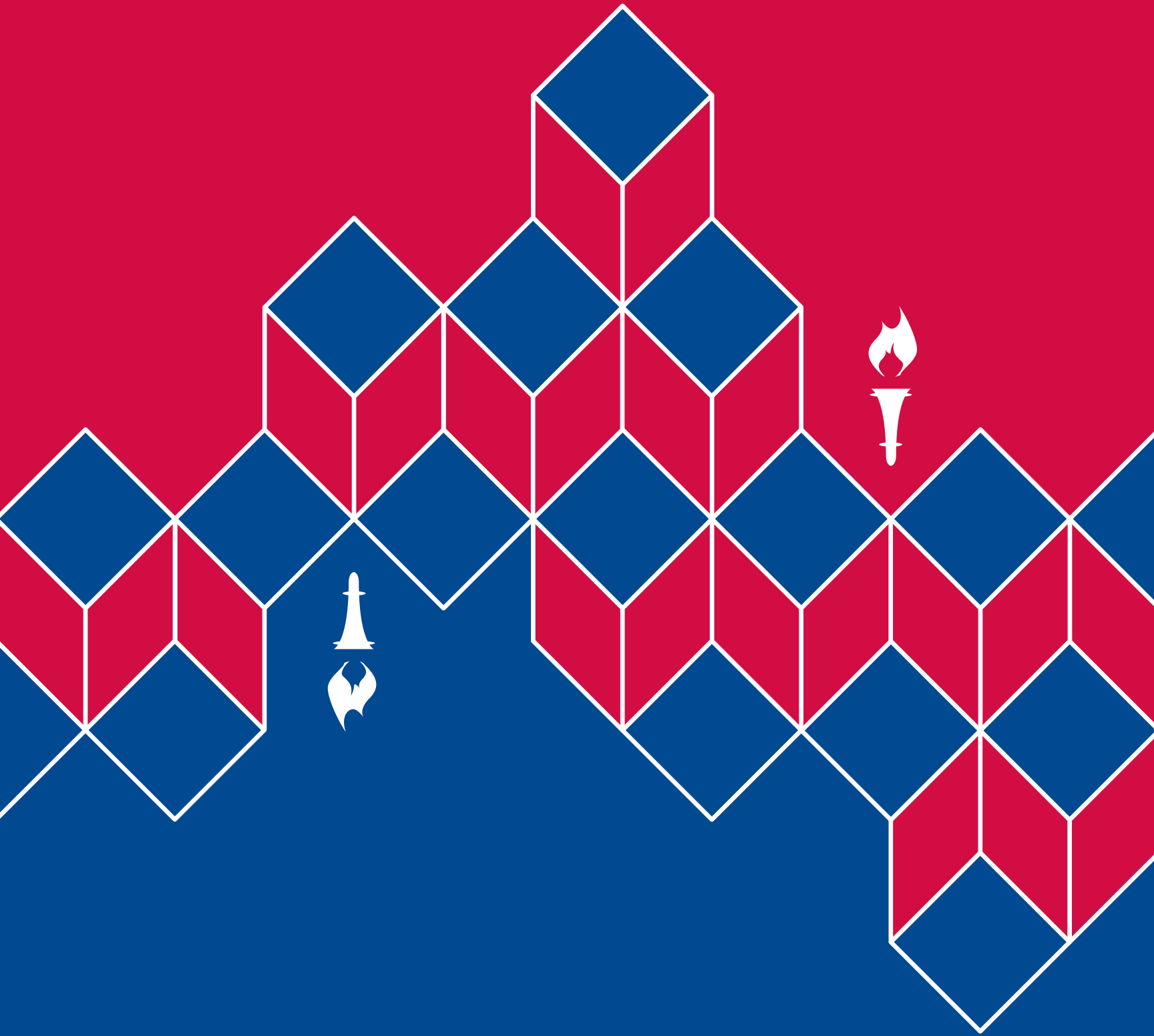
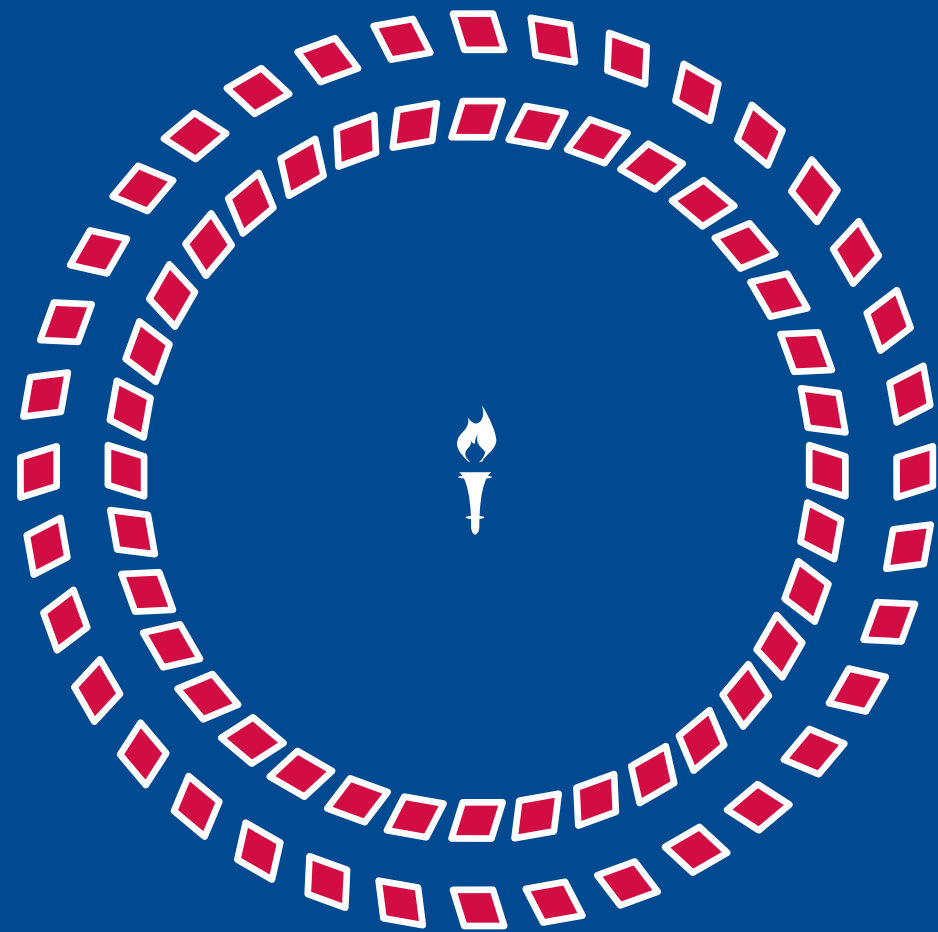


What can turn 180 and still be moving forward?



Liberty Bank.

A bank that exists solely to serve its customers and its communities, and that provides benefits to everyday people—people who live and work in the same towns where we live and work.



Stare at the Liberty Bank torch while moving your head closer and further away from the page. Does the image rotate back and forth? Our eyes perceive the slanted lines of the image as circular motion.

TURNING 180 AND STILL MOVING FORWARD. Sounds like an oxymoron, doesn't it? But in fact, Liberty Bank is doing just that.

In its 180th year of existence, Liberty is moving forward on all fronts: achieving top ratings for customer satisfaction, creating a whole new suite of products and services for small business, enhancing our branch network, and turning out financial results that exceed those of our peers—and then some!

This is not your grandfather's little mutual savings bank anymore.

And yet, in some ways, it is. Because although Liberty has grown into a progressive, dynamic, powerful financial institution, we haven't lost sight of who we are: the independent, community bank where the tellers know your name. Our proudest accomplishments of the past year include giving almost \$500,000 in grants to non-profit agencies throughout our service area, seeing families move into our own affordable housing development, and providing Thanksgiving dinners to hundreds of individuals and families in need.

In an era when many mutual banks have converted to stock, and commercial banks are widely regarded as being interested only in their profits and their stock prices, Liberty is proud to lay claim to being the state's oldest and largest remaining mutual bank. Our institution is living proof that a bank can be a strong, profitable, high-performance organization, and still be the friendly hometown bank that was founded back in 1825 to fulfill the needs of local people and communities.

So read on; explore the different sides of Liberty Bank during 2004, and get to know us from your own perspective—keeping in mind that whether we're talking about a person, a puzzle, or a bank, two images that appear to be different can actually be one and the same. How else could anything turn 180, and still be moving forward?



Big or small, small or big? Look at the center circles in each group. Are they the same size? Believe it or not, they are. Just like Liberty Bank—small and big.

SHARING A VISION OF PROGRESS. Liberty's 2004 financial results demonstrate that putting customers first is a recipe

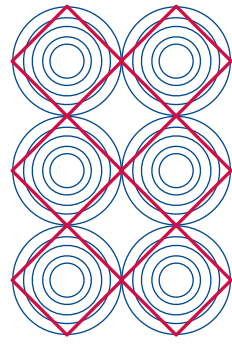
for success. We produced net income of \$31.8 million—the highest in the bank's history. Net loans at the end of the year were at a record \$1.8 billion, up almost 16 percent over year-end 2003. These were divided almost equally between consumer loans, such as residential mortgages and home equity loans, and commercial loans, including timeshare, commercial real estate, and commercial and industrial lending. Asset quality continued to be outstanding, with non-performing loans almost nonexistent.

But financial results are only part of the picture. We also conducted market research to determine the level of satisfaction customers feel with Liberty Bank, and how pleased they are with our service. It turns out that a phenomenal 96 percent of Liberty Bank customers rate themselves as "satisfied"

Lydia Brewster laughingly refers to herself as "a carpetbagger from Haddam Neck." But people in Middletown's culturally diverse North End neighborhood know her as a champion of community engagement—someone who inspires people to take action and encourages everyone's voice to be heard. That's why she was named the recipient of the 2004 Liberty Bank Community Diversity Award.



LYDIA BREWSTER MESSAGE THERAPIST COMMUNITY ACTIVIST



Squiggly Squares?
Placing the squares on top of the concentric circles causes them to appear wavy.

with the bank, with 82 percent giving the highest score of “very satisfied.” Ninety-five percent of respondents rated our customer service as “excellent,” and just as many told us they would be likely to recommend Liberty to someone else. It’s clear that our customers appreciate the efforts we’ve made to build our relationships with them.

That applies to businesses as well as to individuals. As an independent, community bank, we have a special connection to the small businesses in the towns we serve. Even though small businesses are recognized as the major generator of economic growth in our state, banks all too often pass them by in favor of larger companies that deliver higher profits and require less personal attention. Since personal attention is one of our specialties, we see small business as a natural area of focus for Liberty Bank.

In early 2004, we introduced a new array of products tailor-made to meet the financial needs of small businesses. We started with a credit product that would provide a business with up to \$100,000 in financing, with a simple application process, a quick turnaround time, and competitive rates. Then we revamped all of our business checking accounts and launched a Free Small Business Checking product that has proven to be a real cost-saver for customers with low transaction volume. All of these services are readily accessible through our local branch offices, providing small business owners with the convenience and comfort of a relationship manager who’s already a familiar face.

PERCEIVING NEEDS, TAKING ACTION. Speaking of our branches, we relocated two of them from shopping centers to new facilities in 2004. Our Groton office moved down the road to a newly renovated freestanding building, and our East Lyme branch moved to a brand-new property beautifully designed to fit in with the town’s New England character. Both branches feature more parking, drive-up teller windows and ATMs, and additional space and privacy inside.

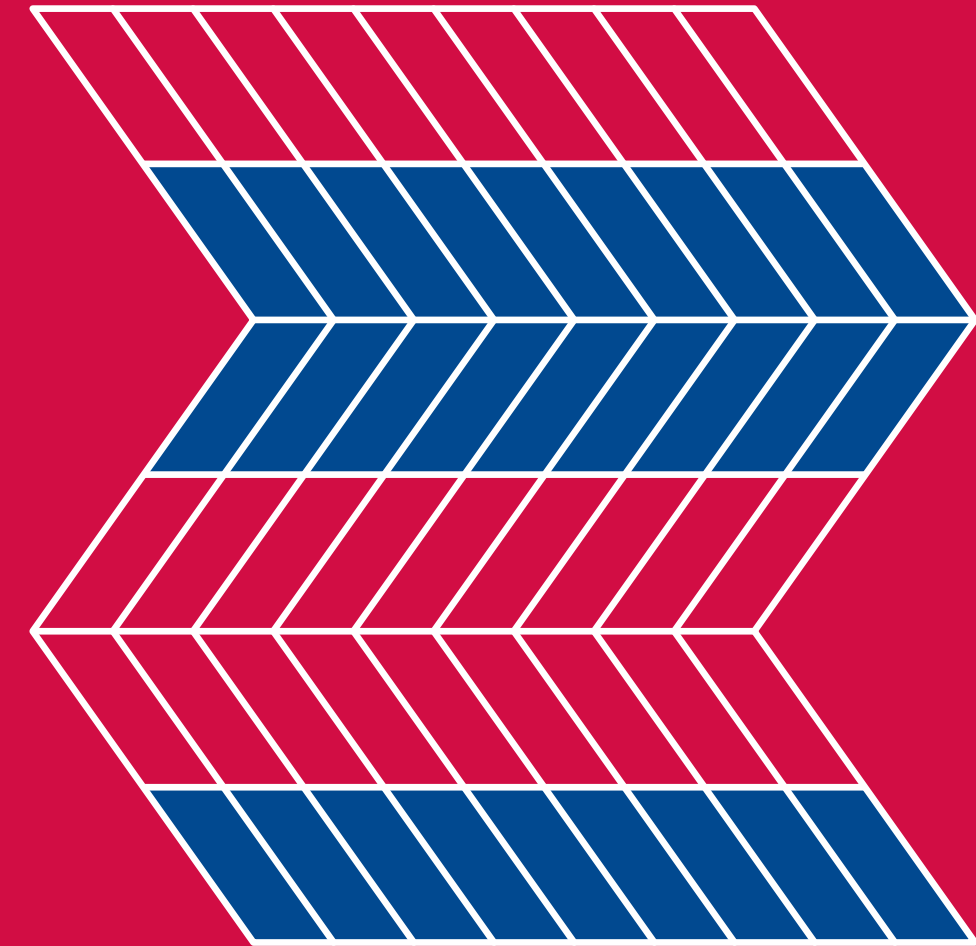
Of course, along with convenience and friendly service, our customers want—and deserve—a good value. Many of them found it when we introduced our new ConnectCheckingSM account in early 2004. ConnectChecking provides great rewards for customers who do most of their banking with Liberty. With this account, customers can get free checks, free worldwide ATM transactions, and free online banking with electronic bill payment, along with special bonus rates on CDs and on home equity loans and lines. They can also take advantage of our premium Connect Money Market Account. And with combined deposit and loan balances of just \$10,000, ConnectChecking customers pay no monthly fee.



At Liberty, we’ve always known Larry Shen as the guy who can fix our PCs no matter what weird things they’re doing. But when the Army Reserve called him to serve in Iraq, we saw another side of our colleague. We prayed for his safety while he was away, and cheered when he returned to his wife and baby son. And although he’d never take the name for himself, we know him for what he is: a true American hero.

LARRY SHEN COMPUTER WIZARD AMERICAN HERO

Picture a progressive, dynamic, powerful financial institution. Now, picture the friendly hometown bank that your parents and grandparents grew up with. What if we told you that these two images are one and the same? That’s Liberty Bank.

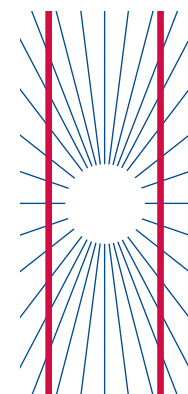


Are you looking at this object from above or below? Maybe you see it inside out, or outside in? Whatever way you look at it, it’s always the same thing.

By providing our customers with leading-edge products, extraordinary service, superb value, and convenience, we ensure the financial success and profitability that enable us to invest in the well-being of the community at large.



Inside, outside, left and right, this image is out of sight. Follow the path of each plane through the illusion. Can this object actually be built? Maybe so, maybe not. Why don't you try and give it a shot?



Our Connect Checking and Free Checking Accounts were especially in demand this past summer, when we offered a premium of two free tickets to Six Flags New England to new and non-checking customers who opened one of these accounts. It's fun to think of all the great roller coaster rides, water slides, and trips on the merry-go-round that were enjoyed by the 2,500 customers who took us up on that offer.

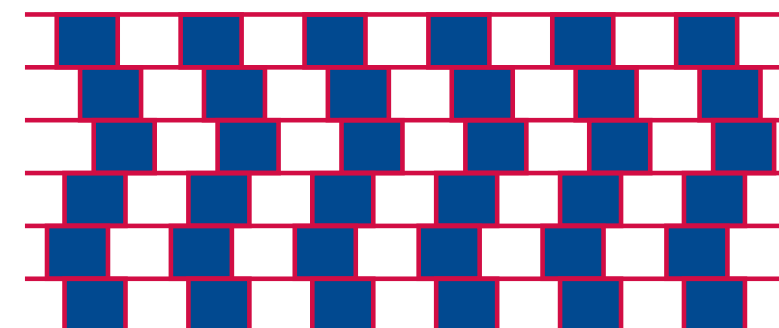
We had some more fun with our customers in October, during National Customer Appreciation Week. All week long, customers could help themselves to apple cider and a free bag of Lyman Orchards apples, just as a thank-you for banking with us. It left a good taste in everyone's mouth.

A NEW SLANT ON COMMUNITY BANKING. We believe that an institution with Liberty Bank's financial strength and capability has a responsibility to act as a force for positive change in the communities where we do business. By providing our customers with leading-edge products, extraordinary service, superb value, and convenience, we ensure the financial success and profitability that enable us to invest in the well-being of the community at large.

The Liberty Bank Foundation has proven to be a powerful vehicle for that type of investing. In 2004, foundation grants helped non-profit organizations to tutor and mentor children, provide opportunities for employment and self-sufficiency, construct affordable housing, shelter the homeless, feed the hungry, build healthier neighborhoods, and send aspiring young people to college. Almost \$500,000 in grants were distributed, and in 2005 we expect total giving since the foundation's inception in 1997 to top \$3 million.

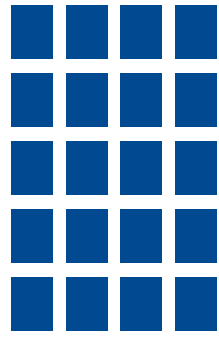
Over the years, we've seen our relationships with our non-profit partners grow deeper as we have worked together toward our mutual goals. These partnerships often extend well beyond the simple awarding of grants. Our involvement with Habitat for Humanity of Southeastern Connecticut is a prime example. Liberty's support for Habitat has been multi-dimensional: providing grants for the construction of homes for low-income families, servicing the mortgages on those homes free of charge, and offering technical advice and financial services.

Today, Habitat is embarking upon its most ambitious project ever: a housing development that will open the door to homeownership for ten low-income families and individuals. That project will move forward with the help of a three-year construction grant from our foundation, along with mortgage financing for the acquisition of the land, home buyer education for the new homeowners, and ongoing support from our staff. Plus, recognizing the challenge that the project will present to a small organization with



Parallel Lines? Or not?
The offset positioning of the blue squares makes the red lines appear to be uneven, when in fact they are parallel. Grab a ruler and see for yourself.

The graphic at the top left creates the same type of illusion, with lines that radiate from the center circle.



Spots? What spots?
 Look at the corners of each blue box. What do you see? Maybe a spot, maybe not? The drastic color shift from dark to light makes your eye believe there are spots.

only three paid staff members and a host of volunteers, we supplied a two-year grant to help fund the addition of a staff member to manage fundraising and volunteer recruitment. When those families move into their new homes, all of us at Liberty will feel the same sense of triumph that they will experience.

It's the same feeling we had when the first home buyers took possession of their new units at Uncas Condominiums in Norwich. That took place in October, when we celebrated the completion of the first phase of this 78-unit affordable housing complex. Uncas Condominiums began in 2003 as a joint venture between Liberty Bank and Cove Landing Development, LLC, a housing developer with whom we had done business for many years. To assist low- and moderate-income buyers in making the transition to homeownership, the units were offered at below-market prices, with attractive mortgage financing. The success of the project is already evident; at this writing, about half the units are complete, all 56 units in phases I through III have been sold, and buyers are waiting for the final 22 units in phase IV.

In another collaborative effort, we teamed up with 20 local Rotary Clubs to enable people in need from throughout our service area to enjoy a bountiful Thanksgiving feast. During October and November, our 34 branch offices accepted donations that the Rotaries would use to provide Thanksgiving food, either by purchasing and delivering it themselves or by partnering with a non-profit organization that operated a food program. By the time Thanksgiving week rolled around, we had taken in more than \$21,000 in contributions, which were matched with almost \$11,000 in funding from our foundation. Those dollars translated into lots of Thanksgiving cheer as our Rotary partners made sure that disadvantaged families in 26 towns had the food they needed to take part in this uniquely American tradition.

HOW INSIGHT CAN BECOME INNOVATION. We're proud of the successes we've achieved in 2004, but we're also looking ahead

to Liberty's next 180 years. As we move into 2005, we're launching an enterprise-wide initiative to elevate Liberty from the great bank it is now, to the even better bank we know it can be. We've got an extraordinary foundation to build on: superb relationships with our customers; experienced, dedicated employees; market-leading products; outstanding customer service; a strong financial position; and an unparalleled commitment to the communities we serve. Our goal will be to evolve into a new kind of bank for the 21st century—a bank that embraces the best in innovation while remaining true to a heritage of service to customers and communities that spans generations. That's the kind of bank that can turn 180—and still be moving forward!

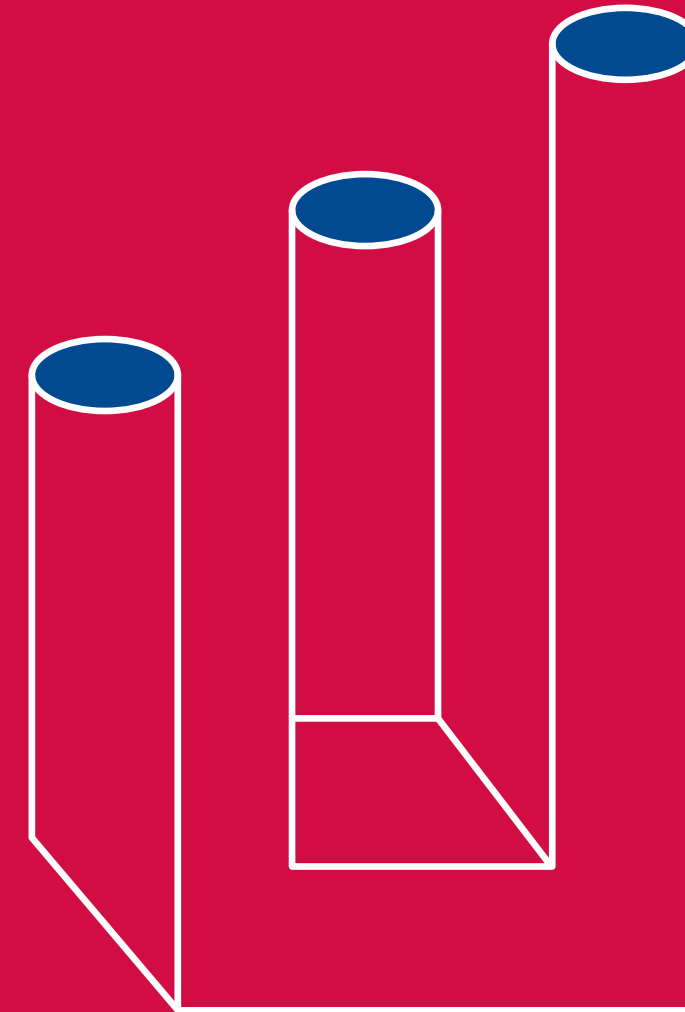


When most of us think “vacation,” we imagine days of lolling on the beach, visiting tourist sites, or shopping 'til we drop. For Cindy Winkler, vacation took on a whole new meaning when she spent hers in a Nicaraguan village, building cinderblock houses for local families made homeless by an earthquake. No four-star hotels (no plumbing, for that matter); just lots of hard work, good company, and a wonderful feeling that she had made the world just a little bit better. Going back next year? You bet.

CINDY WINKLER BRANCH MANAGER CONSTRUCTION WORKER



**As we move into 2005,
 we're launching an enterprise-wide initiative to
 elevate Liberty from the great bank it is now,
 to the even better bank we know it can be.**



Is this base made for three or made for two? At Liberty we've built our unique foundation around you, so we can grow together —now and in the years to come.

Consolidated Balance Sheet

As of December 31 (dollars in thousands)	2004	2003
Assets		
Cash and investments	\$ 379,243	\$ 480,777
Loans:		
Consumer residential	732,144	629,067
Consumer	138,947	125,634
Commercial real estate	574,047	495,495
Commercial	373,956	324,283
Gross loans	1,819,094	1,574,479
Loan loss reserves	(24,526)	(25,065)
Loans, net	1,794,568	1,549,414
Other assets	50,088	51,501
Total assets	\$ 2,223,899	\$ 2,081,692
Liabilities and Capital		
Liabilities:		
Deposits	\$ 1,771,131	\$ 1,712,755
Borrowed funds	102,019	58,024
Other liabilities	18,177	15,142
Total liabilities	1,891,327	1,785,921
Capital	332,572	295,771
Total liabilities and capital	\$ 2,223,899	\$ 2,081,692

Consolidated Statement of Income

For the years ended December 31 (dollars in thousands)	2004	2003
Net interest income	\$ 80,364	\$ 77,289
Fee income	16,385	16,979
Operating expenses	(53,816)	(53,248)
Loan loss provision	170	(1,050)
Net operating income	\$ 43,103	\$ 39,970
Capital gains	4,767	(4,065)
Provision for income taxes	(16,037)	(11,854)
Net income	\$ 31,833	\$ 24,051

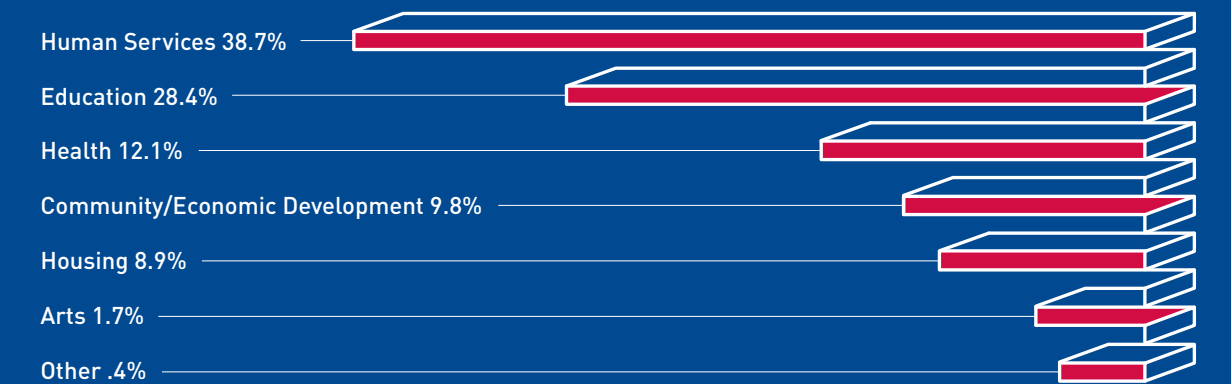
Five-year Comparisons

	2004	2003	2002	2001	2000
Net operating income	43,103	39,970	38,477	34,547	30,512
Net income	31,833	24,051	24,763	26,194	28,739
Total assets	2,223,899	2,081,692	2,038,277	1,936,679	1,732,041
Loan loss reserves	24,526	25,065	24,798	24,208	19,664
Net loans	1,794,568	1,549,414	1,543,580	1,440,502	1,413,107
Deposits	1,771,131	1,712,755	1,689,366	1,590,720	1,373,698
Capital	332,572	295,771	258,014	247,604	230,061
Ratios:					
Return on assets	1.48%	1.17%	1.25%	1.45%	1.74%
Net interest margin	3.73%	3.75%	3.78%	3.79%	3.99%
Capital to assets	15.0%	14.2%	12.7%	12.8%	13.3%
Non-performing assets to total assets	0.1%	0.1%	0.2%	0.3%	0.3%
Loan loss reserves to non-performing loans	2263%	2526%	674%	494%	378%

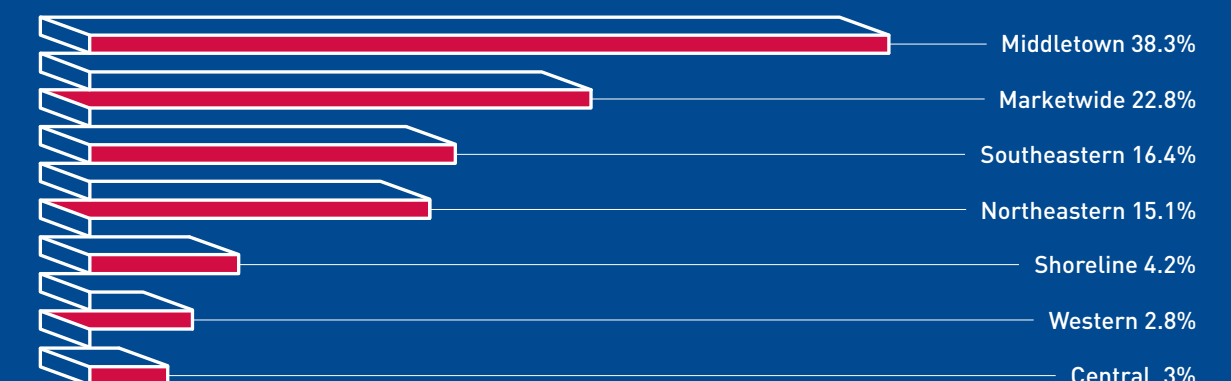
Liberty Bank Foundation

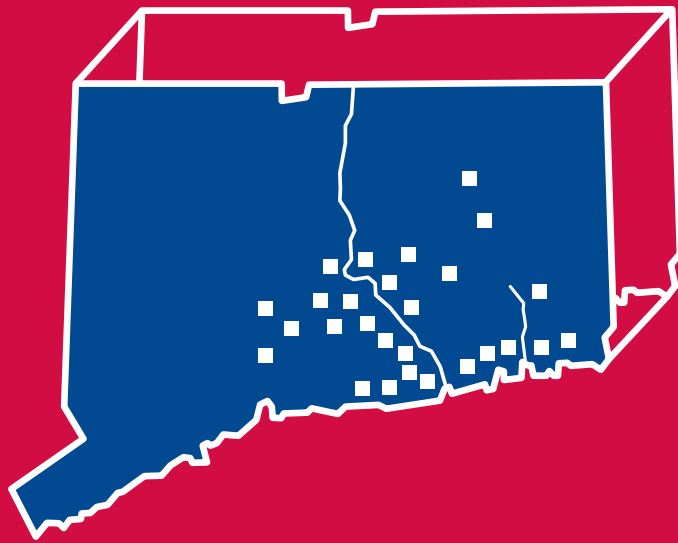
Total Grants for 2004: \$493,617

Type:



Region:





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