201 Summit View Drive, Suite 250 Brentwood, TN 37027 www.bankdirector.com

EXCLUSIVE INTERVIEW TRANSCRIPT

Date: February 7, 2019

Place: Headquarters of FirstBank Holding Co.
Lakewood, Colorado

Participants: Jim Reuter (JR), Chief Executive Officer of FirstBank
Emily Robinson (ER), Chief Operating Officer of FirstBank
John J. Maxfield (JM), Executive Editor of Bank Director

JM: Talk about your background at FirstBank.

JR: I started at the bank in March 1987, at our location in Palm Springs, which opened a couple years earlier. I transferred to Colorado in August 1988. They asked me what I wanted to do, and I said, "Anything but work at the headquarters," so they promptly placed me at the headquarters. I wanted to stay in the bank lobby making loans, working with customers, but they needed someone to lead the debit and credit card programs. That's where I've spent my career. But even though I was in those roles, I attended loan committee meetings and was involved with the whole bank. So, it wasn't like I was in a silo and didn't see the whole business. Today, with where we're at in the industry, it's been a tremendous asset for me to have been in payments and technology. That's where banking is headed. The way we'll succeed going forward is by coupling relationship banking with the technology.

JM: Where is FirstBank today in terms of its evolution?

JR: We've been doing the same thing for 55-plus years: meeting customers where, when and how they want to be met. That used to be in physical branches, then through ATMs and call centers, and now it's digital. Our mobile app is our No. 1 touchpoint these days. There are more logins to mobile banking than calls to call centers and visits to branches combined. Now, similar to when the ATM came along, banks would say for every ATM withdrawal you had a displaced teller transaction, and they'd do a cost recovery. But that's flawed math, because when it became easy to take out $20 at a time from an ATM, people did more of those transactions than they did when they came into the branch to get cash. Mobile is the same thing. You can't say a mobile login is equal to a branch visit because, as I joke, sometimes you check the app because you don't want to talk to the person sitting next to you.

ER: We had over 44 million logins to our mobile banking app last year. The number of people who pick up the phone to call is under 2 million. Branch deposits were 6 million [transactions], mobile deposits were 2.2 million. So those

numbers are starting to converge.

JR: Again, there are some apples to oranges in there, because a branch deposit may have multiple items while a mobile deposit may only have one, but still it shows you the shift in consumer behavior.

JM: How is FirstBank different from other banks?

JR: Where we're most unique compared to other banks our size is that all of our IT is in house. We have 400 people in IT. That gives us an advantage. We were the fourth bank to be an official member of Zelle, and the third bank to go live on it. We went live before some of the owner banks did, because we were faster at getting it done. [JPMorgan] Chase [& Co.], Bank of America [Corp.] and Wells [Fargo & Co.] built it, but we were the first non-owning bank to go into it. That came about because I had dinner with Mike Kennedy, who was the CEO of clearXchange, which became Zelle. They were intrigued to have us join because if you added up Chase, Wells Fargo and us for market share in the Denver area, you have over 50 percent of deposits. In a metro region that size that was as close as you get to ubiquity. And they knew it was a tech-savvy market, with lots of millennials, so that's how we got in.

JM: And the reason you were able to get in so early was because your IT is all in-house?

JR: Right. We didn't have to rely on Fiserv, FIS or Jack Henry [& Associates] to put it on their priority list. Keep in mind, at that time, they all had their own P2P solutions, so if we were utilizing them, it seems unlikely that we would have been able to convince them to do it, because they would have been supporting a competing solution. Doing it ourselves means we can make choices that make the most sense to us.

I was on a call the other day with other mid-sized banks, and I heard someone use a term that you used to be able to use but I don't think you can anymore: "We're an early but timely follower." I don't think that works in this digital era. I would say we're a surgical pursuer of technology. We're going to be early, but we're going to do it surgically. We don't have the R&D budget of a Chase or Wells Fargo, but we can be as good as they are surgically on some fronts. So, being a consumer retail bank, P2P seemed like a no-brainer. We looked at our customers' utilization of Venmo and Square, and could tell that there was value.

JM: What have you seen with adoption?

ER: Our customers sent more than 2 million transactions over Zelle last year. They just released the latest numbers, and the dollar amount flowing through Zelle is twice the volume of Venmo. They call this the bank's Venmo killer. But

Venmo is increasing, too. It just tells you that this is the channel people are using.

JM: Do people think you're crazy for doing all the IT stuff yourself?

JR: Yes. Yet, our efficiency ratio is 52 or 53 percent. Operating our own core systems actually leads to savings. We make updates to our systems, but the core is pretty stagnant. That's not where the innovation happens today. The innovation isn't a new type of checking or savings account. The innovation is the mobile app and things that plug into it. When I look at the cost of owning that core system, unless there's a change we want to make, we pay nobody anything. We're not paying per account or per transaction. Banks sitting on top of Fiserv, FIS and Jack Henry pay freight charges on all that behind-the-scenes nonstrategic activity. So, I think we save money there, to be perfectly honest. Yes, we need a team of programmers that are capable of maintaining and updating that system, but we don't make a lot of changes to it, because that's not where the innovation is happening these days.

Now, we have our challenges coming. That's a long-in-the-tooth core system we built; it's mainframe-based, COBOL. [Editor's Note: COBOL, short for Common Business Oriented Language, is a computer programming language that has been used by the banking industry for more than 50 years.] We've taken young individuals with technical aptitude off the teller line and trained them how to be COBOL programmers. We actually have 25-year-old to 35-year-old COBOL programmers, which is unusual. But we know someday that we'll have to reinvest there, whether we rewrite the core system with modern technology, or we get interested in some of the things being talked about in terms of the new cores out there. So, that's how we maintain a good efficiency ratio despite keeping our IT in-house.

JM: So, it offers efficiency and agility?

JR: Yes. We could choose any technological path we want; we just have to commit dollars and resources to it. Whereas I talk to a lot of our peers, and they can't make those same choices. They have to go to their cores and ask, "If I buy this product, will it plug into your core?" We can go buy a product and we know we can plug it in; we know how to do that. Or we can build it.

JM: Bankers complain a lot about their core providers. You don't have that?

JR: No. Now, we do complain about our core, but we're just complaining about ourselves. We'll say, "We're too slow" or "We can't get this done" or "This is holding us back," but it's up to us to fix it. It's not that we're not dissatisfied, but we're dissatisfied with ourselves. Then it's a priority decision. There are things we wish we could get done to improve our treasury management or consumer products, but we look at the list of products and we have a

committee of broad representation, and it has to make sense across the board.

JM: Lots of banks have other sources of revenue—specifically, noninterest income—and those other sources, so the story goes, help them maintain discipline, because they're not relying exclusively on credit-related revenue. FirstBank is different. It focuses almost exclusively on pure banking activities, yet it has proven through multiple cycles that it can maintain its discipline. Talk about that.

JR: We are disciplined lenders. We have a 62 percent loan-to-deposit ratio, which tells you right there that we're not as aggressive as others might be. We leave money on the table in good times. That's absolutely the case. I think my predecessor, John Ikard, is the one who is always quoted as saying, "We're a good performing bank in great times and a great performing bank in bad times." We're not going to be great in great times, because we're not chasing the last opportunity, but when the cycle turns, that discipline makes us a great performing bank in tough times.

The other thing that helps is that we have a good, stable core funding source that is sticky [and] has longevity in terms of duration, but our cost of funds is really low. Delivering Zelle and really good customer service makes that possible. A lot of banks wonder how we make money as a retail consumer bank competing with Chase and Wells Fargo. You have to have the digital delivery channels. Your branding has to be on par. You have to deliver exceptional customer service. The payoff for doing these things is low-cost, core, sticky deposits. That gives you a lot of latitude with your net interest margin and other things through an entire cycle. If you look at our net interest margin, it's not only good compared to the industry; it's consistent. That's a big part of why we're successful in good and bad times.

ER: I would just add that we make loans to people we know in our trade areas that we build relationships with. That's important. We're not making loans in other countries or states or in trade areas where we're not familiar with the collateral. We're not transactional. Also, if an officer at this bank makes a bad loan, they have to collect it. So, if you have a loan that goes bad, you don't get to call the borrower and say, "Hey, call Joe in our collection area." We don't have a troubled asset area. If you know that up front, it makes you more discerning in your decisions about what you're willing to champion and fight for. So, there's discipline built into the front end, too.

Those things help when the cycle turns, because we've found that if people could only pay back one bank, many times it was us. We were the one they wanted to work with, because we had a relationship with them—they knew our loan officer, and we knew their family. Those connections with people converted into performance when we needed it. That really was important in

the last big crisis.

I know this from personal experience. I was a lender. I collected. I repossessed a car one time with a female loan secretary. The two of us went down to Federal Boulevard [in Denver] to a car lot because I made a bad loan. The person was in the Peace Corps and was trying to sell their car without a title. We marched up, got into an argument, asked for the keys, drove it back to the bank and sold it. You look back and think, "that was kind of crazy," but it was just, like, "this was my loan, it was a bad loan, so I'm going to solve it."

JR: It's accountability. It's keeping accountability clear from cradle to grave.

JM: Have loan officers always been responsible for collection?

JR: Yes. And we've worked diligently to keep that. The only place we've deviated is in mortgage collections, because the new rules are very prescribed in terms of the intervals at which you can contact a customer and how they can reach you. That doesn't work as well when you have a relationship manager who's out trying to generate business. But loan officers are still brought into the collection process at certain intersections for the ownership, accountability and the relationship part of it. So, yes, to answer your question, it was here when we started, but it's still here today by design.

If you have an operational loss over $10,000, you have to write a memo. That memo goes to a group that decides whether it will be presented at our monthly charge-off meeting. If it is, you get in front of a room full of folks and you say, "Here are the things I did wrong, and here are the lessons I learned." We don't use it as a public flogging; we use it as a training tool. We try to make it positive and constructive. But the thought of getting in front of 100-plus people and admit that you made a mistake is certainly a motivator for making good decisions.

ER: It's about mistakes made and lessons learned.

JM: Talk about the board of directors—specifically the dynamic of having three of your predecessors on the board.

JR: One reason we're consistent from a risk management perspective is that we hire and promote from within—at the management level. Another reason is that we have a board with a lot of institutional knowledge. Emily and I have seen a couple cycles. And we've seen those cycles with our model, with our type of business in our trade area—which, to me, is important as well. You plop me into a bank that is different than FirstBank, and my experience and institutional knowledge wouldn't be as valuable there as it is here. So, I think that's a big part of it.

The board is a big part of it, too. They sit in on [the] loan committee. They're

part of our charge-off committee. They help to keep us disciplined from a credit perspective. In management, you always have folks who have seen a couple economic cycles. But when you add our board, you're probably at four cycles sitting there in the room.

Then as far as the previous CEOs, I think what works really well is, yes, they're going to keep you from making a hard right or left turn that doesn't make sense, but they've been in my position. They also know it's a fine line between micromanaging and saying, "This is how I would do it." And they know that by not being there means they're missing some of the current things that are happening. Like our shift to digital. We've closed almost 50 branches. When Larry Hauserman was CEO, we grew by building branches. So, he will defer and listen. It works if it's a give and take. So, I would say there's a strong team effort, a back and forth, between management and the board.

ER: It has to be unique, though, where you walk into a job and there are three former CEOs on your board, right? That's unusual. I've never heard of it. Have you ever heard of it?

JM: No.

JR: But if we disagree, we disagree without a big audience, and we reach a conclusion before there is a big audience. But that happens rarely, because we've all grown up in the same organization. Though, that doesn't mean we're inbred in our thinking, because we work hard to get out of the bank to make sure we're bringing in outside knowledge and expertise as well.

JM: So, the dynamic of having three former CEOs on your board is not insignificant?

JR: I think it's an asset.

JM: This is kind of random, but when I walked onto the executive floor, I couldn't help but notice that you're not in the corner office.

JR: No, I'm not. I chose to be in the middle office. That's sort of my persona, my style. I grew up on a farm. I was the only one to go to college out of four boys. There's just something about if you start to get a big head and think you're all that then that's the beginning of the end of it.

ER: The funny thing is he was in that office before he became CEO, so when John and Dave left, we said, "Which office do you want?" and he said, "I'm not moving, I'm staying where I am."

JR: I like being able to see out on the floor. And I like the message it sends, to be honest. I finally got a nicer car, because it just looked like I needed a nicer car. I always had Subaru's.

JM: What'd you get?

JR: I have a Lexus SUV. It was one of those things, I thought I should probably actually look I'm a CEO. It's a fine line, though, so you just have to thread that needle.

JM: In most major cities, the tallest buildings are named after banks. Yet, FirstBank's headquarters is 10 miles west of downtown Denver, out here on Colfax Avenue.

JR: We started here and just kept building here. Then eventually you pull out a map and realize how many employees have built their lives in the surrounding communities. And we need a lot of parking. So, it's also an efficiency play. If you tried to do this downtown, the parking and office space would be much more expensive. But the real reason we're here is because of inertia. If we outgrow what we have here, we may open another campus in another part of the city to diversify where we are from a location standpoint—in terms of disaster recovery but also to attract and retain employees.

JM: You have significant employee ownership of the bank's stock through its employee stock ownership program [ESOP]. Talk about that dynamic.

JR: I can remember an administrative assistant I had for years, she was pretty quick to call out company card expenditures, or things that officers or others were doing that, in her mind, didn't make sense. As she saw it, we were spending her retirement money when we made decisions like that. She would come to me and say, "Why is this person taking a nicer car to the airport?" Or back when we reimbursed for cell phone activity, she'd say, "I don't know if this activity is really work related." So, the employee ownership makes a difference.

JM: What about FirstBank's decision to stay privately owned? Does that make the bank easier to manage, since you don't have to deal with pressure from analysis and outside investors?

JR: Yes. Some objective proof of that, that you can point to right now, is that Denver, out of all the major cities, has had one of the longest and most robust recoveries over the past decade, yet we sit here with a 62 percent loan-to-deposit ratio. It isn't for lack of opportunity. We could have loaned up further, because there's certainly plenty of good news out there. But we haven't. We've exercised discipline.

The other place where that's proven is our approach with how we've managed our IT. We'd often look better on a quarter-to-quarter basis without some of the long-term investments we've made in IT, but we know they'll pay off in the long run. When we joined Zelle, it wasn't evident to anybody that it made sense. If we had been reporting to analysts, they would have been like, "What

are you guys doing? You're connecting to this clearXchange thing that has no proven track record? It's not an income-generating thing." But it's so core to how people interact with their accounts that if you want to attract and retain core deposits, then you better have the services around it that people want. Oh, and by the way, when you see that it's Chase, Bank of America and Wells Fargo that are building it, I have a pretty good feeling they're in it for the long haul. Those are all things we didn't have to explain to a bunch of analysts. So, I think we've made a lot of investments technologically [that] we wouldn't have made if we were publicly traded.

I also think it allows those of us on the leadership team to be focused on the next strategic move and to look at our operations closer, because we're not spending all our time on the road speaking to analysts. When I talk to peers that are publicly traded, they spend a lot of time and energy in front of analysts and investor groups. There's opportunity cost when you're doing that. I get to use that time and energy on strategy, and looking at what we're working on.

ER: And our accounting team would have to balloon. We'd have to have a whole tax division that we don't have today. We'd have to have in-house counsel. We'd have a new regulatory agency—the SEC [Securities and Exchange Commission]—that we don't have today. There's a lot that goes into that, that keeps us efficient on the cost side.

JR: There'd have to be a reason for us to do it—to get capital to buy someone or have a more liquid market for our stock. If we don't have a use for the capital, we don't see the benefits in creating the extra burdens of being publicly traded. Some day that may come along, but it's not on our list right now.

JM: Talk about your philosophy on capital.

JR: Most banks in our peer group operate with around 10 percent of capital. We use more leverage. We're between 8 and 9 percent. We don't want to be at 10 percent. That would be too much capital when you look at the risk weighting of our assets. We target between 7 and 9 percent. As long as we continue to put on the right kind of assets, we think that's the best way to run the bank. That's going to give the best return to our shareholders.

JM: If I were to put you on a continuum, on one side you have capital-is-king guys—that's your Mick Blodnick's (Glacier Bancorp), your Washington Federals—and on the other side, you have capital-efficient guys like Richard Davis and Andy Cecere at U.S. Bancorp.

JR: That's us, that's where I would put us.

JM: What about capital allocation? You fund your own growth through earnings.

JR: Correct.

JM: Given that you're not opening branches like you used to, what are you doing with that capital?

JR: We're spending more on technology and digital investments. Our software costs will go up $8 million this year compared to last year. If you look at our technology spending as a percent of noninterest expense, we're on par with the big banks. Now, of course, the actual dollars are different. I always joke that we're Slovakia up against the United States in an IT arms race. But we are investing. And if you look at our spending on marketing and branding as a percent of noninterest expense, we're actually a little bit above the large banks.

We've obviously got to be very good at relationship banking. Zero out is the first option on our calls. When you call our automated system or call our call center, the very first option you get is to speak to a representative. Every consultant that has ever come in has told us to put that at the back of the menu. We're like, "No, that's a differentiator." If someone calls and wants to speak to a representative, we don't want to make them wait. So, we staff our call centers at a level that, if you look at industry standards, we try to perform twice as good, answer the call twice as fast as our competitors. Especially now, where people use digital channels so often, when they need a person, they need a person, so we think it's an opportunity to differentiate.

On the branding side, we're investing more. Going forward, the two things I think are really important are digital strategy and branding. As more and more people choose a bank online, your branches help with the brand, but they don't see you on the billboards, so we're spending as much on digital channels as we are on traditional channels, whether that's search engine optimization or advertisements when you're streaming videos or whatever. That's a significant focus for us.

JM: Is that translating into customer acquisition rates?

ER: What we've heard is that the biggest banks that are best in this space open about 30 percent of their accounts online, the rest come through their branch networks. We had one month last year when we exceeded 30 percent, which is our goal. We ended the year with 28 percent of our accounts originating online. We feel like we're on par with the larger banks when it comes to opening accounts online.

JR: We're mobile optimizing that because over 40 percent of applications for new accounts at our bank are started on a smartphone.

JM: Do they finish the process on the smartphone?

ER: Well, that's the problem, because it's not as user friendly on the mobile app,

because it was built for you sitting at a desktop. The drop rate is much higher for those. We're actually in the process of rolling out a mobile-optimized account opening process, a sleeker user experience that reduces the number of input pages from 12 to five. We're trying to take the noise out of that process and make it as simple as we can from the phone.

JR: That's an example of where doing all of our own IT is strategic, because we're not relying on a vendor or someone else to help. We see what's happening, and we're able to respond. We can even see where they fall out in the process.

ER: In the 12 input pages, we were trying to offer some products and do some sales along the way, and we were seeing fallout. So, we've changed that. Let's let them get the account open, then we'll come in after the fact. So, we've changed the order we're bringing up products to the customer.

JR: We've been at this over ten years—opening accounts online. You won't find that with most banks our size. But what we built initially is what we did in the branch. You're sitting with someone, they open an account and you say, "Would you like a credit card? A savings account?" Our fear when we built the online version was that we'd lose the opportunity to cross-sell products—I know that isn't a popular term these days. But we found that our thinking was flawed, because in the digital world a person doesn't sell to themselves. So, it's better to get the account open and then, through experience with that customer and analytics, figure out what they need in terms of products and when to present those products to them.

JM: So, it's not about replicating the in-branch experience over digital channels?

ER: Right.

JR: One of the big benefits to having your own IT, beyond the obvious—you can build the apps, control your own destiny, etc.—but you also own all the data. When you look at artificial intelligence, for instance, our fraud department writes, I don't know how many rules every day.

ER: Chase has 46,000 employees in IT. We have 400. And we're competing against them head to head.

JR: If our CIO were here, he'd tell you that there are two places we've really positioned ourselves well from a digital and technology perspective. One is the ability to integrate other solutions. Today, it's getting to the point where the number of opportunities to make IT investments is so frequent and significant that we will buy more than we used to. But we're really good at integration and tying those things together. Being able to do that is strategic and important.

The other place is payments. Because we have our own direct connection to

Visa and Zelle, we're able to choose where we want to send a transaction and how we want to send it. That's not the case with a lot of banks our size. It's the case with Chase and U.S. Bank, but we're technologically as good at integration and payments as the big banks. Those are the two areas that to me are going to be strategically important going forward.

If you look at the large banks, they're partnering with more fintechs. And the way you partner with fintechs is all about integration. And then the payments space is where you're going to see some of the biggest transformations. Because today, when you want to make a payment, it's really kind of a dumb transaction. You hand over a card, which pulls money from your account. When you're able to push it from your phone—which is what the credit push at the clearinghouse is enabling—I'll be able to tell you in real time whether it will cause an overdraft, what that will cost you, and then let you decide if you want to go forward with the transaction or not. You'll be able to choose which account it comes out of on the fly. I'll be able to warn you that you're going over your Starbucks budget on the fly. It's really going to help people manage their money as they spend it. So, to me, when we get to a credit-push world using the phone, and you can see all that, you now have the ability to create the digital-envelope experience of managing money, which gets to the 80 percent of how people want to manage money. We, as banks, haven't done as much as we could to help them better manage their money. And I think that's going to be a differentiator.

JM: Tell me something that we haven't talked about but that's important to the FirstBank story.

ER: Our role in the community. We championed Colorado Gives Day. Ten years ago, Colorado ranked in the top 10 states for gross income, but if you looked at charitable giving, we were 38th. So, we set out to sponsor Colorado Gives Day, which is a full day of online giving. Over the past 10 years, we've raised over $212 million for Colorado nonprofits. By 2017, Colorado had dropped from 38th to ninth in terms of charitable giving relative to other states. It's been a great relationship builder for us.

JR: We added a tag line, "Banking for good." It's hard to differentiate with technology. It's a table stakes thing that only gives a short window of an advantage. It's by adding in all these other things where we can differentiate ourselves. In fact, when we interview management trainees, 80 percent of them are excited to work here because of our community involvement. It especially resonates with millennials.