

THE RESPONDENT

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

A New Direction In Correspondent Banking.

Service

Staying Strong In The Banking Business

In March 2007, one of the nation's leading bank rating and research firms recognized Riverside Bank in Poughkeepsie, NY as one of the strongest banks in the country. Since



David MacFarland,
President & CEO
Riverside Bank
Poughkeepsie, NY

2001, Bankers' Bank Northeast, through its products, services and ideas, has been a part of that success.

"Bankers' Bank Northeast always has been responsive

to our needs and requests," says David MacFarland, President & CEO of

Riverside Bank. "One of the key areas in which they have helped us maintain a competitive edge is with Fed Funds and Foreign Wire Transfers, where they have consistently given us exceptional service. They have gone way beyond the norm to help us stay competitive."

With four branches in New York, MacFarland is in tune to what it takes to stay strong in the banking business and what is required to maintain a strong customer base. Part of that strength is the ability to look ahead to

emerging trends in the industry and how to align his bank with a company who keeps an eye on what is coming over the horizon.

"Bankers' Bank Northeast has been very proactive in keeping us abreast of what is happening in the market," says MacFarland. "It's a valuable resource to have at your side when you are a relatively small community bank. Believe me, that extra help goes a long way."



With the banking industry always evolving, Riverside Bank is not an institution to simply rest on its laurels. Instead, it looks forward to continuing its strong hold on the marketplace and having Bankers' Bank Northeast as an integral part of that ever-evolving financial landscape.

"The people at Bankers' Bank Northeast are great to work with," says MacFarland. "We look forward to having that relationship grow as we continue to grow."

President's Message

People and Numbers



Peter J. Sposito
President & CEO

Bankers like numbers. For example:

- 1) There are 533 community banks in our market area; 166, or 31%, are clients.
- 2) The average asset size of our client banks is \$441,795,150 (12/31/2006 data).
- 3) Total assets of our client banks in aggregate amount to \$74 billion.

At \$74 billion, we would be the third largest bank in the Northeast, after Bank of New York and State Street Bank. (Bank of America, Citibank and JPMorganChase are headquartered outside of New York).

When we negotiate on behalf of our client banks, we obtain the best pricing because of our "virtual" size. That's how we achieve the economies of scale for our client banks. For example, we can offer the highest Fed Funds rates, the lowest price for paper and image cash letters and competitive foreign exchange rates.

Speaking of numbers, we maintain a software system that provides a database of all of the contacts we have made over the years. Included in the database are our directors, our officers and staff, our shareholder bank personnel, our client bank contacts, our vendors, regulators, our legal and accounting professionals and all the other people who we have come to know over time. Since the bank opened in 1998, we have had 11,569 contacts through meetings, telephone calls, by mail and email. The numbers, however, do not tell the complete story.

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Sue Salecky recognized for passion and excellence



Sue Salecky, Vice
President/Director of
Client Services

Each year, the Independent Community Bankers of America and its publication, *Independent Banker*, name the superstars of community banking. These are individuals who exhibit a

"commitment to quality, a knack for ingenuity, a working integrity in business practices and a sense of service to the community."

It didn't come as a surprise that Sue Salecky, Bankers' Bank Northeast's Vice President/Director of Client Services, was named one of

only nine "Shining Stars" for 2007.

Respected by her co-workers and the Bank's clients, Sue was nominated for this recognition by Peter J. Sposito, President & CEO, and Richard B. Lockwood, III, Senior Vice President.

When interviewed by *Independent Banker*, Sue may have summed up one of the main reasons why the publication chose her for this industry honor. "I have an extreme loyalty and passion for what I do...I'm not afraid of change—I actually embrace it."

Anyone who knows or works with Sue will say that truer words were never spoken.

"Shining Stars" story in Independent Banker Magazine



Our success to date is a direct result of the fact that we have found and hired professional bankers who care highly about customer service. For example, I recently received a call from the Assistant Treasurer of a prospective client bank. She was trying to determine how to compare our coin and currency pricing to that of one of the country's largest correspondent banks. Although I could not answer the question, I was able to get the answer and responded to her only minutes later.

This exchange convinced me that I cannot keep up with the growth of our client relationships and our services. However, the 27 people that we have in place to serve our clients are well equipped to respond. I may not have had the numbers that our prospect wanted, but we have the people to get her the answer she needed.

It is well understood in the credit world that numbers can help us to understand the probability of repayment; however, the real key to success in lending is the "character" aspect of the "deal." We are learning over

and over that our client banks also subscribe to the belief that people make the deal. Capital Ratios, Debt Coverage Ratios and the like pale in comparison to creditworthy individuals that pay as agreed regardless of extenuating circumstances.

**In truth, we do not do
business with banks; we
do business with people.**

Another indication that people make the difference is the fact that we often speak internally about banks using their people as the means of identification. For example, we think and speak about "Martin's Bank" or "Jerry's Bank" or "Mary Lynn's Bank," (meaning The Simsbury Bank or Eastern Federal Bank or Slades Bank).

In truth, we do not do business with banks; we do business with people. That's why we are confident that our newest Relationship Manager, Rich Nurge, will do well in terms of attracting new business. Although he is not a banker by training he "understands people and knows how to respond to their needs."

A quick glance at the top performing banks in each of our serviced states leads us to think of the management of those banks. We are convinced that banks perform well because of their management. We have come to know a long list of bankers who know their business and who are taking their banks to higher levels each year. That gives us great pride, i.e., knowing that we take part in their enthusiasm for what the banking industry can do for its communities. These people and their staffs are creating the numbers that we use to measure our progress. We thank them.

The recent addition of four banking professionals, the move to a new office location (complete with a total building generator), and the fact that we are above plan again this year, all point to the likelihood of posting strong numbers in 2007. For this we acknowledge the contributions of each member of our staff.

Peter J. Sposito



President & CEO

New product profile - A competitive advantage

Expand your bank's small business reach with Merchant Deposit Capture

Large banks pay lip service to serving small businesses, although there's scant evidence to show that they actually value these customers. From the perspective of many small business owners, they feel somewhat abandoned when it comes to banking services, while others miss the personal relationships they had with bankers in the past.

Without question, community banks are the perfect match for small business accounts, giving them the attention and support they need and appreciate.

Even though the fit with small business is good, community banks have often been limited by geography. Attracting accounts farther than customers are willing to travel has long been an issue. How many business owners have said to a community banker, "I would like to use your bank, but it's just too far away."

With the introduction of Merchant Deposit Capture, Bankers' Bank Northeast brings community banks an effective way to service a wider radius of small business accounts, as well as retain existing relationships. It is also an easy way to enter "the world of imaging" by providing small business with a valuable time and cost-saving tool.

Merchant Deposit Capture frees small business customers from having to go to the bank to make deposits. In fact, surveys indicate that this is the number one reason small business customers sign-up for Merchant Deposit Capture.

It's also important to note that Merchant Deposit Capture

aids a bank by eliminating manual operations and customer service time, and with faster clearing of items, there is less risk of fraud.

"With Merchant Deposit Capture, all business customers need is a low-cost scanning device and secure Internet access," says Susan W. Salecky, Vice President/Director of Client Services for Bankers' Bank Northeast. "That's all it takes to deliver the scanned checks to the bank for posting, image exchange through the OnWe Network® and image archiving." Her department (Client Services) provides training and continuing support.

With this system, payment data is ready to update and post immediately, providing same-day or a day-earlier funds availability and a lower percentage of returned items.

"Merchant Deposit Capture can be a valuable step for a community bank for growing its small business base," notes

Richard B. Lockwood, III, Senior Vice President for the Bank. "This is another way of leveling the playing field by demonstrating that a community bank has the same capabilities as larger banks. Most important are the time and cost savings to small business customers and to the community bank."

Bankers' Bank Northeast's new OnWe image exchange service uses the same platform, **StarS™**, our bank to bank communication network. Therefore, the addition of Merchant Deposit Capture is easily implemented.

For more information about Merchant Deposit Capture, contact Bankers' Bank Northeast.



Product update

Growing interest in branded private student loan program

Although *MyDegree*™, the branded private student loan program now available through Bankers' Bank Northeast, was only introduced in mid-May, client banks have expressed immediate interest in this new product.

According to Richard B. Lockwood, III, Senior Vice President, in just about a month, 14 banks signed up to offer the program and 25 more were considering it.

"Banks are enthusiastic about this program," states Lockwood. "Based on the fact that \$17 billion in private student loans were made in 2006. There appears to be a strong market for this product, one that has demonstrated 30% annual growth over the past five years."

MyDegree is a private consumer loan that helps to bridge the gap between the actual cost of a student's education and available financial aid packages. With rising costs, the gap increases.

As Lockwood notes, "Community banks have an advantage in offering a branded program since it is available only to Bankers' Bank Northeast's client banks."

As its strategic alliance partner for the *MyDegree* private student loan program, Bankers' Bank Northeast chose First Marblehead Corporation. Based in Boston, this is a national company and a leader in private student loans with more than 60 clients including money center banks, financial companies, regional banks and affinity groups.

There are a number of reasons why it may be in the best interest for community banks to offer this program:

**The First
Marblehead
Corporation**
Creating
Solutions for
Education
Finance

- Private student loans are another way to capture more business from existing customers who may otherwise go to a competing bank.
- Having the product available opens the door to discuss other options with customers, such as a home equity line of credit.
- Because community banks are particularly mindful of their image in the community, this product offers the opportunity to counsel parents and students regarding funding possibilities and to build a relationship with the next generation of customers.
- The *MyDegree* product is structured to meet the actual needs of students by offering competitive rates, 20-year repayment terms, no pre-payment penalties and the option of deferred payments until six months after graduation (up to 5.5 years).
- There is minimal bank involvement. A bank simply directs customers to a dedicated 800 number or a web link that is on the bank's website. First Marblehead provides a full range of services including a call center, application processing, documentation, lending services, customer service, billing and collecting.
- *MyDegree* services offer the opportunity to generate fairly substantial fee income with little or no risk. Neither the community bank nor Bankers' Bank Northeast acts as the lender. First Marblehead provides the lender that bears all credit risks associated with the program.



We all recognize that nothing markets itself—and that applies to private student loans. First Marblehead will provide posters as well as other marketing support materials. It has also produced a training video for bank staff and/or bank customers.

Four new employees help serve client banks

Over the past several months, the Bank has added four staff members to help make sure client banks continue to receive exceptional service.



Richard J. Nurge has been named Vice President/Relationship Manager for Connecticut and New York. A sales executive with more than 20 years experience in the mortgage banking, office equipment and technology industries, he was most recently the principal of 20/20 Vendor Analytics where he managed the entire relationship between residential and commercial lenders and their service providers.

A graduate of Babson College in Wellesley, MA, he lives in East Hartland, CT, with his wife and their three children.

Rich replaces Rocco A. Magnotta, who recently retired.



Richard C. Layman has been named to the new position of Senior Credit Analyst. In this role, he reports to the Bank's Chief Credit Officer, Peter T. Garland.

Layman has nearly 20 years of financial and banking experience, having worked most recently with National Co-operative Bank, Hartford, CT. He has also been with Business Lenders in Hartford and Tolland Bank, Vernon, CT.

He and his wife and two children live in Coventry, CT.



Deborah A. Snider of Feeding Hills, MA, has joined the Bank as Business Development Coordinator. In this new position she is providing support for the Relationship Management team and reports to Senior Vice President, Richard B. Lockwood, III.

Debbie has nearly 30 years experience in banking and she worked most recently with Bay State Savings Bank in Worcester, MA, as an Operations Specialist. Previously, she was an Assistant Client Manager at Key Bank in Ohio, where she was employed for 27 years.



Roxann S. Boyce, a graduate of St. Michael's College in Vermont with a degree in Business Administration, is in the new position of Senior Finance Specialist and reports to Executive Vice President & CFO, Allen L. Neilsen.

She has more than 20 years of financial experience, having worked most recently with Connecticut Bank & Trust Company, Hartford, as a Treasury Analyst. She held similar positions with Tolland Bank, First Signature Bank & Trust, Portsmouth, NH, and The Glastonbury Bank & Trust Company.

Roxann lives in Glastonbury.

Got Images? We've got **STARS™ Image Exchange**: *Member of the OnWe Network*

Is your Bank image-enabled? If not, ask us about OnWe. We can help get you there.

Already creating images, ask us about OnWe. We can help you clear those images.

Bankers' Bank Northeast announces a new and exciting Check 21 opportunity, the **STARS™ Image Exchange**, a member of the "OnWe Network," a unique, low-cost network that allows Bankers' Bank Northeast to perform same-day image exchange and settlement for our community client banks.

The unique OnWe Network provides direct electronic exchange and settlement between participating institutions, including institutions that have traditionally been the most expensive endpoints to reach. We choose the best clearing solution for each item that is processed through the OnWe Network.

Our outbound clearing patterns reach even the largest banks such as Bank of America, as well as the many image endpoints offered by the Federal Reserve. Ultimately, the OnWe image exchange network will allow you, the community bank, to take advantage of the benefits offered by such facilities as SVPCo, Endpoint Exchange, Viewpoint and other exchange partners that have traditionally always looked to

accommodate large bank clearings.

We can work with any item processor or in-house image capture systems for both merchant and branch image deposits. All you need to do is direct your images to Bankers' Bank Northeast. We take care of the rest, including adjustments and settlement. Because we already process for 31 paper-based banks, we are confident that an "OnWe" image exchange network of community banks will create value that we can leverage on your behalf. We can take advantage of economies of scale that a single bank cannot achieve. It is the aggregation of volume that creates opportunities to further lower clearing costs for all community banks.

As a participant in the OnWe network, not only do we handle all the technical requirements, including "testing," but you can automatically receive your inclearings as images and handle returns in an image format.

Additionally, your "own" items will be available to present to your core system whether in-house or outsourced, at your option, for "same day debits" that your bank doesn't pay for until the next day, allowing you to take advantage of the associated float.

The debits that are posted a day sooner have the potential to reduce interest payments to depositors, reduce

earnings allowance credits to analyzed accounts, generate potential OD fees and aid in the discovery of "kiting" and other fraudulent scenarios. In this regard the electronic exchange of images is better than the age-old paper clearing house models of the past.

Between rising courier costs and Fed check relay service reductions, being image enabled is becoming a necessity. The time is *now* to begin the journey to "go image."

We understand that community financial institutions now have more choices when it comes to image exchange. We strongly believe the OnWe Network is the right decision for several reasons: cost savings, timely settlements, trusted relationships and the ability to connect to nationwide networks when necessary.

Please call us to discuss the options for clearing and settling images and joining the **STARS™ Image Exchange**, a member of the OnWe Network. Allow us to transport your items to the most beneficial endpoints at the lowest cost.

For more information, please contact your Relationship Manager, Lisa Reynolds or Sue Salecky.

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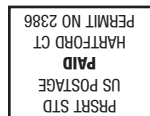
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Allen L. Nielsen	<i>Executive Vice President & CFO</i>
Richard B. Lockwood III	<i>Senior Vice President</i>
Richard J. Nurge	<i>Vice President/Relationship Manager</i>
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