

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

New Board Marketing Committee focuses on Bank growth and new products

The Board of Directors has established a Marketing Committee composed of four Board members including the Chairman and CEO. "The Marketing Committee focuses on three goals as set forth within the Bank's Strategic Plan [to]: 1) increase the number of new clients; 2) add core services and 3) attract additional capital. The Bank's two Executive Vice Presidents, Allen L. Nielsen and Richard B. Lockwood III have been charged with meeting these critical goals and the new committee intends to assist with the task," states Board Chairman Ralph M. Shulansky, Esq.

Richard points out that the Bank has achieved a 42% market penetration (the percentage of banks within BBN's market of 500+ community banks that use at least one BBN service). Yet, he wants to match the 60% penetration that has been reached at the more mature bankers' banks elsewhere in the country. He and Allen expect to bring in 12 new clients and \$1.1 million in new capital, along with implementing three new core services by employing their expert knowledge of the correspondent markets.

The Marketing Committee will also work with the Bank's Products Committee in identifying and vetting possible new products. "We want to be highly efficient in bringing on new services in order to increase our revenue stream. Therefore, we must find and implement new core

services that add significant value for benefit of our clients and prospects," says Peter J. Sposito, President & CEO. He indicated that the selection of new services must precisely match what our clients want. He went on to say that the Bank has assigned its most experienced officers to implement new core products.

Mr. Shulansky points out that the Board wants to grow its balance sheet to improve earnings, while maintaining its "well capitalized" rating by expanding the Bank's ownership base to not only increase capital, but improve its market penetration, as well. The goal for 2011 is \$1.1 million in new capital and a total of \$5 million by 2014. "I'm pleased to report that we are well on our way to meeting, our 2011 goal."

Mr. Shulansky also indicates that the Bank wants to acquire additional resources in the form of technology, human capital and physical infrastructure. He notes that even though the Bank is 12 years old, it's still in an expansion mode. It should be ready to purchase or take an equity position of a service provider to control the level of service delivered and we need to increase the Bank's legal lending limit to accommodate larger loan participations.

"We want to be viewed as the 'preferred resource for providing correspondent banking solutions,'" he adds.

Open For Business



Shown here are BBN employees (l. to r.) Lora Prior, Allen L. Nielsen, Joanne McDaid, Erica Westwood, Charlotte Hansen and Yvonne Richard. Not pictured are Rachel Carlson and Stephanie Carlson, who were taking telephone calls while the photo was taken, and BBN President & CEO Peter J. Sposito, who plowed and served as the photographer.

When the snow was piling up in Connecticut at Bankers' Bank Northeast during the big

January storm, just about everything came to a halt, but not Bankers' Bank Northeast. Some employees worked remotely from home; others made it to the office. Some client employees operated from home using **STARS™** remote access feature that assists with their own disaster recovery efforts. Even though many client banks were closed because of the weather, BBN's capabilities made it possible to process ACH transactions for commercial accounts. The Bank also processed payroll transactions for customers of Chelsea Groton, Litchfield Bancorp and Jewett City Savings Bank.

President's Message

Service and Sales

In the Fall 2010 edition of the Respondent, I described the Bank's relationship with management as the driving force of our ongoing sales process. Sue Salecky, Senior Vice President, and her team are focused on implementing new services with both new and existing clients.

We have re-named these activities as "Service and Sales." We purposefully reversed the more traditional nomenclature to emphasize our recognition that service precedes sales.

To assist our strategic initiative to attract fifty new investors to Bankers' Bank Northeast (BBN), I recently participated in a capital presentation to a community bank just north of Boston, which included my statement that BBN offers high levels of client service. The message sounded empty, probably because business entities always cite "excellent customer service."

As one example, I told them about Kerry Corbin, the Bank's Operations Specialist reviewing a wire in September 2010 that had been initiated by an attorney who maintained a DDA account with one of our client banks.

Kerry's experience and intuition indicated that the wire was suspect in that it aligned with a fraudulent scheme that she had learned about during a training session related to international payments.

She immediately contacted BBN's client bank suggesting that the wire appeared to be suspicious. She put a hold on the wire and awaited instructions from our client. The wire request was subsequently withdrawn because the attorney was unable to verify his customer's true identity. Later in the day, a bouquet of flowers was delivered to Kerry. It came from her friends at the community bank who now count an attorney as a grateful, loyal and life long customer.

Kerry saved our client bank's customer over \$250,000 while thwarting a well orchestrated financial fraud. While we cannot guarantee to catch every fraudulent scam attempt, we can say that we care enough to put our extensive training and experience to work on behalf of our clients. Can you imagine such a high level of service at a large mega-bank processing a similar transaction?

It's not surprising that clients, who see first-hand BBN's dedication to measurable client service, listen closely when we recommend a particular service. Additionally, our recent Client Satisfaction Survey indicates that 94.4% of respondents said that they are "Very likely" [the highest ranking out of five] to recommend us to another financial institution."

We will not be satisfied until every BBN client perceives our service as the help they need to be more efficient, innovative and profitable. That's the heart of the "Service and Sales" concept. That's how we should be measured and it's why we expect to add 50 new client bank investors over the next four years.

Peter J. Sposito, President & CEO



Peter J. Sposito
President & CEO

STARS™ enhancements announced

Based on client feedback and the adoption of the Bank's IT Strategic Plan, we're working diligently on two STARS™ enhancements that will affect all clients and which will be ready during first quarter 2011.

REAL-TIME WIRE TRANSFERS

Today, when a client enters a domestic or US dollar foreign wire on STARS, we upload it to the Federal Reserve Bank (FRB), and then pull the confirmations from the FRB and post them to a client account. This process can take up to 15 minutes or longer, utilizing Fedline Advantage.

We are automating part of this process to speed delivery of both outbound wires and confirmations to client banks, using FedLine Direct. Once implemented, the new Real-Time Wire Transfer system will deliver wire confirmations within minutes of entering a wire. Additionally, clients will see inbound wires appear more quickly on STARS, which will provide better service to their customers.

We are currently in the testing phase of this new system. Client banks wanting to test their Offline Wire Process with BBN should call us at 888-627-5226.

LOCAL SECURITY ADMINISTRATION ON STARS

Since many clients are asking to manage their own STARS' user permissions, this enhancement is now available. It allows pre-designated Local Security Administrators to reset passwords, create/modify/delete users, and view security reports. There's no charge for this additional functionality and control.

We encourage your institution to enroll your Local Security Administrators in this new STARS function, if you haven't done so. It can assist your institution in making timely updates and changes, as well as more closely monitor User Security Reports.

To begin using this feature, new Local Security Administrator forms need to be completed. They're available in the Forms subsection of the downloads area on STARS, named "Security Administration."

If you have questions, please contact Client Services, 888-6-ASKBBN (888-627-5226).



The Well-Capitalized Bank

Megan Desso Enterprise Risk Manager

There is no longer a cut-and-dried answer to the question of a well-capitalized bank, as there was in the past. What was once an easy answer is now convoluted and complicated, and there may be different answers depending on your particular perspective.

"Well capitalized" to a seasoned banker may have one meaning, while a regulator's definition may be quite different. Thanks, again, to the Dodd-Frank Act (DFA), standard capital ratios no longer mean what they did in pre-DFA days.

According to FDIC Chairman Sheila Bair, "Excess leverage and thin capital cushions were primary drivers of the financial crisis..." The Dodd-Frank Act now requires regulators to review current capital regulations and make sure the amount of capital "increases in times of economic expansion and decreases in times of economic contraction, consistent with the safety and soundness of the company."

However, the Act does not provide specific guidance as to what the new capital levels should be. It merely states that minimum leverage and minimum risk-based capital requirements "shall be established...and shall not be less than the generally applicable leverage capital requirements...that were in effect for insured depository institutions as of the date of enactment of the Act."

The Act goes on to state, specifically, that the current levels should serve as a floor for new ones. Reading between the lines, banks should expect higher required capital levels, risk-based, of course.

Bankers, fighting to survive the economic crisis, probably have not had time to notice a new fire that is smoldering and is about to burst into flame: the demand for additional capital. Mandated higher levels of capital would hit community banks hard. In this market, banks are typically left with one of two alternatives to improve ratios—either raise new capital or shed assets (typically good assets).

The effect has already been felt across the country, as examiners from all regulatory bodies are ordering banks of all sizes and complexities to increase their capital ratios well beyond the regulatory established minimums for well capitalized. It's easy to spot the trends. Specifically, examiners are seeking 9% to 10% Tier 1 leverage capital ratios and 12% to 14% risk-based capital ratios.

It is anticipated, as dictated in the Dodd-Frank Act, that trends will be more towards capital requirements based on risk profiles. This is a move from the old industry standards, which were specified by regulation to a more individual or dynamic approach. For example, banks with significant credit concentrations or deteriorating asset quality

“WHEN IT COMES TO FINDING SOURCES OF CAPITAL IN TODAY'S MARKET, FINANCIAL INSTITUTIONS NEED TO BE CREATIVE, RESOURCEFUL, AND PREPARED.”

will be expected to hold higher capital levels to compensate for their risk profiles. As a result, the guidelines are not precise and are subject to interpretation.

However, there appears to be some good news. It seems that the regulatory bodies are attempting to manage this change on a bank-by-bank basis, instead of raising the minimums across the board. There is still hope that community banks will be treated according to their lower risk profile. If that's the case, the largest banks will bear the burden of the majority of the increased mandates.

It seems fair to conclude that, yet again, public monetary and fiscal policies and regulatory bodies may be fueling the very fire the Central Bank has been attempting to extinguish. While monetary policy is attempting to provide for an expansionary environment, regulatory actions are deflationary in nature.

The Central Bank wants banks to lend, but the regulators are issuing enforcement actions to raise capital ratios and Congress is passing bills that call for stronger capital requirements. The positions seem contradictory and at odds with each other. Higher capital levels for many healthy community banks are counterproductive because they force otherwise healthy institutions to shrink their balance sheets—make fewer loans and/or sell good assets.

What action should a community bank take now? First, develop a plan. And, second, don't put it off. In other words, begin now.

The goal of every financial institution is, of course, to be well capitalized. But how can a community bank plan to meet that objective when bankers can't be sure what that means for their institutions? The prudent view is to develop several alternative plans and options for raising capital and do it as quickly as possible.

Although the game has not changed, the rules have. When it comes to finding sources of capital in today's market, financial institutions need to be creative, resourceful, and prepared. Plans should, at a minimum, identify multiple and diverse funding sources and financial instruments.

Anything less is playing with fire.

NEW BANKERS' BANK NORTHEAST POSITIONS ANNOUNCED

Megan L. Desso



Megan Desso

BOARD CREATES ENTERPRISE RISK MANAGER POSITION

In response to the ever evolving risks associated with banking and the anticipated significant changes required in response to the Dodd-Frank Act, the Bank's Board of Directors has created an Enterprise Risk Management Charter for Bankers' Bank Northeast that sets forth the role of an Enterprise Risk Manager. The Enterprise Risk Manager will report

directly to the Audit Committee, administratively to the President/CEO and work closely with Senior Management.

As part of the Bank's reorganization plan, Megan Desso, who has served as Assistant Vice President / Internal Auditor and Compliance Officer for the past three years, was named to the position of Enterprise Risk Manager (ERM), effective November 2, 2010.

"Our major objective," says Desso, "is to balance the Bank's conservative risk tolerance approach with the business objectives as defined in our strategic plan." She points out that the central goal of an ERM program is to ensure risks are controlled and to develop a unified picture of risk so as to ensure effective and efficient risk management entity-wide.

Commenting on the Bank's new risk management function, CEO and President Peter J. Sposito says, "Our objective is to make Enterprise Risk Management at BBN a model for other banks, so they can look to us for leadership in this demanding function."

In the role of ERM, Desso's duties include: developing and implementing a framework for risk management including identifying events or circumstances relevant to the organization's risk objectives and opportunities, an assessment of impact, needs and likelihood, development of a response strategy, management of existing risks and controls; and monitoring, developing goals and objectives based on identified risk priorities, including process improvement and issue resolution.

In this position, Desso chairs the Bank's internal Risk Council, continues to act in the role of Compliance Officer and will direct all audit activities and corrective actions.

She will also promote Enterprise Risk Management competence throughout the Bank, including facilitating the development of technical Enterprise Risk Management expertise and helping managers align risk responses with the Bank's risk tolerances through properly designed risk mitigation techniques including internal controls.

Since Enterprise Risk Management will be playing such a key role in every community bank, Desso has been charged with the task of exploring the possibility of developing a Compliance Consulting Service that could be made available to client institutions.

Desso joined the Bank in 2008 as Assistant Vice President / Internal Auditor & Products Manager. Later, her responsibilities included Compliance. Previously, she was an Internal Auditor and then the Privacy Officer at a \$3.2 billion Connecticut bank. She is a UConn graduate with a degree in Actuarial Science and Mathematics.



Sabina Barresi

SABINA L. BARRESI NAMED VICE PRESIDENT/RELATIONSHIP MANAGER

Sabina has joined Bankers' Bank Northeast as Vice President/Relationship Manager with the responsibility of serving client banks in Maine, New Hampshire, Rhode Island and Eastern Massachusetts.

"We are very pleased to have someone with Sabina's banking experience and highly successful

track record as a member of our team," states Peter J. Sposito, President & CEO.

She began her banking career with Century Bank, a multi-billion dollar commercial bank north of Boston. While there, she served as Cash Management Business Development Officer and Electronic Banking Manager.

Later, Sabina was employed by Enterprise Bank in Lowell Massachusetts, and prior to joining the Bank, she was with New England Automated Clearing House (NEACH) for three years as Director of Member Services. Her responsibilities included the development and management of the New Member Relations Outreach program, the development and implementation of various training and educational programs and administering the ACH audit services for NEACH members.

Barresi received an Associate in Science Degree in Information Technology/Business from the University of Massachusetts, Lowell and is on a completion track to receive her Bachelor of Science in Business Administration.

KEEPING THE PROMISE OF CUSTOMER SERVICE EXCELLENCE

From the day Bankers' Bank Northeast was open for business, President Peter J. Sposito knew what it would take to make it a success. "It was simple then and nothing has changed," he says. "It's keeping our promises to our clients and continually raising the bar on client service."

Every year, the Bank kept pushing the bar on client service higher by seeking the right people to make sure its performance matched its promises. To maintain its momentum, the Bank has created two new positions.



Geoffrey Gibbons

GEOFFREY S. GIBBONS NAMED CORRESPONDENT OFFICER/RELATIONSHIP MANAGER

When Geoff Gibbons joined the Bank three years ago this past January as the Relationship Coordinator, it became very obvious that he had lots of energy and enthusiasm. That assessment hasn't changed, according to Susan W. Salecky, Senior Vice President/Service and Sales. He will be working with client banks in Connecticut and Southern New York.

"With all his experience working with the bank's clients, it's clear that Geoff is a client advocate," says Sue. "He wants to do the right thing for our clients."

Continued on page 4



Instead of being based at the Bank, Geoff will be working directly with client banks in the field and focusing on their needs.

He lives in Berlin, CT and received his Bachelor of Science degree in Business Administration from New Hampshire's Plymouth State University.



Michelle R. Orsini

**MICHELLE R. ORSINI
FILLS NEW POSITION
OF OPERATIONS
OFFICER/CLIENT
SERVICES MANAGER**

Michelle understands community banking and its focus on customer service. For nine years, she was with

Connecticut River Community Bank where she was a staff accountant and the network and operations administrator, as well as managing loan servicing for several years. Having worked at this de novo bank, she

acquired extensive first-hand experience in all areas of the bank, which will be helpful at Bankers' Bank Northeast.

At the Bank, she is coming to a new position, where she will be managing staff and coordinating the workflow between Client Services and Operations. Commenting on the new position, Susan W. Salecky says, "Michelle will be the primary point person for implementing services at client banks." She will assist Salecky in managing client service on a daily basis.

Salecky points out that Orsini is highly experienced in working with customers. "One of her major responsibilities will be making sure our client financial institutions are completely satisfied with their BBN experience."

Michelle, who lives in Newington, CT, is working towards completing her B.S. degree in Business Administration at the New England College of Finance.

SAVE THE DATE

UPCOMING EVENTS

APRIL 21, 2011

**The Great New England
Credit Union Show**
Boxborough, MA

APRIL 26, 2011

BBN Annual Meeting, BankWorld
Cromwell, CT

AUGUST 8, 2011

**Annual Charitable Golf Tournament,
Worcester Country Club**
Worcester, MA



Enhancing Client Service

Our commitment to client satisfaction is one of continuous improvement in everything we do, including both our products and service. To encourage client communication, the Bank has instituted a Client Suggestion Process. To make it convenient, please email your suggestions to: suggestions@bankersbanknortheast.com. All suggestions will be acknowledged and vetted by our Products Committee and Senior Management.

CORPORATE OFFICES

REGIONAL OFFICES

OFFICERS

Glastonbury, CT
1-800-449-9121

Serving New England
and New York

bankersbanknortheast.com

Peter J. Sposito President & CEO
Allen L. Nielsen Executive Vice President
Richard B. Lockwood III Executive Vice President
Charlotte Hansen, CPA Sr. Vice President & CFO
Elissa G. Reynolds Sr. Vice President/Operations Manager
Susan W. Salecky Sr. Vice President/Service and Sales
Peter Garland Chief Credit Officer

Megan L. Desso
Sabina L. Barresi
Richard J. Nurge
Richard C. Layman
Geoffrey S. Gibbons
Lora L. Prior
Rachel E. Carlson
Michelle R. Orsini

Enterprise Risk Manager
Vice President/Relationship Manager
Vice President/Relationship Manager
Assistant Vice President/Senior Credit Analyst
Correspondent Officer/Relationship Manager
Operations Officer/BSA Compliance Analyst
Information Security Officer/IT Manager
Operations Officer/Client Services Manager

PRSR FIRST CLASS
US POSTAGE
PAID
HARTFORD CT
PERMIT NO. 2386