

THE RESPONDENT

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

A New Direction In Correspondent Banking.

Service

"A resource we count on"

"Our experience with Bankers' Bank Northeast has been very good right from when we became a client in 1996," says John Trentacosta, CPA, President, Treasurer and CFO of Newtown Savings Bank, Newtown, CT.

A member of the Board of Directors of Bankers' Bank Northeast, Trentacosta believes the mission of Bankers' Bank Northeast—to provide products and services to support community banks—makes excellent business sense. "That's why we became one of the original investor banks.

Time has proven that the strategy not only continues to be on target but is even more valid than when the Bankers' Bank Northeast was formed."

Newtown Savings Bank counts on Bankers' Bank Northeast as a resource to give it the extra edge that makes a difference and is so necessary in today's highly competitive environment. "By having Bankers' Bank Northeast at our side delivering reliable services, we have more time to focus on serving our customers," says Trentacosta.

"Bankers' Bank Northeast offers community banks a number of advantages," says Trentacosta. "First and foremost, though, its preferred pricing helps us reduce costs and that's important to us."

When it comes to cost savings, Trentacosta appreciates the competitive advantage Bankers' Bank gives community banks in its role as aggregator. "As volumes increase with such services as cash letter processing and coin and currency, better pricing translates into greater savings for the client banks," he says.

Trentacosta is impressed—and very pleased—with Bankers' Bank Northeast's **STARS** Comprehensive

Settlement program because of its benefits.

"As a community bank, our branch system is growing. **STARS** is a very good fit for us because it allows us to handle various settlement services at the branches.

The bank's branch staff appreciates this capability since it lets them service customers much more quickly and easily," Trentacosta reports. "It also avoids unnecessary redundancy, increases operating efficiency and results in overall better service for our customers.

It's also worth mentioning that the built-in OFAC system, a capability that assists

us in meeting compliance requirements, saves time in the process."

Newtown Savings Bank also appreciates the quality of third-party strategic alliance partners selected by Bankers' Bank Northeast. "We like the way it sets high expectations for its strategic partners," notes Trentacosta. "It screens them carefully and then continues to monitor their performance. Having a single source for a number of vendors means having only one contact instead of several and that's helpful to us." Newtown Savings uses a total of six services. "We have found coin and currency and safekeeping to be particularly helpful," he adds.

Community banks are competing successfully today thanks to their own innovative skills and customer commitment. "But having an alliance with Bankers' Bank Northeast, who cares about our business, is critical to our success. We count on Bankers' Bank Northeast as a valuable business partner, one that helps us deliver the level of service that satisfies our customers," Trentacosta says.



John Trentacosta, CPA,
President, Treasurer, CFO

The Bank You Keep for Life!
NEWTOWN SAVINGS BANK

President's Message

It's Your Bank

The task is growth

The mission is community banking



Peter J. Sposito
President & CEO

When Bankers' Bank Northeast opened its doors as a wholesale bank for community banks, little did we think that we would have a 30% market penetration in just seven years.

As of September, we now serve a total of 150 banks in our region, and the list is growing, both in terms of additional banks and the products and services

these 150 client banks are using.

The value of a bankers' bank is clearer today than it was in 1998. With the changes in the banking landscape, there are more opportunities and challenges for community banks. Bankers' Bank Northeast is positioned to provide the products, services—and most importantly—the support that gives a community bank a competitive advantage.

Today, we have 22 services, three times the number we offered seven years ago. The portfolio will continue to expand.

With both a profitable track record and a growing client bank base, Bankers' Bank Northeast must grow to provide the services community banks are looking for to increase their competitive position in the marketplace.

Our original 30 investor banks embraced Bankers' Bank Northeast's community banking mission. It was their vision that gave the Northeast a correspondent banking resource that remains 100% committed to growing community banking in the region.

To support that mission, Bankers' Bank Northeast must grow. The new **STARS** bank-to-bank communications system that was installed last year, the new core processing system that was implemented in July and the growth of the balance sheet due to loan activity make the case for expanding our capital accounts.

Our client banks tell us we have delivered on the promise of bringing them "a new direction in correspondent banking." While we are pleased with the response, our banks are looking for additional cutting-edge, cost-effective products and services that will strengthen their position in the community. Bankers' Bank Northeast is capable and committed to meeting the challenges our client banks face by helping them control costs, compete with the larger banks and provide a long-term, dependable wholesale banking resource.

You can help to continue the growth of your bankers' bank. Additional shares are now available both to existing and new investor banks. Inevitably, that raises the critical question: "Why should a community bank invest now in the expansion of Bankers' Bank" *Continued on page 2*

Northeast?" Here are three answers for your consideration:

1. *It helps protect the community banking franchise.* Bankers' Bank Northeast is a business resource that is 100% committed to community banking. As one banker said, "Bankers' Bank Northeast is good for the industry."
2. *It focuses totally on products and services that have the right fit for a community bank.* Bankers' Bank Northeast thrives because it spends all its time delivering what the community bank needs to compete with larger banks.
3. *It delivers service the same way a community bank does.* It replicates the way you serve your customers. We stand beside you with talented, skilled, experienced people who share your commitment to customer service.

Yes, there are measurable economic benefits, too. From a position of strength, we negotiate very favorable pricing. Shareholder banks receive extra cost advantages as well.

When you add it up, strengthening the Bankers' Bank Northeast makes good business sense. Our one goal is helping you protect and grow your franchise as a community bank. Please call me at any time to arrange a visit to discuss an investment in the Bankers' Bank Northeast.



Peter J. Sposito
President & CEO

Loan Participations

How Bankers' Bank Supports Its Client Banks

Peter T. Garland
Chief Credit Officer



Community banking is a relationship business. It sets you apart from every other competitor. Whether it is the large money center bank down the street, a low-cost Internet-based lender or Wal-Mart, your single greatest advantage is your relationship with your customer. Your personal knowledge of your customer's business simply cannot be duplicated by querying a database.

At Bankers' Bank Northeast we believe that, all things being equal, customers prefer to do business with their community bank. Our approach to commercial lending is designed to provide our client banks with the resources necessary to support virtually all of the lending needs of their borrowers, so they don't feel compelled to go to your competitor to get what they need. Here are several of the ways that we do it:

- **Control** – Frequently when a borrower requires multiple loans, banks sell participations to address a short-term overline situation with the knowledge that the loan they retain may be repaid before the loan they sold. Bankers' Bank Northeast can structure its participation to provide you with the option, not the obligation, to buy back your loan. This way you always maintain control of your relationship.

- **Response** – Nothing is more harmful to a customer relationship than dragging out a credit decision. While an approval is always preferred, a quick "No" can often give you the time to find an alternate source of funding before it's too late. Bankers' Bank Northeast will provide its initial indication of interest within two days of receipt of your loan overview. And within two weeks of receiving

your complete loan package, we can usually complete our underwriting, gain formal approval and provide our commitment letter to you.

- **Source of Loans** – Reciprocity is a key element in any participation relationship. Bankers' Bank Northeast will reciprocate to those who sell us loans. And our client base of over 150 banks provides a unique source of loans from outside of your market. Your involvement as both a buyer and seller of loans makes you a part of a unique system designed to support community banks all over the Northeast.

We understand relationship lending and community banking. We also understand that the banking industry is in a state of constant change or evolution, so we are continually evaluating new product offerings to help you compete more effectively. We value your input on product offerings.

Please contact Peter Garland (860) 657-4186 for more information on any of our existing loan products or to discuss products that you think we should consider to help your organization.

...the banking industry is in a state of constant change or evolution, so we are continually evaluating new product offerings to help you compete more effectively.



Get Ready to Offer Pre-Paid Gift Cards

Today, the Card Really "Is" the Gift

Customer demand for gift cards is at an all-time high. Surveys showed that prepaid gift cards were the most popular gift last Christmas and it is expected that their use will increase by more than 30% this year.

Bankers' Bank Northeast, through our business alliance partnership with TransFirst, can provide our client banks a pre-paid gift card solution. The sale of gift cards can generate additional fee-based income while offering a valuable and in-demand service.

The Bankers' Bank gift card program bears either the Visa® or MasterCard® logo. There are over 20

designs to choose from and your bank logo can be branded on a maximum of eight styles.

Card stock is maintained at the bank and can be distributed to your branch locations. No special equipment is required—only access to the Internet. Authorized employees load and activate the gift card while the customer waits. Once the request is transmitted and processed a confirmation message is sent in addition to where the card can be used and customer service support information.

To learn more about this service, please contact your Relationship Manager.

Remote Branch Capture: Check Processing in the 21st Century

Historically, item processing has been a necessary business function and until now viewed as a necessary evil by banking institutions. But two factors in the last five years have caused the bankers to rethink and re-engineer their check processing operations.

The first was the enactment of the *Check Clearing Act for the 21st Century* (Check 21), which was passed in the wake of the events of September 11, 2001. The grounding of all air traffic in the United States on that day and for the following three days resulted in approximately \$80 billion in bank transactions being held up for processing because no checks were coming into or going out of the Federal Reserve. Check 21, however, allows banks to send and receive electronic images of checks for payment rather than the physical checks themselves.

Another less drastic factor, but nonetheless pertinent, has been the continuous decline of check volume as more and more customers turn to electronic payments. As a result, banks need to process transactions electronically and also are finding a demand from their customers for electronic statements.

In response to these factors, more and more banks are moving toward electronic imaging solutions for their check handling processes. To satisfy the need for electronic imaging check solutions, Bankers' Bank Northeast has turned to the Remote Branch Capture solution offered by Open Solutions Item Processing Systems (OSI).

Remote Branch Capture comes as a result of OSI's landmark collaboration with the Federal Reserve. OSI became the first item-processing vendor to comply with the Federal Reserve's FedForwardSM, FedReturnSM, and FedReceiptSM imaging products. This compliance led to Remote Branch Capture, which allows banks to capture check images and MICR at the point of presentment. Through its alliance partnership with OSI, Bankers' Bank clients will be able to realize the benefits of total electronic image item processing, such as:

- Preparation for the provisions of the Check 21 Act
- Improved funds availability

- Reduction of Federal Reserve forward presentment, inclearing, and return costs
- Faster availability of inclearing files for quicker pay/no-pay decisions
- Allowance for same day return decision

And because Remote Branch Capture is an electronic imaging solution, it allows for many efficiencies not seen with paper-check handling. First, because all checks are transmitted electronically, expensive courier transportation costs are all but eliminated. Also scanning and capturing transit and on-us items throughout the day eliminates the encoding and end-of-day processing backlog and allows banks to schedule later cut-off times for item processing. By being able to hit early windows, banks maximize their funds availability and reduce their processing costs with the Fed.

In addition to checks, deposit slips, loan coupons, statements, etc. can be imaged and stored, eliminating the need for microfilm and microfiche and enabling speedy research all from one central archive.

Not only does Remote Branch Capture eliminate many of the rote processes of check processing, it can also be utilized to increase revenue for a bank in the form of increased service offerings to commercial customers and increased fee income opportunities for cash management customers.

Another benefit is that client banks can pay for the Remote Capture equipment and/or the monthly fees through compensating balances as opposed to being billed in hard dollars.

More and more banks are moving toward electronic imaging solutions for their check handling processes.

BBN Offers Cash Letter Settlement Solutions

As a bankers' bank, our objective is to employ a variety of solutions to client bank problems. Check 21 initiatives have enabled us to address cash letter costs and availability issues. A number of recent national press releases have mentioned several of the steps that the Bankers' Bank Northeast has taken to align our capabilities with strategic partners such as the Federal Reserve, large correspondents and several check processors and/or core processors.

We support the check processor selection of our client banks. The Bankers' Bank provides settlement, volume aggregation, service charge payment in compensating balances and adjustment services to our client banks as it relates to cash letter activity. Although we can help our client banks select service partners, we support whatever choice they make. Check 21 has opened a number of opportunities to assist our ability to implement such solutions. Here are two examples:

FED'S "PAPER TO IMAGE" PROGRAM

As the nation's check processing infrastructure is reconfigured to reduce fixed costs, the pressure to consolidate check-processing facilities operated by the Federal Reserve System has grown. The result during this transition period has been an increase in paper per item fees and a dramatic reduction in next day availability.

Beginning at the end of September, the Bankers' Bank Northeast implemented a process wherein selected high-dollar paper items are delivered to the Federal Reserve in Windsor Locks and are converted to image. The result has been a dramatic increase in next day availability. Although the per-item cost is marginally increased, the recent upward movement in interest rates has offset the increased costs. The Bankers' Bank has assimilated the increased cost for benefit of its commingled cash letter client banks.

"ON WE" PRESENTMENTS

What can be better than presenting forward paper checks than a local clearinghouse? The answer is a new process being implemented by the Bankers' Bank wherein we arrange to set up and operate an "On We" exchange between community banks. The name "On We" is a takeoff of "On Us" in that it encompasses multiple banks. It works just like a clearinghouse except that it enables banks to exchange checks drawn on each other a day before the routine established decades before within traditional clearinghouses. The advent of the image has assisted the development of "On We" exchanges.

Just like the traditional "next day" clearinghouse process the exchange of "On We" items carries no per check service charge. However, as an added benefit, the process enables banks to post "On Us" items deposited at another community bank on a same day basis.

Since the funds are exchanged the day after the individual banks posted the debits against their respective customers' accounts, a "Float" amount is created to the benefit of the receiving bank. The posting of debits reduces the receiving bank's interest expense by a significant amount. Consider the benefit to your bank of posting debits a day sooner than you have to pay for them. Every million dollars results in a \$104 benefit each day using a conservative rate of 3.75%.

For more information, please contact us.

Annual CEO & Senior Officers Charitable Golf Tournament

More than 100 officers of client and prospect community banks and alliance partners played in Bankers' Bank Northeast's 3rd Annual CEO & Senior Officers Charitable Golf Tournament in mid-August at the Worcester Country Club.

Bankers' Bank Northeast matched the contributions from the tournament participants and presented a check to the Massachusetts

Bankers Association's Charitable Foundation for \$8,500.

A cocktail reception and dinner capped the day and included the awarding of prizes for low gross, low net, furthest drive and closest to the pin.

New Business Profile

Between February 2005 and September 2005, the Bankers' Bank Northeast added 15 new client banks, 9 loan participations and a total of 64 services were cross-sold.

New Client Banks

• Connecticut	1
• Maine	1
• Massachusetts	5
• New Hampshire	2
• New York	4
• Vermont	2

Services Sold

• Cash Letter	3
• Coin & Currency	2
• Fed Funds as Agent	7
• Fed Funds Liquidity Line	9
• International	5
• Investment Advisory	1
• Letters of Credit	1
• Lockbox	2
• Non-Armored Courier	1
• Official Checks	1
• Reserve Reduction	8
• Safekeeping	2
• Shredding	2
• STARS Basic	6
• STARS Comprehensive	14



James Lavoie (left), President & CEO of Middlesex Savings Bank and Vice Chairman of the Board of Massachusetts Bankers Association accepts a check for \$8,500 for its charitable foundation from Richard B. Lockwood, III (center), Senior Vice President and Peter J. Sposito (right), President and CEO of Bankers' Bank Northeast. The funds were raised from BBN's 2005 Charitable Golf Outing.

Among those enjoying the day were (left to right) James Lavoie, President and CEO of Middlesex Savings Bank and Vice Chairman of the Board of Massachusetts Bankers Association, Sam H. Hokkanen, President and CEO of Athol Savings Bank, Peter J. Sposito, President and CEO of Bankers' Bank Northeast and Charles (Chick) Frosch, President and CEO of Union Savings Bank of Danbury.



CORPORATE OFFICES

Glastonbury, CT
1-800-449-9121
www.bankersbanknortheast.com

REGIONAL OFFICES

Boston, MA
Portland, ME
White Plains, NY

Officers

Peter J. Sposito
Allen L. Nielsen
Richard B. Lockwood III
Rocco A. Magnotta
August A. Oliveira

President & CEO
Executive Vice President & CFO
Senior Vice President
Vice President/Relationship Manager
Vice President/Relationship Manager

Elissa G. Reynolds
Susan W. Salecky
Peter T. Garland

Vice President/Operations Manager
Vice President/Director of Client Services
Chief Credit Officer

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