



BANKERS' BANK OF THE WEST

February 27, 2009

Mr. Neil M. Barofsky  
Special Inspector General  
Office Of The Special Inspector General  
Troubled Asset Relief Program  
1500 Pennsylvania Ave., N.W. Suite 1064  
Washington, D. C. 20220

Dear Mr. Barofsky:

I am in receipt of your February 6, 2009 letter and am replying as requested. Attached for your consideration are a board resolution, customer correspondences, and program usage worksheets that I believe address the issues highlighted in your letter. But in addition to the attachments, I thought I would summarize our usage to date and game plan for utilizing the remaining funds.

As of today, of the \$12,639,000 received on January 30, 2009, \$10,185,170 has been utilized. Of this amount, \$2 million was downstreamed to the subsidiary bank as capital, and another \$2,185,170 was utilized to make a 25 percent reduction in a bank stock loan Bankers' Bank of the West Bancorp, Inc. currently maintains. In addition, \$6,000,000 was transferred to a subsidiary of the holding company, Western States Holdings, which has been established to purchase troubled assets from the bank at fair market value. Finally, approximately \$2.1 million will be held at the holding company to provide debt service coverage for dividend payments on the preferred stock and preferred warrants per the TARP program. These monies will be invested in AAA rated short-term investments to generate some cash flow to be used for the ultimate payback of TARP funds. The "TARP Allocation" page provides a recap of funds usage.

The subsidiary bank, Bankers' Bank of the West, is one of 20 correspondent banks in the United States. Our customer base comprises community banks only, as we provide products and services to over 350 community banks in the Heartland and West regions. These banks are highly dependent upon us for their success, which is why I believe the Treasury Department quickly acted upon our application.

To be consistent with one of the goals of the TARP program, Bankers' Bank of the West will continue to approve renewed and new loan participation purchase requests from customer banks. Since receipt of the TARP funds on January 30,

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the bank has purchased \$5,440,309 in loan participation purchase requests, and will track new loan volume on an ongoing basis. A bankers' bank is very much has a multiplier effect on banking. We purchase loans originated by banks, which ultimately frees up our customer banks' ability to lend.

The information in this letter and the documentation attached helps to address the questions noted in your February 6 letter. To further clarify answers to the questions, please consider the following responses:

**(1) a:** anticipated use: previously addressed in this letter and in the attachments.

**(1) b:** segregation of funds downstreamed to the subsidiary bank will be included in the bank's "Surplus." In addition, the funds transferred to subsidiary "WSH" will be reflected in "Cash" at WSH. All other funds will be segregated, and all funds will be easily identifiable.

**(1) c:** to-date usage: previously addressed in this letter and in the attachments.

**(1) d:** expected use of unspent funds: all but \$387,353 has been previously addressed in this letter and in the attachments. Usage of the remaining amount is still being determined, but in any event, we expect future use of funds will be consistent with our intent at the time of the application.

**(2)** The board of directors has signed a board resolution that addresses the Department of Treasury executive compensation guidelines per this program on February 20, 2009. A copy of the resolution is included.

Without receipt of TARP funds, the bank would not have been able to sell \$6 million in troubled assets to the holding company, and may not have been able to continue to support community banks through the multiplier effect of purchasing loan participations.

All documentation of the use of TARP funds as well as any correspondences will be maintained and available for review.

In conclusion, I am a duly authorized senior executive of Bankers' Bank of the West Bancorp, Inc., and both subsidiaries, Bankers' Bank of the West and Western States Holding, Inc. and do hereby certify the accuracy of all statements

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representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Should you require any further information, please let me know.

Sincerely,

A handwritten signature in blue ink that reads "W. A. Mitchell Jr." The signature is written in a cursive style and is positioned above the typed name.

William A. Mitchell, Jr.  
President and CEO  
Bankers' Bank of the West Bancorp, Inc.

**RESOLUTIONS OF  
THE BOARD OF DIRECTORS OF  
BANKERS' BANK OF THE WEST BANCORP, INC.**

The undersigned, being all of the directors of Bankers' Bank of the West Bancorp, Inc. (the "Corporation"), a Colorado corporation, hereby consent to the adoption of the following resolutions without a meeting in accordance with the Colorado Business Corporations Act:

**WHEREAS**, on January 30, 2009, the Corporation received \$12,639,000 (the "Investment") from the United States Department of the Treasury's Troubled Asset Relief Program Capital Purchase Program (the "Capital Purchase Program");

**WHEREAS**, as a condition to the closing of the Investment, the Corporation and its Senior Executive Officers, defined as the CEO, CFO and the next three most highly compensated officers, are required to modify or terminate compensation, bonus, incentive and benefit plans, arrangements and agreements, including golden parachute agreements, to the extent necessary to be in compliance with the executive compensation and corporate governance requirements of the Emergency Economic Stabilization Act of 2008 (the "EESA") for the duration of the Investment. The Corporation and its Senior Executive Officers do not have to amend any such agreements as the Corporation and the Senior Executive Officers are currently in compliance with the terms of the EESA;

**WHEREAS**, the EESA requires that the Corporation must (i) exclude compensation incentives for Senior Executive Officers to take unnecessary and excessive risks that threaten the value of the Corporation; (ii) provide for the recovery of any bonus or incentive compensation paid to a Senior Executive Officer based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (iii) prohibit any golden parachute payments to its Senior Executive Officers; and (iv) agree not to deduct for tax purposes executive compensation in excess of \$500,000 for each Senior Executive Officer (collectively, the "Standards");

**WHEREAS**, as an additional condition to the Investment, the Chief Executive Officer of the Corporation is required to certify within 120 days of the closing of the Investment and annually within 135 days that the Corporation and its compensation committee have complied with the Standards (the "Certifications"); and

**WHEREAS**, the undersigned believe that it is in the best interests of the Corporation to modify or terminate compensation, bonus, incentive and benefit plans, arrangements and agreements, including golden parachute agreements, with Senior Executive Officers to the extent necessary to comply with the Standards;

**NOW, THEREFORE, BE IT**

**RESOLVED**, that the Corporation does not currently have any compensation, bonus, incentive and benefit plans, arrangements and agreements (including any golden parachute agreements) that do not comply with the Standards. If the Corporation shall be deemed to have any compensation, bonus, incentive and benefit plans, arrangements and agreements (including



any golden parachute agreements) that do not comply with the Standards, they shall be modified to the extent necessary to make them comply;

**FURTHER RESOLVED**, that the Chief Executive Officer of the Corporation is hereby authorized, in the name and on behalf of the Corporation, to execute and deliver the Certifications as may be required throughout the duration of the Investment;


**FURTHER RESOLVED**, that the Chief Executive Officer of the Corporation, and any other officer of the Corporation authorized by such officer (collectively, the "Authorized Officers") be, and hereby are authorized, in the name and on behalf of the Corporation, to review, modify and/or terminate compensation, bonus, incentive and benefit plans, arrangements and agreements, including golden parachute agreements, with Senior Executive Officers to the extent necessary to comply with the Standards, as now in existence or as modified in the future by the United States Department of the Treasury;

**FURTHER RESOLVED**, that the Authorized Officers are hereby authorized, in the name and on behalf of the Corporation, to require such certificates, documents, instruments or other papers and to do or cause to be done all such acts and things as any of them, may deem necessary or appropriate to effect fully the intent and purposes of the above resolutions, including, but not limited to, the Certifications and agreements with Senior Executive Officers regarding compliance with the Standards, as now in existence or as modified in the future by the United States Department of the Treasury; and


**FURTHER RESOLVED**, that any and all action heretofore or hereafter taken by any Authorized Officer of the Corporation and by any person or persons designated or authorized to act by any Authorized Officer of the Corporation within the terms of the foregoing Resolutions, be and hereby is, ratified and confirmed as the act and deed of the Corporation.


This Resolution of the Board of Directors may be executed in counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument.

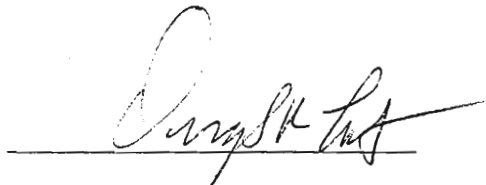
This Resolution of the Board of Directors is executed effective as of February 20, 2009.


  
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William A. Mitchell, Jr.


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Kyle Curtis

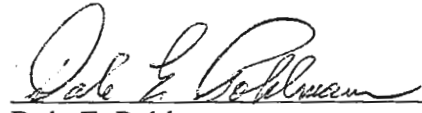
  
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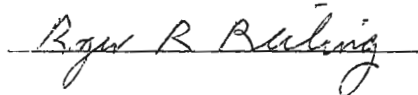
  
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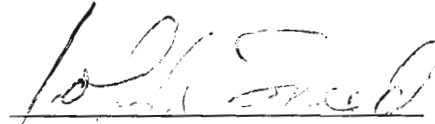
  
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Douglas R. Lutz


  
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Darrell McAllister

  
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Jim Pieters

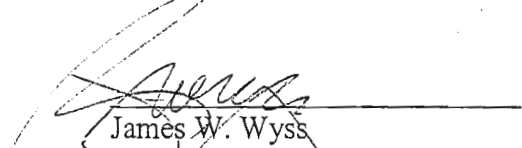
  
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Dale E. Pohlmann

  
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Roger R. Reiling

  
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John A. Sneed

  
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Jeffrey C. Wallace

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Clint E. Williams

  
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James W. Wyss

Being all of the directors of the Corporation.





BANKERS' BANK OF THE WEST

February 2, 2009

Dear Colleague:

By now we've all read numerous articles about the pros and cons of accepting TARP funds through the Department of Treasury's Capital Purchase Program. Strong arguments have been made for and against accepting government funds.

At Bankers' Bank of the West, the senior management team and board of directors decided prior to the December 2008 application deadline to submit an application but did not commit at that time to accept TARP funds. At the end of the year, BBW's risk-based capital ratio was above 12% and return on assets remained above industry and peer group averages. Senior management and the board felt the bank was continuing in the right direction with or without TARP funds.

Having left our options open, BBW received notification from the Department of Treasury on January 6 confirming that we'd been approved for TARP funding and that we had 30 days to either accept or reject the funding. After detailed discussions and analysis by senior management and the board of directors, the decision was made to accept the TARP funds. In light of these challenging economic times, the leadership of BBW concluded that the bank should take a conservative stance on capital given the importance of meeting the correspondent needs of our 350+ customer banks in a rapidly changing economic environment. We were confident in our ability to meet the needs of our customers even without funds from the Treasury program. Ultimately, however, we decided the more conservative path was to accept TARP funds, which will provide a safety net should the economy turn significantly worse.

As you know, a bankers' bank is a different type of bank from your organization. Formed and owned by banks, BBW's purpose is to assist community banks in their efforts to support their communities rather than to work directly with business owners or consumers. We see our role as a facilitator of community banks' success. The more we can help our customers, the more our customer banks can benefit their communities—and the more community banks can play a leading role in turning around our national economy. We at Bankers' Bank of the West look forward to being a part of that solution through strong, cooperative relationships with community banks.

Thank you for your business and your support. It's an honor to carry forward the mission of serving you as a partner—never a competitor.

Sincerely,

A handwritten signature in black ink that reads "W A Mitchell Jr." in a cursive style.

William A. Mitchell, Jr.  
President and CEO

**TARP ALLOCATION**

**TARP PROCEEDS**

\$12,639,000

**Funds Committed**

(\$2,000,000)	Capital infusion into the bank
(\$2,185,170)	Stock loan pay down
(\$2,066,477)	3 years of dividend payments
(\$6,000,000)	Transfer to Western States Holding
<u>\$387,353</u>	<u>Unallocated</u>

**TARP PROCEEDS TO INVEST**

\$2,066,477 (Dividend payments)

Invest in AAA Securities or CD's



TARP FUNDS CASH FLOW

(b) (4)

*TARP REPAYMENT*

**(b) (4)**

*TARP Principal Payoff Summary*

(b) (4)