CEOCFO
Interviews & News!

First State Bancorporation is having a very active 2007 adding de novo branches and integrating their 3 prior acquisitions in New Mexico and Colorado

1ST FIRST STATE BANCORPORATION

Financial
Regional Banks
(FSNM-NASDAQ)

First State Bancorporation

7900 Jefferson N.E.
Albuquerque, NM 87109
Phone: 505-241-7500

H. Patrick Dee
COO and Exec. Vice President

BIO:
March, 1984 to present
Executive Vice President and Chief Operating Officer for First State Bancorporation. Also President and Chief Operating Officer of its subsidiary bank, First Community Bank. The company is a $3.3 billion bank holding company, formed in 1988. The bank is a state chartered bank formed in 1922 in Taos, New Mexico. Responsible for overall profitability and growth of the company. During 1993, was principally involved in taking the company public, along with the C.E.O. Have helped manage a rapid growth and expansion of the organization, including the acquisitions of five separate institutions and the addition of several de novo branches.

Other areas of responsibility during this time included those of the positions of Chief Financial Officer and Chief Credit Officer, management of the organization's investment portfolio, and extensive analyses of potential acquisitions and expansion activities. Have overseen or managed the organization's financial and strategic planning processes, asset/liability management, data processing, item processing, branch operations, and relationships with external auditors and examiners. Member of the company's and the bank's Boards of Directors.

Currently a member of the Board of Directors of the Greater Albuquerque Chamber of Commerce, including participation in its "Albuquerque Reads" literacy initiative. Previously a member for six years of the Board of Directors of the New Mexico Museum of Natural History Foundation, and Chairman of its Finance Committee. From 1994 through 2000, was a member of the Board of Directors of ACCION New Mexico, a non-profit organization that makes loans to micro-entrepreneurs in New Mexico. Served as the Chairman of the Board of ACCION New Mexico during 1999.

Education:
Bachelor of Science in Accounting, cum laude, from the University of Denver in June, 1977.

Other:
In April, 2007, received the Governor's Corporate Volunteer Award for the State of New Mexico. In May, 2001, was named the Financial Services Advocate of the year for the state of New Mexico, by the U.S. Small Business Administration. Granted the designation of Certified Public Accountant by the state of Colorado in January, 1979.

Company Profile:
First State Bancorporation (NASDAQ: FSNM) is a New Mexico based commercial bank holding company that provides services to customers from a total of 62 branches located in New Mexico, Colorado, Utah and Arizona. Through its wholly owned subsidiary First Community Bank, First State's strategy is to provide a business culture that offers individualized customer service. First State's flexible approach, which combines direct access to decision makers, the latest in technology, a wide menu of product offerings, and increasingly convenient branch locations, has allowed First State to profitably capture market share made available because of customer dissatisfaction caused by consolidation in the banking industry.

First Community Bank, which has been in operation since 1922, is a state chartered, community focused bank providing a full range of commercial banking services to small and medium size commercial businesses in New Mexico, Colorado, Utah and Arizona. They offer a full range of financial services to commercial and individual customers, including checking accounts, short- and medium-term loans, revolving credit facilities, inventory and accounts receivable financing, equipment financing, residential and small commercial construction lending, residential mortgage loans, various savings programs, installment and personal loans, safe deposit services and credit cards.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Dee, what are the highlights of the past year, and how do you keep it going**?**

Mr. Dee: "Since the first quarter of 2006, we have completed three separate acquisitions. Two of those were New Mexico-based companies and one was in Colorado. This has expanded our footprint, with branches in the state of Arizona and in southern New Mexico and has substantially increased our presence in the state of Colorado along the Front Range. As with any acquisition, there is an integration period that takes some time. The first two acquisitions were done in January of 2006, so those are fully integrated and running well at this point. The most recent one was the acquisition of Front Range Capital Corporation in Colorado, which we completed on the first of March of 2007. We are still in the process of completing that integration and will convert their data processing system to ours the first week in July of this year.

Our earnings were much improved in the 1st Quarter of this year. Our total net income was up 50% compared to the 1st Quarter of the prior year. Our earnings per share increased from $0.24 in the 1st Quarter of 2006 to $0.31 in the 1st Quarter of 2007. We are very excited about the growth opportunities with our expanded footprint. This gives us a much better presence in the state of Colorado. We also have a lot of potential in Arizona where we have already opened two new branches this year with one more to follow. We are having a very active year in terms of de novo branches as we are adding two in Colorado and one more later this year in New Mexico. As part of the acquisition process, we are consolidating some branches. Two of those are branches we recently acquired in Colorado and we are also going to close two more that were from one of the acquisitions in New Mexico in 2006. We have a lot going on and we continue to see great loan growth in all of our markets. Deposit growth has been a bit of a challenge but we have an incentive program in place now with our employees to address that. We are very excited about the near term prospects for the company."

CEOCFO: Some growth has been by acquisition and some by new branches; how do you decide when and where, how does the strategy work?

Mr. Dee: "Historically, we have not been an active acquirer, except for the last fifteen to eighteen months. At this point, we are through doing acquisitions at least for an extended period of time. We have always done acquisitions for a strategic reason. In 2002, we did an acquisition to allow us to enter the Colorado and Utah market places. One of the acquisitions that we did in early 2006 gave us our first presence in southern New Mexico and Arizona. The other acquisition in 2006 was a very strategic addition to our footprint in New Mexico and this last one has given us a much larger franchise in the state of Colorado. Historically, we have always grown more on a de novo branch basis and that will once again be our focus in the future, although we are going to take a bit of a break from that. For 2008, we currently have no new branches scheduled to come on line. Future additions of branches will likely come in the Arizona market, specifically the Phoenix and Scottsdale areas. We are doing what we call a "back to basics" approach of growing into some of the capacity that we have created the past several years with de novo branches or the acquisitions that we have completed."

"We believe that we have a unique franchise that operates in four states that have great growth trends and generally very solid economic conditions. We have proven that our business model is simple, yet very effective. We think we can continue to grow profitably and provide the kind of long term return that our shareholders expect. The growth potential for us now is not going to come just from New Mexico as it did in the past, but from the markets in Colorado, Utah and Arizona, which are huge. We have a very small market share in each one of those and we think for the long-term investor who expects returns in the high teens on a year in and year out basis, we have proven we can do that. We are confident that we can continue to do that in the future." - H. Patrick Dee

CEOCFO: Is there much difference in banking in the four states?

Mr. Dee: "It is surprisingly similar yet there are differences in the market places. If we look at New Mexico, Colorado, Utah and Arizona, there are different competitive factors. For example, the deposit pricing is more competitive in Colorado and Arizona. What we find in common is that these markets and our target market within those, is very consistent. We are still trying to attract the small to medium-sized commercial business and are primarily taking them away from the big banks, which dominate the marketplaces. Wells Fargo Company (NYSE:WFC) is one of the market leaders in all four of those states. There are some different players in each of the markets but in every case large banks have a dominant market share. For example, in Arizona, the three largest banks control roughly 65% of the deposit market. Our business model is very similar in all of the markets, as we go after the small to medium-sized commercial business. We are also very active in residential construction lending in three of the four states; Colorado, New Mexico and Utah. We have not geared up that activity in Arizona and we may not, depending on what happens in that market place. The demographics in the various states are very similar and again our business model is almost identical in each market."

CEOCFO: The downside of large national banks is well known; what differentiates First State from other local banks?

Mr. Dee: "In each one of these markets there is a bit of a void in the middle part of the market where we operate. There are a tremendous number of very small community banks and there are a handful of the large banks that dominate the market, but there are not that many that are in the mid range where we fall. We have similar technical capabilities to what the large banks do. We have a significant lending limit, but we think we have much better service levels than the large banks are able to provide for the small to medium-sized commercial business. The reason that people switch to us is that they can have the same technical capabilities that they get at the big banks in terms of sweeps, remote capture, deposit products, and a full range of cash management services. We can also provide a much more customer-friendly service approach and oftentimes lower fees than what the larger banks charge. Compared to the small banks, we are able to provide much more in the way of services."

CEOCFO: Do new commercial customers tend to come in on the loan side?

Mr. Dee: "In the majority of cases they do. We actively pursue strictly deposit customers, but quite often the first chance we get to do some banking services for a lot of these companies is in the form of some type of loan. We probably see a majority of the activity come in on the loan side. Later we are usually able to bring in the deposits from those customers."

CEOCFO: How local is the decision making as you continue to expand and does it matter?

Mr. Dee: "It very much matters. We have found that to be extremely important. We have leadership that guides each state that we are in, but we break each state up into local markets. For example, in Colorado we have three main markets, one in the northern part of the state, one in the central part in the Denver area and one in Colorado Springs. There are decision makers in each one of those markets that can handle most of the loan decisions that are made and all of the day-to-day customer service requirements are handled locally. When it gets to our largest credits, generally those that are $10 million or more in terms of the total relationship, then we do get other people involved from outside of those market areas in approving those loans. From a risk management standpoint, we need to have more expertise looking at those largest credits. Even there, we distinguish ourselves from the large banks as our decision-making process is generally much quicker than what customers might experience with the large banks. The people who are involved in the decision making process know and understand these markets. We have only four states to keep track of and that is much easier than some of the larger banks that have to go nation-wide. The similarities in our markets also make it easier for us to get our arms around the credit risk."

CEOCFO: Over and above experience, what are the intangibles you look for in the people you hire?

Mr. Dee: "I think the most important factors center around the ability and willingness to take care of customers and to look for ways to be proactive in servicing the wide range of needs that our customers have. We try to hire people who have a bit of an entrepreneurial spirit. One of the differences between our people and the larger banks is in the larger banks they have a strict set of rules and guidelines and their employees know they cannot deviate beyond those. Banking is a regulated industry so we too have a lot of policies and procedures, but we try to allow people the flexibility to be able to think and structure loans in a way that still makes sense from a risk standpoint for the bank and yet it provides most if not all of what the customer is looking for. We don't want people who are robots; we want people who can think and spend the extra time to get to know the customer and work with them."

CEOCFO: How have you been able to weather the inverted yield curve?

Mr. Dee: "In our case our interest rate risk is very short on both sides of the balance sheet. The inverted yield curve does not have as much of an effect on us as it does on many other banks. When rates migrated to lower levels earlier in this decade, we did see a decrease in our interest margin. Yet at its low point our margin was just a little bit under 4.5%. We have a low cost deposit base, because of our commercial focus and the fact that there is a substantial non-interest bearing component to that. Our loan pricing is competitive, but we do not necessarily need to match the competition on every deal that comes across our desks. We have the opportunity to do about as much loan volume as we care to, so we are able to maintain pricing that makes sense for the bank and helps us preserve that interest margin. Our business model is simple; we make loans to commercial customers, and we take in deposits that are short-term as far as their repricing or duration. We have relatively little interest-rate risk and the inverted yield curve simply does not cause us the same issues as it does many other banks."

CEOCFO: Are there any services you feel you need to add?

Mr. Dee: "At this point we provide almost everything our customers are asking for. We have been proactive recently in getting our remote deposit capture product up and running. It is a product that we used in our branches prior to introducing it to customers. We have stayed proactive in terms of cash management, and a broad range of corporate services, essentially everything that our customers look for."

CEOCFO: Please tell us about community involvement for the company.

Mr. Dee: "We are very active in each one of our communities. That is one of the things that we have utilized over the years to increase our visibility in the communities where we operate, and to send the message that we are not just here to make loans and take your deposits, but we want to be actively involved in the community. We encourage our officers and all of our staff to get involved in activities or organizations in the community and we support those in a big way not just with our employees' time, but also with substantial amounts of money. We find projects that our people like to get involved with and support those in each of the markets and it pays dividends in terms of sending the message that we truly are a community bank. We recognize that we are able to make a nice living from the customers who bank with us and we want to give some of that back to the community."

CEOCFO: You have done some share repurchasing; is that a focus for you?

Mr. Dee: "It is. We did a stock offering in December to allow us to complete this latest acquisition, but we found in the 1st Quarter of this year that our stock price had dropped down to a level where we felt that it was prudent to start buying stock back. We had repurchased stock a few years ago, but had taken a break for a period of time. We are active currently in buying stock back. Our board in March of this year authorized us to buy up to a total of 5% of our stock back. To date (May 16th), we are a little bit over half way through that program and if the price stays down, we will continue to buy stock until we buy back the full 5%. We think that is a good long-term move for our share holders. We can do that without compromising our capital ratios and it has some earnings per share benefits for our stock holders."

CEOCFO: You have increased your dividends!

Mr. Dee: "Yes, we increased it recently. We went public in 1993, began paying a dividend in 1994 and each year we have increased our dividend. We are currently paying a dividend of 9 cents per share beginning with the second quarter dividend in June."

CEOCFO: Are there any issues with the recent acquisitions that need specific attention?

Mr. Dee: "I think one part of our performance that we are working hard on and is partly the function of the acquisitions that we have done, particularly the latest acquisition, is our asset quality. It is not quite as good as we would like it to be at this point. We have shown in the past where we have done acquisitions, and have acquired assets that are not quite up to our standards, that within a year or two we were able to get that remedied. In this case we are looking at selling a large portion if not all of these non performing loans that we acquired. We are confident that we have the plan in place to address this quickly."

CEOCFO: Why should potential investors be interested?

Mr. Dee: "We believe that we have a unique franchise that operates in four states that have great growth trends and generally very solid economic conditions. We have proven that our business model is simple, yet very effective. We think we can continue to grow profitably and provide the kind of long term return that our shareholders expect. The growth potential for us now is not going to come just from New Mexico as it did in the past, but from the markets in Colorado, Utah and Arizona, which are huge. We have a very small market share in each one of those and we think for the long-term investor who expects returns in the high teens on a year in and year out basis, we have proven we can do that. We are confident that we can continue to do that in the future."

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