your support and the untiring efforts of staff and management, it is my belief that the seeds have been sown, the roots are taking hold, and together we will see the fruits of our labor as we journey into the future.

In the last two years, there have been a number of highly visible changes:

1. Restructure of the Board
2. Retention of New Management
3. Renovation of the Physical Plant
4. Reshaping of Loan and Deposit Products
5. Extension of Our Business Hours
6. Development of New Marketing and Advertising Efforts
7. Improved Communication with Shareholders, and
8. The Reinstitution and Subsequent Increase of Our Quarterly Cash Dividend

While all these factors remain significant, it is the numbers that provide concrete evidence of the progress we have made. I would like to review some of them with you at this time.

1. Nonperforming Assets: In 1993, we reduced total NPA by over 50% and in 1994 we slashed them by two thirds.
2. Total Delinquencies as a % of the Loan Portfolio: For the first time in many, many years, we have one of the lowest delinquency rates in the state. We intend to keep it that way.
3. Asset Mix: Local banks make money and serve their communities by making loans, not by holding treasuries.
4. Total Loan Portfolio: Total increases in loans during a time when other banks have seen actual contraction of total portfolio.
5. Total Yield on Earning Assets: Traditional, lower yield than average. Acceleration in 1992 because of asset sales in late 1992. Now trend line improves for us while competitors' continues to decline. Opportunistic that lines will intersect in 1995.
6. Non-Interest Expense % ATA: This item consists of all operating expenses such as personnel, occupancy expense, and items such as legal expense. For the first full year under new management, we have reversed previous trends. The chart speaks for itself.

7. Net Income % Average Net Worth: Most common measure of profitability. This past year we earned \$2.6 million. In fact, our return on equity was more than double that of our peer group. Only two banks in the state (out of 104) were higher.
8. Income Before G&L on Securities and Loans, Taxes, and Extraordinary Items: Removes distortions. In 1991, we were the lowest in our peer group. Today only two banks in our peer group with a stronger performance.
9. Net Worth: All of these efforts have transformed Hingham to one of the better capitalized banks in the state.

What does all of this mean for our future? In February of this year, the proposed merger of Fleet Financial Group and Shawmut, two of New England's largest banks, was announced. In an interview with the Boston Globe published on February 22nd, 1995, Terrence Murray, the Chief Executive of Fleet Financial Group, was asked the question "What impact will the merger have on small, neighborhood banks?" In response, he stated, and I quote:

"The question is, 'Is bigger better?' and the answer is that bigger is not necessarily better, if you had your druthers and you can go back to your hometown and see Mr. Chips down there at the old Institution for Savings, it was a homier time. That neighborhood institution, from a warmth/feel point of view, can run circles around us..."

Mr. Murray is right. In 1994, we lent more money in Hingham than Shawmut, Baybank, or Fleet. I suggest to you that we have, to use Mr. Murray's words, "a very defined niche in our own back yard." Similarly, Eric Rosengren, an economist for the Federal Reserve Bank of Boston, stated in an article in the March 18th Patriot Ledger that "the expectation that there won't be any small banks left is highly unlikely...you will have a two-tier market with the larger banks doing the bigger business loans and the smaller banks carving a solid niche doing smaller loans."

This is a very unique institution. You have seen the concrete evidence of the efforts of all of the individuals who are part of this Bank's family. We have an extraordinary staff, very skilled managers, an involved Board, and some very special shareholders. We remain committed to the notion that an independent community bank can provide very real benefits to both its communities and its shareholders. We thank you for your support, and if you have any questions, I'd be pleased to answer them.