ANNUAL REPORT FOR 2009

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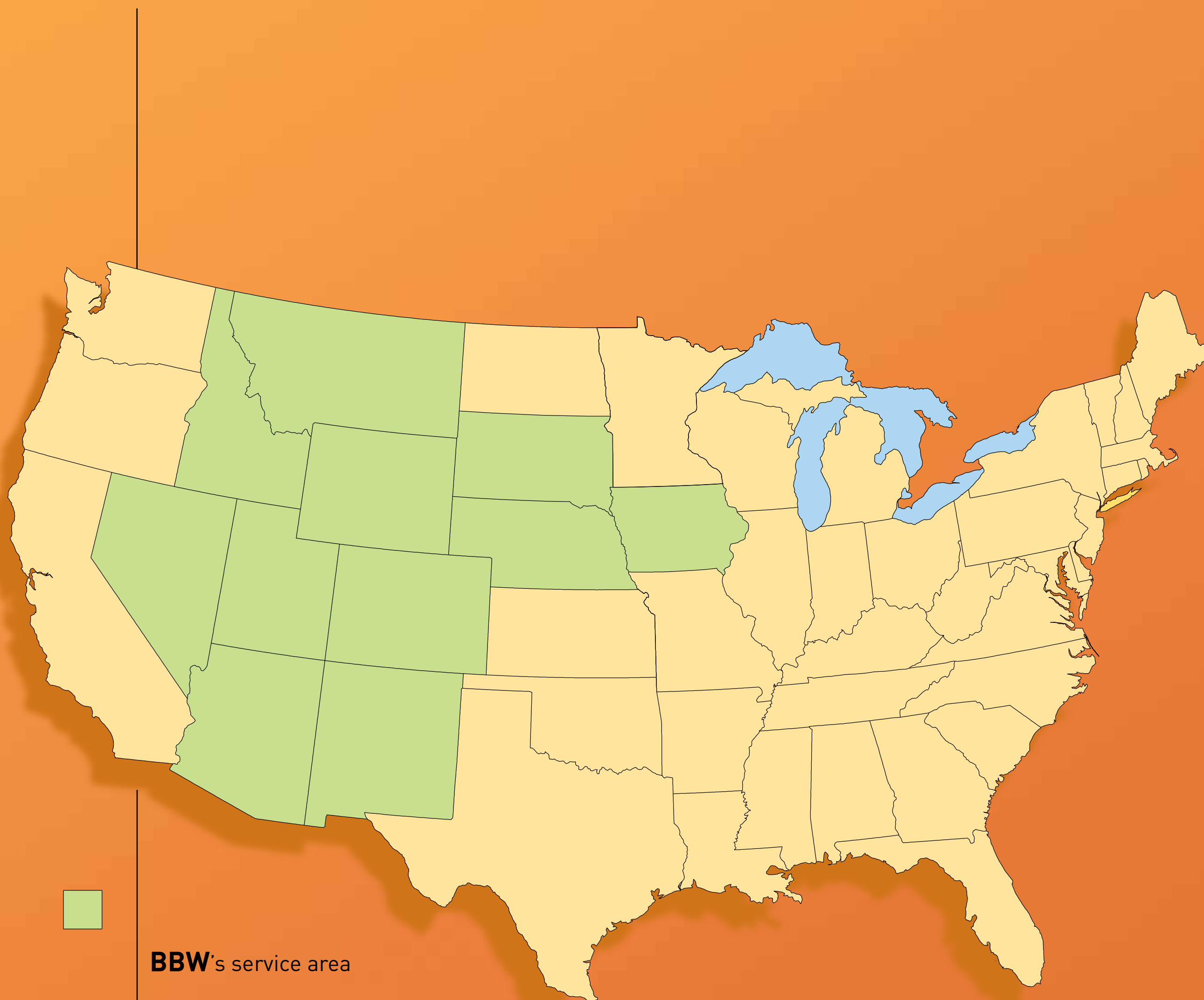

BBW's service area

PRESIDENT'S MESSAGE

To our shareholders, customers, partners, and friends

Following 17 consecutive years of solid earnings, Bankers' Bank of the West Bancorp, Inc. ("Bancorp"), reported a pre-tax operating loss of $21.9 million and a net operating loss of $18.5 million after net operating loss tax credits in 2009. The resulting earnings of negative $92.83 per Bancorp share stand in contrast to positive earnings of $15.26 per share in 2008. Pre- and after-tax earnings at Bankers' Bank of the West ("BBW" or "Bank") were negative $20.3 million and $17.4 million, respectively. Another contributing factor was a pre- and after-tax loss of $1.23 million and $773,000 for Western States Holding, Inc., related to the holding and liquidation of assets.

Total assets of BBW as of December 31, 2009, were $442.8 million and total capital was $26.7 million, a decrease in capital of $15.7 million for the year. Taking into account a 17-year history of rising earnings, in January 2009 the board of directors declared a dividend of $1.25 per share to Bancorp shareholders.

Among the most vexing concerns of the banking industry in 2009 were the deteriorating economy, drop in commercial real estate values, and climbing bankruptcy and unemployment rates. The financial statements in this report reflect the fundamental interdependence between BBW and the community banks it serves. Our officers, directors and staff have been relentless and aggressive in containing fallout from the recession without losing sight of strategic objectives.

Despite heavy loan loss reserves, Bankers' Bank of the West finished the year well-capitalized, with total risk-based capital and leverage capital ratios of 10.25% and 5.45%, respectively. It is common for the leverage ratio to exceed 10% at times; it varies from day to day depending on how much cash the Bank holds overnight at the Federal Reserve.

We maintained strong capital ratios at the Bank despite increasing loan loss reserves to 8.55% of year-end loan totals, versus 2.37% and 0.71% of 2008 and 2007 year-end totals, respectively. Loan loss reserves increased even though the Bank incurred $13.1 million in net charge-offs, $7.2 million of which was attributable to bank stock loans and $5.9 million to CRE.

Total loans at BBW averaged $313.8 million in 2009, a 13% decrease from the previous year. Year-end loan balances were $287.4 million, a reduction of $50.6 million from 2008. This decline is due in part to an overall drop in customer lending and to the Bank's decision in 2008 to discontinue accepting more CRE-related credits or liquidity-related loans. In fact, the subsequently imposed FAS 143 made liquidity loans obsolete.

Ending a long trend of low delinquency, classified assets, non-accruals, and charge-off, all increased in 2009. The Bank addressed problems as they arose and charged off losses when they became known. Holding to this conservative approach, BBW made loan loss provisions of $29.6 million including a provision of $16.7 million in December to fully address bank stock loans. This was the primary reason for the 2009 net operating loss; other contributors were operating expenses including FDIC assessment of $1.1 million, and other real estate owned and legal expenses of $1.1 million. The loan loss reserve at BBW at year-end was $24.6 million, a $21.8 million (808%) increase over the past two years.

Incorporated in 2008 to buy and manage foreclosed and other problem assets of the Bank, Western States Holding, Inc., held loans and OREO of $12 million in some form of liquidation as of year-end 2009. The subsidiary has successfully liquidated $4 million in OREO or classified loans in the past 13 months. In addition, BBW witnessed the loss of six customers through closures and mergers in 2009.

As a special-purpose institution, BBW is a reflection of its customer base. Many of our customers struggled in 2009, and their difficulties affected our performance. Consequently, BBW entered into a Written Agreement with the Federal Reserve Bank of Kansas City and the

Colorado Division of Banking on February 19, 2010. We take the agreement very seriously, and we are complying with its terms.

On a positive note, non-owner-occupied CRE loans have decreased by 45% for the past two years, and they continue to decline.

While asset quality impacted 2009 results, there were highlights to point out as well. In the operations area, demand for our cash letter services remained strong in 2009: BBW processed 58.5 million check images from 124 banks representing $57.8 billion. To enhance our check collection processes and provide greater benefits to our customers, BBW further expanded its on-we network and built on partnerships with national check networks. Further, in 2009 some 220 customer banks — more than 2,500 individual users — were using the Bankers Internet Data System (BIDS), our web-based banking service.

Also in 2009, the International Services area processed an average of nearly 900 international checks, collections, and foreign currency requests every month.

The Bank Card Department made important gains, signing 33 new institutions to core bank card programs. Six banks were added to our ATM/debit program in 2009 for a total of 34 banks using this service. It is worth noting that of the 27 new bank clients added to our merchant services program, 18 are in Nebraska, where we had not previously established a footprint for bank card services. All told, 138 banks now obtain merchant services through BBW. In addition to growing the core client base, the Bank Card Department added 11 banks to other card programs.

The average daily total federal funds pool in 2009 was $672 million as compared to $716 million in 2008. Fed funds borrowed by respondent banks totaled $12 billion in 2009 versus $34.4 billion in 2008, with borrowings averaging $32 million a day in 2009 versus $94 million a day in 2008 — an indication of more liquidity in the system. BBW's decision to remain in the FDIC's Temporary Account Guaranty Program for its duration seemed to soften the effects of local economic issues and restore some stability in the market.

On average, more than 1,300 wires were processed by BBW each day in 2009. An estimated 5% of those wires were international.

With 116 financial institution clients, the Safekeeping Department leads the state as a provider of custodial securities for community banks. Securities held at par value amounted to more than $3.3 billion at year-end.

Alliances with carefully chosen strategic partners enable BBW to remain lean and flexible while extending our menu of high-caliber services. Our partnership with LendingTools.com, the provider of the web-based banking system known as BIDS, puts cutting-edge technology in the hands of our customers. Through a strategic partnership with BBW Capital Advisors, we can meet the capital markets needs of community banks. Selective alliances that further enhance our service offerings have been formed with AccuSystems; Dominion Technology Group; First Data Corp.; 1st Reverse Mortgage USA; and Optimum System Products.

The ability to adapt to change was imperative for banks in 2009, and change at BBW extended to personnel. In mid-summer Dallas Kiburz was appointed chief credit officer upon the long-planned retirement of his predecessor, Dale Utley. The two had developed a solid nine-year working relationship as BBW colleagues, and they joined forces several months before Dale's departure to ensure a seamless transfer of duties. A 35-year banking career — including 16 years in community bank president roles — has prepared Dallas well for his new position, and he has done an excellent job. He is assisted by Paul Harrison, who was hired in March as a vice president of credit administration. Paul's extensive background in underwriting and loan workout makes him a valuable addition to our staff.

BBW named Alice Voss chief financial officer in September after James Echtermeyer left to rejoin the Federal Reserve Bank of Kansas City. Having held the positions of president, cashier, chief operating officer, and CFO of community banks, Alice is an exceptionally accomplished member of our executive team.

Our team has never worked harder than they have in recent years — and, although the numbers in 2009 are disappointing in the short-term, we are unanimously optimistic about the future of community banking. Soon this company will commemorate three decades as a correspondent supporter of independent community banks. Regulatory changes and trying times aside, we remain committed to helping client banks stay strong and competitive for a long time to come.

William A. Mitchell Jr.
President and CEO

CONSOLIDATED BALANCE SHEETS

Years ended December 31, 2009 and 2008
(dollars in thousands)

	2009	2008
ASSETS		
Cash and due from banks	**$124,176**	$ 31,545
Federal funds sold	**25,945**	53,245
Cash and cash equivalents	**150,121**	84,790
Securities available for sale	**3,912**	-
Securities held to maturity	**7,756**	4,937
Nonmarketable equity securities	**372**	312
Loans and leases	**293,794**	338,038
Less allowance for loan and lease losses	**24,570**	8,014
	269,224	330,024
Leasehold improvements and equipment, net	**162**	191
Accrued interest receivable	**1,711**	1,725
Company owned life insurance	**4,671**	4,500
Real estate owned, net	**9,860**	8,527
Other assets	**7,551**	6,577
TOTAL ASSETS	**$455,340**	$441,583
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	**$256,019**	$ 88,315
Interest-bearing	**94,535**	120,139
Total liabilities	**350,554**	208,454
Federal funds purchased	**60,668**	178,896
Note payable	**6,660**	8,534
Accrued interest payable	**100**	276
Other liabilities	**720**	2,085
Total liabilities	**418,702**	398,245
Commitments and Contingencies (notes K, L, and P)		
Stockholders' equity		
Preferred stock = $20 par value, 5% cumulative 250,000 shares authorized, 13,271 and no shares issued and outstanding aggregate liquidation preference $1,000 per share	**12,755**	-
Common stock - $10 par value, 750,000 shares authorized, 199,125 and 199,310 shares issued and outstanding	**1,991**	1,993
Capital surplus	**12,528**	12,558
Retained earnings	**9,392**	28,787
Accumulated other comprehensive income (loss)	**(28)**	-
	36,638	43,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$455,340**	$441,583

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2009 and 2008
(dollars in thousands)

	2009	2008
Interest income		
Interest and fees on loans	**$15,848**	$22,360
Interest on taxable investment securities	**383**	320
Interest on tax-exempt investment securities	**30**	30
Interest on federal funds sold	**187**	2,338
Total interest income	**16,448**	25,048
Interest expense		
Deposits	**1,961**	1,967
Interest on federal funds purchased	**632**	6,627
Total interest expense	**2,593**	8,594
Net interest income	**13,855**	16,454
Provision for loan and lease losses	**29,621**	8,430
Net interest income (loss) after provision for loan and lease losses	**(15,766)**	8,024
Noninterest income		
Service charges on deposit accounts	**2,066**	2,808
Gain on sale of Visa, Inc. stock	**-**	1,299
Gain (loss) on sale of asset	**(297)**	-
Commissions and fees	**7,713**	6,913
Total noninterest income	**9,482**	11,020
Noninterest expenses		
Salaries and employee benefits	**4,042**	4,259
Occupancy expense of premises	**500**	521
Furniture and equipment expense	**246**	193
Service charges	**2,274**	3,680
Other expenses	**8,602**	5,567
Total noninterest expenses	**15,664**	14,220
Income (loss) before income taxes	**(21,948)**	4,824
Income tax expense (benefit)	**(3,463)**	1,782
NET INCOME (LOSS)	**$ (18,485)**	$ 3,042

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008
(dollars in thousands)

	2009	2008
Cash flows from operating activities		
Net income (loss)	**$ (18,485)**	$ 3,042
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	**29,621**	8,430
Deferred income tax benefit	**(1,291)**	(1,931)
Depreciation and amortization	**169**	109
Gain on sale of held to maturity securities	**0**	(95)
Gain on sale of Visa, Inc. stock	**0**	(1,299)
Loss on real estate owned	**1,849**	259
Earnings on company owned life insurance	**(171)**	(163)
Changes in accruals and deferrals		
Income receivable	**14**	394
Other assets	**272**	601
Income payable	**(176)**	276
Other liabilities	**(1,361)**	(123)
Net cash provided by operating activities	**10,441**	9,500
Cash flows from investing activities		
Purchase of securities held to maturity	**(5,242)**	(3,275)
Purchase of securities available for sale	**(3,984)**	-
Purchase of nonmarketable equity securities	**(60)**	-
Proceeds from maturities of securities held to maturity	**2,378**	1,223
Proceeds from sales of securities held to maturity	**0**	3,470
Proceeds from sales of real estate owned	**3,687**	695
Decrease in loans	**24,310**	35,015
Change in other assets and liabilities	**57**	8,738
Expenditures for leasehold improvements and equipment	**(67)**	(70)
Net cash provided by investing activities	**21,079**	45,796
Cash flows from financing activities		
Net change in deposits	**142,100**	126,592
Net change in federal funds purchased	**(118,228)**	(247,764)
Proceeds from notes payable advances	**1,000**	8,534
Payment on notes payable	**(2,874)**	-
Redemption of common stock	**(49)**	(106)
Proceeds from issuance of preferred stock	**12,639**	-
Proceeds from issuance of common stock	**17**	826
Prior period adjustment - split dollar life	**-**	(488)
Dividends paid on preferred stock	**(545)**	-
Dividends paid on common stock	**(249)**	(1,284)
Net cash provided by (used in) financing activities	**33,811**	(113,690)
Net change in cash and cash equivalents	**65,331**	(58,394)
Cash and cash equivalents at beginning of year	**84,790**	143,184
Cash and cash equivalents at end of year	**$150,121**	$84,790
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest paid	**$ 2,769**	$ 8,318
Income taxes paid	**202**	4,887
Supplemental noncash disclosures:		
Transfer from loans to real estate owned	**$ 6,869**	$ 9,140

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31, 2009 and 2008
(dollars in thousands, except share data

	Shares of preferred stock	Preferred stock	Shares of common stock	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2007	-	$ -	195,919	$1,959	$11,872	$27,517	$ -	$41,348
Adjustment to initially apply EITF 06-4 Accounting for *Deferred Compensation and Post Retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (Note A)*	-	-	-	-	-	(488)	-	(488)
Comprehensive income								
Net income	-	-	-	-	-	3,042	-	3,042
Comprehensive income								3,042
Common dividends paid - $6.50 per share	-	-	-	-	-	(1,284)	-	(1,284)
Purchase of common shares	-	-	(500)	(5)	(101)	-	-	(106)
Sale of common shares	-	-	3,891	39	787	-	-	826
Balance at December 31, 2008	-	-	199,310	$1,993	$12,558	$28,787	$ -	$43,338
Comprehensive income								
Net income (loss)	-	-	-	-	-	(18,485)	-	(18,485)
Change in net unrealized gain (loss) on securities available for sale	-	-	-	-	-	-	(28)	(28)
Comprehensive income (loss)								(18,513)
Sale of preferred stock - Series B	12,639	11,858	-	-	-	-	-	11,858
Sale of preferred stock - Series C	632	781	-	-	-	-	-	781
Accretion of preferred stock	-	116	-	-	-	(116)	-	-
Preferred dividends paid	-	-	-	-	-	(545)	-	(545)
Common dividends paid - $1.25 per share	-	-	-	-	-	(249)	-	(249)
Purchase of common shares	-	-	(261)	(3)	(46)	-	-	(49)
Sale of common shares	-	-	76	1	16	-	-	17
Balance at December 31, 2009	13,271	$12,755	199,125	$1,991	$12,528	$9,392	$(28)	$36,638

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008
(Dollars in thousands except for per share data)

NOTE A — SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statement Presentation
The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Bankers' Bank of the West and Western States Holding, Inc. All significant intercompany transactions and balances have been eliminated.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and deferred tax assets. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Nature of Operations
Bankers' Bank of the West Bancorp, Inc. and subsidiaries, with main offices in Denver, Colorado and an office in Lincoln, Nebraska, provide banking services to financial institutions principally in the Rocky Mountain area. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' abilities to honor their loans are dependent upon the continued economic viability of the Rocky Mountain geographic area. The Company is subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Western States Holding, Inc. (WSH) was organized in 2008 for the purpose of acquiring foreclosed real estate from Bankers' Bank of the West. WSH was injected with $6,235,000 and $8,529,000 in 2009 and 2008, respectively, of capital to acquire these assets. WSH will pay Bankers' Bank of the West a management fee to manage the real estate.

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, and federal funds sold.

Investment Securities
Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Loans
Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses
The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructuring and classified as impaired. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception.

Leasehold Improvements and Equipment
Company leasehold improvements and equipment are stated at cost, less accumulated depreciation. Depreciation is computed generally on the straight-line method.

Real Estate Owned
Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost basis or fair value at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Company Owned Life Insurance
The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes
Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. As disclosed in Note I, a valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

On January 1, 2009, the Company adopted guidance issued by the Financial Accounting Standards Board with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. No tax benefit is recorded for tax purposes if the "more likely than not" test is not met.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events
The Company has evaluated subsequent events for recognition and disclosure through May 10, 2010, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards
The Company adopted guidance issued by the Financial Accounting Standards Board (FASB) with respect to accounting for uncertainty in income taxes as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption of this new guidance had no effect on the Company's financial statements.

In September 2006, the FASB issued guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The guidance was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued guidance that delayed the effective date of this fair value guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption of this guidance was not material.

In December 2007, the FASB issued guidance that changes the accounting and reporting for minority interest, which is recharacterized as non-controlling interests and classified as a component of equity within the consolidated balance sheets. The guidance was effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The impact of adoption of this guidance was not material.

In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance sheet date be evaluated through the date the financial statements are either issued or available to be issued. Companies should disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to

be issued. Companies are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance sheet date (recognized subsequent events). Companies are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for interim and annual financial periods ending after June 15, 2009 with prospective application. The impact of adoption of this guidance was not material.

In June 2009, the FASB replaced The Hierarchy of Generally Accepted Accounting Principles, with the FASB Accounting Standards Codification (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

In April 2009, the FASB amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early-adopt this guidance as of January 1, 2009. The adoption of this guidance was not material.

In April 2009, the FASB issued guidance that emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be applied to determine the appropriate fair value. The guidance, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009 and early adoption for periods ending after March 15, 2009. The adoption of this guidance was not material.

In August 2009, the FASB amended existing guidance for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with existing fair value guidance. The amendments in this guidance also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance was effective for the first reporting period beginning after issuance. The adoption of the guidance was not material.

Newly Issued Not Effective Standards

In June 2009, the FASB amended previous guidance relating to transfers of financial assets. This guidance eliminates the concept of a qualifying special purpose entity, and defines the characteristics loan participations must have to be considered a "participating interest" and qualify for sales treatment. Generally, loan participations will qualify for sales treatment as a "participating interest" if the cash flows and participations rights among all participants are pro-rata and pari-passu. Loan participations which do not qualify as a "participating interest" will not be allowed sale treatment, and generally will be accounted for as a secured borrowing such that the gross loan balance is reported as an asset and the participated portion is reported as a liability. This guidance must be applied as of the beginning of the first annual and interim reporting periods beginning after November 15, 2009, and applies to all transfers occurring on or after the effective date. The Company regularly enters into participation agreements, and management has not yet determined whether adoption of the guidance will have a significant impact on the consolidated financial statements.

In June 2009, the FASB amended guidance for consolidation of variable interest entity guidance by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additional disclosures about an enterprise's involvement in variable interest entities are also required. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods with that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of this guidance is not expected to be material.

NOTE B — COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are recognized as separate components of equity.

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31,	
	2009	2008
Unrealized holding gains (losses) on available for sale securities	$(44)	$ -
Reclassification adjustment for (gains) losses	-	-
Net unrealized gains	(44)	-
Tax effect	16	-
Net-of-tax amount	$(28)	$ -

NOTE C — INVESTMENT SECURITIES

The Company had investment securities as shown below (in thousands) with the following amortized cost and fair values at December 31:

	2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities available for sale				
U.S. Agencies	$3,956	$ -	$ 44	$3,912
Securities held to maturity				
U.S. Agencies	$7,141	$ 58	$ -	$7,199
Municipal securities	615	-	19	596
	$7,756	$ 58	$ 19	$7,795

	2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Securities held to maturity				
U.S. Agencies	$4,322	$ 24	$ -	$4,346
Municipal securities	615	2	-	617
	$4,937	$ 26	$ -	$4,963

The Company has the intent and ability to hold investments to maturity. Investment securities with carrying values of $11,053,000 and $1,001,000 were pledged at December 31, 2009 and 2008 as collateral for potential borrowings from the discount window at the Federal Reserve Bank and to the Nebraska Department of Revenue.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009 follows (in thousands):

	Held to Maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ -	$ -	$ -	$ -
Over 1 year through 5 years	5,161	5,211	1,949	1,946
After 5 years through 10 years	2,595	2,584	-	-
Over 10 years	-	-	2,007	1,966
	$7,756	$7,795	$3,956	$3,912

The Company had no gains or losses on early redemptions for the year ended December 31, 2009. The Company had gains of $95,000 on sales or early redemptions for the year ended December 31, 2008. During 2008, a held-to-maturity security with a carrying amount of $3,376,000 was sold based on credit worthiness concerns of issuer.

Information pertaining to debt securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (in thousands):

	December 31, 2009			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
U.S. Agencies	$ 44	$ 3,912	$ -	$ -
Securities held to maturity				
Municipal Securities	$ 19	$ 596	$ -	$ -

	December 31, 2008			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
None	$ -	$ -	$ -	$ -

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE D — NONMARKETABLE EQUITY SECURITIES

The Bank, as a member of the Federal Reserve Bank of Kansas City, is required to maintain an investment in the capital stock. The Bank also owns common stock of Data Center Inc. No ready market exists for these stocks, and they have no quoted market value. For reporting purposes, these stocks are assumed to have a market value equal to cost. The Bank's investments at December 31 are as follows (in thousands):

	2009	2008
Federal Reserve Bank of Kansas City	$347	$287
Data Center Inc.	25	25
	$372	$312

NOTE E — LOANS AND LEASES

Major classifications of loans and leases at December 31 are as follows (in thousands):

	2009	2008
Commercial	$88,363	$114,099
Real estate:		
Residential	2,596	12,912
Commercial	103,695	73,045
Construction	74,920	109,345
Agriculture	23,889	28,313
Leases	107	182
Revolving and consumer	224	142
	$293,794	$338,038

Transactions in the allowance for possible loan and lease losses for the years ended December 31 are as follows (in thousands):

	2009	2008
Balance at beginning of year	$ 8,014	$2,738
Provision for allowance for loan losses	29,621	8,430
Loans charged off	(13,792)	(3,154)
Recoveries	727	-
Net recoveries (charge offs)	(13,065)	(3,154)
Balance at end of year	$24,570	$8,014

Information relative to impaired and delinquent loans is as follows (in thousands):

	December 31,	
	2009	2008
Impaired loans without a valuation allowance	$13,660	$ 9,979
Impaired loans with a valuation allowance	-	1,054
Total impaired loans	$13,660	$ 11,033
Valuation allowance related to impaired loans	$ -	$ 100
Non-accrual loans	$13,660	$ 11,033
Accruing loans past due 90 days and greater	$ 275	$ -
Average investment in impaired loans	$12,347	$ 5,968
Interest income recognized	$ -	$ -

Purchased Loans

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows (in thousands):

	2009	2008
Commercial	$3,012	$ -
Outstanding balance	$3,012	$ -
Carrying amount	$3,012	$ -

NOTE F — FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities:
The fair values of trading account securities and securities available for sale are determined by quoted prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to yield curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans:
The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of inputs for determining fair value.

Other Real Estate Owned:
Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed real estate are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Measurements		
	Carrying Value	Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2009				
Securities available for sale	$3,912	$ -	$3,912	$ -
December 31, 2008				
Securities available for sale	$ -	$ -	$ -	$ -

There were no material changes or amounts in Level 3 assets or liabilities measured at fair value on a recurring basis.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below (in thousands):

		Fair Value Measurements		
	Carrying Value	Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2009				
Impaired loans	$ -	$ -	$ -	$ -
Other Real Estate Owned	9,860	-	-	9,860
December 31, 2008				
Impaired loans	$ 984	$ -	$ -	$ 984

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount as of December 31, 2008 of $1,054,000, with a valuation allowance of $984,000, resulting in an additional provision for loan losses of $100,000 for the period. There were no impaired loans with a valuation allowance as of December 31, 2009.

Other real estate owned which is measured at the lower of carrying or fair value less costs to sell, had a carrying amount of $9,860,000 at December 31, 2009, which is made up of the outstanding balance of $10,686,000, net of a valuation allowance of $826,000 at December 31, 2009, resulting in a write-down of $826,000 for the year ending December 31, 2009.

Fair value of Financial Instruments
The following summary presents the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. The Company operates as a going concern and, except for its investment portfolio, no active market exists for its financial instruments. Much of the information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. The subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

Cash and Cash Equivalents
For these short-term instruments, the carrying amount approximates fair value.

Investments
For securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Marketable Equity Securities
The carrying amount of marketable equity securities approximates fair value.

Loans
The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans, the carrying amount is a reasonable estimate of fair value. For loans where collection of principal is in doubt, an allowance for losses has been estimated. Loans with similar characteristics were aggregated for purposes of the calculations.

Company Owned Life Insurance
For this investment, the carrying amount approximates fair value.

Deposits
The fair value of demand deposits is the collected amount payable on demand at the reporting ate (i.e., their carrying amount).

Federal Funds Purchased
For federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Note Payable
Fair value of debt is based on current rates for similar financing.

Accrued Interest
The carrying amount of accrued interest approximates fair value.

Off-balance Sheet Instruments
Off-balance sheet commitments are not addressed for fair value disclosure considerations. Because of the difficulty in assessing and valuing the likelihood of advancing the proceeds of letters of credit and unadvanced commitments, management believes it is not feasible or practicable to fairly and accurately disclose a fair value of off-balance sheet commitments.

The following table presents estimated fair values of the Company's financial instruments as of December 31 (in thousands):

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$150,121	$150,121	$ 84,790	$ 84,790
Securities held to maturity	7,756	7,795	4,937	4,963
Securities available for sale	3,912	3,912	-	-
Nonmarketable equity securities	372	372	312	312
Loans, less allowance for loan losses	269,224	273,874	330,024	328,299
Accrued interest receivable	1,711	1,711	1,725	1,725
Company owned life insurance	4,671	4,671	4,500	4,500
Financial liabilities				
Deposits	$350,554	$350,575	$208,454	$208,454
Note payable	6,660	6,660	8,534	8,534
Federal funds purchased	60,668	60,668	178,896	178,896
Accrued interest payable	100	100	276	276

NOTE G — LEASEHOLD IMPROVEMENTS AND EQUIPMENT

At December 31, leasehold improvements and equipment, less accumulated depreciation and amortization, consisted of the following (in thousands):

	2009		
	Cost	Accumulated depreciation and amortization	Net amount
Leasehold improvements	$210	$146	$ 64
Furniture and equipment	738	640	98
	$948	$786	$162

	2008		
	Cost	Accumulated depreciation and amortization	Net amount
Leasehold improvements	$179	$133	$ 46
Furniture and equipment	712	567	145
	$891	$700	$191

NOTE H — DEPOSITS

The aggregate amount of time deposits in denomination of $100,000 or more at December 31, 2009 was $94,005,000.

At December 31, 2009, the scheduled maturities of time deposits are as follows (in thousands):

2010	$62,629
2011	31,906
2012	-
2013	-
2014	-
Thereafter	-
	$94,535

NOTE I — INCOME TAXES

Following is an analysis of income taxes included in the statements of income (in thousands):

	2009	2008
Current tax provision (benefit)		
Federal	$(1,993)	$3,243
State	(179)	470
	(2,172)	3,713
Deferred tax provision (benefit)		
Federal	(1,175)	(1,699)
State	(116)	(232)
	(1,291)	(1,931)
	$(3,463)	$1,782

A deferred tax asset or liability is recognized for the tax consequences of temporary differences in the recognition of revenue and expense for financial reporting and tax purposes.

Listed below are the components of the net deferred tax asset as of December 31 (in thousands):

	2009	2008
Deferred tax assets		
Allowance for loan and lease losses	$8,121	$ 2,679
Deferred compensation	353	442
Salary continuation plan	474	465
Company owned life insurance accrual	229	206
Other real estate owned	558	-
Net unrealized loss on available for sale securities	16	-
Depreciation and amortization	12	-
Other	186	148
	9,949	3,940
Deferred tax liabilities		
Depreciation and amortization	-	(9)
Deferred tax asset	9,949	3,931
Valuation allowance	(4,711)	-
Net deferred tax asset	$5,238	$3,931

The Company periodically reviews the need for a valuation allowance against deferred tax assets and recognized these deferred tax assets to the extent that realization is more likely than not. Based on a review of future taxable income, the Company believes that a valuation allowance is appropriate at December 31, 2009.

The effective income tax rate varies from the statutory federal rate because of several factors, the most significant being nontaxable interest income earned on obligations of state and municipalities and Colorado income taxes. The following table reconciles the Company's effective tax rate to the statutory federal rate (in thousands):

	2009		2008	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Tax expense at statutory rate	$(7,462)	(34.0)%	$1,640	34.0%
Increase (decrease) in taxes due to				
Valuation allowance	4,711	21.5	-	-
Tax-exempt interest	(31)	(0.2)	(33)	(0.7)
State income taxes, net of federal benefit	(671)	(3.0)	148	3.1
Other	(10)	(0.1)	27	0.5
Total provision for income taxes	$(3,463)	(15.8)%	$1,782	36.0%

NOTE J — NOTE PAYABLE

At year end, notes payable to the Bank of Choice were as follows:	2009	2008
Promissory note maturing December 2010, fixed rate of 6%	$6,660	$8,534

Interest payments are due quarterly beginning March 1, 2010 and all outstanding principal is due December 1, 2010. Effective December 30, 2009, the note is no longer a revolving line of credit. The note is collateralized by Bank stock and an assignment of other real estate owned by WSH totaling $9,140,000.

Required payments over the next five years are as follows (in thousands):

2010	$6,660
2011	-
2012	-
2013	-
2014	-
Thereafter	-
	$6,660

NOTE K — FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit.

Those instruments involve, to a varying degree, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and stand-by letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk are as follows (in thousands) as of December 31:

	2009	2008
Commitments to extend credit	$118,037	$243,710

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

NOTE L — LEASE AND PROCESSING COMMITMENTS

Future minimum payments under operating leases for premises and processing agreements expiring at various dates through 2014 are as follows (in thousands):

Year ending December 31	Leases for premises	Agreements for processing
2010	$ 401	$2,068
2011	496	99
2012	511	-
2013	525	-
2014	540	-
Thereafter	-	-
	$2,473	$2,167

Total expense for these commitments was $2,184,000 and $3,664,000 in 2009 and 2008, respectively.

NOTE M — EMPLOYEE BENEFIT PLANS

The Company provides a 401(k) plan which covers substantially all of its employees who are eligible to age and length of service. The Company may make matching contributions of 100% of the first 3% of a participant's compensation plus 50% of the next 2% of compensation. The Company also provides a noncontributory profit sharing plan. The amount of the contribution to the noncontributory plan may equal up to 5% of compensation and the amount of the contribution is determined annually at the discretion of the Board of Directors. Vesting occurs over various periods with full vesting after six years. The Company's expense related to these plans was $257,000 and $398,000 in 2009 and 2008, respectively.

The Company has a deferred compensation plan for certain employees. Employees of the plan annually elect to defer a portion of their salaries. These funds, totaling $953,000 and $1,193,000 at December 31, 2009 and 2008, respectively, are in a Grantor trust and are included in other assets. A like amount is included in other liabilities for the corresponding accrual of compensation.

The Company also has deferred compensation agreements with key employees. Vesting is based upon age and years of service. Life insurance contracts have been purchased which may be used to fund these agreements. The charges to expense were $113,000 in 2009 and $198,000 in 2008.

NOTE N — RELATED PARTIES

At December 31, 2009 and 2008, the Company had $3,200,000 in loans receivable from directors, officers and principal owners of the Company and their related business interests.

NOTE O — DIVIDEND RESTRICTIONS

Various restrictions limit the extent to which dividends may be paid by the Company's subsidiary bank. Under Colorado law, regulatory approval is required for the Bank to pay dividends in any calendar year which exceed the subsidiary bank's net profit for that year combined with its retained profits for the preceding two years.

NOTE P — LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE Q — MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2009, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2009 and 2008 are also present in the table.

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(amounts in thousands)					
December 31, 2009						
Total capital to risk weighted assets	$30,762	10.3%	$24,000	8.0%	$30,000	10.0%
Tier 1 capital to risk weighted asset	26,755	8.9	12,000	4.0	18,000	6.0
Tier 1 capital to average assets	26,755	5.5	19,654	4.0	24,567	5.0
December 31, 2008						
Total capital to risk weighted assets	$47,232	12.4%	$30,480	8.0%	$38,100	10.0%
Tier 1 capital to risk weighted asset	42,429	11.1	15,240	4.0	22,860	6.0
Tier 1 capital to average assets	42,429	8.3	20,490	4.0	25,613	5.0

NOTE R — PREFERRED STOCK

The Series A Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock may be redeemed by the Company after three years. The Series B Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 9% per annum. The Series B Preferred Stock may also be redeemed by the Company after three years. Prior to the end of three years, the Series A Preferred Stock and Series B Preferred Stock may be redeemed by the Company only with proceeds from the sale of qualifying equity securities of the Company (a "Qualified Equity Offering"). Neither the Series A nor the Series B Preferred Stock is subject to any contractual restrictions on transfer, except that the U.S. Treasury or any of its transferees may effect any transfer that, as a result of such transfer, would require the Company to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934.

Pursuant to the terms of the Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Common Stock will be subject to restrictions, including a restriction against increasing dividends. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also will be restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Preferred Stock and (b) the date on which the Preferred Stock has been redeemed in whole or the U.S. Treasury has transferred all of the Preferred Stock to third parties, except that, after the third anniversary of the date of issuance of the Preferred Stock, if the Preferred Stock remains outstanding at such time, the Company may not increase its common dividends per share without obtaining consent of the U.S. Treasury.

The Purchase Agreement also subjects the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (the "EESA"). In this connection, as a condition to the closing of the transaction, the Company's Senior Executive Officers (as defined in the Purchase Agreement) (the "Senior Executive Officers"), (i) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer's compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owns the Preferred Stock of the Company; and (ii) entered into a letter with the Company amending the Benefit Plans with respect to such Senior Executive Officers as may be necessary, during the period that the Treasury owns the Preferred Stock of the Company, as necessary to comply with Section 111(b) of the EESA.

NOTE S — SUBSEQUENT EVENTS

In February 2010 the Company entered into a Written Agreement with the Federal Reserve Bank of Kansas City (Reserve Bank) and the Colorado Division of Banking (the Division). The agreement provides, among other items, that

- The Bank shall not increase the aggregate dollar value of loan portfolio above $287,400,000 without prior written approval,
- The Bank shall notify the Reserve Bank and the Division no more than 30 days after quarter end in which any of the Bank's capital ratios fall below minimum ratios,
- The Bank must receive prior written approval of the Reserve Bank and the Division to declare dividends, and
- The Company shall not incur, increase, guarantee any debt, or redeem any shares of stock without prior written approval of the Reserve Bank.

On April 30, 2010 management became aware of additional information with respect to certain loans in its portfolio and determined that an additional provision to the allowance for loan losses of $12,715,000 was appropriate as of December 31, 2009. These financial statements have been restated to reflect this additional provision.

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION

December 31, 2009
(in thousands)

	Bankers' Bank of the West Bancorp, Inc.		Bankers' Bank of the West		Western States Holding, Inc.		Reclassifications and Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
ASSETS										
Cash and due froms	$ 2,446	$ 915	$123,876	$ 31,545	$ 1,581	$ 2	$ (3,727)	$ (917)	$124,176	$ 31,545
Federal funds sold	-	-	25,945	53,245	-	-	-	-	25,945	53,245
Cash and cash equivalents	2,446	915	149,821	84,790	1,581	2	(3,727)	(917)	150,121	84,790
Investment securities										
Available for sale	-	-	3,912	-	-	-	-	-	3,912	-
Held to maturity	-	-	7,756	4,937	-	-	-	-	7,756	4,937
Nonmarketable equity securities	-	-	372	312	-	-	-	-	372	312
Loans	-	-	287,406	338,038	6,388	-	-	-	293,794	338,038
Allowance for loan losses	-	-	24,570	8,014	-	-	-	-	24,570	8,014
Net loans	-	-	262,836	330,024	6,388	-	-	-	269,224	330,024
Leasehold improvements and equipment, net	-	-	162	191	-	-	-	-	162	191
Accrued interest receivable	-	-	1,711	1,725	-	-	-	-	1,711	1,725
Cash surrender value of life insurance	-	-	4,671	4,500	-	-	-	-	4,671	4,500
Real estate owned, net	-	-	4,294	-	5,566	8,527	-	-	9,860	8,527
Other assets	168	8	7,301	6,577	456	-	(374)	(8)	7,551	6,577
Investment in Bankers' Bank of the West	26,727	42,429	-	-	-	-	(26,727)	(42,429)	-	-
Investment in Western States Holding, Inc	13,991	8,529	-	-	-	-	(13,991)	(8,529)	-	-
TOTAL ASSETS	$43,332	$51,881	$442,836	$433,056	$13,991	$8,529	$(44,819)	$(51,883)	$455,340	$441,583
LIABILITIES										
Deposits										
Non interest-bearing	$ -	$ -	$259,746	$ 89,232	$ -	$ -	$ (3,727)	$ (917)	$256,019	$ 88,315
Interest-bearing	-	-	94,535	120,139	-	-	-	-	94,535	120,139
Total deposits	-	-	354,281	209,371	-	-	(3,727)	(917)	350,554	208,454
Federal funds purchased	-	-	60,668	178,896	-	-	-	-	60,668	178,896
Note payable	6,660	8,534	-	-	-	-	-	-	6,660	8,534
Accrued interest payable	34	9	66	267	-	-	-	-	100	276
Other liabilities	-	-	1,094	2,093	-	-	(374)	(8)	720	2,085
Total Liabilities	6,694	8,543	416,109	390,627	-	-			418,702	398,245
STOCKHOLDERS' EQUITY										
Common stock	1,991	1,993	1,234	1,234	-	-	(1,234)	(1,234)	1,991	1,993
Preferred stock	12,755	-	-	-	-	-	-	-	12,755	-
Capital surplus	12,528	12,558	10,341	8,341	14,764	8,529	(25,105)	(16,870)	12,528	12,558
Retained earnings	9,392	28,787	15,180	32,854	(773)	-	(14,407)	(32,854)	9,392	28,787
Accumulated other comprehensive income (loss)	(28)	-	(28)	-	-	-	28	-	(28)	-
Total stockholders' equity	36,638	43,338	26,727	42,429	13,991	8,529	(40,718)	(50,958)	36,638	43,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$43,332	$51,881	$442,836	$433,056	$13,991	$8,529	$(44,819)	$(51,883)	$455,340	$441,583

CONSOLIDATING SCHEDULE — STATEMENT OF INCOME INFORMATION

December 31, 2009
(In thousands)

	Bankers' Bank of the West Bancorp, Inc.		Bankers' Bank of the West		Western States Holding, Inc.		Reclassifications and Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
INTEREST INCOME										
Interest and fees on loans	$ -	$ -	$15,848	$22,360	$ -	$-	$ -	$ -	$15,848	$22,360
Interest on taxable investment securities	-	-	383	320	-	-	-	-	383	320
Interest on tax-exempt investment securities	-	-	30	30	-	-	-	-	30	30
Interest on federal funds sold	-	-	187	2,338	-	-	-	-	187	2,338
Total interest income	-	-	16,448	25,048	-	-	-	-	16,448	25,048
INTEREST EXPENSE										
Deposits	-	-	1,961	1,967	-	-	-	-	1,961	1,967
Federal funds and other borrowings	428	9	204	6,618	-	-	-	-	632	6,627
Total interest expense	428	9	2,165	8,585	-	-	-	-	2,593	8,594
Net interest income (loss) before provision for loan losses	(428)	(9)	14,283	16,463	-	-	-	-	13,855	16,454
Provision for loan losses	-	-	29,621	8,430	-	-	-	-	29,621	8,430
Net interest income (loss) after provision for loan losses	(428)	(9)	(15,338)	8,033	-	-	-	-	(15,766)	8,024
Equity in earnings of subsidiaries	(18,199)	3,056	-	-	-	-	18,199	(3,056)	-	-
Noninterest income	-	-	9,778	11,020	(296)	-	-	-	9,482	11,020
Noninterest expense	26	13	14,706	14,207	932	-	-	-	15,664	14,220
Income (loss) before income taxes	(18,653)	3,034	(20,266)	4,846	(1,228)	-	18,199	(3,056)	(21,948)	4,824
Income tax expense (benefit)	(168)	(8)	(2,840)	1,790	(455)	-	-	-	(3,463)	1,782
Net income (loss)	$(18,485)	$3,042	$(17,426)	$ 3,056	$(773)	$-	$18,199	$(3,056)	$(18,485)	$ 3,042

INDEPENDENT AUDITOR'S REPORT

FORTNER, BAYENS, LEVKULICH
▪
& GARRISON, P.C.

Board of Directors
Bankers' Bank of the West Bancorp, Inc.
Denver, Colorado

We have audited the accompanying consolidated balance sheets of Bankers' Bank of the West Bancorp, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bankers' Bank of the West Bancorp, Inc. and subsidiaries as of December 31, 2009 and 2008 and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note S to the financial statements, the 2009 financial statements have been restated to correct a misstatement.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The additional consolidating information on pages 18 and 19 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the Company's management. This additional information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

Fortner, Bayens, Levkulich & Garrison, P.C.

Denver, Colorado
May 10, 2010

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President
Integrity Bank and Trust
Monument, Colorado

BANKERS' BANK OF THE WEST MISSION STATEMENT

As a partner to community banks in our service area, we support our clients with outstanding service and effective solutions, ensure long-term value for shareholders, and foster the well-being of our employees.

CORE VALUES STATEMENT

We value our client banks. We measure our success by the satisfaction of our customers and the benefits we deliver to shareholders. We maintain the strength, safety and soundness of our organization, thereby assuring our ability to help community banks thrive. We advocate for our clients through industry involvement and leadership.

We value one another. We treat our colleagues with respect, appreciation and courtesy. We are open and accountable. We work as a team knowing we are also individually responsible for making a positive difference for our clients.

We value honesty, integrity and excellence in all aspects of our performance.

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