



BANKERS' BANK OF THE WEST

Summer 2011

Dear Stakeholders:

Bankers' Bank of the West (BBW) continues to make significant progress toward complete resolution of all issues related to the economic downturn that started in 2007/2008. Undoubtedly some work remains to be done, but our headway thus far has been substantial: BBW has exceeded all mid-year budgeted goals in terms of profitability, capital levels, loan concentration levels, liquidity, and asset quality.

Through the end of July, BBW reported return on average assets of 0.73 percent versus our budget target of 0.28 percent, with total risk-based capital and leverage capital ratios of 17.92 percent and 8.55 percent on July 31.

Commercial real estate concentrations were 75 percent and 248 percent for Levels 1 and 2 as of July 31, well within our guidelines of 100 percent and 300 percent, respectively. In addition, we have sharply reduced our exposure for stock loans to banks that are struggling. BBW also remains an active lender and continues to approve new credit requests. As you know, credit standards today are tighter—both in general and at BBW—than was typical some three years ago. Still, BBW is extremely receptive to approving creditworthy loan requests.

Concerning liquidity, on a daily basis it is rare when more than five percent of our assets are funded by a single depositor. Our funding mix is highly diversified. We are, in fact, setting the stage for future diversification by aggressively working to grow our cash letter business. Over the next couple of years, we aim to add banks to the 100+ current customers that utilize BBW for image cash letter. Similarly, we have set our sights on increasing the number of banks settling through BBW beyond the 128 banks that currently settle through us.

This seems a good opportunity to reiterate what BBW is not. We are not an arm of the government. We are not in competition with our customers either, which makes us markedly different from larger banks with correspondent divisions. Because these distinctions in our “design” are both meaningful and advantageous to community banks, I think BBW has an opportunity to substantially increase cash letter and settlement business over the next three to five years. We intend to grow our customer base by demonstrating the benefits of our cash management, safekeeping, capital markets, card programs, loan generation, and lending support services going forward.

BBW has made huge strides in improving asset quality in just three years. The impact from land development and stock loans to troubled institutions has been greatly reduced since the fourth quarter of 2008. Even though we are still working through a few land and corporate bank stock

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loans, at the moment it appears the loss potential associated with those loans is unlikely to prevent BBW from breaking even for the year. Our aggressive stance toward liquidating troubled loans has not changed, and we are holding a loan loss reserve over 6.5 percent as a buffer to absorb future losses.

I am very pleased with the progress BBW has made over the past three years. Our team looks forward to carrying out our mission of providing best-in-class products and services to you—and to many more community banks we have yet to welcome as customers.

Sincerely,

A handwritten signature in blue ink that reads "WA Mitchell Jr." with a stylized flourish at the end.

William A. Mitchell Jr.
President and CEO