

THE RESPONDENT

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

A New Direction In Correspondent Banking.

Service

FirstCity Bank

A Solid Relationship that Continues to Grow

John S. Manning, the president & CEO of FirstCity Bank in New Britain, CT, knew that his bank's relationship with the Bankers' Bank Northeast was successful when the head of the loan department made this comment. "He came up to me and said, 'It is such a pleasure working with the Bankers' Bank,'" Manning recalls.

"I knew then that we had hit on the right thing," John says. "For him to say something like that must have meant there had been a dramatic improvement from the past."

Turning to Bankers' Bank Northeast

Working with its former correspondent on wire transfers was difficult, according to John. "In the past, we had a problem in our ability to wire internationally, or domestically for that matter," he adds.

"Our commercial bank correspondent became difficult to deal with. We weren't sure if we were calling Timbuktu or Albany or Boston. Our daily wire transfers became hard to place and were not being processed as accurately as they needed to be."

As soon as the Bankers' Bank Northeast offered wires, FirstCity signed on. "The wires are much less expensive and they're easier to place," John says.

Wire transfers have allowed FirstCity bankers to simplify their operations. No longer do they have to make multiple phone

calls and juggle different accounts. One telephone call to the Bankers' Bank Northeast makes it easy for them. They know they're getting superior service and increasing their margins.

Better returns and lower fees

Wire transfers are one of several services that the Bankers' Bank now handles for FirstCity. In addition to domestic and foreign wires, Bankers' Bank provides FirstCity with cash letter processing, courier service, coin and currency, a line of credit, and handles its Fed Funds invest-

ments. Other senior officers within the bank are equally as positive as the loan department head about the Bankers' Bank Northeast, according to John.

FirstCity turned to Bankers' Bank for such services as cash letter and Fed Funds because it offered a better return than the large correspondents.

The Bankers' Bank also offers lower fees on its coin and currency and courier services, John says.

FirstCity Bank, a de novo bank that recently celebrated its 12th anniversary, has expanded to four branches in the central Connecticut area. John understands that a bank grows by building relationships with customers. It's the same philosophy that the Bankers' Bank Northeast provides client banks like FirstCity.



John S. Manning,
President/CEO



President's Message

Building on Profitability



At our Annual Meeting on April 30th, I was pleased to report to our Board of Directors, shareholders, and officers that the Bankers' Bank Northeast ended 2001 with a profit of \$437,104. This is a significant milestone that is proudly shared by the directors, officers, and the staff of the Bank and our client banks.

While we are proud of this achievement, we are more excited about what this milestone represents. For us, profitability is a testament to our role in the community banking industry. It tells us that we are satisfying a significant need among community banks that have long looked for alternatives for their bank-to-bank services. Our client banks have come to rely on us to provide them with a growing array of correspondent products and services.

Community banks are getting our message: We are committed to helping them – as a partner – grow *their* business. When we began in September 1998, we were more than just a new correspondent bank. We were introducing a new *concept* that many community bankers did not understand.

This required education. It required persistence. But most importantly, it required a higher level of service in order for us to "prove ourselves." Our staff successfully took on this challenge and they continue to deliver for our client banks every day. As our client banks saw the results in our products and services, they became believers in our way of doing business. *One out of every four community banks* in Connecticut and Massachusetts – the two states where we started – is now a client bank.

Profitability raises new challenges. Namely, staying profitable. However, black ink also enables us to concentrate on building new products and services. Additionally, we can now hire other professionals. We have a plan to add to our success by bringing new community banks into the Bankers' Bank fold and expanding the relationships with our existing banks.

Our client banks can help to carry us forward. They are our greatest marketing tool because they know the Bankers' Bank Northeast firsthand. Their testimonials are extremely powerful. Our growth helps our client banks. As we increase our volume and buying power, we are able to improve the rates of return for all our clients. The concept is beautiful and it works!

To all those community banks who have joined us over the past four years, thank you. And for all those community banks who have not, please try any of our services. Together, we all win.

Peter J. Spósito
President & CEO

Bankers' Banks Build the Community Bank's Bottom Line

By Peter J. Sposito

When the concept of a bank that served only community banks was formed more than 25 years ago in Minnesota, it was in response to the ongoing decline in service and the high fees of the large correspondent banks. Such a bank, called a "Bankers' Bank," struck a chord in the industry. Community banks were very attracted to a wholesale financial institution that worked with, rather than against, them. As the industry evolved into a few major mega-regional players and the community banks, these small institutions had an important ally in the bankers' bank.

That this concept grew over the past 25 years should come as no surprise. Why wouldn't a community bank prefer to do business with a bank that is owned by others like them? As a wholesale bank, the bankers' bank's only business is correspondent services.

Here are some observations that we have made based on the more than three years that the Bankers' Bank Northeast has served clients in New England and New York and in our experience as community bankers:

There are fewer correspondent choices

There was a time not

so many years ago when a community bank would place their fed funds with one bank, safekeeping with another, and their coin and currency with a third. More than likely, those three banks have become one due to mergers, takeovers, and acquisitions.

Like the general public, the new environment has forced many community bankers to deal with one bank and play by its rules (and pay its fees). Because there are so few options and they are so large, these mega-regional banks tend to pay little attention and/or truly support their correspondent banking divisions. A bankers' bank is specifically designed for a community bank to have all of its correspondent services in one place.

There are fewer services offered by the large banks

For those large, commercial correspondent banks that are still around, the bottom line is more important than ever. If a correspondent service is found to be unprofitable, it will more than likely be re-priced above the market, sold off or discontinued. As a result, the community banks are often left without an alternative.

Bankers' banks are continually developing proprietary

programs and/or working with third-party vendors to offer innovative services that are attractive to community banks. For most services, higher aggregate volumes mean that bankers' banks can offer higher investment rates and/or lower fees. As more community banks participate in such programs as coin and currency or cash letter, the higher volume brings down the costs for all involved.

The mega-banks are a competitor to the community banks

Community banks that do well have found their niche in the marketplace. While smaller and having only a few branches, they can compete effectively against their larger rivals. Technology has made it possible for them to offer the same services, whether it is online banking or merchant card processing. By stressing the service aspect and its importance to the community, they are competing successfully.

Because bankers' banks are owned by community banks, they are not a competitor and are responsive to their needs. The goals are the same – to grow the community banks. With this in mind, community banks should not be giving their correspondent business to a direct competitor.

Bankers' banks have expanded their marketing activities

Services include fed funds investments, fed funds lines of credit, safekeeping, investment advisory, letters of credit, check processing, and international payment services. Not every bank needs every correspondent service. But we offer community banks the options based on their individual needs.

The driving force behind the bankers' bank philosophy is keeping up with the community banks as they expand and grow as resources of innovation. The better that community banks do, the better that bankers' banks do and vice-versa.

Community banks have local roots, know their community and customers, and have a reputation for quality customer service. The bankers' bank adds another dimension to this with its mix of quality products and services and a genuine concern for the local banks to continue to thrive. It is creating a formula that is helping community banks effectively compete in the marketplace.

Education

Seminars in Two States Draw Community Bankers

To highlight its range of correspondent products and services, the Bankers' Bank Northeast recently went on the road with seminars in Tarrytown, NY and Natick, MA.

The seminars presented an excellent opportunity for community bankers to learn more about the bankers' bank concept and how the Bank can help them reduce costs and increase profits. For those banks already working with the Bankers' Bank Northeast, it was a chance to get a better understanding of new products that they do not currently utilize.

The seminars highlighted the Bank's merchant card processing, official checks, international services, and Fed Funds programs. All of these programs offer community banks the oppor-

tunities to reduce costs and/or grow their bottom line, explained Richard B. Lockwood III, the Bank's vice president/director of sales & marketing. The Bank works with alliance partners that are the leaders in their respective fields.

Partnership alliance representatives from TransFirst, Travelers Express, and Travelex/Thomas Cook presented details of the various programs and addressed questions and comments from the attendees. Allen L. Nielsen, CFO, presented the Bank's fed funds as agent program and the fed funds as principal (line of credit) program. The seminars concluded with a luncheon, which gave everyone an opportunity to informally meet and discuss the services presented.



Annual Meeting 2002: Bank Reports Profit

With strong growth in new client banks and increased revenues from existing banks, the Bankers' Bank Northeast posted a \$437,104 profit for 2001, announced President & CEO Peter J. Sposito at the Bank's Annual Meeting on April 30th.

The meeting, attended by the Bank's Board of Directors, officers, and shareholders, provided an opportunity for the Bank's president and other Bank officers to discuss the Bank's successes in its first 3 1/2 years of operation.

The growing number of client banks not only provided increased revenue, but new references for potential clients. The Bank has earned a strong reputation as a bank with superior service and products that works solely with community banks. "It's our singular goal," Sposito told the audience.

Community banks in New York are now among the Bank's clients, and expectations are that the New York market will show increased activity over the coming year. The Bank continues to add community banks in Massachusetts and Connecticut, the two states where the Bank began. In fact, one out of every four community banks in those two states are now clients.

Most importantly, community banks are pleased with the products and service they get from the Bank. William J. Wagner, the president and CEO of Chicopee Savings Bank, echoed Sposito's remarks. Wagner stood up during the meeting to laud the Bank for its value – in both the pricing of its services and its highly competitive rates.

With \$293 million in assets, the Chicopee Savings Bank in

Chicopee, MA currently utilizes many of the Bank's programs and services. This includes the coin and currency program, Fed funds as agent and Fed funds as principal programs, document shredding, international payment services, safekeeping, and the official check program. "The Bankers' Bank Northeast provides excellent service and responds effectively to the needs of our bank and the other community banks," Wagner said.

Profitability is only the beginning. The Bank is building on its success and adding services to meet the needs of community banks. The Bank now clear millions of checks annually and its Fed Funds as agent program enjoys daily volume in excess of \$300 million. Cash letter processing has



President & CEO Peter J. Sposito (above) addresses the Bank's officers and shareholders at its Annual Meeting.

created a strong source of balances for the Bank and is a cost-effective solution for its client banks.

The Bank's goals are to grow its deposits, expand the relationships it enjoys with existing client banks, gain new clients, and develop additional fee income from new services.

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.

New Client Banks	State	Assets (in millions)	Service
• Apple Valley Bank	CT	\$17.0	Fed Funds as Agent, Fed Funds as Principal
• Canaan National Bank	CT	\$94.1	International
• First County Bank	CT	\$705.7	Fed Funds as Agent
• The Bank of New Canaan	CT	\$12.0	Check Printing, Fed Funds as Agent, Fed Settlement, Merchant Card Processing
• Athol Savings Bank	MA	\$204.0	Fed Funds as Agent
• Commonwealth National Bank	MA	\$40.0	Fed Funds as Agent, Fed Funds as Principal, International
• Greenfield Co-Operative Bank	MA	\$150.1	Fed Funds as Agent, International
• Mechanics Co-Operative Bank	MA	\$86.4	Safekeeping, Fed Funds as Agent
• Wrentham Co-Operative Bank	MA	\$78.7	Fed Funds as Agent, International
• Riverside Bank	NY	\$54.5	Fed Funds as Agent, International

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.

Existing Client Banks	State	Assets (in millions)	Service
• Dime Savings of Norwich	CT	\$368.0	Shredding
• Eastern Federal Bank	CT	\$132.1	Fed Funds as Agent
• Litchfield Bancorp	CT	\$141.6	Cash Letter, International Investment Advisory, Safekeeping
• Naugatuck Valley Savings & Loan	CT	\$186.3	Official Check Program
• Northwest Community Bank	CT	\$246.2	Investment Advisory
• Putnam Savings Bank	CT	\$188.9	Safekeeping
• Framingham Co-Operative Bank	MA	\$267.7	International
• Heritage Co-Operative Bank	MA	\$191.6	Safekeeping
• Monson Savings Bank	MA	\$126.5	Coin & Currency
• PeoplesBank	MA	\$738.9	Official Check Program
• Westbank	MA	\$595.1	Cash Letter

Profile: Robert W. Andrea

Robert W. Andrea joined the Bankers' Bank Northeast in April as Operations Manager. He is responsible for the overall management of the Bank's day-to-day operational activities, including the support staff and those services used by the client banks. Robert works closely with Allen Nielsen, the Bank's CFO, to ensure that clients receive the highest degree of operational support.



Robert works closely with client banks in the implementation of various services, particularly the cash letter service and associated settlement activities. He resolves service and other issues with the Bank's processors, analyzes business needs, and translates these to staffing and system requirements.

Robert has worked as a banker in Connecticut and New York for more than 15 years. He has held a number of positions including Assistant Treasurer with The Putnam Trust Company, Assistant Treasurer with The Bank of New York, and Assistant Vice President with The Greenwich Bank & Trust Company. He was most recently an Application Consultant with Open Solutions, Inc.

"We are very fortunate to have Robert on the staff at the Bankers' Bank Northeast. His knowledge and experience is invaluable to us as we continue to expand our services and client base," states Peter J. Sposito, President & CEO.

Robert received a Bachelor of Science Degree (Magna Cum Laude) and Masters Degree in Business Administration and Financial Management from Sacred Heart University, Trumbull, CT.

Product Spotlight: Confidential Record Destruction

Banks routinely handle confidential information. Various records regarding deposit and loan activity need to be protected to maintain customer confidentiality, especially given the new regulations about privacy. An effective system to protect such information must be fully secure, easy to use and cost effective.

The Bankers' Bank Northeast has had a business alliance for more than three years with a highly regarded company that specializes in confidential record destruction. The company currently handles record destruction for more than 500 businesses including banks, insurance companies, manufacturers and government agencies. With our business alliance, your bank will receive:

- Off-Site Service
- On-Site Service
- Witnessed Destruction
- Disintegration
- Media Destruction (VHS tapes, CDs, floppy disks, computer tapes, etc.)
- Archiving

In addition, we also offer clients related services such as image capture, document scanning, microfilming, conversion, and data capture services.

As with our other services, you will receive pricing discounts as a client of the Bankers' Bank Northeast. We would welcome the opportunity to put together a cost analysis and proposal for your review and consideration. For more information, please contact us at 800-449-9121.

Note: This service is currently only available in Connecticut and western and central Massachusetts and will be expanded as we develop new routes.

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Member FDIC
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