

**New Windsor State Bank**  
**New Windsor, Maryland**  
**Shareholder Meeting**  
**April 20, 2010**

**Anita Gentle Newcomb, President**  
**A.G. Newcomb & Co.**

**Community Banking—The Silver Lining of Banking**

Good morning. Thank you, Steve, for that kind introduction. It is a pleasure to have this opportunity to speak to you this morning about a subject I'm very passionate about—Community Banking. Today, I'd like to dispel a few myths about the banking industry. I'd also like to illuminate how community banks are uniquely positioned to take advantage of certain key opportunities in creating a bright future.

These are unprecedented times—yet in every cloud there is a silver lining. As our country begins to recover from the Greatest Recession, there are tremendous opportunities for smaller banks to survive and thrive. We have entered a new era of banking with imminent changes in financial services regulations, increased compliance, shifting of customer preferences and behavior patterns, and a desire by all for a healthier, more stable financial system. Community banks are a critical part of the foundation of our country's financial system.

I am often asked to define community bank. The answer is a bit fuzzy. Rather than a definitive size range that is often used by banking regulators it is more about a bank's approach to their markets and customers. A community bank epitomizes the concept of relationship banking with an individualized approach to service and local decision making. Community banks are more often locally owned and their customers live and work in the same communities as the bank leaders, board members and employees. The community bank business model allows banks to be more nimble and responsive in credit decisions and knowledgeable of their customers' unique needs and capacity for debt.

There are many rumors swirling about the banking industry. First, let me dispel a few of these misunderstandings.

- I. **MYTH 1: All "Banks" are the same.** Unfortunately, the term "bank" has been used very loosely by the media and even the Administration such that the average person has become confused. There is a difference between an investment bank, a mortgage bank and a commercial bank. First, they each have distinct missions supported by different business models. Second – and what I really want to stress – is that investment banks and mortgage banks were not subject to the same regulations as commercial banks.

Commercial banks which accept deposits insured by the FDIC are heavily regulated. Most community banks such as New Windsor State Bank have never made a subprime loan, or entered into a credit default swap.

- II. **MYTH2: In the future there will only be a handful of big banks.** This second myth has been around for awhile. There are countries around the world that have a banking structure consisting of a handful of big banks. We don't have to look too far as Canada is one such country.
- A. **Our Current Banking Structure.** Currently, there are 8,012 banks in the U.S. today. 7,340 or 92% are less than \$1 billion in assets. These small community banks are sprinkled across the U.S. in rural and urban communities much like New Windsor, serving communities that often would not otherwise be served by the larger banks. These local banks are invested in their communities, serving the needs of consumers and businesses that reside there. They transform deposits into loans within the community, completing a vital cycle necessary for the growth and stability of the communities they serve.
- B. **Banking Industry Consolidation.** It is true our banking industry continues to consolidate with mergers, acquisitions and, of late, bank failures. The number of banks in the last 20 years has declined by almost 50%, and last year there was a net decrease of 293 banks. When there were 16,000 banks in our country 20 years ago, many agreed that certain markets were "overbanked". Business costs continue to increase because of higher compliance and regulatory expenses, increased FDIC deposit insurance assessments, and a need for more sophisticated technology and alternatives to bank 24/7. It is critical that banks create greater efficiencies, leveraging infrastructure expenses over a larger customer base. Therefore, we expect to see continued consolidation of number of banks in the future. Much of this consolidation is likely to occur amongst community banks with less than \$1 billion in assets.
- C. **Opportunities for community banks.** This consolidation though creates opportunities particularly for community banks that are well capitalized and well positioned to selectively acquire other community banks that fit their strategic criteria. While certain sectors of financial services such as mortgage loans, credit cards and auto loans are increasingly concentrated among the top players because such products require greater scale for appropriate return on investment, there are certain sectors of banking that offer valuable opportunities for community banks. These areas are consumer and business deposits and small business loans. Small businesses will be the engine for growth for our country in future years. Small businesses accounted for two-thirds of the net new jobs over the last decade and it is expected that small businesses will be a critical element of our nation's recovery. I think of small businesses as the sweet spot of community banking. Like the community bank, small businesses are also invested in the community in which they reside. They have diverse financial services needs that a community bank is well suited to address. Often, community banks are the only source of credit for these companies.
- D. **Size doesn't always provide advantage.** Being a large bank doesn't necessarily provide competitive advantage. Knowing the customer and being able to make decisions locally are key elements of the customer experience that differentiate community banks ---therein lays the community bank's competitive advantage. So long as community banks can offer individualized and personalized service, local decision making, sophistication of delivery channels, products and services, and a transparent, seamless customer experience, they will continue to play an important part in our banking system. The current financial crisis has led many small businesses and consumers to realize these advantages, which has started a movement of change to

community banks that value their relationship. This money in motion creates a unique opportunity for community banks to gain market share today.

- III. **MYTH 3: Banks aren't lending.** Generally, that is not true. It is true that community bank customers are not seeking as many loans. Let me explain. When one looks at community banks with less than \$1 billion in assets, loans increased last year. While the increase was a modest 2% nationwide, and here in MD 1%, it is important to understand this is a net growth number. Actual growth is larger as payoffs of loans and amortization of principal all reduce loans outstanding. This decrease is more than offset with new loan originations; therefore, the actual growth rate for new loans is higher than the reported 2% or 1% in MD. This is remarkable when compared to other recessions when loans outstanding decreased. Community banks mirror their communities. In these difficult times consumers and businesses are reducing their debt by postponing expansion plans. Banks are reporting loan applications are down. The National Federation of Independent Businesses survey small businesses on a regular basis. In their most recent survey foremost concern on the minds of small businesses is sales, followed by taxes. Financing is far down their list.

However, there are small businesses that have been turned away by their current bank in renewing their existing credit or desiring additional credit. Often, this is due to the bank being very troubled, under a regulatory order that restricts lending, or constrained in increasing their concentration of credit risk in certain types of loans. In addition, this situation can be exacerbated by the small business experiencing deterioration in their own financial performance diminishing their ability to obtain financing. There are alternatives for financing for small businesses that are unable to obtain traditional financing. The Small Business Administration's loan program is one such vehicle. There are banks that specialize in Small Business Administration lending in most communities.

#### IV. **The Future is Bright for Community Banking-- The Silver Lining of the Banking Industry**

During this economic downturn, community banks have been particularly hard hit as the communities they serve struggle. While one hears weekly of banks that have failed (50 thus far this year, and 140 last year), the number of bank failures pales in comparison to the number of bank failures during the savings and loan crisis of the late 80's early 90's when over 1200 banks failed. Despite the challenges of this current environment, 96% of all banks in the U.S. are well-capitalized, the highest capital designation accorded by banking regulators.

Competitive advantage will go to banks that have ample capital, keen risk management, aggressive marketing strategies and a relentless focus on productivity and efficiency. These banks will be well positioned for opportunities for growth and increased profitability.

- E. **Customer movement to community banks is not like anything we've seen before.** Although loan demand is anemic today, deposit growth is robust. Community banks have experienced good deposit growth, 9% this past year. Many customers are increasingly disenchanted with their current banking relationships. In a recent survey by The Raddon Group, participants were asked, "Based on what has occurred in the banking industry, are you more likely to use any of

the financial institutions listed below in the future?” “Local bank” was noted by 63% of the respondents as more likely to use. Community banks must seize the moment and galvanize their staff and resources to attract, retain and grow these customer relationships.

- F. Demographic shifts are creating opportunities.** As the Baby Boomer shifts toward their retirement years and Generation Y comes of age, community banks are well positioned to fully understand and to provide financial solutions and products to meet the evolving financial needs of these valuable customer groups.

Gen Y is changing how customers interface with their banks. Electronic banking is growing exponentially. 54 million households banked online in 2009. This is expected to grow to 66 million households by 2016. By 2014, more consumers will access their accounts through mobile devices than through the Internet.

- G. Small Businesses is a valuable sector that offers tremendous opportunity for community banks.** These relationships often include not only the business account, but also the small business owner’s personal account (usually 76% of the time) and the accounts of many of the employees. Small business needs range from a checking account, cash management services and payroll services to line of credit, loans and merchant processing. Community banks must seize this chance to offer targeted products and services that facilitate the growth and profitability of this valuable customer group.

- H. Over the coming years there will be selected opportunities to acquire or merge with other community banks as the industry continues to consolidate.** Those banks with ample capital will be more competitively positioned to take advantage of these opportunities to increase market share, gain greater efficiencies and enhance profitability.

- V. In summary, the future is bright for community banks.** We know that some of the best inventions, strongest businesses and brightest ideas have come during times of great adversity. Despite the current economic outlook, community banks can and should be optimistic. However, we also know that “nothing good ever came easy.” Community banks looking to seize these opportunities should have plenty of capital, keen risk management, aggressive marketing strategies and a relentless focus on productivity and efficiency. Then, indeed, the future will be bright.