

# 2002 Annual Report

## 5<sup>th</sup> ANNIVERSARY

**BANKERS'BANK**  
N O R T H E A S T  
A New Direction in Correspondent Banking



# Celebrating a milestone



The publication of this Annual Report marks the first five years of operation of the Bankers' Bank Northeast—a milestone! A milestone refers to a significant point on a path of progress; the Bank has grown in size and reputation and has achieved consistent improvement in profitability. A milestone also impels a backward look at the starting point.

Thus, while this milestone is a celebration of the Bank's accomplishments, it is, in equal measure, a backward look and a tribute to the vision and single-minded persistence of our President & CEO, Peter J. Sposito.

To the best of my recollection, it has been more than nine years since Peter first introduced the possibility of a bank created and dedicated solely to the service of community banks. Virtually without exception, everyone he approached—bankers, State and Federal regulators and Connecticut legislators—inevitably asked, "What's a bankers' bank?" Peter explained, over and over, both patiently and enthusiastically. People began to listen thoughtfully and to see the possibilities.

*"Switching to Cash Letter Services with the Bankers' Bank Northeast gave us the benefit of volume discounts and efficient delivery of transit items. Best of all, they take care of all adjustments."*

**Linda Milkowski, Treasurer  
Northwest Community Bank, Winsted, CT**

The timing was propitious—both the advent of interstate banking and takeovers of failed banks by out-of-state institutions had greatly altered the "lineup" of banks providing correspondent banking services. Many community banks dealing with these "new age" banks and with non-bank providers found that the quality, consistency and pricing of products and services were unreliable. There was a perceived need for something different—a bankers' bank.

Several small banks made initial commitments which included "seed money," enabling Peter to actively seek more investor-banks. At the same time, a legislative effort was begun which would eventuate in amendments to Connecticut's banking laws permitting the organization of a bankers' bank and also specifically providing that only banks may be shareholders and

*When Peter J. Sposito first approached bankers, regulators, and legislators about forming the Bankers' Bank Northeast, their first question was, "What's a bankers' bank?"*



clients. Peter's efforts gained momentum. Before very long, 35 Connecticut and Massachusetts community banks had purchased equity in the Bankers' Bank Northeast and, five years ago, it began operation as a state-chartered institution, regulated also by the Federal Reserve Bank and insured by the FDIC.

Today, the Bankers' Bank Northeast offers a wide variety of products and services which are used by more than 100 community banks. New products and services are constantly under review. The Bank's experienced senior management, led by Peter, and its skilled and dedicated staff enjoy the confidence of the Bank's clients. The Board of Directors, comprised of CEOs and CFOs of our shareholder-banks, gives a great deal of time enthusiastically (and without compensation) to the Bank and has figured importantly in the Bank's progress to stable profitability and its continued growth.

It has been a privilege to be associated with the Bankers' Bank Northeast and to see its development from an idea to a dynamic and evolving institution. I look forward to marking many more milestones on the Bank's path of success and progress.

## Milestones

### 1995

- Connecticut passes law allowing for special bank charter to form a bankers' bank

### 1997

- Temporary charter is granted from the state

### 1998

- \$5.8 million in capital raised
- Bankers' Bank Northeast officially opens

### 1999

- First cash letter customer is signed
- More than \$50 million in client Fed Funds is sold (daily average)
- Service expands to non-investor-banks

# Stability and growth

## A look in the right direction



When the Bankers' Bank Northeast opened its doors five years ago, it was truly "a new direction in correspondent banking." Because of the positive response from banks, first in Connecticut, then Massachusetts and now throughout New England and New York, we can say it was also "the *right* direction." The Bank opened shortly after the devastating period of asset quality decline and bank fail-

ures of the early 1990s. It grew slowly at first as we found our way through the challenges of Y2K. We have charted a steady course as we move forward through the lowest rate environment in decades.

The Bankers' Bank Northeast has achieved stability and we continue to grow. Our balance sheet and our income statement indicate that our business plan works. Those who questioned our ability to compete with the largest competitors now know that we can and have transformed a concept to a working model of service to community banks. Our client list of more than 100 banks and their use of over 300 services validate our ability to deliver on our promise. Our clients demand the highest level of service and they get it.

We acknowledge with gratitude the confidence of our original investor-banks. Although bankers' banks have long served community banks in other regions of the nation, the "bankers' bank" concept was new to the Northeast. The original capital commitment of our investor-banks enabled us to attract some of the best banking talent in the Northeast. Our founding directors, current Board, officers and

staff, and our regulators all came together to construct the Bankers' Bank Northeast.

We acknowledge with special mention the following people who have carried the bank forward: Ralph M. Shulansky, Chairman and former Bank Commissioner who lends his experience and vision; Allen L. Nielsen, our Executive Vice President & CFO, who translates concept into the reality of our services; Richard B. Lockwood III, our Senior Vice President, who by sheer force of will constructed an extensive following in Massachusetts; and Susan W. Salecky, our Assistant Vice President, who delivers high levels of client service *every day*.

**"By placing our Fed Funds with the Bankers' Bank Northeast, we're not giving business to our competition."**

**Leo Sagan, Controller**  
**Westfield Bank, Westfield, MA**

At our annual meeting last year, I was proud to announce that we had achieved profitability. We now look forward to re-investing our profitability into new systems and services and increased marketing resources. This is especially remarkable considering that we have done it with a very conservative balance sheet. We expect that this year we will begin to assist our clients by offering credit services to include loan participations. At a 20 percent market penetration we are one-third of the way to attaining the 60 percent share that other mature bankers' banks enjoy.

Thanks again to all proponents of the Bankers' Bank Northeast.

Please help us to spread the word that we are now well established in the business of community banking and please send us your business. We commit each day to the responsibility of providing solid basic banking services to community bankers who share our strategic motives and our entrepreneurial drive. We find our days to be exciting and fun. With confidence, we can say that the Bankers' Bank Northeast is the *right* direction in correspondent banking.



**Staff:**

*Judy L'Heureux, Yvonne Richard, Richard Lockwood, Peter Sposito, Allen Nielsen, Sue Salecky, Foster White, Monique Angell, Sue Cagianello and Carol Paré.* Not pictured: *C. Denise Murphy, Rachel Carlson, Stephanie Carlson, Lora Prior.*

**The focus of the Bankers' Bank Northeast is community banks.**

**2000**

- Coin and Currency service surpasses 500 locations
- International Wires surpasses the \$5 million mark
- Bankers' Bank Northeast holds first series of educational seminars

**2001**

- Expansion into New York
- Web site is launched
- Client Advisory Board is formed
- Bankers' Bank Northeast reports profit

**2002**

- Membership in Federal Home Loan Bank of Boston
- Disaster recovery site established
- Client Fed Funds surpasses \$500 million (daily average)

**2003**

- Winter Hill Bank becomes 100th client
- Fifth year anniversary
- President/CEO Peter J. Sposito named chairman of the Bankers' Bank Council

# Building for the future



The Bankers' Bank Northeast began with an idea that there was a better way to offer correspondent services to community banks. Thirty-five community banks agreed with this concept and, together, contributed \$5.8 million in initial capital that turned this into reality. Five years later, we have matured into a solid, financially sound banking institution.

Being part of a de novo bank has been an exciting challenge that has been made even more rewarding by the fact that we are making a difference for community banks. Our array of products and services allows community banks to better compete for customers and build their bottom line.

*"The Bankers' Bank underpromises and overdelivers. They really service us."*

**Robert W. Terravecchia, Jr., President & Treasurer**  
Weymouth Co-operative Bank, Weymouth, MA

The Bankers' Bank Northeast has a solid financial foundation that is well capitalized, allowing us to build for the future. The fact that we achieved consistent month-to-month profitability during our second full year of operation and have since reported back-to-back annual profits demonstrates how far we have come.

The year 2002 represented the Bankers' Bank Northeast's fourth full year of operation and the second consecutive year of sustained profitability. In 2002, net income was \$97,295 as compared to 2001 net income of \$437,104, which included an income tax benefit of \$317,962. The Bank's results reflect continued strong growth in service fee income, while maintaining a conservative and liquid balance sheet.

Despite the investment of excess liquidity into higher yielding investments, historically low interest rates affected growth in net interest income. Significant increases in Fed Funds as Agent and International services fee income highlight the increased volume and activity handled by the Bankers' Bank Northeast.

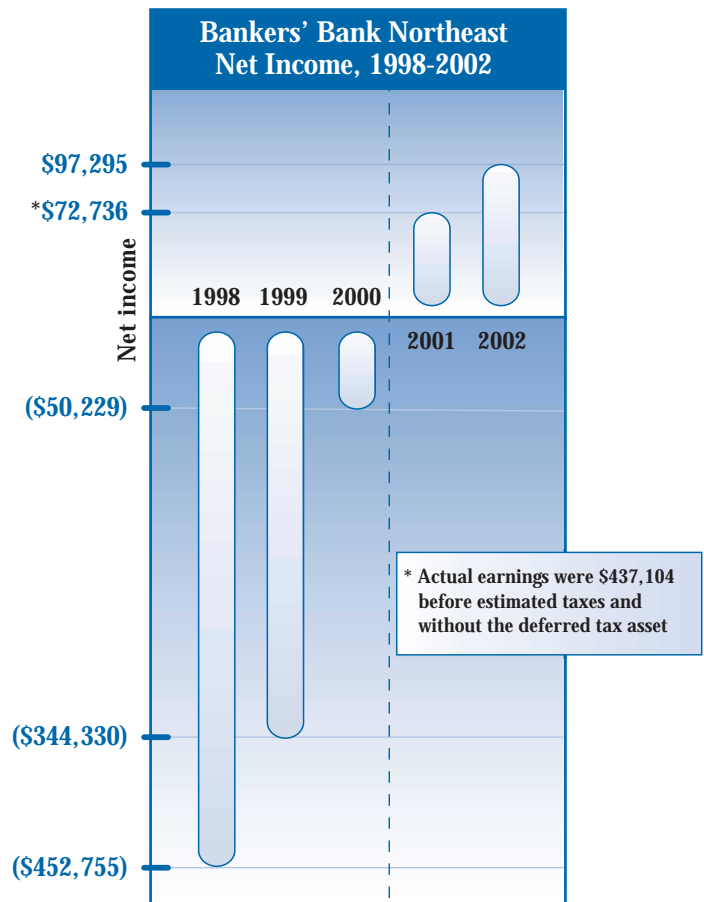
As we have added products and services and grown our client list, we have seen remarkable growth each year in our income for fee-based services. Our fee income for 2002 was \$3.9 million, a 19 percent increase from 2001.

In particular, several services have been very popular among client banks and have resulted in strong income gains. We have achieved profitability with virtually no risk within our balance sheet. In 2003, we will book our first loan. Fee income for the Fed Funds as Agent program grew by 37 percent in 2002 to \$381,000. In 2002, we were investing approximately \$497 million for 77 banks. International payments grew by 75 percent in 2002, generating \$125,000 in fee income. Our settlement revenue grew 300 percent to \$36,000 in 2002.

This growth in fee income has allowed the Bankers' Bank Northeast to put additional investments into hiring new employees, developing our marketing programs, and developing new products and services. This is the formula for strengthening the Bankers' Bank Northeast as we grow and move forward.

*"Compared to the Fed Funds rate that we get directly from our correspondent banks, the Bankers' Bank's rates are very competitive. And the Bank continues to be prompt, accurate, and reliable."*

**John C. Van Wormer, Executive Vice President**  
Stissing National Bank, Pine Plains, NY



# Reaching milestones...and aiming for new ones



When the Winter Hill Bank in Somerville, MA signed on with the Bankers' Bank Northeast in February for the Fed Funds as Agent program, it marked a milestone in the Bank's five-year history: Winter Hill Bank became our 100th client bank.

This is a remarkable achievement considering that five years ago few community banks in the Northeast

knew of or understood the bankers' bank concept. Today, 20 percent of all community banks in New England and New York—including 73 percent of Connecticut community banks and 20 percent of Massachusetts community banks—do business with the Bankers' Bank Northeast. As a testament to our growing reputation, President & CEO Peter J. Sposito and I are often invited to state community banking association meetings and conventions to speak about our role in the changing correspondent banking industry.

We've made an impact among community banks because of our services that allow community banks to effectively compete with the mega-regional banks. While initially many of our clients signed on with us for the Fed Funds as Agent program, they soon realized that they could rely on us for so much more. In fact, our client banks currently use an average of three services from the

Bankers' Bank Northeast, a figure that continues to grow.

This year, we are planning to add an implementation and sales training service to our product offerings. Based on our experience in assisting community banks to implement coin and currency, we are now extending service implementation to other programs. We are prepared to help a client bank identify internal resources and then provide the on-site training to get a service up and running. This will save time and allow a client bank to initiate a new service quickly and efficiently.

*"The Bankers' Bank Northeast provides us with an easy and cost-effective way to offer international letters of credit services to our commercial customers who conduct business overseas. When we needed them, the Bankers' Bank was there for us—quickly, effectively and with outstanding service. They are a valuable resource."*

**David A. Reilly, Senior Vice President  
Monadnock Community Bank, Peterborough, NH**

Products and services are only part of the Bankers' Bank Northeast story. By communicating our expertise—through our quarterly newsletter, *The Respondent*, and our annual correspondent services seminars—we've become a resource for community banks.

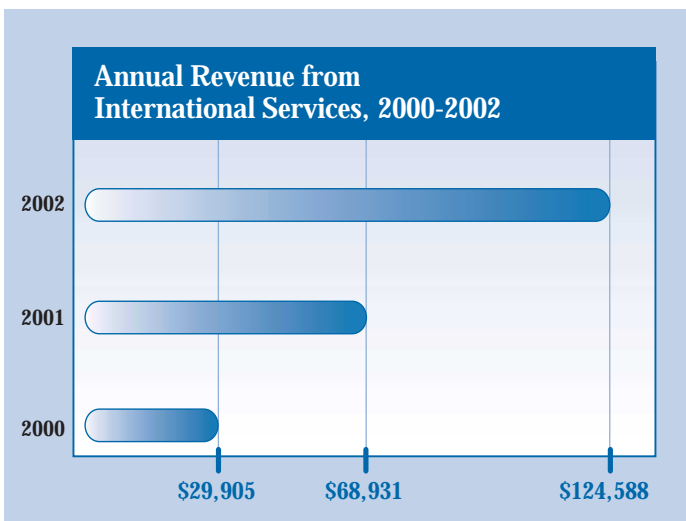
*There are more than 20 correspondent products and services offered by the Bankers' Bank Northeast to community banks.*



Our *Bankers' Bulletin* provides an effective way of communicating late-breaking Bank news and information in a timely fashion to our clients and prospects.

While we are pleased with our success to date among community banks in the Northeast, we understand that there is much more work to be done. To support our expansion in New York and northern New England, we are planning to hire additional correspondent banking sales professionals.

With the progress that we have made in our first five years of operation, we're confident about our future. To our client banks, thank you for your continued support. For those banks that are not yet clients, we invite you to contact us. We'll be happy to meet with you and show you why more than 100 community banks are proud to say they are doing business with the Bankers' Bank Northeast.



*Community banks play an important role. The mission of the Bankers' Bank Northeast is to provide the products, services, and support so that they continue to thrive.*

# Board of Directors

## Thanks to our client banks

### Connecticut (44 banks)

- Castle Bank and Trust Company
- Chelsea Groton Savings Bank \*
- Collinsville Savings Society
- Connecticut River Community Bank
- Constitution State Corporate Credit Union
- Cornerstone Bank
- Eastern Federal Bank \*
- Enfield Federal Savings and Loan Association \*
- Essex Savings Bank \*
- Farmington Savings Bank \*
- First City Bank \*
- First County Bank
- Jewett City Savings Bank \*
- Liberty Bank \*
- Litchfield Bancorp \*
- Milford Bank \*
- Naugatuck Savings Bank
- Naugatuck Valley Savings and Loan Association
- New Haven Savings Bank \*
- NewMil Bank \*
- Newtown Savings Bank \*
- Northwest Community Bank \*
- Putnam Savings Bank
- Rockville Bank \*
- Salisbury Bank and Trust Company
- Savings Bank of Danbury
- Stafford Savings Bank \*
- The Apple Valley Bank & Trust Company
- The Bank of New Canaan
- The Bank of Southern Connecticut
- The Canaan National Bank
- The Citizens National Bank
- The Dime Savings Bank of Norwich \*
- The First National Bank of Suffield \*
- The Guilford Savings Bank \*
- The North American Bank and Trust Company

- The Savings Bank of Manchester \*
- The Simsbury Bank & Trust Company \*
- The Wilton Bank
- Thomaston Savings Bank \*
- Tolland Bank \*
- Union Savings Bank Danbury\*
- Valley Bank
- Windsor Federal Savings and Loan Association

### Massachusetts (54 banks)

- Athol Savings Bank
- Bank of Fall River
- Barre Savings Bank
- Bay State Savings Bank
- Ben Franklin Savings Bank
- Beverly Co-Operative Bank
- Beverly National Bank
- Braintree Co-Operative Bank
- Brookline Co-Operative Bank
- Cape Cod Bank and Trust Company
- Cape Cod Co-Operative Bank
- Chelsea-Provident Co-Operative Bank
- Chicopee Savings Bank \*
- Commonwealth National Bank
- Easthampton Savings Bank
- Florence Savings Bank \*
- Foxborough Savings Bank
- Framingham Co-Operative Bank
- Granite Savings Bank
- Greenfield Co-Operative Bank
- Hampden Savings Bank \*
- Heritage Co-Operative Bank
- Hyde Park Co-Operative Bank
- Luzo Community Bank
- Marlborough Co-Operative Bank
- Mechanics Co-Operative Bank

- Medway Co-Operative Bank
- Mercantile Bank & Trust Company
- Merrimac Savings Bank
- Middlesex Savings Bank
- Milford National Bank
- Millbury Savings Bank
- Monson Savings Bank
- Natick Federal Savings Bank
- National Grand Bank of Marblehead
- North Middlesex Savings Bank
- North Easton Savings Bank
- North Shore Bank
- PeoplesBank – Holyoke \*
- Peoples Federal Savings Bank
- Pittsfield Co-Operative Bank
- Reading Co-Operative Bank
- Slade's Ferry Trust Company
- South Coastal Bank
- Southbridge Savings Bank \*
- Stoneham Savings Bank \*
- Wainwright Bank and Trust Company
- Watertown Savings Bank
- Westbank
- Westfield Bank \*
- Weymouth Co-Operative Bank
- Winter Hill Bank
- Williamstown Savings Bank
- Wrentham Co-Operative Bank

### New Hampshire (2 banks)

- Centrix Bank
- Monadnock Community Bank

### New York (3 banks)

- Riverside Bank
- Stissing National Bank
- The Bank of Green County

### Rhode Island (2 banks)

- Newport Federal Savings Bank
- Westerly Savings Bank

**Ralph M. Shulansky, Esq.**  
**Chairman**  
Former Bank Commissioner,  
State of Connecticut  
Former Senior Vice President  
& CFO, Ames  
Former Senior Vice President, Connecticut  
Bank and Trust Company  
Former State Representative,  
State Senator

**Michael J. Brennan**  
**Executive Vice President & CFO**  
PeoplesBank  
Holyoke, MA

**Thomas R. Burton**  
**President & CEO**  
Hampden Savings Bank  
Springfield, MA

**Barry R. Loucks**  
**President & CEO**  
The Simsbury Bank & Trust Company  
Simsbury, CT

**John S. Manning**  
**President & CEO**  
FirstCity Bank  
New Britain, CT

**Thomas J. Pastorello**  
**Executive Vice President,  
Treasurer & CFO**  
Liberty Bank  
Middletown, CT

**Christopher H. Pitt**  
**President & CEO**  
Northwest Community Bank  
Winsted, CT

**Peter J. Sposito**  
**President & CEO**  
Bankers' Bank Northeast  
Glastonbury, CT

**Donald A. Williams**  
**President & CEO**  
Westfield Bank  
Westfield, MA



*Client list as of Feb. 28, 2003*

\* Investor-bank

# Putting clients first

Community banks that are accustomed to the large correspondents receive a welcome surprise when they become clients of the Bankers' Bank Northeast. As one community bank president who prides himself on his bank's customer service says, "They treat us the way we treat our customers."

As the Assistant Vice President/Director of Client Services, Susan W. Salecky makes sure that clients are getting the level of service they expect from the Bank and its alliance partners. When issues do arise, Sue and her staff make sure they are resolved as quickly as possible.

Sue has been with the Bankers' Bank Northeast since April of 1998, five months before its official opening. In 1998, the Bank offered just a few correspondent services to its clients. With her help, the Bank has grown the menu of services and products that it now offers its clients. The client services staff includes Sue Cagianello, the Assistant Director of Client Services. However, everyone in the office works to resolve issues. We are all accountable to our clients.

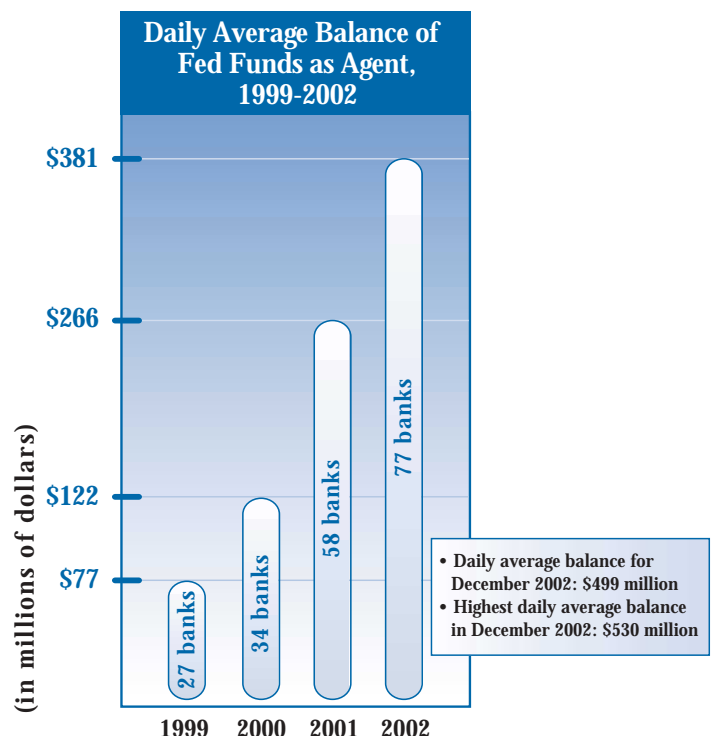
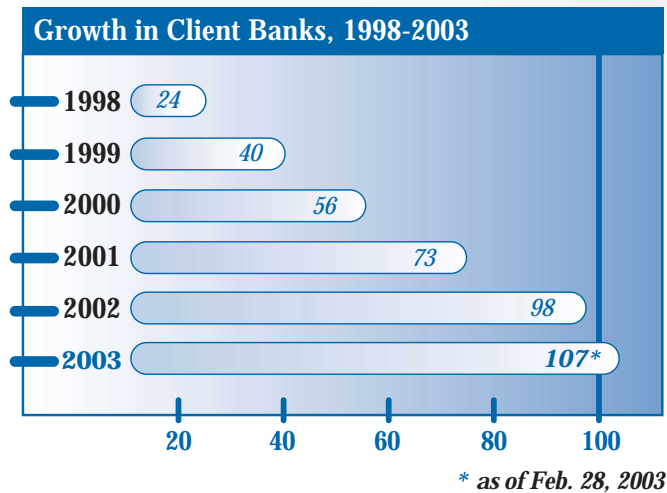
When clients express a need for a particular product or service, the Bank investigates its feasibility as a correspondent service. Will it be something that results in lower rates or higher returns for community banks based on volume? Can the Bank create an economy of scale? Can we offer a unique solution? If the answer is positive, then we perform in-depth due diligence to identify partners that share our commitment to unparalleled service to community banks.



Once an alliance partner is on board, we let our client banks know how this service could benefit their customers—and gain them new customers. The Bank staff works with the client banks to implement the desired service. In some cases, this is done through a meeting at the client bank; it may also be handled over the telephone or directly through the alliance partner.

Through semi-annual quality of service questionnaires, the Bankers' Bank Northeast determines if it and its alliance partners are following through on this service commitment. These surveys have been valuable tools that tell us what we are doing well and areas in which we can improve. Our Client Advisory Board, established in 2001, provides another tool for valuable feedback, including suggestions for new services.

Our commitment to our client banks is rooted in the experience of our people. Because we are bankers, we understand the needs of our clients. While customer service is the cornerstone of community banks, the focus on innovation and new services keeps these banks moving ahead. That's our philosophy, too. It's what we're doing every day at the Bankers' Bank Northeast.



**Peter J. Sposito**  
President & CEO

**Allen L. Nielsen**  
Executive Vice President & CFO

**Richard B. Lockwood III**  
Senior Vice President/Director of Sales & Marketing

**Foster S. White**  
Vice President, Sales

**Susan W. Salecky**  
Assistant Vice President/Director of Client Services

**Susan A. Cagianello**  
Assistant Director of Client Services

**Carol P. Paré**  
Office Manager

**Yvonne Richard**  
Money Desk Specialist

**C. Denise Murphy**  
Financial Specialist, Cash Letter Services

**Rachel E. Carlson**  
Systems Administrator

**Monique S. Angell**  
Office Assistant

**Stephanie M. Carlson**  
Operations Assistant

**Judith D. L'Heureux**  
Operations Assistant

**Lora L. Prior**  
Operations Assistant

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