Alpine Banks of Colorado

Ratings

Alpine Banks of Colorado	
Action: Affirmed	**5/28/21**
Senior Unsecured Debt	BBB
Subordinated Debt	BBB-
Short-Term Debt	K3

Alpine Bank	
Action: Affirmed	**5/28/21**
Deposit	BBB+
Senior Unsecured Debt	BBB+
Subordinated Debt	BBB
Short-Term Deposit	K2
Short-Term Debt	K2

KBRA Bank & Bank Holding Company Global Rating Methodology dated October 16, 2019.

Outlook/Watch

Alpine Banks of Colorado	
Long-Term Ratings	Stable

Alpine Bank	
Long-Term Ratings	Stable

Financial Snapshot

ALPIB (%)	1Q21	YE20
Total Assets ($B)	5.6	5.2
ROAA	1.05	1.13
NIM	3.39	3.72
NCO Ratio	0.00	0.04
NPA Ratio	0.21	0.23
TCE Ratio	6.5	6.9
CET1 Ratio	10.8	10.7
Loans/Core Dep	67	72

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Company Profile

- Alpine Banks of Colorado ("Alpine" or "the company") is the bank holding company for Colorado-chartered Alpine Bank (founded in 1973), with private Class A voting stock that remains majority-owned by a combination of the bank's two founders (one of whom remains Chairman), along with other directors and employees, including a 23% Class A stake owned by the company's ESOP that was created in 1983. Alpine's non-voting Class B shares are thinly traded (OTC: ALPIB).
- With the leading and organically based deposit share position in Western Slope (CO) markets through 36 branches, Alpine expanded east to the Front Range (Denver and Boulder MSAs) beginning in 2014 and currently has nearly $400 million of deposits in these economically vibrant markets.
- A real estate-oriented lender at its core, Alpine balances its C&D lending exposure ($388 million or 12% of loans and 74% of total capital at 1Q21) and a $658 million investor CRE portfolio (together with C&D representing 198% of total capital), with a meaningful prime residential mortgage book that totaled $1.4 billion, or 41% of loans, at 1Q21. Having begun developing commercial lending capabilities in 2017, owing to more perceived opportunities in Front Range markets, the now modest traditional C&I book ($411 million, but $782 million including owner occupied CRE) is currently expected to grow to represent a greater proportion of the loan portfolio.

Key Credit Considerations

- Alpine's ratings are supported by an extremely low-cost and plentiful core deposit base that has highlighted its balance sheet profile for many years. This very attractive core deposit base, as well as low multiyear credit costs, have been the key drivers of solid long-term earnings performance, including during the more challenging 2020 (ROA 1.13%).
- The company's high touch, relationship-based banking model has been instrumental in growing and maintaining the leading deposit market share in the Western Slope markets, while organic growth has been supplemented in recent years by a successful de novo branch expansion into the Front Range markets. While many banks' liquidity positions have benefitted from the unprecedented government stimulus over the past year, Alpine's very favorable liquidity profile has existed throughout its modern operating history, as the company has reflected among the lowest deposit costs in the industry through multiple interest rate cycles ('peak' cost of average deposits of 0.10%, which continues to benefit from a meaningful NIB component, typically in the mid-30% range). Alpine's NIM remains slightly above peer as of 1Q21 despite the significant inflow of liquidity that has led to $1.1 billion of cash balances as of 1Q21. In addition to manageable credit costs in 2020, Alpine's recent period profitability has been supported by a growing level of fee income and relatively contained operating expenses.
- The company's credit quality has remained solid over the past year, partially due to Alpine's minimal exposure to COVID vulnerable segments (9% of loans) and management's disciplined loan underwriting approach, that in KBRA's view, emanated from a strong credit culture (driven, in part, by significant insider ownership) as well as, admittedly, lessons learned from the challenges associated with the global financial crisis, centered in 2010.
- Somewhat counterbalancing the ratings is the company's modestly below average capital ratios, as well as Alpine's concentrated operating footprint compared to higher rated peers.

Rating Sensitivities	
Improved core capital, further build out of wealth management revenues, and increased scale in the Front Range markets could facilitate a positive, intermediate-term rating trend.	+
Any unexpected deterioration in asset quality, leading to operating losses or lower core capital, or a more aggressive stance with liquidity management could pressure the ratings.	–

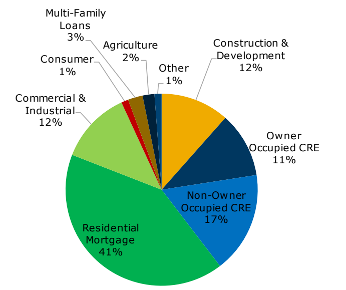
Financial Metrics

SUMMARY FINANCIAL HIGHLIGHTS ALPINE BANKS OF COLORADO	1Q21	4Q20	3Q20	2Q20	1Q20	2020	2019	2018	2017	2016
Balance Sheet ($ millions)										
Loans (HFI)	3,334	3,220	3,194	3,110	2,760	3,220	2,667	2,430	2,264	2,066
Average Earning Assets	5,132	4,869	4,611	4,047	3,622	4,287	3,536	3,398	3,112	2,719
Total Assets	5,643	5,178	5,135	4,652	3,946	5,178	3,868	3,710	3,483	3,057
Core Deposits	5,005	4,539	4,490	3,961	3,405	4,539	3,325	3,232	2,942	2,580
Total Deposits	5,043	4,581	4,551	4,077	3,438	4,581	3,360	3,271	3,071	2,681
Total Equity	386	376	364	355	349	376	342	297	258	235
Tangible Common (TCE)	368	359	347	337	331	359	325	279	241	218
Income Statement ($ millions)										
Net Interest Income	43.5	40.9	37.4	42.8	38.4	159.6	157.4	144.7	126.1	110.2
Noninterest Income	12.5	13.2	13.8	8.4	11.2	46.7	40.2	34.8	31.0	29.4
Noninterest Expense	34.2	34.1	33.9	30.3	34.5	132.8	127.9	113.3	102.6	94.0
Provision for Loan Losses	4.1	2.4	1.0	6.4	2.3	12.1	0.0	0.0	-1.1	0.0
Net Income	14.1	14.2	13.5	12.5	10.9	51.1	58.0	54.8	33.6	33.4
Performance Measures (%)										
Return on Average Assets	1.05%	1.12%	1.11%	1.15%	1.12%	1.13%	1.55%	1.54%	1.03%	1.16%
Return on Average Equity	14.7%	15.3%	15.1%	14.2%	12.6%	14.3%	18.2%	19.9%	13.5%	14.9%
Risk Weighted ROA	1.74%	1.73%	1.78%	1.71%	1.45%	1.74%	2.02%	2.09%	1.37%	1.49%
Net Interest Margin (TE*)	3.39%	3.36%	3.25%	4.23%	4.24%	3.72%	4.45%	4.40%	4.31%	4.30%
Average Loan Yield	4.88%	4.63%	4.35%	5.14%	5.08%	4.78%	5.52%	5.31%	4.98%	4.81%
Cost of Interest-Bearing Deposits	0.06%	0.06%	0.08%	0.08%	0.12%	0.09%	0.15%	0.10%	0.08%	0.06%
Loans / Earning Assets	64%	67%	68%	76%	75%	71%	70%	69%	69%	72%
Noninterest Income / Op. Revenue	22%	24%	27%	16%	23%	23%	20%	19%	20%	21%
Efficiency Ratio	61%	63%	66%	59%	70%	64%	65%	63%	65%	67%
Asset Quality (%)										
NPA / Loans + OREO	0.21%	0.23%	0.23%	0.20%	0.18%	0.23%	0.16%	0.32%	0.57%	0.75%
LLR / Loans (HFI)	1.23%	1.15%	1.09%	1.09%	1.00%	1.15%	0.98%	1.17%	1.27%	1.42%
LLR / NPL	697%	600%	568%	684%	775%	600%	915%	493%	359%	391%
NCO / Average Loans	0.00%	0.03%	0.02%	0.03%	0.09%	0.04%	0.10%	0.01%	(0.02%)	(0.10%)
Provision / NCO (x)	125.2	8.7	7.7	29.5	3.6	9.6	0.0	0.0	2.4	0.0
NPA Change Rate	(4%)	(1%)	17%	28%	17%	73%	(46%)	(40%)	(16%)	(5%)
Capital (%)										
TCE Ratio	6.5%	6.9%	6.8%	7.3%	8.4%	6.9%	8.4%	7.6%	6.9%	7.2%
Leverage Ratio	8.2%	8.4%	8.5%	9.3%	10.3%	8.4%	10.3%	9.6%	8.9%	9.1%
CET 1 ratio	10.8%	10.7%	10.7%	10.7%	10.8%	10.7%	10.9%	10.3%	9.2%	9.1%
Tier 1 Ratio	12.8%	12.7%	12.8%	12.9%	13.0%	12.7%	13.2%	12.7%	11.5%	11.4%
Total Capital Ratio	15.5%	15.3%	15.5%	15.6%	13.9%	15.3%	14.1%	13.8%	12.9%	13.2%
Leverage & Funding (%)										
Loans / Deposits	67%	71%	71%	77%	81%	71%	80%	74%	74%	77%
Loans / Core Deposits	67%	72%	72%	79%	82%	72%	81%	75%	77%	80%
Core Deposits / Total Funding	97%	97%	96%	94%	97%	97%	97%	97%	94%	94%
Loans / Total Assets	60%	63%	63%	67%	70%	63%	69%	66%	65%	68%
Double Leverage (Incl TRuPS)	105%	105%	98%	98%	97%	105%	97%	97%	96%	97%
RWA / Total Assets	60%	65%	63%	67%	78%	65%	77%	73%	75%	78%

*Note: Beginning in 2020, NIM for BHCs with assets less than $5 billion is not TE due to reporting limitations

Loan Composition					
($ millions)	**1Q21**	**2020**	**2019**	**2018**	**2017**
Construction & Development	388	395	375	335	344
Owner Occupied CRE	370	358	346	337	313
Non-Owner Occupied CRE	574	555	488	430	408
Residential Mortgage	1,390	1,371	1,133	1,023	941
Commercial & Industrial	411	338	126	118	95
Consumer	40	43	37	32	29
Multi-Family Loans	84	86	52	59	51
Leases	6	6	4	4	5
Agriculture	67	67	67	65	58
Other	40	38	58	37	33
Total Loans	3,358	3,246	2,682	2,435	2,273
Loans Held for Sale (HFS)	24	27	15	5	9
Loans Held for Investment (HFI)	3,334	3,220	2,667	2,430	2,264
Annual Loan Growth	21%	21%	10%	7%	10%
Investor CRE / Total Loans	31%	32%	34%	34%	35%
C&D / Risk-Based Capital (RBC)	74%	77%	90%	89%	102%
Non-Owner Occupied CRE / RBC	198%	202%	219%	219%	239%

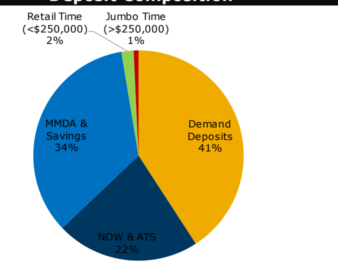
Loan Composition



Source: Company Filings, KBRA Research

Deposit Composition					
($millions)	**1Q21**	**2020**	**2019**	**2018**	**2017**
Domestic Deposits					
Demand Deposits	2,059	1,745	335	287	268
NOW & ATS	1,112	1,037	87	91	89
MMDA & Savings	1,740	1,659	2,800	2,745	2,548
Time Deposits					
Retail Time (<$250,000)	95	98	103	109	123
Jumbo Time (>$250,000)	37	42	36	39	42
Foreign Deposits	0	0	0	0	0
Total Deposits	5,043	4,581	3,360	3,271	3,071
Total Core Deposits	5,005	4,539	3,325	3,232	2,942
Total Non-interest Bearing	2,059	1,745	1,248	1,166	1,076
Annual Core Deposit Growth Rate	47%	37%	3%	10%	14%

Deposit Composition



Source: Company Filings, KBRA Research

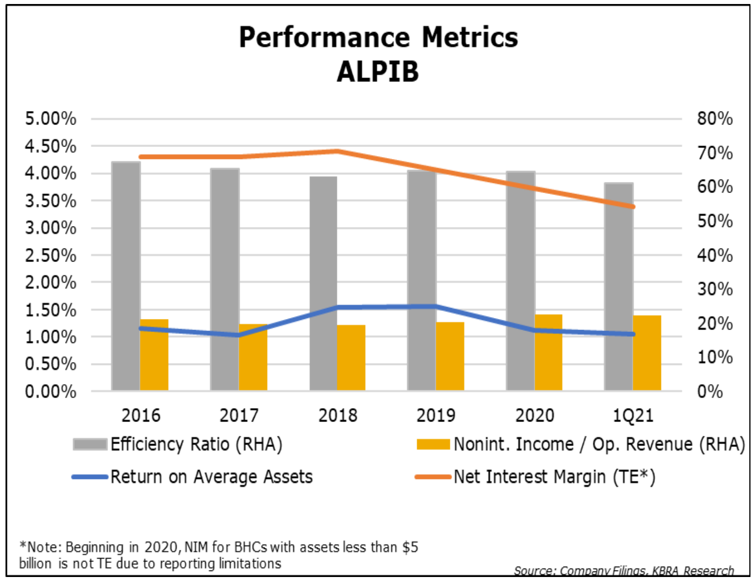
Comparative Statistics

Peer Comparison as of March 31, 2021						
Company Name	**ALPINE BANKS OF COLORADO**	**FIRSTSUN CAPITAL BANCORP**	**MIDWESTONE FINANCIAL GROUP, INC.**	**QCR HOLDINGS, INC.**	**HBT FINANCIAL, INC.**	**GREAT SOUTHERN BANCORP, INC.**
State	CO	CO	IA	IL	IL	MO
Balance Sheet ($000's)						
Total Assets	5,642,910	5,321,103	5,737,312	5,645,147	3,865,614	5,608,633
Total Risk Weighted Assets	3,408,872	4,159,516	4,285,807	4,985,046	2,500,226	4,557,081
Risk Weighted Density	60%	78%	75%	88%	65%	81%
Loans (HFI)	3,333,606	3,676,756	3,358,161	4,355,387	2,270,705	4,353,439
Total Deposits	5,042,620	4,478,147	4,794,563	4,631,782	3,355,966	4,634,845
Loans / Deposits	67%	86%	71%	94%	68%	95%
Loans / Core Deposits	67%	92%	77%	97%	68%	99%
Performance Measures						
ROAA	1.05%	1.13%	1.57%	1.27%	1.63%	1.38%
ROAE	14.7%	11.5%	16.8%	11.9%	16.8%	12.2%
Return on Risk Weighted Assets	1.74%	1.45%	2.11%	1.44%	2.52%	1.70%
NIM	3.45%	3.33%	3.06%	3.32%	3.26%	3.38%
Average Loan Yield	4.95%	4.17%	4.32%	3.92%	4.57%	4.42%
Cost of Interest Bearing Dep.	0.06%	0.31%	0.40%	0.40%	0.11%	0.34%
Noninterest Bearing / Total Dep.	41%	27%	20%	27%	29%	36%
Noninterest Inc./ Total Rev.	22%	47%	24%	36%	27%	17%
Efficiency	61.1%	76.3%	55.6%	56.9%	56.5%	56.3%
Asset Quality						
NCO / Average Loans	0.00%	0.02%	0.04%	0.04%	-0.06%	-0.01%
NPA / Loans + OREO	0.21%	1.22%	1.28%	0.32%	0.61%	0.25%
LLR / NPL	697%	109%	114%	590%	314%	709%
LLR / Loans (HFI)	1.23%	1.28%	1.51%	1.88%	1.27%	1.56%
Capital						
TCE	6.5%	8.6%	7.5%	9.4%	8.6%	10.8%
Tier 1 Leverage	8.2%	8.6%	8.8%	10.1%	9.9%	11.0%
CET1	10.8%	10.4%	10.2%	10.5%	13.2%	12.7%
Loan Portfolio						
C&I Loans/Total Loans	12%	34%	21%	31%	18%	7%
ICRE Loans/Total Loans	31%	19%	31%	38%	43%	68%
C&D Loans / Total Loans	12%	4%	5%	14%	9%	13%

Key Quantitative Rating Determinants

The quantitative financial fundamentals of ALPIB are derived from the analysis of the bank's intrinsic financial strength and potential adjustments due to KBRA's stress testing as well as an analysis of current and historical financial metrics.

Performance

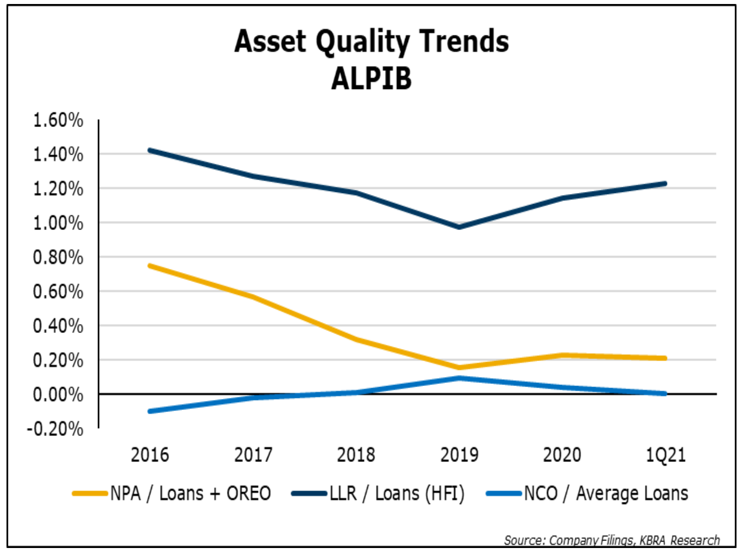


Following years of favorable performance prior to the outbreak of COVID-19, with ROA of approximately 1.5%, primarily driven by a healthy NIM (4.30%-4.50% range given the very low deposit costs; interest-bearing deposit costs peaked at just 0.15% for 2019) and the lack of credit costs ($0 in provision for loan losses in 2018-2019), the company's profitability has unsurprisingly been impacted as a result of the pandemic, but not in an unexpected way. In this regard, Alpine's ROA has tracked at approximately 1.1% for 2020 and 1Q21, though still remained rather solid during this time when considering the higher level of provisions, which totaled $12.1 million (0.40% of average loans) for 2020 and $4.1 million (0.50% of average loans) in 1Q21, due to the uncertain economic conditions stemming from the pandemic, as well anticipated 2021 loan growth. With that said, KBRA notes that credit costs were not as material as some banks, in part stemming from the fact that ALPIB remains on the incurred loss method and is not subject to CECL until 2023. Also weighing on earnings was considerable NIM compression due to the Fed's rate cuts, as well as the significant inflow of liquidity into the banking systems from the government stimulus and PPP programs. As noted, the company's deposit costs were already extremely low prior to the pandemic-related decline in rates, leaving comparatively limited downward repricing opportunities. While Alpine was able to lower deposit rates to almost nothing (0.03% for 1Q21; ranking as second lowest rate deposit base of any KBRA institution), the decline in earning asset yields far outpaced the decrease with funding costs as NIM dropped to 3.39% for 1Q21. Other important drivers of Alpine's ability to generate a rather solid ROA during this time have been an uptick in noninterest income levels and a relative decline in operating expenses (relative to average assets). The former, has been reinforced by increased mortgage banking production stemming from the highly conducive interest rate environment, with the company's fee revenue contribution increasing to 23% of total revenues in 2020, up from 20% of operating revenue in prior recent years. Meanwhile management has kept a tight lid on expenses, with the overhead expenses to average assets ratio declining below 3.00% throughout 2020 (2.92%) and 1Q21 (2.56%) compared to 3.42% for 2019.

Moving forward, Alpine's earnings should improve as provisions will likely moderate throughout the year given the stable credit outlook as the economy reopens. Moreover, management is forecasting for NIM expansion as the excess liquidity on-balance sheet is deployed ($1.1 billion in cash; 20% of total assets) into loan growth and selective securities purchases. Conversely, fee income levels should likely normalize as well following the mortgage banking boom and higher levels of refinance activity. Altogether, KBRA continues to favorably view the company's earnings power, which has been rather resilient despite the significant NIM compression realized over the past year, with a PPNR ROA of 1.87% for 2020 compared to 1.86% for 2020 (modest slippage in 1Q21 to 1.63%). Overall, KBRA recognizes the company's revenue generation and diversity as above average compared to similarly rated peers and helps support the profitability of the institution. Lastly, the company's risk-adjusted returns are favorable as well, considering Alpine's relatively lower risk balance sheet, with RWAs comprising just 60% of total assets for 1Q21.

Asset Quality

Alpine's credit quality metrics, following substantial improvements following the global financial crisis (GFC), have remained pristine despite the challenging operating environment stemming from the COVID-19 pandemic. The NPA ratio tracked below 0.25% throughout 2020 and 1Q21 compared to an average of 0.45% for 2016-2019. Meanwhile the NCO ratio remained negligible (below 0.05%) during 2020 and 1Q21, albeit a slight uptick compared to the modest recoveries on a cumulative basis the four preceding years. KBRA notes that the more prudent approach with regard to C&D lending that currently reflects a greater underwriting discipline and a more conservative approach to credit assessment, including an explainable emphasis on loan segment concentration risk management, as well as the strong economic conditions in the Colorado markets, as supporting factors to the sound credit metrics thus far. Additionally, Alpine's diverse commercial loan book, which includes a minimal exposure to COVID-19 vulnerable lending segments, with just 9% of total loans in retail and hotel properties, have also helped facilitate the outperformance. However, KBRA also recognizes the actions of the government and regulators, including loan deferrals (below 1% of loans as of 1Q21) and PPP loans as major factors contributing to the benign credit trends. Additionally, following the deferral period, Alpine continues to reflect a below average level of criticized (grade B) and classified loans (grade B+C), which were 1.9% and 0.3% of total loans as of 1Q21, compared to 2.5% and 0.4% as of YE20. While KBRA expects sound credit to likely persist throughout 2021, if material issues were to arise, Alpine's total loss absorbing capacity, while modestly below average, is considered adequate, with LLR to total loans of 1.23% (KBRA universe average of 1.37%) and a CET1 ratio of 10.8% (KBRA universe average of 11.7%) given the overall risk profile of the institution. Altogether, KBRA views the solid credit quality in recent years following the issues stemming from the GFC as a key credit strength. The company has illustrated the ability to maintain below average NPA and NCO measures in both the benign environment pre-COVID and during a less favorable operating environment (COVID-19 pandemic).

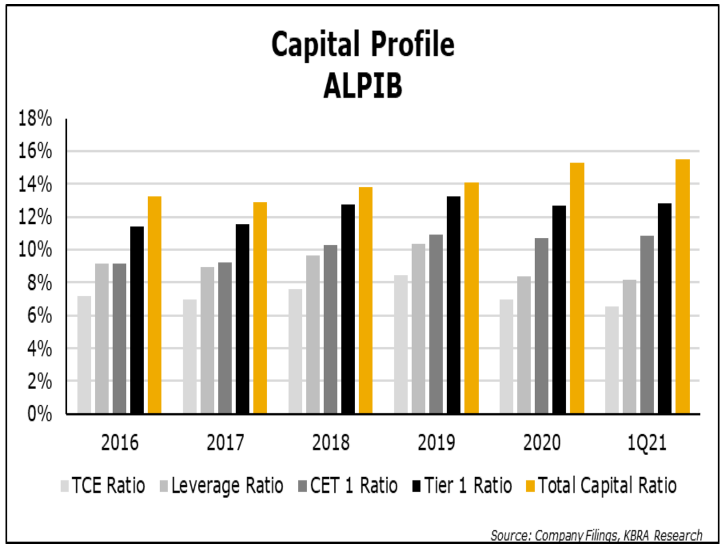


With regard to the loan mix, throughout Alpine's history the management team has been more focused on real estate lending, including a decent exposure to residential mortgage, which continues to be the largest concentration in the loan portfolio at 41% of total loans as of 1Q21, followed by meaningful exposures to both investor CRE (20% of loans) and C&D (12%). That said, following the C&I lending initiative in 2017, including the build out of a C&I lending department from existing and outside lenders, which is more focused on the Front Range markets (Denver & Boulder MSAs), this division has shown the most considerable growth in recent years (23% of total loans as of 1Q21, including PPP and owner-occupied CRE) and is expected to be greater proportion of the loan book moving forward. With respect to diversity within lending segment, the largest exposures within the investor CRE book include retail (27% of total), hotel/motel (19%), industrial/warehouse (12%), and office (11%). However, in the context of the total loan portfolio, as noted, the hotel and retail exposures are rather contained. The C&D portfolio is relatively diverse, though speculative construction is the largest exposure at 31%, followed by consumer owner-occupied (22%), end user land (20%), speculative land (15%), and commercial owner-occupied (9%). As noted, this portfolio has decreased significantly since the onset of the GFC and is more focused on lower risk consumer owner-occupied projects, and while speculative projects require higher LTV/LTC ratios. Moreover, any loans over $1 million and greater require the use of an independent construction inspector. Despite the concentration in real estate lending, both the C&D and investor CRE concentrations remain below the regulatory guidance levels at 74% and 198%, respectively, as of 1Q21. As such, we view the concentration risks as well contained in the loan portfolio. Additionally, the company has generally maintained a lower risk balance sheet, with loans to earning assets tracking around 70%, which is slightly below peer. Given this, as well as the higher level of residential mortgage loans in the loan book, the risk-weighted asset levels have trended below-peer as well, trending around 75% prior to the pandemic.

Peer Comparison Trends									
	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB
Time Period	**1Q2021**	**1Q2021**	**1Q2021**	**2020**	**2020**	**2020**	**2019**	**2019**	**2019**
Asset Quality									
NCO / Average Loans	0.00%	0.12%	0.15%	0.04%	0.20%	0.14%	0.09%	0.12%	0.12%
NPA / Loans + OREO	0.21%	0.76%	0.69%	0.23%	0.79%	0.75%	0.16%	0.72%	0.71%
LLR / NPL	697%	491%	399%	600%	400%	377%	915%	402%	344%
LLR / Loans(HFI)	1.23%	1.46%	1.33%	1.15%	1.43%	1.37%	0.98%	1.08%	0.85%

Capital

Alpine's core capital ratios (TCE and CET1) had mixed results over the past year. The former, declined considerably from 8.4% to 6.5% as of 1Q21, which was primarily due to the significant balance sheet growth (43% year-over-year) attributable to the funding of PPP loans and substantial inflow of deposits. Meanwhile the CET1 ratio remained flat at 10.8% given that the excess liquidity was primarily parked in cash and securities, resulting in a lower risk earning asset mix. While KBRA recognizes that the TCE ratio is temporarily artificially deflated, we take solace in the CET1 ratio, which is modestly below peer, though continues to be considered adequate for the rating category. Moreover, the TCE ratio should trend back to prior year levels (mid-8% range) as liquidity is deployed and the balance sheet normalizes. Moving forward, management's longer-term capital targets for the TCE and CET1 are in the mid-8% and mid-10% range, respectively, which is viewed as comfortable for the rating group. Internal capital generation will be offset by moderate balance sheet growth, which was generally in the mid-to-high single digits prior to the pandemic, as well as the company's dividend payout that is targeted for 20% of total net income.



Also included in the capital stack is a meaningful amount of legacy trust preferreds (TruPS) at $69 million, which helps support the regulatory capital ratios, with a Tier 1 risk-based ratio of 12.8% as of 1Q21. Additionally, Alpine issued $50 million of subordinated debt in 2Q20 at 5.875% (10NC5), which helped reinforce the total risk-based capital ratio (15.5% as of 1Q21). Despite the issuance, the double leverage remains minimal at just 105%. Moreover, Alpine reflected $29.2 million of holding company cash and equivalents at 1Q21, amply covering more than two years of holding company debt service requirements.

Peer Comparison Trends									
	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB
Time Period	**1Q2021**	**1Q2021**	**1Q2021**	**2020**	**2020**	**2020**	**2019**	**2019**	**2019**
Capital									
TCE	6.5%	9.7%	8.4%	6.9%	10.0%	8.6%	8.4%	10.7%	9.1%
Tier 1 Leverage	8.2%	10.5%	9.2%	8.4%	10.3%	6.2%	10.3%	11.1%	6.6%
CET1	10.8%	13.4%	11.5%	10.7%	13.2%	11.3%	10.9%	13.8%	11.3%

Funding & Liquidity

The company's funding and liquidity profile remain key credit strengths. Alpine has consistently reflected a more comfortable liquidity position compared to peers, with the loan-to-deposit ratio steadily tracking at or below 80% over the past ten years despite the expansion into more robust operating markets. The prudent approach to liquidity management, as well as the company's leading deposit market share in the Western Slope markets (1st overall; 24% market share), conservative organic growth via de novo branch expansion, and high touch relationship based banking model has helped facilitate the healthy liquidity position and favorable deposit mix. Moreover, while many institutions have benefitted from the significant amount of government stimulus over the past year, Alpine has consistently reflected a favorable liquidity position and below average deposit costs through multiple interest rate cycles. The company strives for full banking relationships, which helps support a robust level of noninterest-bearing accounts, which totaled 41% of total deposits as of 1Q21. Moreover, this helps reinforce a granular deposit base, with the top 20 relationships accounting for just 7% of total balances. Given these factors, Alpine has one of the lowest cost deposit bases of all KBRA rated institutions. Aside from core deposits, which account for 97% of total funding, the only other funding sources are the aforementioned capital instruments (subordinated debt and TruPS). Moving forward, the balance sheet is expected to become more "loaned up" given the massive amount of liquidity that has entered the bank over the past year (loan-to-deposit ratio of 67% as of 1Q21), though should be managed in line with pre-COVID levels. Aside from traditional borrowing sources, including FHLB and FRB, which are currently untapped, the company also has just over $950 million of securities (17% of total assets), though a majority of these ($658 million) are classified as held-to-maturity. Moreover, with regard to the composition of the securities portfolio, municipal bonds account for nearly 90%.

Peer Comparison Trends									
	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB	ALPINE BANKS OF COLORADO	Benchmark $1-$10BN	KBRA Peers BBB
Time Period	1Q2021	1Q2021	1Q2021	2020	2020	2020	2019	2019	2019
Balance Sheet									
Loans / Deposits	67%	81%	87%	71%	84%	91%	80%	91%	96%
Loans / Core Deposits	67%	88%	96%	72%	94%	103%	81%	105%	109%
Average Loans / Average Earning Assets	64%	73%	78%	76%	78%	84%	74%	82%	82%
Cost of Interest Bearing Dep.	0.06%	0.38%	0.38%	0.09%	0.64%	0.68%	0.15%	1.08%	1.20%
Noninterest Bearing / Total Dep.	41%	27%	29%	38%	26%	28%	37%	22%	24%

Key Qualitative Rating Determinants

The qualitative aspects of Alpine Banks of Colorado were assessed using a scorecard that focuses on four key factors: market strategy, risk management, liquidity management, and the operating environment. For the most part, the bank scored average for qualitative factors. For qualitative aspects, KBRA relies principally on discussions with management supplemented by publicly available data, regulatory filings and KBRA's view of the economic and regulatory environment. The following describes KBRA's qualitative assessment for Alpine Banks of Colorado:

Market Strategy

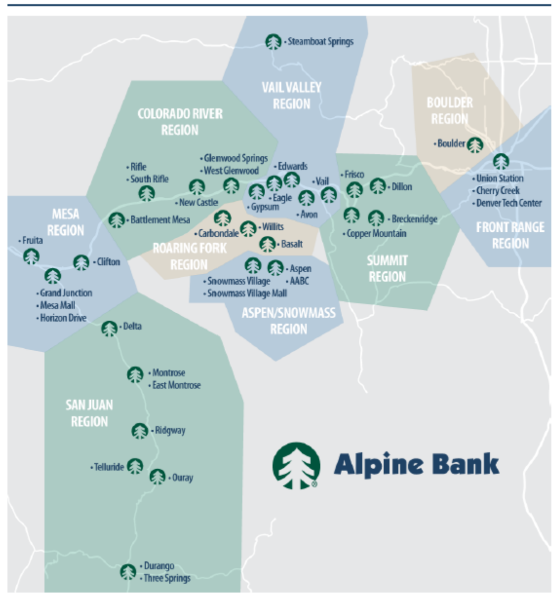
Alpine embodies the description "Community Bank" in most ways, having been founded in 1973, and growing organically since then, other than a relatively small scale acquisition in 2006 that expanded the company into the Telluride market. More recently (in 2014), Alpine opened its first branch in Denver, and has made good progress with four branches in Front Range markets of Colorado, having grown a $632 million loan book, as well as more than $400 million of deposits at 1Q21 Additionally, the company just recently opened an LPO in the Fort Collins market in June 2020, which has generated $33 million of loans thus far. Moreover, a land lease has been finalized in Fort Collins, which should become a permanent branch in the near future. Having initially considered the diversification of operating footprint into an economically vibrant Denver MSA, given its top share position in its heritage Western Slope markets, the company's strategic expansion plans have been focused and are likely to remain exclusively on the Front Range.

Deposit Market Share and Branch Footprint

Deposit Market Share

Company Name	Rank	Number of Branches (#)	Total Deposits in Market ($B)	Total Market Share (%)
Statewide				
Wells Fargo & Co. (CA)	1	148	32.0	22.5%
FirstBank Holding Co. (CO)	2	100	16.3	11.5%
U.S. Bancorp (MN)	3	140	15.2	10.7%
JPMorgan Chase & Co. (NY)	4	118	14.2	10.0%
KeyCorp (OH)	5	58	6.0	4.2%
BNP Paribas	6	75	5.0	3.5%
BOK Financial Corp. (OK)	7	14	3.7	2.6%
Pinnacle Bancorp Inc. (NE)	8	46	3.4	2.4%
Alpine Banks of Colorado (CO)	**9**	**43**	**3.2**	**2.3%**
Bank of America Corporation (NC)	10	12	2.9	2.0%
Total	-	**754**	**142.0**	-
Traditional Western Slope Markets				
Alpine Banks of Colorado (CO)	**1**	**36**	**3.1**	**23.6%**
Wells Fargo & Co. (CA)	2	21	2.7	20.8%
FirstBank Holding Co. (CO)	3	10	1.5	11.6%
U.S. Bancorp (MN)	4	21	1.0	7.3%
Bank of Colorado	5	14	0.9	7.0%
BNP Paribas	6	10	0.6	4.2%
ANB Bank	7	11	0.5	3.9%
Vectra Bank	8	9	0.4	3.1%
TBK Bank	9	5	0.4	3.0%
NHB Bank	10	10	0.3	2.5%
Total	-	**147**	**13.0**	-

Branch Network



Source: ALPIB KBRA Presentation

Beyond its footprint, which has developed from its headquarters' market (Glenwood Springs), Alpine seems very well connected to the communities it operates in, reflecting an enviable corporate culture that starts with a tenured senior management team, each of whom has been with the company for a long time. A longstanding "high touch" customer delivery and service model remains at the core of Alpine's business model and culture. From a financial perspective, it has manifested itself most clearly in the company's extremely low cost core deposit base, but according to management, also exists with respect to loan pricing. Beyond the most traditional lending, deposit and payment related services, Alpine reflects an attractive and growing Wealth Management operation, which recently surpasses $1 billion AUM ($1.1 billion as of 1Q21).

With significant demand for commercial and residential real estate, as well as comparatively limited attractive C&I lending opportunities in its core Western Slope markets, Alpine was deliberate in adding expertise in and infrastructure for the latter, until the opportunities became clearer in Front Range markets. While typically growing its management and senior staff internally through its operating history, Alpine aptly recognized the need to add C&I bankers as part of its successful Front Range expansion.

Risk Management

Substantial insider and employee ownership, as well as extensive management experience in its core markets, remain instrumental drivers of Alpine's approach and capabilities with respect to credit risk management, which, like most community banks, is the principal risk facing the institution. Part of this "experience", particularly with respect to credit risk management, was developed through knowledge gained in the challenging period surrounding the GFC. We consider this experience to have been instrumental in enhancing the credit culture at Alpine. In addition to a traditional credit review function, Alpine utilizes an outside CPA firm to conduct an independent quarterly review, primarily of its top 40 lending relationships.

Alpine's institution wide credit culture is viewed favorably, and prior to the past year, the company was rather unique and did not have Chief Credit Officer by title. However, Alpine recently announced that Rachel Gerlach has taken on the role of Chief Credit Officer. Prior to this role she was the Chief Operating Officer and was the Head of Loan Review and EVP of Credit Analysis as well. With that said, any deposit operations that she was previously in charge of has been moved to other areas and she is now solely focused on the credit side. Each credit executive has been an Alpine employee for more than 15 years, and like most of their respective teams, has experience both as a lender, as well in their current functions. The senior loan committee, through which Alpine approves all large credits and any potential exceptions to underwriting guidelines, is comprised of Senior Management and Credit executives.

In addition to Alpine's somewhat unique Credit Risk Management organizational structure, at least by corporate title, we would also offer some perspective on the company's somewhat less granular than typical commercial exposure risk grading scale. Alpine has operated for years with a three grade scale: (A) Pass, (B) Special Mention and (C) Substandard (and below). Even acknowledging that in a more common 10 grade scale, most of the Pass credits are typically in categories 4 and 5, all else equal, we still prefer a more granular risk rating scale than not. That said, we would always prefer a pervasive credit culture that encompasses the line lenders, than necessarily traditional department titles and/or standard commercial loan risk grading scales, and that is a characteristic that we believe Alpine reflects.

Liquidity Management

Alpine's liquidity management is obviously enhanced by the company's robust and low-cost core deposit base. Only since entering the Front Range markets, which offer greater lending opportunities has the company's loan-to-core deposit ratio moved upwards from the mid-70% range. While the lack of wholesale borrowings is not indicative of capacity, we are less enamored with the company's nearly exclusively municipal bond securities portfolio that, while consistent with much of the industry practice in its classification of holdings as HTM, is more concentrated in this bond class than peers. This is not to suggest that KBRA has any issues with respect to the credit quality associated with the portfolio. Moreover, holding company liquidity is managed conservatively in our view.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. While ESG factors may influence ratings, it is important to underscore that KBRA's ratings do not incorporate value-based judgments. Throughout our analysis, KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. More information on KBRA's approach to ESG risk management can be found here. ESG factors that had a material impact on this rating include ALPIB's appropriate risk management and governance practices, in common with most banks. For supplementary information on risk management and other considerations, please reference the qualitative rating determinants section beginning on page 7.

Operating Environment

Overall, the U.S. banking system has a strong regulatory framework. Since the 2008 financial crisis, banking institutions have adjusted to additional rules and regulations resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III standards. Despite some easing of regulatory burden, particularly for small to mid-sized banks in recent years, regulatory standards and oversight remain strong for the U.S. banking system. The latest research on this and other topics can be found here.

External Support

Pursuant to the 2010 Dodd-Frank Act, U.S. regulators created a resolution regime with the goal of preventing a systemic crisis if a systemically important bank fails. For non-systemically important depositories such as the bank, KBRA believes that uninsured depositors could benefit from some degree of extraordinary systemic support. However, KBRA does not foresee any regulatory support being extended to creditors or investors at the bank or its BHC. As the bank operates in the U.S. market, a well-developed economy with a AAA sovereign rating, there were no adjustments for country risk. In addition, the company is publicly traded, albeit thinly traded OTC, and the rating does not incorporate external support related to its ownership structure.

Rating Approach

KBRA's ratings are supported by the following factors: i) a quantitative view of the bank's financial fundamentals, including stress testing, ii) a qualitative assessment of the bank's management and market strategy, and iii) the incorporation of potential external systemic support. KBRA's ratings for the bank holding company reflect the overall credit profile of the organization and the potential structural subordination of its liabilities to the liabilities of its subsidiary in an event of default or regulatory intervention. KBRA's short-term ratings are derived from senior long-term bank ratings. Consistent with KBRA's typical notching practices, subordinated debt is rated one notch below senior unsecured debt.