

BBW News

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A MESSAGE FROM THE PRESIDENT

Bankers mindful of recent past, primed for a new decade



Bill Mitchell
BBW President & CEO

In talking with customers in recent weeks, I heard that 2009 was a year for addressing asset quality issues and establishing a strong foundation for the future. Many of our customers acknowledge more work needs to be done but think community banks have turned the corner. Most bankers expect 2010 to be a better year in spite of lower-than-normal earnings.

At Bankers' Bank of the West, we feel the same way. Last year we managed through some challenging bank stock loan and commercial real estate issues. We entered January feeling we've made considerable progress toward aggressively resolving problem loans.

Since the start of the country's CRE downturn—marked by the secondary market collapse in August 2007—the banking industry is now 2-1/2 years into this downturn. It appears the bulk of CRE level 1 problems have surfaced although bankers will still be keeping an eye on CRE level 2 portfolios. The same holds true for BBW. Any weakness in our CRE portfolio has most likely been identified and addressed. We will, of course, continue to monitor the portfolio proactively.

Probably the bigger challenge for BBW in 2010 will be managing through the bank stock loan portfolio, as several of our customers are dealing with difficult issues. With this in mind, we have aggressively reserved for future problems: The bank's loan loss reserve ended the year at 4.12%, an increase from a reserve of 2.37% as of year-end 2008, and 0.71% as of year-end 2007.

Charge-off for 2009 was high. We incurred gross charge-offs of \$13.8MM. Of this, \$7.9MM was related to bank stock loans, and \$5.9MM to CRE credits. We did recover \$727M during the year.

Despite high charge-off, the bank ended 2009 with strong capital ratios. Risk-based capital, tier one

risk-based capital, and leverage capital were 13.78%, 12.50%, and 8.68%, respectively, as of Dec. 31, 2009, versus 12.40%, 11.14%, and 8.28% for Dec. 31, 2008. While our capital ratios are currently strong, I think they will increase throughout 2010 as a consequence of expected lower loan loss provisions—much lower, I hope.

For the first time in my career, I considered earnings in 2009 secondary to the aggressive identification and resolution of loan problems. Earnings suffered for the year because of this aggressive stance on loan loss provisions. Bankers' Bank of the West incurred a loss for net income of \$4.7MM, or (1.01% ROAA), in 2009. The bank also took a very conservative approach from a tax planning perspective, accelerating some highly likely losses. This conservative stance positions us well for the future.

Though widely expected to be a better year, 2010 is sure to present challenges of its own. Accordingly, we have budgeted \$7MM for loan loss provisions. Provisioning at this level should still assure a profit for the year and set us up for near-normal earnings in 2011.

Just as you take pride in your team's accomplishments, I am pleased the staff of BBW has identified, addressed and rectified many of our loan issues. The waters are not yet still, but the sky is starting to clear. We look forward to calmer sailing in the future and wish all our customers a happy and prosperous new year. ▲

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Taking note

■ Employees selected for promotion

On Dec. 29, Bankers' Bank of the West CEO William "Bill" Mitchell announced the promotion of three employees:

Rob Arola was appointed a Senior Credit Analyst. Rob, a graduate of the University of North Dakota, worked for a community bank in Minnesota for two years before joining BBW in 2008.

Jon Dittenber was named Vice President. Based in BBW's Lincoln office, Jon serves banks in Nebraska, western Iowa, and eastern South Dakota. The alumnus of the University of Nebraska has been with BBW since 2005.

Tara Rosenbaum was appointed a Correspondent Calling Officer. She came to BBW in 2007 with banking experience in operations as well as lending. Tara earned her bachelor's degree from the University of Nebraska.

■ CD represents an alternative for banks

Current rates for BBW's fixed-rate certificates of deposit created in October exclusively for community financial institutions are posted at www.bbwest.com. Available in four maturities, the CDs provide a favorable rate of return relative to federal fund earnings. To discuss or open a CD, call 800-873-4722.

■ Coffers for charities surpass projection

A Bankers' Bank of the West employee-driven fundraising project was launched in October with the aim of contributing to two nonprofit organizations. Staff participation was voluntary. More than 80% of BBW's 46 employees joined the effort.

At the close of the nine-week project last month, donations totaled \$1,460. Of that, \$885 was allocated to the Disabled American Veterans Charitable Service Trust, whose mission is to improve the lives of injured U.S. veterans; \$575 was given to the Jeffco Action Center, a Colorado-based provider of basic human needs. Both recipient organizations are four-star rated by Charity Navigator, the highest rating given by the evaluator.

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Feature-rich prepaid card programs fortify community bank efforts to grow customer base – and loyalty

It's true that financial products are usually more pragmatic than glamorous. But prepaid cards fall under the category of both exciting and sensible from the consumer's perspective.

No wonder all age groups are keen on prepaid cards: Today they come loaded with desirable features for specific needs.

Offering a first-rate prepaid card program amplifies the community bank's exposure to current and potential customers while enhancing its image as a savvy, progressive institution.

The prepaid card program offered by Bankers' Bank of the West has helped many community banks remain competitive in their markets.

While specific features vary by card, all of these categories of prepaid cards are usable through the Visa®, MasterCard® or Discover® Network and

co-branded with your community bank's logo:

- **Gift Card** (with issuance through MasterCard)
- **Reloadable Card**
- **Travel Card**
- **Youth Card**

BBW's Bank Cards Department can work with you to create and implement a high-quality prepaid program professionally and quickly for your bank—and with a smaller investment in staff time than you might imagine.

To discuss program details, call **Mary Ann Elliott-Supplies** at **1-800-601-8630**. ▲

Participation in Transaction Account Guarantee Program continues

Bankers' Bank of the West is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. ▲

Annual meeting of shareholders scheduled for next month

Bankers' Bank of the West Bancorp, Inc., which is owned entirely by community banking institutions, will hold its annual shareholders' meeting at 2 pm Mountain Time on Feb. 19, 2010, at the Bankers' Bank of the West offices in Denver.

Shareholders will receive information packets in the mail shortly. ▲

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.

❧ Statement of Core Values ❧

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.

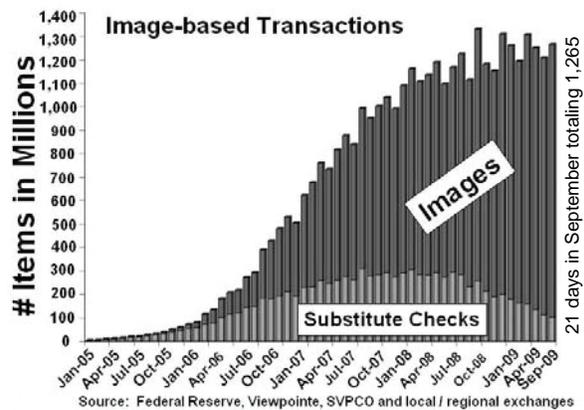
Revised 2009

Rules coverage a sensible approach to reducing risks of image exchange

Who is participating in check image exchange today? Just about everyone, it seems.

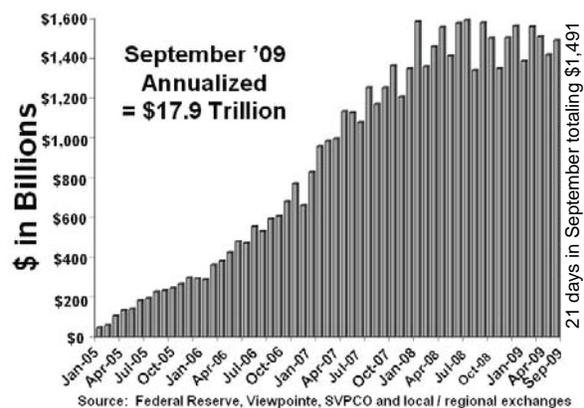
Industry statistics from 2009 reflecting transactions settled through the Federal Reserve, SVPCO, Viewpointe, and local/regional exchanges show that as of September, 15,270 institutions were able to receive check images for payment instead of a paper check. This represents approximately 96% of U.S. financial institutions. For that same month the number of image-based transactions, including both check images and substitute checks—items sent as images but converted to a substitute check for clearing—totaled approximately 1.3 billion items. [Figure 1]

Figure 1



Annualizing this volume would bring the totals to 15.1 billion items a year worth nearly \$18 trillion! [Figure 2]

Figure 2



The volume flowing through the U.S. payment system attests that thousands of institutions are seeing the value of sending and receiving check images—value in the form of reduced expenses, new and improved customer services, and enhanced clearing options, among other things.

As the industry nears the point where nearly all checks will be exchanged as electronic images, one key point must still be considered: **Traditional check laws do not fully address check image exchange, which creates risk for institutions exchanging without rules or specific agreements.** Rules and agreements are necessary when exchanging through either the private sector providers or the Federal Reserve banks.

The Electronic Check Clearing House Organization (ECCHO) is a not-for-profit national clearinghouse created in 1990. ECCHO has long worked across a broad spectrum of banking institutions and organizations to support industry efforts to make the check payment system more efficient. ECCHO rules designed to cover the exchange of electronic check images between members enable members to reduce legal risks when exchanging images governed by the Rules.

ECCHO members and sponsors represent thousands of financial institutions and industry organizations supporting a common set of nationally recognized image exchange rules. Bankers' Bank of the West is a Sponsoring Organization with ECCHO; as such, BBW has the opportunity to influence the direction of the rules development through participation in the subcommittees and the Operations Committee meetings.

As a sponsor, BBW also can sign up other financial institutions as sponsored members thus providing each with the benefit of ECCHO Rules coverage for check image exchange. For more information on becoming a sponsored member through Bankers' Bank of the West, call BBW at **1-800-873-4722** and ask to speak with a cash management officer. ▲

This article was contributed by ECCHO Director of Product Management Development Ellen Heffner, who is based in Dallas, Texas.

From all areas of our bank, a partial list of 2009 accomplishments

Certainly numbers are central to banking; yet they cannot measure everything. Below are some of BBW's 2009 achievements that are conveyed better in words than in numbers alone:

- Registered as an agent to hold unsold federal funds in an Excess Balance Account on behalf of BBW customers.
- Sponsored 43 community bank customers for membership in the Electronic Check Clearing House Organization.
- Improved workflow processes and the use of technology in the loan operations area, facilitating greater efficiency and consistency.
- Effected full automation of ACH wires, significantly shrinking transmission time.
- Expanded off-site business continuity and disaster recovery capabilities.
- In response to customer requests, introduced a sweep product and certificates of deposit for community banks.
- Organized and hosted two excellent training programs for lenders.
- Became an acquirer for Discover® Network transactions, unlocking additional revenue opportunities for community bank partners. ▲

Extra arrow in the quiver of banks taking aim at business clients

Banks that focused on retrenching and rebounding last year are now assessing tactics and tools to reach their goals for 2010 and beyond. Being more approachable and adaptable than larger competitors, the community bank, on the whole, holds particular appeal for the desirable small-business sector—provided the bank is equipped and prepared to fulfill the commercial client's needs.

If your bank's objectives include gains in the small-business sector, this may be time to take a fresh, objective look at possibilities you may once have considered unfeasible. Your success in securing long-term relationships with business owners will hinge on your ability to meet both their credit and operational needs even with stringent lending standards in place.

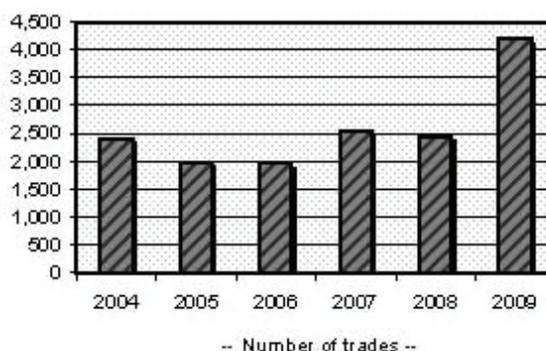
One source of small-business capital that remains untapped or seldom used by many smaller financial institutions is the Small Business Administration loan program. While SBA 7a guaranteed lending is neither effortless nor an instant cure, it can be an ideal fit for credits meeting specific criteria—not to mention a safeguard for a bank seeking to ensure asset quality and a healthy return.

Rather than disregard an SBA lending solution, banks wary of the long learning curve and staff commitment required of a full-scale program might explore other avenues including outsourcing. Delegating SBA applications to a highly

qualified and seasoned SBA 7a service provider can offer the bank the depth of knowledge and compliance expertise required to meet the fluctuating needs of small-business customers.

You can begin your research by reading recent articles, subscribing to a free newsletter, and downloading a free white paper (*Community Bank Business Case for SBA 7a Lending*) from the "Articles" section of www.sbaonesource.com. Also visit www.sba.gov to learn about the Small Business Administration Association's Certified Lenders Program. ▲

Bankers' Bank of the West Safekeeping Service Trade Settlement Statistics



For complete details on the accurate, efficient securities clearance and custody services offered by BBW, call **Sandy Gerck** at **303-313-8102**.

Reasonable minds can draw disparate conclusions from data, trends

BBW Capital Advisors LLC

At the close of 2009, it seemed the optimism of the bulls echoed ever louder. However, as a song from the late 1980s put it so aptly, “Don’t Believe the Hype.” Severe problems still lurk throughout our economy, the largest of which is unemployment—both actual and structural.

While continuing jobless claims have indeed been trending lower, astute investors have noticed that “extended” and “emergency” claims continue to ramp up, and the combination of all three categories of jobless claims is now at 10 million, a new high (chart below). Based on this data, we believe the unemployment picture is not only not getting better, but is actually still getting worse.

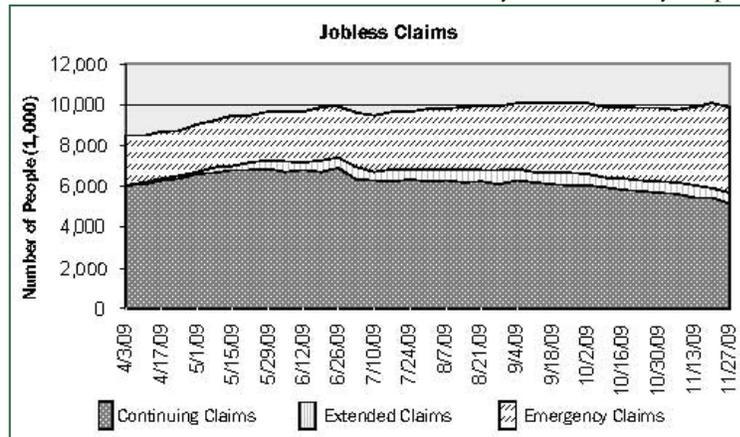
Further, even though the U.S. personal savings rate has recently increased to around 4.5% from negative numbers before the downturn, American consumers are still up to their

ears in debt. According to the Federal Reserve, total consumer debt is still at record levels. Given that consumption currently makes up more than 70% of gross domestic product, consumers need to repair their balance sheets before GDP can resume strong, organic growth.

Finally, we believe that over the short term, GDP can grow somewhat faster than the combination of employment and productivity due to increased debt levels. However, we are convinced that over the long term, GDP will closely track these statistics. Since as a nation, we are tapped out when it comes to leverage, and productivity is near record levels (mostly due to the reduction in the labor force), we expect near-term GDP to be most heavily influenced by employment levels. Having

forecast employment data to continue to be weak over most of 2010, we fail to buy into the misplaced economic enthusiasm of the consensus.

With that cheery prognosis, we wish everyone a healthy, happy and prosperous year ahead! ▲



Source: Bureau of Labor Statistics

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