

THE RESPONDENT

A New Direction In Correspondent Banking

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

Client Bank Profile



William Moore
Vice President

Peoples Federal Cultivates Euros Business

When the Euro first appeared a decade ago, Thomas J. Leetch, President & CEO of Boston-based Peoples Federal Savings Bank, saw an opportunity. With Boston's huge Irish population, there would be a demand for Euros—and there was.

The bank's Vice President/Compliance, William Moore, was given the responsibility to grow the Euro business. Shortly after starting the service, Peoples Federal began working through Bankers' Bank Northeast and is currently using its strategic partner, eZforex.com. From the beginning, Peoples Federal let it be known that it maintained a supply of Euros on hand, so that customers could get them immediately and didn't need to order them.

Later, Bill Moore added a lobby display board with the daily exchange rate, a move that helped to increase the demand.

According to Moore, the purchases generally range from 500 to 1,000 Euros, and then customers generally use their debit cards for transactions abroad. There are about 25 to 35 Euro customers a month.

The bank maintains 5,000 to 10,000 Euros on hand at all times. Annual sales range from 100,000 to 120,000 Euros.

To buy or sell Euros, a person must be a Peoples Federal customer. The Bank believes that the Euro program is a benefit. "We open new accounts and it provides another product to our customers that brings us additional fee income," says Moore.



In spite of having four other banks in the immediate area of its main office, Peoples Federal remains the only bank in the area that offers customers the convenience of not having to wait to order Euros.

PathFinder Bank Becomes First New York State Investor Bank



Thomas W. Schneider
President & CEO

Founded in 1859, Oswego City Savings Bank was long a cornerstone financial institution in central New York State, serving both consumers and businesses.

And it's even more so today with seven offices and just opening an eighth in the northern part of Syracuse.

Then in 1995, Oswego Savings Bank became PathFinder Bank. The new name was chosen

to honor one of the region's best-known historical fiction writers, James Fenimore Cooper, who authored *The Pathfinder*, one of his Leatherstocking Tales, on a journey from Fulton to Fort Ontario.

"The name PathFinder Bank seemed so appropriate," says bank President

& CEO Thomas W. Schneider. "Our mission is to be of service to our customers on their journey through life."

It was more than three years ago that Tom Schneider and the bank's Executive Vice President and CFO, Jim Dowd, CPA, began looking around for correspondent banking services. "We knew we wanted to make a change," says Dowd. "At that point, we thought we wanted to work with Bankers' Bank Northeast (BBN). Since our first service was Fed Funds as Agent, our due diligence was particularly thorough. That convinced us we were making the right decision," he notes.

PathFinder's relationship with Bankers' Bank Northeast has continued to grow, culminating in the Bank becoming the first community financial institution in



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President's Message



Peter J. Sposito
President & CEO

Ready for the Challenges

It would be difficult to find a bank that's not assessing itself, analyzing its resources, reconsidering its objectives, reviewing its customer base and planning both short- and long-term. This is exactly what we have initiated at Bankers' Bank Northeast.

I am sure you will agree that serious self-appraisal has never been more critical than it is right now. Even though the banking environment is incredibly fluid, it's still necessary to move forward.

Based on their extensive experience and broad knowledge of community banking, the Bank's Senior Management Team recognized the challenges as opportunities. It wasn't so long ago – just 12 years – since we employed a vigorous entrepreneurial spirit to get the Bank up and running. As a group, we are ready to bring that same urgency and enthusiasm today.

The Board of Directors has reviewed, discussed and approved our recommendations.

Redeploying our most experienced and senior resources is at the heart of our plan. This includes Allen L. Nielsen and Richard B. Lockwood III, both Executive Vice Presidents and Senior Vice President Susan W. Salecky. All three are highly regarded bankers who are thoroughly involved in the Bank's process and who possess a deep understanding and appreciation of our client banks. They are, in many significant ways, the "face" of Bankers' Bank Northeast.

We are freeing up Allen and Richard so they can focus their attention and energies on the three essential tasks of developing new account relationships, new product development and raising capital. Allen will also be responsible for Lending and Richard will continue to be in charge of Marketing, including *The Respondent*, the Annual Report and public relations.

Sue Salecky will continue managing Client Services, but is taking on the Sales Management responsibility as part of her primary function. We will hire a new Client Services / Operations person who will report to her.

Allen, Richard and Sue will continue to report to me, along with CFO & Senior Vice President Charlotte Hansen, Senior Vice President Lisa Reynolds and Megan Desso, Assistant Vice President & Enterprise Risk Manager, who will initiate a Compliance Consulting Service for client banks.

The objective of this reorganization is to bring these positions into laser focus so these individuals can devote their full energies to taking Bankers' Bank Northeast to the next level.

Peter J. Sposito, President & CEO



Elissa Reynolds
Sr. Vice President/
Operations Manager

Elissa (Lisa) Reynolds, Senior Vice President/Operations Manager was elected to the Board of Directors of the New England ACH Association for a term of 3 years ending in 2013. With over 25 years in bank operations, she joins a Board of respected bankers, regulators and vendors that have come together to assist the payment system evolution.

The New England Automated Clearing House is a non-profit association that helps members originate and receive ACH transactions and provides to all members a variety of products and services, education and training and marketing to increase the acceptance, use and quality of electronic transactions.

“Lisa’s service on the NEACH Board is another way for Bankers’ Bank Northeast to fulfill its mission of being a valuable resource to our client banks,” says BBN President & CEO Peter J. Sposito.

CPA Charlotte Hansen Named Senior Vice President & CFO



Charlotte Hansen, CPA
Sr. V.P. & CFO

Charlotte Hansen, CPA, has joined Glastonbury, CT-based Bankers’ Bank Northeast as Senior Vice President/Chief Financial Officer, according to an announcement made by the bank’s President and CEO, Peter J. Sposito.

“She is certainly no stranger to our bank,” says Sposito. “Charlotte worked with us prior to the opening of Bankers’ Bank Northeast over a decade ago when she was with Snyder & Haller, P.C.,” a Hartford accounting firm that merged with Whittlesey & Hadley, P.C. in 2006 and where Hansen was most recently Senior Audit Manager, and served as the bank’s external auditor since it opened in 1998.

“Charlotte’s outstanding service to our Bank over the years attracted us to her. Having developed a specialty in community banking is a substantial benefit since Bankers’ Bank Northeast works with more than 200 community banks in the Northeast,” says Sposito.

Hansen, a Stafford, Connecticut resident, is a University of Hartford graduate. She serves on the Financial Services Committee of the Connecticut Society of CPAs, is a member of the Stafford Family Services Advisory Board and the treasurer of Down to Earth Community Farm in Stafford.



Megan Desso
Asst. Vice President/
Compliance

Regulatory “overload” is a term that community bankers are all too intimate with at a time when, truthfully, there are more pressing issues to be attended to, such as asset quality, lending, losses, funding sources, expense control and revenue generation.

Every financial institution is facing, without a doubt, the most trying years of their existence and most are merely attempting to maintain buoyancy, never mind the added weight of keeping up with industry changes resulting in the latest new regulations or those to existing regulations that keep tugging them under the surface.

Do we dare even mention the Dodd-Frank Financial Reform Act and the yet-to-be determined consequences that will assuredly emanate from this political bastard-child?

It’s said that there are currently 243 pending rulings and 67 outstanding case studies. How will that translate into regulation by the primary regulatory bodies?

It’s true, compliance is an area long viewed as a cost center, rather than a profit center. Outwardly, the perception is that compliance doesn’t provide a return or profit.

However, what isn’t so obvious is that the cost of the penalties associated with non-compliance and violations could easily far exceed any year’s profit.

With that being said, it may be helpful to take a closer look at compliance through a different pair of glasses. A place to begin may be to compare compliance with insurance. Who among us would even consider running a bank without D&O or bond insurance? Even the bravest banker wouldn’t do that.

As community bankers attempt to cope with the never-ending barrage of “compliance,” here are some considerations worth thinking

about. Does your institution have sufficient resources allocated to assure appropriate and timely implementation? Then, because, as we are all well aware, “compliance” is not an as-of-a-point-in-time function but a fast moving target demanding constant attention, are there appropriate resources available to support the day-to-day function? How much money have you budgeted for compliance and compliance technology? What are the best ways to deploy those funds?

These are truly challenging times for banks. We’re entering an era of heightened oversight from Washington with the most recent regulatory reform drama, along with what are viewed as the yet to be known consequences of the reform.

The nature of bank regulation is certain to change significantly over the next three years and understanding the rules of the new game will be an ever mounting concern for community bankers. It will be a burden on already taxed personnel resources and will undoubtedly increase the cost of compliance. As we struggle to understand the potential impact, so, too, will the regulators as they write regulations and attempt to disseminate the rules to their own staff with interpretations that will likely vary from one regulator to another.

Drowning in the new compliance requirements, not only will banks be required to have policies and procedures in place to comply with the new regulations, but they must be able to demonstrate compliance to their state and federal regulators through ongoing monitoring and periodic audits. When a single new regulation of any significance goes into effect, it can produce a chain reaction throughout the organization as new policies are written, software programs are modified or purchased and people are trained.

Not to be frightening, but stop for a minute and consider what community banks will

be facing over the next few years. Not the issuance of a single new regulation, but several new regulations taking effect more or less at the same time, along with significant changes to existing regulations. This is comparable to the difference between a wave and a tsunami... what does your sea of compliance hold for you? Unfortunately, the industry’s regulatory burden is escalating at the moment when its profitability is under intense pressure. This creates even greater urgency for spending every compliance dollar as prudently as possible.

Managing compliance risk effectively and efficiently is possible by using such strategies as leveraging both internal and external resources. Compliance has become so complex and demanding that some form of outsourcing is an option that should be given careful consideration. It’s nearly impossible for one person to cover all the bases, especially in organizations where the compliance officer has another primary role.

Even if an institution doesn’t want to outsource its entire compliance program, it may make sense to rely on subject matter experts outside the organization to administer a piece of the program. A good example is the BSA and various AML regulations, Privacy, Loan Review, Information Security or any of the other highly demanding regulations.

In most outsourcing relationships, the bank is actually leveraging the infrastructure and skill set of a third party at a lower rate than if it were to maintain those resources in-house. In effect, a bank can buy into a “department” where the costs are shared with other banks. It’s likely that a carefully selected consultant will be better informed and more effective because of the widespread experience such resources will garner as they enter the cold waters of new regulations.



Richard B. Lockwood, III

At the invitation of the planning group for the recent “Correspondent Banking: Mapping the Future” conference, held in London, Richard B. Lockwood III, Executive Vice President and Director of Business Development for Bankers’ Bank Northeast in Glastonbury, CT was a presenter.

Lockwood was asked to speak because of his expertise and to share with 50 senior bank-

ing executives from Europe the “bankers’ bank” model for correspondent banking, which does not currently exist in the European Community.

According to Lockwood, the purpose of the conference was to “Unite global and regional perspectives to secure a sustainable and commercial European landscape.”

As a member of the conference’s speakers’ panel, Lockwood was joined by presenters from Lloyds TSB, Citi, JPMorgan Chase, HSBC, Deutsche Postbank, Caixa Geral De Depositos, Barclays, RBS Global Transactions and several other major European banks.

Lockwood’s presentation, “A New Generation of Correspondent Banking: The Bankers’ Bank,” included a description of the “bankers’ bank” concept, outsourcing strategies, primary services, the competitive environment, market footprint and business development. He concluded his remarks by addressing the new opportunities and vision for Bankers’ Bank Northeast.

The event, managed by Marcus Evans Conferences, was held at the London Marriott Regents Park Hotel.

////// EMPLOYEE PROFILES

So our clients can become better acquainted with some of the “faces” of Bankers’ Bank Northeast, here are profiles of two employees in the Operations Department.



Rachel E. Carlson
Information Systems
Security Officer/
IT Manager

When it comes to the Bank’s technology infrastructure, Rachel is the “go-to” person. “My work ranges from suggesting that restarting a computer may solve the problem to preparing the annual due diligence disclosures and white papers the clients need for audit examinations, preparing and testing

the Bank’s continuity plan and making sure the Fedline routers are always up for International wires,” notes Rachel. She has recently completed the Bank’s IT strategic plan, which focuses on what can make life easier for the employees in carrying out their responsibilities.

Rachel has been with Bankers’ Bank Northeast since October 2000 as Help Desk/IT administrator and has been very involved in technology for the Bank and continues to be the go-to person for the Bank’s technology needs. Rachel received her Associates degree in Network Technology in the spring of 2006 from Manchester Community Technical College and recently received certification in August 2010 from ICBA Community Bank Information Technology Institute. Rachel continuously looks for IT related classes, programs and seminars to increase her knowledge and is currently enrolled in CFT Introduction to Supervisory & Management program.

Over the years, Rachel has moved up from “help desk person” where she was respon-

sible for setting up computers, mini-LANS and the like to a role that encompasses the responsibilities of an IT Analyst, IT Project Manager, including IT security, policies & procedures. She has recently been promoted from Systems Analyst to Information Systems Security Officer/IT Manager.

In addition to overseeing the daily activities for IT, she manages all aspects of the IT infrastructure, training of junior IT employees and ensuring that the BBN environment remains up-to-date with the most current network security and virus protection. Implementing Voice Over IP telephony, Information Security training, BCP/DRP Training & Awareness, Pandemic Training and a total redesign of the Bank’s Business Continuity/Disaster Recovery Plan are among her recent successes.

She chairs the Bank’s Information Technology Committee and is pivotal in implementing and planning the Bank’s IT projects. She also researches all IT issues and products and makes recommendations regarding the Bank’s infrastructure in accordance with the Bank’s overall strategic goals and objectives. Rachel is currently involved in the Bank’s conversion to FedLine Direct for wires & ACH and automating the Bank’s BSA/AML programs.



Lora L. Prior
Operations Officer/
BSA Compliance
Analyst

“Settling international foreign exchanges is ever changing, as countries continually update their requirements,” says Lora Prior. “A good example is Money Laundering regulations, where seemingly minor details can stop payments and make it necessary to go back to obtain additional information.” Lora is actually BBN’s “Help Desk,” assisting client institutions to get it right the first time for their customers.

Lora, who has recently been promoted to Operations Officer / BSA Compliance Analyst, joined Bankers’ Bank Northeast in January

2003 as an International Services Operations Specialist. In September 2006, she assumed the additional responsibilities of EFT supervisor. Lora is a 1994 graduate of Johnson & Wales College and earned her banking certificate from the New England College of Finance (NECF) in 2004.

Her degree in restaurant management gives her valuable insight on making the customer number one. She learned the value of putting the customer first. She continues to apply this standard to her job at BBN and works hard at keeping the best interest of the clients and the Bank in the forefront of her actions.

Lora has been very involved in the international foreign exchange activities for Bankers’ Bank Northeast and continues to be the go-to person for her international expertise. She works closely with the various foreign exchange service providers and has been instrumental in introducing BBN and our clients to SWIFT (Society for Worldwide Interbank Financial Telecommunications) network. Because of this, Bankers’ Bank Northeast is recognized within the international marketplace and has seen a dramatic increase in receiving and handling incoming international wires for our clients. In addition to the foreign exchange duties, Lora is responsible for all activities involving Fedline and **STARS™** for the Bank and our clients.

Lora is currently studying for her ACH AAP Accreditation in addition to attending many industry-related classes, seminars, conferences and certification programs. Because of her involvement in foreign exchange along with her role as EFT supervisor, she is an active participant in ensuring compliance with the Bank Secrecy Act (BSA). With her appointment to BSA/AML analyst in the fall of 2009, she officially assumed the responsibilities for daily compliance, education and overview of the Bank Secrecy Act/Anti-Money Laundering programs for Bankers’ Bank Northeast.

PathFinder Bank Becomes First New York State Investor Bank

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New York State to become a BBN investor bank. "Our level of commitment is a reflection of BBN's level of support," states Schneider. "Before moving forward, we engaged in an extensive due diligence process," he says. "It's very much an expression of our confidence in Bankers' Bank Northeast."

In addition to Fed Funds as Agent, PathFinder Bank currently uses Fed Funds Liquidity Line, International Services and Cash Calculator. PathFinder is also on BBN's **STARS™** Comprehensive Settlement Platform for ACH, Savings Bonds and TTL. "Our relationship with Bankers' Bank Northeast will continue to grow," says Schneider.

Schneider describes the economy of the region as "stable," pointing out that the population has not been living beyond its means and there has been very little downturn in real estate values.

"We're glad to report that PathFinder Bank is well positioned in the marketplace," he adds.

BBN brings QwickRate's non-brokered CD marketplace to client banks



As the leading online marketplace for non-brokered funding and investing, QwickRate® is an invaluable source for community banks.

QwickRate helps banks connect directly with more than 3,000 pre-screened institutional members to meet liquidity needs. There are no transaction fees involved and QwickRate meets all FDIC requirements for a non-brokered Direct Deposit CD listing service. In addition, no consumers are allowed so banks don't have to worry about cannibalization or re-pricing of existing deposits.

Many community banks include QwickRate as a critical component of their contingency funding plans, since an active subscription with the marketplace sends a signal to regulators that they have taken an important step to prepare for adverse liquidity events.

The FDIC has reviewed the company and issued an opinion that it's in compliance. "This, alone, is reason enough to sign up for QwickRate," notes Peter J. Sposito, President & CEO of Bankers' Bank Northeast.

Of equal importance is the fact that banks with excess funds can invest through

QwickRate to obtain higher returns. One subscription fee provides unlimited CD funding and investing.

QwickRate has been serving community banks for nearly a quarter of a century and has been an ICBA Preferred Service Provider since 2002. Of special significance are QwickRate's tools, including its industry-leading eContact feature that fully automates transactions and helps a bank easily identify institutional investors.

"We are very pleased to be aligned with QwickRate to bring this tested service to our client banks," says Sposito. "Having a subscription offers many benefits, including ongoing guidance from QwickRate's regulatory and compliance department and other tools that will help you establish policies and procedures for 'out-of-area' institutional funding, including contingency funding issues."

To learn more about the QwickRate services, please contact your BBN Relationship Manager.

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Serving New England
and New York

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Executive Vice President
Executive Vice President
Sr. Vice President & CFO
Sr. Vice President/Operations Manager
Sr. Vice President/Director of Client Services

Richard J. Nurge
Peter T. Garland
Megan L. Desso
Rachel E. Carlson
Lora L. Prior

Vice President/Relationship Manager
Chief Credit Officer
Assistant Vice President/Compliance
Information Systems Security Officer / IT Manager
Operations Officer / BSA Compliance Analyst

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