

THE RESPONDENT

BANKERS' BANK
N O R T H E A S T

A New Direction In Correspondent Banking.

Service

"Good Pricing and Top Quality Performance" for PeoplesBank in Holyoke, MA

PeoplesBank in Holyoke, Massachusetts once worked with several correspondent banks. Because they competed with one another for correspondent customers, these correspondents worked with the bank to offer good pricing and quality performance, recalls Mike Brennan, Senior Vice President/CFO of PeoplesBank.

As the banking industry shifted over much of the last decade, banks consolidated and correspondent relationships slowly disappeared and suffered. "We found ourselves with one bank with extraordinarily high prices and dubious service," Mike says.

As Mike was evaluating his options in the Spring of 1998, he learned about the bankers' bank concept from Peter J. Sposito, who was in the process of forming the Bankers' Bank Northeast. Pete was meeting with the senior management at New England area banks trying to raise the necessary capital to establish the Bank.

"It was just in time," says Mike. "We liked what we heard." PeoplesBank holds the distinction of being the first Massachusetts investor bank. Mike is also on the Board of Directors of the Bankers' Bank Northeast.

From coin and currency to foreign exchange

Today, PeoplesBank relies on the Bankers' Bank Northeast to handle a wide range of correspondent services. Its Operations Department utilizes the armored courier and coin & currency service. The Finance Department relies on the Bank to fulfill its foreign exchange and foreign currency needs and its daily Fed Funds investments.

The foreign exchange service is one of the Bankers' Bank Northeast's newest services. Mike says it's something that he expects will grow over the next several years as community banks pursue relationships with local companies with overseas owners. Because of the Bank's relationship with Travelex, this correspondent service enables banks like Peoples to lock in conversion rates when money is being transferred to the parent company abroad. Such a service, Mike says, solidifies his bank's standing as a major player in the banking industry.

Foreign currency exchange capability also helps to serve individual bank customers who may travel abroad.

In the past, PeoplesBank would have to send these customers to another bank, Mike says. "That used to irk us to send them to the big commercial bank."

A cost savings. . . and customer service, too

As PeoplesBank's "finance guy," Mike looks at the bottom line. He says cost savings have resulted from every service that the Bankers' Bank Northeast has introduced.

But Mike also understands that performance is important. And the Bankers' Bank Northeast has measured up in every way in this category. The value, Mike says, is in more than just the dollar. "There's only so much of a lower price that you'll accept," says Mike.

The bottom line: "We're getting a very good price on everything we use; we deal with top-notch professionals who provide excellent service, all of which enhances our ability to serve our customers."



Michael J. Brennan,
Senior Vice President/CFO



President's Message

Working, Growing, and Succeeding Together



Growing your community bank requires a mix of all the right elements; products that customers want, knowledgeable employees that are customer oriented, and an ability to differentiate your bank from the competition. Do these things correctly and you'll succeed.

This is how the Bankers' Bank Northeast has flourished. You'll note in our most recent call report we gained profitability for our first full year in only our third year of operation.

Since our beginning in September 1998, we've acquired more than 80 client banks throughout New England and New York. Each month we add new banks as they realize that we offer more than just products and services to help them profit. At our core is a staff that serves as a resource to community banks.

This new, expanded version of *The Respondent* is a testament to our growth. As we continue to grow, we gain expertise. We solve problems related to correspondent banking, we learn about new issues, and we initiate products to help community banks compete. *The Respondent* is a vehicle to share this information with you.

Because we are in daily contact with many community banks, we are on the front lines of community banking. Clients have come to rely on us for our expertise as much as our products and services. They see us as a resource, a partner, in making them more profitable. Interestingly, vendors to the banking industry approach us every day. They correctly perceive us as a vehicle to create economies of scale.

The partnership that our clients have formed with us is now creating a "strength in numbers" capability that we envisioned when we formed the bank for banks.

When community banks contribute their volume to our various service lines they enable all participants to succeed at a higher level. Imagine the strength that community banks possess when they pull together in the same direction using the tools provided by their own bankers' bank.

If there are specific issues that you would like *The Respondent* to address, please drop me a line. You can call me at (800) 449-9121 or email me at pjs@bankersbanknortheast.com.

Peter J. Sposito
President & CEO

World Events, Globalization Spark Interest in International Funds Seminar

With the global economy extending to smaller cities and towns throughout New England and New York, community banks must be ready with international payment services for both commercial and consumer accounts. That was the message at a recent International Payments Workshop hosted by the Bankers' Bank Northeast.

Community banks are beginning to understand the importance of offering these services. Representatives from 20 community banks attended the morning seminar in Wethersfield, CT to learn more about setting up their international funds desk through the Bankers' Bank Northeast and its partner, Travelex.

"It's a relatively fast-growing service that banks are finding they're needing to stay competitive," says Susan W. Salecky, Assistant Vice President/Director of Client Services for the Bank.

Robert Lee Dowd, Vice President of Travelex, one of the seminar's speakers, says that community banks can't afford to lose customers to the large commercial banks. Offering international payment services builds fences around your customer, Dowd says.

Dowd explained the range of services offered by Travelex through the Bankers' Bank Northeast. For example, community banks can purchase a foreign draft or currency, and wire funds for their customers. Community banks can also clear various checks drawn on international banks through the Bankers' Bank Northeast.

The community banks can also offer their customers forward contracts. According to Dowd, forward contracts allow commercial accounts to purchase foreign funds at a locked exchange rate for a future date. This is important when a certain price between a company and a supplier is negotiated. The funds are set



Robert Lee Dowd (left) of Travelex, and Kimberly Jennings of Thompson Financial Publishing discussed international funds at a recent Bankers' Bank Northeast seminar.



aside for a specific date and then transferred by the bank to the overseas account on that date.

Kimberly Jennings, National Account Manager for Thompson Financial Publishing, provided insight into the Office of Foreign Asset Control's (OFAC's) oversight role. She said banks must comply with OFAC's regulations and ensure that they are properly screening foreign wires, checks and all other

financial transactions. Since September 11th the U.S. government has been freezing the assets of groups that may be linked with terrorist organizations.

Salecky says that Travelex has been an excellent partner that understands community banking. "They've been very receptive and demonstrate the ability to think outside the box when we or our clients present them with new ideas," she says.

Recognition

Bankers' Bank Partner Receives National Quality Award

Clarke American, the Bankers' Bank Northeast's partner in its Check Printing program, has been recognized by the U.S. Department of Commerce as an outstanding manufacturer.

The company recently received the prestigious Malcolm Baldrige National Quality Award for 2001 in the category of manufacturing. The award was established by Congress to recognize U.S. organizations for their achievements in quality and business performance. The announcement of Clarke American's award was made by U.S. Commerce Secretary Don Evans.

Nominees must undergo an extremely competitive selection process. Applicants are first evaluated by an independent Board of Examiners that looks for achievements and improvements in seven categories, including leadership, strategic planning, and customer and market focus. If nominees pass this initial screening, they are then visited by a team of examiners.

The examiners cited Clarke American as the only major financial services check provider to expand its market share over the past four years and noted that revenue has increased from \$300 million in 1995 to \$462 million in 2000. The company was also credited with a

98 percent satisfaction rate among customers and increasing levels of customer loyalty.

Bank President Peter J. Sposito said Clarke American's award illustrates the outstanding partners that the Bank brings to its community bank clients. "We make sure that the companies that we work with are the best in their fields. With this award, Clarke American is clearly setting the standards in the check printing industry."

Clarke American, one of the largest printers of financial institution checks in the U.S., has a printing accuracy rate and service levels that are without equal in the industry. The company produces more than 11 billion checks per year and offers technological advancements such as digital imaging to improve the quality and efficiency of its check printing. That means that community banks can get checks to their customers faster. The company also offers direct marketing of a bank's products and services.

To learn more about Clarke American's check printing service, call Richard B. Lockwood III, Bankers' Bank's Vice President/Director of Sales & Marketing at (508) 272-9901.



The Malcolm Baldrige National Quality Award

Is your bank ready for the Euro?

Customers will soon be asking this very question.

By Allen L. Nielsen and Robert L. Dowd

The changeover to the Euro has taken place for the member countries of the European Economic and Monetary Union (EU). While the Euro has been used as a legal currency in electronic form since January 1999, its banknotes and coins were introduced on January 1.

On that date, 14.5 billion Euro banknotes and 50 billion Euro coins were put into circulation in the EU's 12 member countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. There are EU countries that have not accepted the Euro: Denmark, Sweden, and England.

Globalization has meant that companies both large and small are utilizing overseas suppliers, many in EU countries. And these companies are finding that it is beneficial to use the Euro. Most organizations find it advantageous to use the Euro because it streamlines bookkeeping when dealing with several different EU countries. As the currency barriers fall, American businesses using U.S. dollars may find

themselves at a disadvantage when competing with an EU firm that deals in Euros.

Negotiating deals with payments in the local currency has always been advantageous. It saves foreign suppliers from having to convert U.S. funds at a rate over which U.S.

Globalization has meant that companies both large and small are utilizing overseas suppliers, many in EU countries.

companies have no control. Almost all overseas accounts are not in U.S. dollars. This forces the EU suppliers to convert dollars into Euros. Because of fluctuations in the exchange rate, suppliers typically incorporate a financial buffer to minimize the effects of value changes in the U.S. dollar, raising the costs of doing business.

Another cost involved in this conversion is the dependence on foreign banks

to set the exchange rate. By relying on these banks to set the rate and for delivery of the funds in a timely fashion, costs for U.S. companies are considerably increased.

Because it is so important to use the local currency whenever possible, businesses are increasingly relying upon their financial institutions to handle their international transactions. Community banks that understand this and have the ability to conduct international transactions in Euros will be able to keep their business customers. And they don't need to establish an international desk.

Global payment specialists, such as Thomas Cook, allow community banks to process international transactions as a regular course of business. This keeps business customers at your bank. In this way, businesses have greater control over the exchange rate and the delivery of funds and they can do it all through your bank. The result is that American companies retain funds longer while meeting their international payment commitments.

To protect against future fluctuations in currency values,

rate-fixing programs allow companies to lock in exchange rates for future payments for up to two years. Thomas Cook, for example, has Forward contracts that lock in rates when they are most favorable for U.S. businesses, thus allowing for more long-term planning.

As the European marketplace makes the transformation to the Euro, the global currency market will feel this shift. Community banks should recognize these changes and be proactive in providing international payment services to their business clients so that they can maintain control over this volatile market. Working with a global payments company will allow both the community banks and their business customers to take advantage of these new realities.

Allen L. Nielsen is the Bankers' Bank Northeast's Chief Financial Officer and Robert L. Dowd is vice president of Global Payments for Financial Institutions in the Americas with Travelex.

Growth

New Business at the Bank

Our strength comes from our community bank clients. Strength in numbers reflects our philosophy that community banks grow stronger as we work together. We are proud to welcome the following banks as new clients of the Bankers' Bank Northeast.

Bank Name	State	Assets (in millions)	Service
• Heritage Co-operative Bank	MA	\$151.4	Fed Funds as Agent
• Luzo Community Bank	MA	\$62.2	Fed Funds as Agent, Fed Funds as Principal
• National Grand Bank of Marblehead	MA	\$181.4	Fed Funds as Agent, Safekeeping, Investment Advisory
• The Bank of Southern Connecticut	CT	\$16.7	Fed Funds as Agent

Our clients understand that the Bankers' Bank Northeast helps them build their bottom line. These existing clients have recently added the following correspondent services from the Bankers' Bank Northeast.

Bank Name	State	Assets (in millions)	Service
• Cape Cod Co-operative Bank	MA	\$294.5	Safekeeping, Investment Advisory
• Chicopee Savings Bank	MA	\$292.6	Official Check Program
• Florence Savings Bank	MA	\$540.4	Fed Funds as Principal
• NewMil Bank	CT	\$567.7	International Payments
• Reading Co-operative Bank	MA	\$140.1	International Payments
• Stafford Savings Bank	CT	\$185.1	Fed Funds as Principal, Safekeeping
• Windsor Federal Savings & Loan	CT	\$165.5	Fed Funds as Principal

By The Numbers

Key figures about the Bankers' Bank Northeast

We are proud to share our progress with you. Since we officially opened in September 1998, the Bankers' Bank Northeast has become known as a valuable resource for correspondent services. We will periodically provide updates on the Bankers' Bank Northeast in upcoming issues of *The Respondent*.

(As of 12/31/01)

• Number of client banks	78
• Total assets of client banks	\$28.3 billion
• New services sold in 2001	87
• Total number of services sold	209
• Market penetration in Connecticut and Massachusetts	22%
• Average number of services per client	2.6
• Daily average Fed Funds managed	\$265.6 million
• Average number of cash letter items processed monthly	650,000
• Number of coin and currency end-points serviced	617
• Average number of international wires processed monthly	125
• Average number of domestic wires processed monthly	540

Product Spotlight: Merchant Card Processing

Merchant credit and debit card processing offers community banks an opportunity to expand their commercial DDA base and increase profits. The Bankers' Bank Northeast has recently formed a partnership alliance with *TransFirst*, a leading agent bank merchant card processing company, to make it easy for your bank to enter this field as a turnkey operation or to increase your income over your current merchant card processing program.

TransFirst currently serves more than 450 banks throughout the United States. The Bankers' Bank Northeast, together with *TransFirst*, is committed to working with community banks. In fact, *TransFirst* is based on the concept of shared profits with agent banks; and perhaps best of all, *TransFirst* will assume all liability issues with your merchants. In this way, community banks earn income from merchant processing without having to mark up their customers' rates; and they don't have to be concerned with the liability. *TransFirst's* rates are competitive and there are no hidden fees.

Like the Bankers' Bank Northeast, *TransFirst* is a company that is widely known for its high level of customer service. Representatives are available 24 hours a day, seven days a week and an Account Manager, along with a Client Relations Manager, are assigned specifically to every bank. Banks also have access to *TransFirst's* money-savings experts to help minimize charge-backs.

All of *TransFirst's* programs feature state-of-the-art equipment and rapid equipment replacement, when necessary. Your bank will receive detailed account information that is instantly available by fax or online.

The Bankers' Bank Northeast is committed to increasing the bottom lines of community banks by providing programs and services from top-tier partners. *TransFirst* offers the best in merchant card and debit card processing.

For more information about this program, please call Richard B. Lockwood III, Vice President/Director of Sales & Marketing, at (508) 272-9901.

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