

THE RESPONDENT

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

A New Direction In Correspondent Banking.

Letters of credit

When precision matters, First County Bank turns to the Bankers' Bank Northeast

Letters of credit are critical tools for a commercial customer buying or selling goods, particularly in international trade. A letter of credit is a popular and powerful payment tool because it shifts the risk of non-payment, in the eye of the exporter, from the buyer to the buyer's bank. For community banks, offering commercial customers a letter of credit program is an opportunity to retain the customer's business and demonstrate a new level of expertise.

First County Bank, a \$900 million mutual savings bank in Stamford, CT, was relying on a single supplier for its letters of credit, and it was not going well. "You never like to rely on a single supplier for anything," says Reyno A. Giallongo, Jr., Senior Vice President of the bank's business banking group. "They were becoming less and less responsive to the needs of our clients. Additionally, we were experiencing some operational issues."

It was around that time that Rey attended a Bankers' Bank Northeast seminar. He was impressed with the Bank's commitment to community banking and its array of correspondent services. Of particular interest was the Bankers' Bank Northeast's new letters of credit program offered through its alliance partner,

National Penn Bank.

At the time, First County Bank had a couple of commercial customers who were in need of letters of credit. After several conversations with Susan W. Salecky, the Bankers' Bank Northeast's Vice President/Director of Client Services, Rey decided to work with them. Since then, he's been impressed with the quality and the service that he and his customers have received.



Reyno A. Giallongo, Jr., Senior Vice President



He says that the Bankers' Bank Northeast understands that it's about pleasing a bank's customer. "It's gone very well," he says. "Sue and her team have paid special attention to the needs of First County Bank, but more importantly they've paid special attention to my customers." In particular, Rey notes,

is the willingness by both the Bankers' Bank Northeast and National Penn Bank to work directly with his customers on any kinds of questions related to letters of credit.

With letters of credit, precision is important. "It's a business of documentation," Rey says. "If the language isn't right or the maturity dates are incorrect or the terminology is inappropriate, it may very well invalidate the entire transaction." Through its alliance partnership, the Bankers' Bank Northeast has brought a new level of expertise to Rey's customers.

Continued on page 3

President's Message

Community banks as vibrant, innovative and growing institutions



Many years ago I managed the Correspondent Banking Division for a large commercial bank. During a casual lunch one day, the Executive Vice President of the bank's Branch Administration Group questioned the viability of community banks. She cited as reasons the lack of *management sophistication, systems and wholesale funding sources*, adding that small banks did not have sufficient economies of scale.

We fail to see any *lack of sophistication* of community bankers. In fact, we see bankers opting to leave larger institutions for community banks. Here, they experience a comprehensive and multi-faceted set of functions within their control. Community banks also afford creative and knowledgeable bankers an opportunity to be an integral part of their communities.

As to the *lack of systems*, we actually see more capable systems at community banks than at the largest banks. Every year, many community banks change entire core systems over a long weekend. By Tuesday morning, significant service delivery improvements have been made. Mega-banks take years to convert to new systems.

The capital markets seem to have found a way to *supply wholesale funding* to supplement the deposit-gathering activities of community banks. The Federal Home Loan Banks, for example, provide effective programs for even the smallest banks. Additionally, community banks are beginning to tap commercial deposit sources by offering new services such as lockbox, ACH origination, merchant processing and international services.

Our corporate objectives certainly influence our optimistic take on the future of community banking. However, the FDIC, possibly a more objective source than BBN, recently published a study on the nation's banking structure with particular emphasis on the future of community banking. The FDIC report notes that the number of community banks, while declining significantly since 1987, still comprises 94 percent of all banks in this country and remain a vital link to the small business community.

According to the report, "community banks' ability to provide personal service to depositors continues to be one of their strengths, allowing them to continue to play an important role in deposit markets, albeit a smaller one than before." My read indicates that we service an industry that exhibits strong long-term upside characteristics.

That large commercial bank I used to work for has been merged several times since that day, ending up as a division of what is now Bank of America. Most of the client banks of that large correspondent bank continue to operate today, and some are growing exponentially. Many de novo banks have formed since then. There's certainly much work ahead for all of us. But we're confident that community banking is a vibrant market.

Peter J. Sposito
President & CEO

Product spotlight

Investment advisory service delivers banking expertise

For community banks, that means better pricing and peace of mind

A community bank's securities portfolio requires an investment strategy that complements the individual bank. An investment advisory service that produces superior results for your bank must be comprised of people who understand banking. In short, they must be bankers.

The Bankers' Bank Northeast has worked with its alliance partner, J. William Mantz Investment Advisors LLC, for the past three years. The firm's five professionals combine 125 years of banking experience.

Led by Bill Mantz, founder and portfolio manager, the firm manages more than \$4 billion in assets. Since they transact more than \$2 billion in securities purchases annually, they are able to *negotiate preferred pricing for their client banks*.

Based in New England, J. William Mantz Investment Advisors is an independent, SEC-registered firm that works with community banks throughout the East. Its advisory services provide numerous benefits:

- An investment strategy tailored to your business plan (credit & operational risks, interest-rate risk and liquidity needs)
- Improvement of portfolio yields (*call for a list of selective clients and compare their yields against your peer groups*)
- Better pricing on securities purchases and sales (for example, a \$1 million transaction

- would save about 15 basis points or \$1,500)
- Avoid broker calls—manage your time more effectively
- Board “comfort level”—professional expertise and direction
- Best practices

Comprehensive services include:

- Coordination of securities settlement with your safekeeping provider
- Policy development with regulatory and audit support
- Market value and amortized cost reporting on a timely basis
- Specialized reporting: asset quality, sector diversification, maturity, duration, cash flows, market price sensitivity, and more
- Monthly / quarterly presentations to ALCO and Board

Areas of expertise:

- Fixed-income assets
- Off-balance sheet instruments
- Asset/liability management
- Wholesale funding
- Economic Environment and Yield Curve dynamics

To arrange for a free consultation meeting with Bill Mantz and his team or if you'd like additional information, please call Richard B. Lockwood III, Senior Vice President/Director Business Development for Bankers' Bank Northeast at (508) 881-4954.



Education

Seminars update bankers on correspondent banking issues

In March and April, Bankers' Bank Northeast conducted a series of correspondent services seminars for clients and prospects. Senior officers from area community banks attended the four seminars in Rocky Hill, CT, Natick, MA, Manchester, NH, and Albany, NY.



Tom Drunic, the CEO of Lighthouse Financial Services, discusses lockbox.

The free, half-day seminars addressed the ramifications of Check 21, the advantages of lockbox services, and the Bankers' Bank Northeast's new bank-to-bank service, the Settlement Transaction and Reporting System (**STARS**). As one banker commented, “the seminar addressed

current topics that we're all thinking about.”

Impact of Check 21

With all the talk about Check 21, the Bankers' Bank Northeast wanted to get the story straight from the Fed. Representatives

from the Federal Reserve Bank of Boston and New York addressed the federal legislation's impact on community banks and answered questions about what banks did and did not have to do to comply with the new regulations.

The benefits of lockbox service

Bankers learned that by offering a lockbox service they are able to generate additional deposits and make them more competitive with larger regional and mega-regional financial institutions and non-financial institutions. Thomas S. Drunic, the CEO of Lighthouse Financial Services, discussed how community banks can deliver affordable lockbox services to commercial customers and handle everything from municipal tax payments to oil heating payments. Since the seminars, several banks have considered implementing the lockbox service.

Update on STARS

The Bankers' Bank Northeast's automated correspondent bank-to-bank communications system (**STARS**), launched in

“The seminar addressed current topics that we're all thinking about.”



Fred Higgins, senior account executive for the Federal Reserve Bank in Boston, speaks on Check 21.

the first quarter of 2004, was presented by Lisa Reynolds, the Bank's Vice President/Operations Manager. Lisa reviewed **STARS**, explaining the system's features and the benefits to client banks.

Richard M. Donovan elected to Bankers' Bank Northeast Board of Directors



Richard M. Donovan, President & CEO of Stoneham Savings Bank, Stoneham, MA has been elected to the Bankers' Bank Northeast Board of Directors.

Dick has 35 years of banking experience, including 19 years as an examiner with the

Federal Deposit Insurance Corporation. He joined Stoneham Savings Bank, a community bank with \$310 million in assets, in 1988 as Treasurer & CFO. He was elected Executive Vice President, Treasurer & CFO in 1991 and, in March 2000, he was elected President & COO. He became President & CEO in March 2003.

Stoneham Savings Bank was one of the

34 investor-banks of the Banker's Bank Northeast, which opened in 1998. Dick has been a strong advocate for the bankers' bank concept of working with community banks as a partner to meet their correspondent needs.

Dick is a graduate of Northeastern University and the Graduate School of Banking at the University of Wisconsin, Madison.

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
• First National Bank of Ipswich	MA	\$330.0	International
• Lowell Five Cents Savings Bank	MA	\$654.4	Fed Funds as Agent
• Medford Co-operative Bank	MA	\$425.5	International
• Franklin Savings Bank	NH	\$269.3	Fed Funds as Principal
• Merrimack County Savings Bank	NH	\$335.5	Fed Funds as Agent
• The Berlin City Bank	NH	\$412.1	Fed Funds as Agent, Fed Funds as Principal
• Union Federal Savings Bank	RI	\$29.3	Fed Funds as Agent
• Randolph National Bank	VT	\$114.5	Fed Funds as Principal

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
• First County Bank	CT	\$855.7	Lockbox
• The Connecticut Bank & Trust Company	CT	\$20.2	Cash Letter, Fed Funds as Agent, Shredding
• Adams Co-operative Bank	MA	\$161.9	Credit Card Services
• Bank of Fall River	MA	\$134.2	Fed Funds as Principal
• Bay State Savings Bank	MA	\$259.1	STARS – Basic Settlement
• Commerce Bank & Trust Company	MA	\$1,136.3	Reserve Reduction
• North Easton Savings Bank	MA	\$395.3	Coin & Currency
• North Shore Bank	MA	\$357.1	Fed Funds as Principal
• PeoplesBank	MA	\$924.7	Letters of Credit, Credit Card Services
• Slade's Ferry Bank	MA	\$509.7	Safekeeping
• Southbridge Savings Bank	MA	\$352.1	Credit Card Services
• Stoneham Savings Bank	MA	\$308.2	Credit Card Services
• Westfield Bank	MA	\$752.7	Safekeeping
• Winter Hill Bank	MA	\$226.8	Credit Card Services
• Centrix Bank & Trust Company	NH	\$167.4	Fed Funds as Principal
• Community Guaranty Savings Bank	NH	\$68.8	Fed Funds as Agent
• Franklin Savings Bank	NH	\$269.3	International
• Westerly Savings Bank	RI	\$69.9	Merchant Processing
• Passumpsic Savings Bank	VT	\$365.4	Reserve Reduction

(Reflects activity from February 1, 2004 through June 30, 2004)

First County Bank turns to the Bankers' Bank Northeast, continued from page 1

With its previous correspondent, Rey would have to go back and forth between his customer and the correspondent provider to ask questions and get answers. He was caught in the middle.

Rey's first commercial customer who used the Bankers' Bank Northeast letters of credit service was a very important one—the company's owner sits on First County Bank's Board of Directors. Everything had to go just

right. And it did. "Everything was terrific," he says.

In addition to the precision and the responsiveness of the Bankers' Bank Northeast and National Penn, Rey says it's important to work with a correspondent that is not a competitor. "We didn't want to go to a local market competitor," he says. The letter of credit program is a source of non-interest income, something that every savings bank looks for.

With the success of the program, Rey is looking forward to expanding the program. "It's a product that we want to offer our existing customers, and we want to sell it on more of a broad-based basis to prospective customers," he says. "The Bankers' Bank Northeast has been a real partner in all of this."

Employee profiles

Peter T. Garland appointed Chief Credit Officer



The Bankers' Bank Northeast welcomes Peter T. Garland as its Chief Credit Officer. With more than 25 years of financial experience and a concentration in commercial lending, Peter brings a high level of understanding to this new role at the Bank.

Peter is responsible for managing all aspects of the Bank's lending efforts, including soliciting loan volumes from client banks, facilitating the processing of new loan requests, and performing credit analysis. This represents a new area of business for the Bankers' Bank Northeast, and Peter will be building this infrastructure for the Bank to support this loan activity

"Peter is a credit professional who is willing to roll up his sleeves to get loan requests processed quickly," said President & CEO Peter J. Sposito. "He understands that our ability to book loan participations requires immediate response to client banks that offer to share credits with us. He is committed to the community banking industry. Our clients will be pleased with his professional approach and responsiveness."

Peter has a background in both banking and business. He began his career in Colorado with the Colorado State Bank and First Interstate Bank of Denver where he held various positions in commercial lending, including Real Estate Loan Officer and Senior Credit Analyst. He then joined Far West Mortgage Company as a Vice President, where he generated and managed real estate loans in Denver. He was later named Senior Vice President of Commercial Loan Underwriting for Far West Savings & Loan in California, where he supervised the commercial loan underwriting department and managed the loan reviews and audit departments.

In 1988, he co-founded Advance USA, LLC, a composite systems technology company in Old Lyme, CT. As Chief Financial Officer, Vice President of Contracts and Administration, he was responsible for bank relations, equity investment activities and all other financial management issues. He returned to banking in 2002 as Senior Credit Analyst for Tolland Bank. In that role, he was responsible for performing financial analysis for commercial lenders and analyzing commercial loan portfolios.

He is a graduate of Babson College with a degree in Business Administration/Finance.

Lora L. Prior promoted to Assistant Director of Client Services



The Bankers' Bank Northeast has named Lora L. Prior as Assistant Director of Client Services.

Lora joined the Bank in 2002 as an operations assistant, where she excelled at providing client banks with prompt and reliable service, the hallmark of the Bank. She has been involved in the Bank's operations area, including the processing of domestic wires and international wires, foreign drafts, and currency exchange.

Formerly a teller supervisor at Tolland Bank in Coventry, CT, Lora understands how community banks operate and knows what they need from their correspondent bank. This training has served her well here at the Bankers' Bank Northeast.

In her new position, she will be responsible for working with client banks in training their employees on the use of new or existing products, ensuring the continuity of daily domestic and international wire activity, and handling service issues. Lora's goal is to make it easy for community banks to conduct their correspondent business. She reports to Susan W. Salecky, the Bank's Vice President/Director of Client Services.

Lora is a graduate of Johnson & Wales University with a degree in hospitality management. She is presently pursuing a degree in finance from the New England College of Finance.

To Contact Us:

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

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

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 Business Development</i>
Rocco A. Magnotta	<i>Vice President/Relationship Manager</i>
August A. Oliveira	<i>Vice President/Relationship Manager</i>
Elissa G. Reynolds	<i>Vice President/Operations Manager</i>
Susan W. Salecky	<i>Vice President/Director of Client Services</i>
Peter T. Garland	<i>Chief Credit Officer</i>



655 Winding Brook Drive
Glastonbury, CT 06033-4337

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