

# Federal Reserve Bank of Boston BANK NOTES

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• Edited by Marcella Wiegand •

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## Bank of America to Acquire China Construction Bank Stake

On June 17, Bank of America Corp., Charlotte, NC, signed an agreement to purchase a 9 percent stake in China Construction Bank, Beijing, China, for approximately \$2.5 billion.

The deal marks the largest single foreign investment in China's banking sector. In addition to the initial purchase of shares, Bank of America has committed to invest another \$500 million at the time of China Construction's initial public offering. Bank of America also has the right to increase its ownership up to 19.9 percent over the next five-and-a-half years.

In return for the stake, Bank of America will provide China Construction with technical support and management skills, and will also have a seat on China Construction's board.

"This investment is aimed at creating a long-term benefit by partnering with the best positioned bank in China, which is one of the fastest growing economies in the world," said Kenneth D. Lewis, Bank of America's chairman and chief executive officer. "They [China Construction Bank] have built a leading franchise in China, and we see value in combining their local knowledge and distribution with our product expertise, technology, and experience with size and scale."

China Construction's Chairman, Guo Shuqing, was also enthusiastic: "We are very pleased to have Bank of America. . . as our strategic partner. I firmly believe this is a win-win partnership."

China Construction Bank is the second largest commercial bank in China, with approximately 3,910 billion renmenbi (\$472 billion) in assets, 3,491 billion renmenbi (\$422 billion) in deposits, and a network of 14,500 branches. It is the second largest mortgage lender and has leading positions in credit cards and infrastructure loans.

As of June 30, 2004, Bank of America ranked first among commercial bank and thrift institutions in New England, with a 19.6 percent share of deposits.

(BoFA PR 6/17/05; Boston Globe 6/17/05; New York Times 6/17/05; SNL Bank & Thrift Daily 6/17/05)

## Boston Private Financial to Acquire Gibraltar Bank

Boston Private Financial Holdings, Boston, MA, agreed to acquire Gibraltar Bank FSB, Coral Gables, FL, on June 13 for approximately \$242 million in cash and stock.

The deal will provide Boston Private access to the Florida market. Gibraltar Bank has approximately \$970 million in assets and conducts a private banking and wealth management business through five locations in southeast Florida.

Timothy L. Vaill, Boston Private's chairman and CEO, said, "We regard Gibraltar as one of the premier private banks in America with a very strong foothold in one of the nation's fastest growing regions. Boston Private's strategy is to have a major presence in the most attractive geographic areas, and Gibraltar will join our similar platforms in New England, California, the Pacific Northwest, and New York to bring a full range of wealth management services to successful people, their families, and their businesses."

Gibraltar's President and CEO Steve Hayworth said, "When it came time to broaden our strategic reach and participate on a national scale, I knew that Boston Private would be the right partner for us. We are very enthusiastic about working together with them."

The transaction, subject to regulatory and shareholder approval, is expected to close in the fourth quarter.

As of June 30, 2004, Boston Private Financial ranked 22nd among commercial bank and thrift institutions, with a 0.4 percent share of deposits.

(Gibraltar PR 4/19/05; SNL Bank & Thrift Daily 6/13/05)

## Berkshire Hills Bancorp and Woronoco Bancorp Complete Merger

On June 1, Berkshire Hills Bancorp, Pittsfield, MA, completed its acquisition of Woronoco Bancorp, Westfield, MA.

Michael P. Daly, president and chief executive officer of Berkshire Hills and Berkshire Bank, stated, "It is my pleasure to welcome Woronoco Savings Bank customers, employees, and stockholders to Berkshire Hills

and Berkshire Bank. We are delighted to be a part of the many wonderful communities in the Pioneer Valley.”

The companies originally announced the deal on December 20, 2004.

(Berkshire Hills PR 6/1/05; SNL Bank & Thrift Daily 6/2/05)

## **NewAlliance Bancshares and Trust Company of Connecticut Receive Shareholder Approval**

NewAlliance Bancshares, New Haven, CT, received approval from Trust Company of Connecticut's shareholders on June 7, 2005, for its proposed acquisition of Trust Company of Connecticut, Hartford, CT.

The deal, expected to close in the third quarter, was originally announced on March 9, 2005.

(SNL Bank & Thrift Daily 6/8/05)

## **Bank Re-organizations**

On April 25, Valley Bancorp, Bristol, CT, announced its plans to reorganize under a new holding company to be named First Valley Bancorp, Inc.

The bank's board approved the reorganization in December 2004, followed by shareholder approval on May 23.

(SNL Bank & Thrift Daily 5/31/05)

On May 4, First Brandon Financial Corp. announced its plans to become a bank holding company with the acquisition of 100 percent of the voting shares of First Brandon National Bank, Brandon, VT.

The reorganization would enable the bank to become a stronger competitor with institutions that control a larger share in the market, the company said.

(SNL Bank & Thrift Daily 5/31/05)

Commonwealth National Bank, Worcester, MA, received shareholder approval to form a bank holding company called CNB Financial Corp. on May 26.

“Creating a holding company will give us added flexibility in raising new capital to support our growth,” said Charles Valade, Commonwealth National Bank's president and chief executive officer.

The new structure is subject to regulatory approval.

(Commonwealth PR 5/25/05; SNL Bank & Thrift Daily 5/27/05)

On May 31, Northway Financial, Berlin, NH, received board approval for the merger of its two unit banks, Berlin City Bank, Berlin, NH, and Pemigewasset National Bank of Plymouth, Plymouth, NH.

The company said it expects the merger to result in cost savings through the elimination of duplicative governmental filings and some back-office expenses.

The name of the resulting bank will be Northway Bank.

(SNL Bank & Thrift Daily 6/2/05)

## **Bank Charter Conversion**

On June 9, Mutual Bancorp of the Berkshires Inc., Pittsfield, MA, announced its plans to undergo a stock conversion, forming a Delaware-chartered holding company and to acquire all outstanding stock of Legacy Banks, its subsidiary.

The conversion, which was approved by the bank's board on May 25, is designed to allow for growth in the company's lending and investment activities, the company said.

(SNL Bank & Thrift Daily 6/10/05)

## **Branch Purchase**

On June 13, People's Bank MHC, Bridgeport, CT, agreed to sell three branches to PSB Holdings, the parent company of Putnam Savings Bank, Putnam, CT.

The branches are located in Plainfield, Griswold, and Ledyard, CT. Putnam Savings Bank will acquire the deposits of the three offices, totaling approximately \$63 million.

“This acquisition is a natural extension of our market area and is an excellent fit for us,” said Robert G. Cocks, Jr., president and chief executive officer of PSB Holdings. “It enables us to strengthen our existing position in Windham County and expand our branch network into New London County. . . . We welcome the addition of a solid customer base, productive employees, and stable low-cost deposits.”

The deal is expected to close in the third quarter, subject to regulatory approval.

(PSB PR 6/13/05; SNL Bank & Thrift Daily 6/14/05)

## **OTS Reports Thrift Earnings**

On May 18, the Office of Thrift Supervision (OTS) reported that the thrift industry posted record net income of \$4 billion in the first quarter of 2005, a 6 percent increase from the fourth quarter and a 20 percent gain from the first quarter 2004.

The OTS said the record profitability resulted from higher first-quarter mortgage servicing fee income, lower loan loss provisions, and lower non-interest expense. The thrift industry's servicing fee income increased to 0.23 percent of average assets for the quarter, up from 0.13 percent in the fourth quarter of 2004. The industry's loan loss provision declined to 0.19 percent in the first quarter, compared with 0.26 percent in the fourth quarter, while non-interest expense declined to 2.45 percent in the first quarter from 2.54 percent.

Partially offsetting these gains was a reduced net interest margin for the industry. Thrift net interest margin fell to 2.86 percent in the first quarter, compared with 2.90 percent in the fourth quarter.

Industry profitability as measured by return on average assets (ROA) was 1.22 percent in the first quarter, up from 1.17 percent.

The industry's capital position rose to a record level of \$123.1 billion in the first quarter, and the ratio of equity capital to assets was 9.18 percent, unchanged from the first quarter 2004.

Over 99 percent of all thrifts were well capitalized in the first quarter, unchanged from the prior quarter and the first quarter of 2004.

(OTS PR 5/18/05; SNL Bank & Thrift Daily 5/19/05)

## FDIC Reports Earnings

On May 26, the Federal Deposit Insurance Corporation (FDIC) reported that insured commercial banks and savings institutions earned net income of \$34.3 billion for the first quarter of 2005, exceeding the previous quarterly record of \$32.4 billion set in the third quarter of 2004. This year's first quarter profits represented a 7.7 percent improvement over the industry's first quarter 2004 performance.

Major factors in the industry's earnings surge were reduced expenses for bad loans and the absence of significant merger-related costs.

These were partially offset by a decline in the industry's revenues. Net operating revenue, the sum of net interest income and non-interest income, declined in the first quarter by \$400 million, or 0.3 percent.

"These record earnings once again underscore the fact that the industry's health is excellent," said FDIC Chairman Don Powell. "However, the lack of revenue growth shows that the industry faces challenges in sustaining a high level of performance."

Total deposits increased by \$124.5 billion, or 1.9 percent, in the first quarter of 2005, after growing by \$200.5 billion in the fourth quarter of last year.

Chairman Powell added, "The growth in deposits is an especially good sign for the banking industry. It shows that Americans appreciate the safety, the simplicity, and the convenience of FDIC-insured deposits, because there are many other options available to them."

(FDIC PR 5/26/05)

Note: The June 2005 issue of *Bank Notes* was combined with this July issue, and therefore a June 2005 issue was not produced.

Items in this publication focus on developments affecting banking structure in New England. The items are condensations of articles from a selected group of daily newspapers and press releases of federal and state financial regulatory agencies. Their reproduction does not imply our endorsement of the accuracy, opinions or policies reflected in the subject matter.

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