

THE RESPONDENT

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

A New Direction In Correspondent Banking.

Service

Before the doors open: Bankers' Bank Northeast brings expertise, knowledge to de novo banks

Independence Bank and Commonwealth National Bank

The challenges faced by de novo banks exceed those of other new businesses: complying with complex federal and state regulations; attracting investors; arranging a suite of products and services for customers; and hiring and training a staff are among the issues that newly-formed banks face. As experienced bankers who are committed

to community banks, the Bankers' Bank Northeast works with de novos in the formation stages so they get a running start when they open their doors.

Two de novo banks can attest to the benefits of working with the Bankers' Bank Northeast. Both Independence Bank of East Greenwich, RI and Commonwealth National Bank of Worcester, MA brought in the Bankers' Bank Northeast as they were forming to ensure they had the right correspondent services in place.

"When a de novo bank calls us, we want them to know what a bankers' bank can do for them," says Richard B. Lockwood III, the Bank's Senior Vice President / Director of Sales & Marketing. "We provide an array of products and services so management can focus on the many other challenges involved in establishing a new bank. We're a partner, not a competitor, with community banks."

Simplicity is important for de novos

Independence Bank opened as a full-service bank this past summer after operating since 1996 under a restricted bank charter to provide SBA lending, says Robert A. Catanzaro, the bank's president.

The timing was right for this de novo bank. "We felt that we had a good market

in our area and wanted to broaden our product offerings," Bob says.

As Independence Bank prepared to open as a retail bank, it met with the Bankers' Bank Northeast several times. Richard Lockwood developed a proposal that would meet the

bank's immediate needs. When it opened, the Bankers' Bank was there with its coin and currency and Fed Funds as Agent services.

The Bankers' Bank Northeast provided Bob and his staff another resource: operational support. "As a start-up, there are so many new systems and procedures that ease of use is important for our employees," Bob says. His staff has been very satisfied with the service and support from the Bankers' Bank Northeast. "It's been very easy to use," Bob adds.

"We started with Bankers' Bank and plan to continue using their service," Bob says.



President's Message

Banks need to focus on deposits.



The current and longstanding low interest rate environment is of concern to all community bankers. Our collective focus is on how we can improve the returns on our assets

Community banks on the whole are extremely liquid. We see evidence of this liquidity in our Fed Funds as Agent program, which has grown in terms of the participation of additional banks and the large increases in the average dollars sold per bank.

Bankers and those who watch banks are concerned about pressure on banks to stretch for improved returns by either increasing the term of their investments, which can create an interest rate risk, or by accepting greater credit risk during a depressed economic period.

I believe that the community banking industry has control over its rate/risk reward concerns as it relates to assets. What we don't seem to be concerned about is the impending loss of deposits when (and if) the stock market gets to a point that it attracts the excess cash that we are currently holding.

At the Bankers' Bank Northeast, we continually seek solutions to help community banks attract deposits. One area that seems to hold promise for community banks is in the municipal market. Over the years, this deposit source has gravitated to the larger banks which have worked hard to cultivate the business of cities and towns.

As you will read in my article on recapturing the municipal business (see p. 2), community banks have new opportunities to work with municipalities. For example, BBN has developed a lockbox capability that allows community banks to go after tax receipts (see p. 4). We're also working to offer additional products and services, including a "repo" product to assist the banks in investing the short-term portion of the municipal deposits and an underwriting facility to assist the towns in distributing notes and bonds.

There are other products to attract deposits that hold promise for community bankers. An index-powered CD that allows banks to tie the depositors' return to the performance of the S&P 500 is being tested in other parts of the country. There is also a program offered by a nationally recognized entity that enables banks to expand FDIC insurance beyond the current \$100,000 limit. These innovations remind me of the NOW account, a product that was first introduced in New England.

Our installation of an Internet-based bank-to-bank communication and settlement service (see p. 2) is designed to help Bankers' Bank Northeast to build its own deposit base. By operating a settlement account for our client banks that relieves them of the rigors of running the operation themselves, bankers can spend more time working with customers and attracting new ones. Our goal is to help community banks attract *and* retain both customers and deposits.

Peter J. Sposito
President & CEO

Continued on page 3

Bankers' Bank prepares launch of settlement services

Bank-to-bank communications system will improve efficiency, speed of transactions

Bankers' Bank Northeast is preparing to launch an Internet-based bank-to-bank communications system to provide a full array of settlement services for our client banks. Transactions, reports, files, Fed Funds & DDA balances, sweep accounts and e-mail messaging capability are a few of the features that will be available for client banks on this new system. This is a complete correspondent banking information portal for doing business with the Bankers' Bank Northeast.

The service is a fully-secure communication/reporting and transaction generation system developed especially for the correspondent banking industry. It is based on industry standard Internet technology with 128-bit encryption and digital certificates. All it takes to log on is an Internet-connected computer and a web browser. There's no need for specialized dial-up lines, modems, or any installed software. Also, a client bank can have multiple users simultaneously accessing the system. The system is designed to be



flexible. It is a secure delivery channel with a multi-level password protected environment. Imbedded access times are associated with specific transactions along with dual control enforcement on required types of transactions, dollar limits and transaction cut-off times.

The open architecture of the system allows for nearly any type of transaction and eliminates the need for a DOS FedLine terminal, or even a Federal Reserve account relationship. Of course, access to the account information is available 24/7.

Bankers' Bank Northeast can be a client bank's sole Settlement Agent by offering a secure delivery channel for communications, reporting and transaction processing. As a result, client banks will be able to automate many time-consuming tasks, speed the delivery of data via automated imports and exports, and access up-to-the-minute account

information. The planned implementation is scheduled for two phases with the initial rollout early in the first quarter of 2004.

Recapturing the municipal business

By Peter J. Sposito

Of all the organizations in a local community, the municipal government generally ranks among the largest in terms of its budget. The municipal government is also an important part of the local economy, purchasing everything from police vehicles to office supplies from area merchants. With this in mind, community banks have new opportunities to work with municipalities and handle their accounts. These are opportunities that can benefit the municipalities, community banks, and the community as a whole.

Years ago, the community bank was the logical place for the local cities and towns to place its deposits. It was convenient. After all, the bank was nearby. It was simple. The local treasurer knew the bank president, the local directors and most of the bank staff, and he or she trusted them. Most importantly, it made economic sense. Relying on the community bank provided the bank with the ability to increase its loans for homes, new businesses, expanded businesses, or other economic development activities.

Along the way, however, local governments got away from community banks. As larger banks merged and bought smaller banks, they became the giants of the banking business. Their municipal accounts departments became the one-stop shop for local governments. How could community banks compete with the breadth of services that their larger counterparts offered the local governments?

As it turns out, community banks can and do compete with the mega-regional banks for the municipal business. In fact, some community banks do very well in the municipal arena. With the right technological solutions that are readily available and old-fashioned personal service, municipal treasurers are coming back to the community banks. Convenience, simplicity, and trust are values that will always win.

An issue of service

When competition is scarce, there's little incentive to continually improve. That's what some municipalities found when they worked with some of the large mega-regional banks. Personal service is a big part of the relationship between a bank and a municipal treasurer. In tough economic times, municipal budgets are always pared. For the local

treasurer and tax collector's offices, this means less personnel and IT support. Here's an opportunity for community bankers to work with the office to ensure that transactions are handled efficiently and swiftly.

Community banks have an edge in this area because its employees are service oriented. From the person who answers the phone to the back office support personnel, community banks are known for working personally with their customers.

Technology benefits community banks

Technology once separated the larger banks from community banks. The mega-regional banks were able to handle more complex transactions and a greater array of services than community banks.

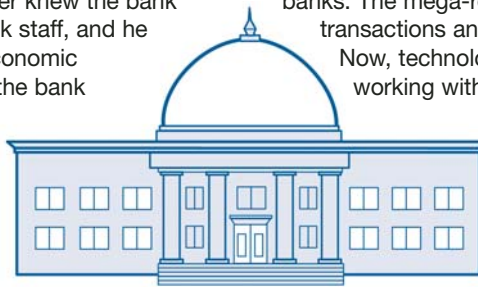
Now, technology has become the leveler in banking. Whether it is working with a vendor, partnering with other banks, or bringing the systems in house, community banks have the ability to offer products and services that cater to the municipal market.

Lockboxes and sweep accounts are all basic products and services offered by community banks that can attract municipal accounts. A community bank doesn't have to offer every municipal service that is available; only those that are truly important to their organization. Often, municipal officials may not know what community banks can offer them. With some customer education, community bankers can bring officials up to speed on how they can be better served through them.

Believing in community banks

Community banks have the ability to provide municipal accounts with everything they require. From a suite of products, competitive rates and personal service, there are great benefits to working with community banks.

The benefits, however, are also important on another level. A community bank is representative of the local community. When a municipality chooses to put its money in the community bank, it makes a positive statement about the community as a whole. Local governments work hard at attracting and keeping businesses in their cities and towns. By working with community banks, they demonstrate that local businesses do matter.



Products to create a “full-service bank”

Bank executives forming Commonwealth National Bank were interested in the bankers’ bank concept after reading about the Bankers’ Bank Northeast in the *ABA Banking Journal* in 2000. They liked the idea that a bankers’ bank was a correspondent bank that would help them succeed.

Even before they began raising capital, Bank President Charles Valade and CFO Bill Mahoney met with Richard Lockwood about the Bankers’ Bank. Bank executives relied on the help of many in the banking community, including the Bankers’ Bank Northeast, says Bill. Richard helped to explain different services and products that would benefit the bank, and Bill attended one of the Bankers’ Bank’s educational seminars.

With the help of the Bankers’ Bank Northeast, Commonwealth was prepared to open. The Fed Funds as Agent program offered Commonwealth a greater rate and better service than any other correspondent service provider, Bill says. Since then, they have established a steady partnership with the Bankers’ Bank Northeast to offer international payment services to its customers. This fall, Commonwealth took advantage of the Bank’s credit card program.

Working with the Bankers’ Bank Northeast “gives us a full menu of products,” Bill says. “We want to and we feel that we can compete with the larger and more established banks.” The bank has three branches in the Worcester, MA area and offers a mix of commercial and retail products.

As an organization that celebrated its fifth anniversary in September, the Bankers’ Bank Northeast appreciates the challenges facing de novo banks.

The Bankers’ Bank staff believes in these banks and is committed to their success. That’s why we’re there for them at the beginning.

Bankers’ Bank provides escrow services for CBT

The Connecticut Bank & Trust Company of Hartford is a de novo bank with a familiar name. Although the original bank has been gone since 1991, it is being brought back under a new state charter by David A. Lentini, who will be its Chairman & CEO.

Popularly known as CBT, its prior success as a community bank was underscored when the new founding organizers recently raised \$18.5 million in capital in only 76 days. The bank relied on the Bankers’ Bank Northeast as its escrow account agent to collect, record and disperse the investment deposits.

Acting as the escrow agent demonstrates the Bankers’ Bank Northeast’s operational and technical capabilities, says President & CEO Peter J. Sposito. This service is another way that the Bankers’ Bank works closely with de novos to help them get off the ground and established in the marketplace.

The Bank can also serve as the escrow agent for existing banks undertaking a new stock offering or mutual banks converting to a stock corporation. For more information, contact Richard B. Lockwood III, Senior Vice President / Director of Sales & Marketing.

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
• The Connecticut Bank & Trust Company**	CT	\$18.5	Escrow Accounting
• Bank of Easton	MA	\$87.4	Merchant Processing
• Equitable Co-operative Bank	MA	\$59.2	Fed Funds as Agent, Safekeeping
• Hoosac Bank	MA	\$286.6	Fed Funds as Agent

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

Bank Name	State	Assets (in millions)	Service
• Enfield Federal	CT	\$161.1	International
• First County Bank	CT	\$824.6	Fed Funds as Principal
• Guilford Savings Bank	CT	\$372.8	International
• Liberty Bank*	CT	\$2,067.9	Cash Letter
• Putnam Savings Bank	CT	\$235.6	Letters of Credit
• Salisbury Bank and Trust Company	CT	\$310.7	Reserve Reduction
• Athol Savings Bank	MA	\$240.2	Safekeeping
• Legacy Banks	MA	\$591.4	Reserve Reduction
• Mercantile Bank and Trust Company	MA	\$91.1	International
• Merrimac Savings Bank	MA	\$35.4	Safekeeping
• National Grand Bank of Marblehead	MA	\$199.2	Fed Funds as Principal
• North Shore Bank	MA	\$330.4	International
• Northampton Co-operative Bank	MA	\$127.3	Fed Funds as Agent
• PeoplesBank*	MA	\$881.5	Cash Letter
• Reading Co-operative Bank	MA	\$182.8	Investment Advisory
• Southbridge Co-operative Bank	MA	\$337.1	Reserve Reduction
• Westfield Bank*	MA	\$763.7	Merchant Processing
• Independence Bank	RI	\$14.5	Fed Funds as Agent, International

* Investor Bank **In Organization

(Reflects activity from May 1, 2003 – September 30, 2003)

Gus Oliveira is named Vice President/Sales

The Bankers' Bank Northeast has elected August A. Oliveira as Vice President of Sales for northern New England. Gus is a former senior executive with the Office of the Comptroller of the Currency (OCC). Known for his fairness and accuracy, he has earned the admiration and respect of bankers throughout New England.

Gus brings an extensive background in evaluating and assessing all aspects of bank operations. He began his career with the OCC as a bank examiner and progressed rapidly, holding various managerial and executive positions including: Regional Director for Planning and Administration-Boston; Regional Director for Human Resources-Boston; Acting Director for Strategic Planning-Washington, D.C.; Executive Assistant to the Senior Deputy Comptroller-Washington, D.C. and Special Assistant to the District Deputy Comptroller-NY. He finished his 30-year career as Senior Field Manager for New England, where he was responsible for community bank supervision and the supervision of more than 50 field examiners. Most recently, Gus was Senior Vice President, Administration / Operations for Ocean National Bank in Kennebunk, ME. He will report to Richard B. Lockwood III, Senior Vice President / Director of Sales & Marketing.

Gus is calling on the community banks in Maine, New Hampshire, and Vermont to present the Bankers' Bank Northeast's correspondent services. With Gus' experience in reviewing and analyzing a bank's operations, he thoroughly understands the needs of community banks and how they can benefit by doing business with the Bankers' Bank Northeast.

"There are few people who know community banks and bank operations like Gus Oliveira," says Peter J. Sposito, President & CEO for the Bank. "With his thorough understanding of the financial environment in which banks must compete, he will be able to effectively assist community banks regarding their correspondent needs. Bankers will benefit from his in-depth knowledge."

Gus is a Massachusetts native and a graduate of Southern New Hampshire University with a degree in Business Management. He served in the U.S. Air Force and resides in Scarborough, ME.



Gus Oliveira

Product Spotlight Lockbox service

Have you been asked to provide lockbox services by your corporate customers? What are your costs in processing loan payments, credit card payments, mortgage payments and other payments? Have you lost business because you could not handle a lockbox? Would you like to capture local municipal business (tax payments, water bills, etc.)?

The Bankers' Bank Northeast has recently established a business alliance to provide wholesale and retail lockbox services for its client banks. We offer a state-of-the-art service that includes:

- Same-day processing of all items.
- A complete audit trail with both the remittance advice and check fully endorsed with date, customer account number, amount paid, batch sequence, and operator number.
- Imaging of remittance advices and checks, with images and data available in real-time via the Internet.
- The availability of images and data in different formats: on a CD for your bank's research and archival needs, or for your customers or direct transmission via email, diskette, or hard copy.

Our lockbox service allows community banks to outsource their payment processing, while maintaining maximum control of their ability to service customers. There are no set-up fees and, as always, client banks will receive discount pricing through the Bankers' Bank.

For more information on our new lockbox service, call Richard B. Lockwood III, Senior Vice President / Director of Sales & Marketing, at (508) 881-4954.

To Contact Us:

Bankers' Bank Northeast
CT Main Office: 1-800-449-9121
Boston Direct Dial: (508) 881-4954
www.bankersbanknortheast.com

Officers:

Peter J. Sposito	<i>President & CEO</i>
Allen L. Nielsen	<i>Executive Vice President & CFO</i>
Richard B. Lockwood III	<i>Senior Vice President/Director of Sales & Marketing</i>
August A. Oliveira	<i>Vice President/Sales</i>
Foster S. White	<i>Vice President/Sales</i>
Elissa G. Reynolds	<i>Vice President/Operations Manager</i>
Susan W. Salecky	<i>Vice President/Director of Client Services</i>

*Member FDIC
Member Federal Reserve System
Member Federal Home Loan Bank of Boston*

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

655 Winding Brook Drive
Glastonbury, CT 06033-4337

FIRST-CLASS MAIL
US POSTAGE PAID
HARTFORD CT
PERMIT NO 945