

# SECURITIES AND EXCHANGE COMMISSION

## FORM 8-K

Current report filing

Filing Date: **1999-07-27** | Period of Report: **1999-07-20**  
SEC Accession No. **0000950135-99-003631**

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### FILER

#### PEOPLES HERITAGE FINANCIAL GROUP INC

CIK: **829750** | IRS No.: **010437984** | State of Incorpor.: **ME** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: **000-16947** | Film No.: **99670831**  
SIC: **6022** State commercial banks

Mailing Address  
*P O BOX 9540  
PORTLAND ME 04112-9540*

Business Address  
*ONE PORTLAND SQ  
P O BOX 9540  
PORTLAND ME 04112  
2077618500*

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

July 20 and 26, 1999

-----  
(Date of earliest event reported)

Peoples Heritage Financial Group, Inc.

-----  
(Exact name of registrant as specified in its charter)

Maine 0-16947 01-0437984  
-----  
(State or other jurisdiction (Commission File Number) (IRS Employer  
of incorporation) Identification No.)

P.O. Box 9540, One Portland Square, Portland, Maine 04112-9540  
-----  
(Address of principal executive offices) (Zip Code)

(207) 761-8500

-----  
(Registrant's telephone number, including area code)

Not Applicable

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

## ITEM 5. OTHER EVENTS

On July 20 and July 26, 1999, Peoples Heritage Financial Group, Inc. issued the press releases included as Exhibits 99.1 and 99.2 to this Current Report on Form 8-K, respectively, which are hereby incorporated herein by reference.

## ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

- (a) Not applicable.
- (b) Not applicable.
- (c) The following exhibits are included with this Current Report on Form 8-K:
- |              |                                    |
|--------------|------------------------------------|
| Exhibit 99.1 | Press release, dated July 20, 1999 |
| Exhibit 99.2 | Press release, dated July 26, 1999 |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEOPLES HERITAGE FINANCIAL GROUP, INC.

By: /s/ Peter J. Verrill

-----  
Name: Peter J. Verrill  
Title: Executive Vice President,  
Chief Financial Officer and Treasurer

Date: July 26, 1999

Peoples Heritage Financial Group

P.O. Box 9540  
Portland, ME 04112-9540

NEWS RELEASE

Tel: 207-761-8500

[PEOPLES LOGO]

FOR IMMEDIATE RELEASE  
FOR FURTHER INFORMATION, CONTACT:  
BRIAN ARSENAULT, SENIOR VICE PRESIDENT, CORPORATE COMMUNICATIONS  
(207) 761-8517

(Second quarter earnings conference call at 1:30 p.m. eastern time today, July 20, 1999. Conference call telephone number: 1 800 289-0436, confirmation code, 720976. 48-hour replay number available, 1 888 203-1112, same access code.)

RECORD QUARTER EARNINGS AT PEOPLES HERITAGE FINANCIAL GROUP  
COMPANY TO COMMENCE REPURCHASE OF UP TO 4 MILLION SHARES

Portland, Maine, July 20, 1999 -- People Heritage Financial Group, Inc. (NASDAQ:PHBK) today announced record quarterly earnings of \$40.8 million, or 39 cents per diluted share, for the second quarter ended June 30, 1999. The Company also announced plans to repurchase up to 4 million shares of its common stock in the open market.

The record quarterly earnings for the quarter ended June 30, 1999 were up 11% over operating earnings for the second quarter a year ago of \$36.6 million, or 35 cents per diluted share. Net income was up \$28.2 million, or 225 percent, from net income for the quarter ended June 30, 1998 but the second quarter of last year was negatively affected by one-time charges related to the acquisition of CFX Corporation.

For the six months ended June 30, 1999, the Company reported net income of \$54.3 million, or 52 cents per diluted share, which was 25 percent higher than net income of \$43.7 million, or 41 cents per diluted share, for the same period of 1998. Operating income for the first six months of 1999 was \$78.3 million, or 75 cents per diluted share, 15 percent higher than operating income of \$68.3 million, or 65 cents per diluted share, for the first six months of 1998.

"With a strong record quarter in hand, we decided to further enhance shareholder value by repurchasing shares," said William J. Ryan, Company Chairman, President and Chief Executive Officer.

Mr. Ryan said that management believes that plans to repurchase up to 4 million shares constitute an attractive use of the Company's capital at this time. He said that a repurchase program expresses the Company's confidence in its performance and its stock.

Mr. Ryan also announced that the Company will not be bidding on the divestitures resulting from the merger of Fleet Financial Group and BankBoston Corporation. He said that a key factor in the Company's decision not to bid was reaching agreement during the second quarter of 1999 to acquire Banknorth Group.

"Our early interest in the Fleet/BankBoston divestitures was to improve our Massachusetts franchise," said Mr. Ryan. "The Banknorth acquisition allows us to do that, gaining the second largest market share in the Worcester, Massachusetts area, New England's second largest city, while also providing us entry into Vermont and upstate New York and adding to our New Hampshire franchise. With that accomplished, the best next step for our shareholders is, in our view, a repurchase program."

Strengths of the quarter ended June 30, 1999 included double digit growth in consumer and commercial business loans over loan totals in those two categories at June 30, 1998. While total loans declined by 9% from June 30, 1998 to June 30, 1999, due mostly to the Company's securitization of \$601 million of residential mortgages during the second quarter, net interest income grew by 3 percent because of the higher yields generated by commercial and consumer loans.

"We are consciously changing our balance sheet to focus on higher yielding consumer and commercial loans while reducing dependence on lower yielding

mortgage loans," said Mr. Ryan.

Another strength of the quarter ended June 30, 1999 was a 12 percent increase in noninterest income over the same quarter a year ago. Fee income from the Company's insurance agency business increased 55% for the quarter ended June 30, 1999 over the quarter ended June 30, 1998 and trust and investment income increased 24% for the same periods.

Return on average equity (ROE) for the quarter ended June 30, 1999 was 18.08%, up a full point from the quarter ended June 30, 1998 and represented the first quarter the Company's ROE has exceeded 18 percent. Return on average assets for the second quarter of 1999 remained relatively stable at 1.25%. Net interest margin for the quarter ended June 30, 1999 was down to 3.62% for the second quarter, largely because of price competition on loans and an increased level of investment securities on the Company's balance sheet.

The Company achieved a new low in its efficiency ratio of 54.49% for the quarter ended June 30, 1999, as compared to 56.84% for the same quarter a year ago.

Peoples Heritage Financial Group is a multi-state banking and financial services holding company with total assets of \$13.5 billion. The Company owns Peoples Heritage Bank with the leading market share in Maine, Bank of New Hampshire with the leading market share in the state, Family/SIS Bank in Massachusetts and Glastonbury Bank & Trust in Connecticut. On June 2, 1999, the Company announced that it had reached agreement to acquire Banknorth Group, Inc. (NASDAQ:BKNG), a \$4.4 billion bank holding company with banks in Vermont, Massachusetts, upstate New York and New Hampshire. The acquisition is expected to close around year-end 1999.

(end)

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Peoples Heritage Financial Group, Inc. and Subsidiaries

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 CONSOLIDATED BALANCE SHEETS (Unaudited)

<TABLE>

<CAPTION>

(In Thousands)	June 30,		% Change
	1999	1998	
<S>	<C>	<C>	<C>
Cash and due from banks	\$ 397,060	\$ 467,038	-15%
Federal funds sold and other short-term investments	45,194	254,001	-82%
Securities available for sale	5,044,822	2,181,199	131%
Securities held to maturity	601,151	233,767	157%
Loans and leases held for sale	132,325	653,272	-80%
Loans and leases:			
Residential real estate mortgages	1,533,439	2,704,749	-43%
Commercial real estate mortgages	1,727,284	1,587,129	9%
Commercial business loans and leases	1,267,105	1,136,649	11%
Consumer loans and leases	2,088,700	1,838,553	14%
Total loans and leases	6,616,528	7,267,080	-9%
Less: Allowance for loan losses	110,639	110,371	0%
Loan and leases, net	6,505,889	7,156,709	-9%
Premises and equipment	139,541	145,246	-4%
Goodwill and other intangible assets	117,144	122,324	-4%
Mortgage servicing rights	47,314	96,056	-51%
Bank owned life insurance	222,262	65,152	241%
Other assets	226,996	234,977	-3%
	-----	-----	
	\$13,479,698	\$11,069,741	16%
	=====	=====	

-----  
 LIABILITIES & SHAREHOLDERS' EQUITY

Deposits:			
Regular savings	\$ 1,285,715	\$ 1,352,426	-5%
Retail money market and NOW accounts	2,112,302	1,880,620	12%
Retail certificates of deposit	3,335,663	3,417,945	-2%
Brokered deposits	185,155	303,995	-39%

Demand deposits	1,285,492	1,256,978	2%
	-----	-----	
Total deposits	8,204,327	8,211,964	0%
	-----	-----	
Borrowings from Federal Home Loan Bank	3,644,173	1,736,569	110%
Securities sold under repurchase agreements	568,413	540,201	5%
Other borrowings	33,441	29,809	12%
Other liabilities	65,839	136,204	-52%
	-----	-----	
Total liabilities	12,516,193	10,654,747	17%
	-----	-----	
Company obligated, mandatorily redeemable securities of subsidiary trust holding solely parent junior subordinated debentures	68,775	100,000	-31%
Shareholders' equity	894,730	854,994	5%
	-----	-----	
	\$13,479,698	\$11,609,741	16%
	=====	=====	

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<CAPTION>

Peoples Heritage Financial Group, Inc. and Subsidiaries

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CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In Thousands, except number of shares and per share data)

	Six Months Ended June 30,			Three Months Ended June 30,		
	1999	1998	% Change	1999	1998	% Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest and dividend income	\$ 430,598	\$ 418,293	3%	\$ 220,350	\$ 208,614	6%
Interest expense	213,534	205,522	4%	111,224	102,395	9%
	-----	-----		-----	-----	
Net interest income	217,064	212,771	2%	109,126	106,219	3%
Provision for loan and lease loans	7,130	6,484	10%	3,565	3,235	10%
Net interest income after provision for loan and lease losses	209,934	206,287	2%	105,561	102,984	3%
	-----	-----		-----	-----	
Noninterest income:						
Customer services	23,550	19,555	20%	12,738	10,070	26%
Mortgage banking services	10,781	16,884	-36%	6,576	9,517	-31%
Trust and investment advisory services	9,645	7,796	24%	5,200	4,189	24%
Net gains on sales securities of	278	2,052	-86%	260	2	NM
Insurance commissions	9,596	5,688	69%	4,314	2,790	55%
Bank owned life insurance	5,318	1,926	176%	3,009	878	NM
Other noninterest income	4,046	5,089	-20%	1,683	2,828	-10%
	-----	-----		-----	-----	
	63,214	58,990	7%	33,780	30,274	12%
	-----	-----		-----	-----	
Noninterest expense:						
Salaries and employee benefits	79,340	82,995	-4%	39,170	40,183	-3%
Data processing	14,099	11,410	24%	7,093	5,596	27%
Occupancy and equipment expense	24,118	24,556	-2%	12,362	11,472	8%
Distributions on securities of subsidiary trust	3,571	4,530	-21%	1,585	2,286	-31%
Amortization of goodwill & deposit premiums	5,901	5,776	2%	2,993	2,914	1%
Special charges (1)	33,235	35,374	-6%	0	34,474	100%
Other noninterest expense	30,052	34,694	-13%	16,169	17,422	-7%
	-----	-----		-----	-----	
	190,316	199,335	-5%	79,312	114,347	-31%
	-----	-----		-----	-----	
Income before income tax expense	82,832	65,942	26%	60,029	18,911	NM
Income tax expense	28,572	22,290	28%	19,263	6,375	NM
	-----	-----		-----	-----	
Net income	\$ 54,260	\$ 43,652	24%	\$ 40,766	\$ 12,536	NM
	-----	-----		-----	-----	

Weighted average shares outstanding

Basic	103,708,421	103,391,860	0%	103,957,104	103,404,866	1%
Diluted	105,003,725	105,750,425	-1%	105,121,969	105,761,510	-1%
Earnings per share:						
Basic	\$ 0.52	\$ 0.42	24%	\$ 0.39	\$ 0.12	225%
Diluted	\$ 0.52	\$ 0.41	25%	\$ 0.39	\$ 0.12	225%

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Operating Financial Data

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Operating non-interest expense (2)	\$ 157,081	\$ 163,961	-4%	\$ 79,312	\$ 79,873	-1%
Operating net income (3)	\$ 78,339	\$ 68,279	15%	\$ 40,766	\$ 36,578	11%
Basic Operating earnings per share (3)	\$ 0.76	\$ 0.66	14%	\$ 0.39	\$ 0.35	11%
Diluted operating earnings per share (3)	\$ 0.75	\$ 0.65	16%	\$ 0.39	\$ 0.35	11%

</TABLE>

(1) Consists of merger related charges of \$25,871 and \$35,374 and costs to discontinue the correspondent mortgage business of \$7,364 and \$0 for the six months ended June 30, 1999 and 1998. For the quarter ended June 30, 1998, special charges consists of merger related charges.

(2) Excludes pre-tax special charges of \$33,235 and \$35,374 for the six months ended June 30, 1999 and 1998 and \$0 and \$34,474 for the quarters ended June 30, 1999 and 1998, respectively.

(3) Excludes post-tax special charges of \$24,079 and \$24,627 for the six months ended June 30, 1999 and 1998 and \$0 and \$24,042 for the quarters ended June 30, 1999 and 1998, respectively.

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<TABLE>

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PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES  
SELECTED FINANCIAL HIGHLIGHTS (UNAUDITED)

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(In Thousands, except number of shares and per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Net interest income	\$ 217,064	\$ 212,771	\$ 109,126	\$ 106,219
Net income	\$ 54,260	\$ 43,652	\$ 40,766	\$ 12,536
Operating net income(1)	\$ 78,339	\$ 58,279	\$ 40,766	\$ 36,578
Shares outstanding (end of period)	104,676,162	103,229,013	104,676,162	103,229,013
Weighted average shares outstanding:				
Basic	103,708,421	103,391,860	103,957,104	103,404,866
Diluted	105,003,725	105,750,425	105,121,969	105,761,510
Earnings per share:				
Basic	\$ 0.52	\$ 0.42	\$ 0.39	\$ 0.12
Diluted	\$ 0.52	\$ 0.41	\$ 0.39	\$ 0.12
Operating earnings per share(1):				
Basic	\$ 0.76	\$ 0.66	\$ 0.39	\$ 0.35
Diluted	\$ 0.75	\$ 0.65	\$ 0.39	\$ 0.35
Operating cash earnings per share(2):				
Basic	\$ 0.81	\$ 0.72	\$ 0.42	\$ 0.38
Diluted	\$ 0.80	\$ 0.70	\$ 0.42	\$ 0.37
Shareholders' equity	\$ 894,730	\$ 854,994	\$ 894,730	\$ 854,994
Book value per share	\$ 8.55	\$ 8.28	\$ 8.55	\$ 8.28
Tangible book value per share	\$ 7.43	\$ 7.10	\$ 7.43	\$ 7.10

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Ratios:

Net interest margin (net interest income as a % of average earning assets) (3)	3.74%	4.07%	3.62%	4.03%
Net interest spread (yield on earning assets minus yield on interest-bearing liabilities) (3)	3.24%	3.53%	3.14%	3.47%
Return on average assets	0.87%	0.76%	1.25%	0.43%
Operating return on average assets(1)	1.25%	1.19%	1.25%	0.27%
Operating cash return on average assets(2)	1.36%	1.31%	1.36%	1.38%
Returns on average equity	12.34%	10.32%	18.08%	5.86%
Operating return on average equity(1)	17.82%	16.14%	18.08%	17.08%
Operating cash return on average equity(2)	22.20%	20.54%	22.32%	21.58%



Tier 1 leverage capital ratio at end of period	6.88%	7.17%	6.88%	7.17%
Efficiency ratio(4)	54.83%	59.11%	54.49%	56.84%
Non-performing loans	\$ 51,739	\$ 59,480	\$ 51,739	\$ 59,480
Total non-performing assets	\$ 62,320	\$ 71,650	\$ 62,320	\$ 71,650
Non-performing loans as a % of total loans	0.78%	0.82%	0.78%	0.82%
Non-performing assets as a % of total assets	0.46%	0.62%	0.46%	0.62%
Full service banking offices	220	227	220	227

</TABLE>

- (1) Excludes merger related and special charges of \$24,079 and \$24,627 after tax for the ended six months ended June 30, 1999 and 1998 and \$0 and \$24,042 after tax for the quarters ended June 30, 1999 and 1998, respectively.
- (2) Earnings before special charges and amortization of goodwill and core deposit premiums.
- (3) Adjusted to fully taxable equivalent basis.
- (4) Excludes distributions on securities of subsidiary trust, net gains on sales of securities and special charges.

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<TABLE>

<CAPTION>

PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES

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CONSOLIDATED AVERAGE BALANCE SHEETS (UNAUDITED)

(Dollars in Thousands)	THREE MONTHS ENDED JUNE 30,			
	1999		1998	
	Average Balance	Yield/Rate	Average Balance	Yield/Rate
<b>Assets</b>				
<S>	<C>	<C>	<C>	<C>
Loans and leases(1)				
Residential real estate mortgages	\$ 1,801,616	7.24%	\$ 3,363,259	7.44%
Commercial real estate mortgages	1,689,588	8.77%	1,600,841	9.44%
Commercial loans and leases	1,232,071	8.47%	1,090,450	9.35%
Consumer loans and leases	2,081,520	8.63%	2,017,090	8.87%
	-----		-----	
	6,804,795	8.27%	8,071,640	8.45%
Securities	5,103,801	6.12%	2,462,955	6.27%
Federal funds sold & other short-term investments	189,798	4.93%	96,298	2.64%
	-----		-----	
Total earning assets	12,098,394	7.31%	10,630,893	7.90%
Earning assets	950,405		948,706	
	-----		-----	
Total assets	\$13,048,799		\$11,579,599	
	=====		=====	
<b>Utilities &amp; Shareholders' Equity</b>				
Interest-bearing deposits:				
Regular savings	\$ 1,268,159	2.03%	\$ 1,361,919	2.38%
Retail money market and NOW accounts	2,078,200	2.41%	1,915,109	2.56%
Retail certificates of deposit	3,391,976	4.93%	3,472,084	5.46%
Brokered deposits	201,244	5.60%	315,289	5.73%
	-----		-----	
Total interest-bearing deposits	6,939,579	3.67%	7,064,401	4.09%
Borrowed funds	3,769,847	5.09%	2,215,643	5.49%
	-----		-----	
Total interest-bearing liabilities	10,709,426	4.17%	9,280,044	4.43%
Demand accounts	1,284,420		1,220,460	
Other liabilities	80,378		120,338	
Minority interest	69,987		100,000	
Shareholders' equity	904,588		858,757	
	-----		-----	
Total liabilities, minority interest and shareholders' equity	\$13,048,799		\$11,579,599	
	=====		=====	

earning assets	\$ 1,388,968	\$ 1,350,849
	=====	=====
interest income (fully taxable equivalent)	\$ 108,402	\$ 107,029
: fully taxable equivalent adjustments	(464)	(810)
	-----	-----
interest income	\$ 107,938	\$ 106,219
	=====	=====
interest rate spread (fully taxable equivalent)	3.14%	3.47%
interest margin (fully taxable equivalent)	3.62%	4.03%

</TABLE>

(1) Loans and leases include portfolio loans and leases, loans held for sale and nonperforming loans.

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<TABLE>

<CAPTION>

PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES

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CONSOLIDATED AVERAGE BALANCE SHEETS (UNAUDITED)

SIX MONTHS ENDED JUNE 30,

	1999		1998	
(Dollars in Thousands)	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate
<b>Assets</b>				
<S>	<C>	<C>	<C>	<C>
Loans and leases(1)				
Residential real estate mortgages	\$ 2,176,886	7.32%	\$ 3,375,738	7.55%
Commercial real estate mortgages	1,671,443	8.91%	1,598,831	9.50%
Commercial loans and leases	1,186,214	8.81%	1,052,483	9.33%
Consumer loans and leases	2,104,142	8.61%	1,995,058	8.92%
	-----		-----	
	7,138,685	8.32%	8,022,110	8.51%
Securities	4,346,071	6.10%	2,444,191	6.44%
Federal funds sold & other short-term investments	188,141	4.52%	103,638	3.64%
	-----		-----	
Total earning assets	11,672,897	7.43%	10,569,939	7.99%
Earning assets	932,494		986,128	
	-----		-----	
Total assets	\$12,605,391		\$11,556,067	
	=====		=====	
<b>Utilities &amp; Shareholders' Equity</b>				
Interest-bearing deposits:				
Regular savings	\$ 1,252,356	2.03%	\$ 1,371,929	2.43%
Retail money market and NOW accounts	2,057,633	2.40%	1,877,951	2.82%
Retail certificates of deposit	3,420,717	5.06%	3,463,053	5.32%
Brokered deposits	206,344	5.32%	302,750	5.83%
	-----		-----	
Total interest-bearing deposits	6,937,050	3.73%	7,015,683	4.11%
Borrowed funds	3,349,000	5.13%	2,287,356	5.52%
	-----		-----	
Total interest-bearing liabilities	10,286,050	4.19%	9,303,039	4.46%
Demand accounts	1,283,622		1,163,299	
Other liabilities	71,708		136,588	
Minority interest	77,452		100,000	
Shareholders' equity	886,559		853,141	
	-----		-----	
Total liabilities, minority interest and shareholders' equity	\$12,605,391		\$11,556,067	
	=====		=====	
earning assets	\$ 1,386,847		\$ 1,266,900	
	=====		=====	
interest income (fully taxable equivalent)	\$ 218,113		\$ 214,142	
: fully taxable equivalent adjustments	(1,049)		(1,371)	
	-----		-----	
interest income	\$ 217,064		\$ 212,771	
	=====		=====	

interest rate spread (fully taxable equivalent)	3.24%	3.53%
interest margin (fully taxable equivalent)	3.74%	4.07%

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</TABLE>

(1) Loans and leases include portfolio loans and leases, loans held for sale and nonperforming loans.

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Peoples Heritage Financial Group

P.O. Box 9540  
Portland, ME 04112-9540

Tel: 207-761-8500

NEWS RELEASE

[PEOPLES LOGO]

FOR IMMEDIATE RELEASE  
FOR FURTHER INFORMATION, CONTACT:  
BRIAN ARSENAULT, SENIOR VICE PRESIDENT, CORPORATE COMMUNICATIONS  
(207) 761-8517

PEOPLES HERITAGE TO COMMENCE REPURCHASE PROGRAM ON JULY 27

Portland, Maine, July 26, 1999 -- Peoples Heritage Financial Group, Inc. (NASDAQ:PHBK) announced today that it will commence its previously announced repurchase of up to 4 million shares of its common stock tomorrow, July 27. The shares will be repurchased in open market transactions.

Peoples Heritage Financial Group is a multi-state banking and financial services holding company with total assets of \$13.5 billion. The Company owns Peoples Heritage Bank with the leading market share in Maine, Bank, of New Hampshire with the leading market share in that state, Family/SIS Bank in Massachusetts and Glastonbury Bank & Trust in Connecticut. On June 2, 1999, the Company announced that it had reached agreement to acquire Banknorth Group, Inc. (NASDAQ:BKNG), a \$4.4 billion bank holding company with banks in Vermont, Massachusetts, upstate New York and New Hampshire. The acquisition is expected to close around year-end 1999.

(end)