Alpine Banks of Colorado

Ratings

Alpine Banks of Colorado	
Action: **Assigned**	5/28/20
Senior Unsecured Debt	BBB
Subordinated Debt	BBB-
Short-Term Debt	K3

Alpine Bank	
Action: **Assigned**	5/28/20
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 (%)	1Q20	YE19
Total Assets ($B)	3.9	3.9
ROAA	1.12	1.55
NIM	4.41	4.59
NCO Ratio	0.09	0.10
NPA Ratio	0.18	0.16
TCE Ratio	8.4	8.4
CET1 Ratio	10.8	10.9
Loans/Core Dep	82	81

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Company Profile

- Alpine Banks of Colorado ("Alpine" or "the company") is a $3.9 billion-asset bank holding company for Colorado-chartered Alpine Bank (founded in 1973), whose private Class A voting stock 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 more than $200 million of deposits in four area branches.
- A real estate oriented lender at its core, Alpine balances not insignificant C&D lending exposure ($392 million or 14% of total loans and 92% of total capital at 1Q20) and a $497 million investor CRE portfolio (together with C&D representing 228% of total capital), with a meaningful prime residential mortgage book that totaled $1.2 billion, or 43% of loans, at quarter-end. Having begun developing commercial lending capabilities in 2017, as a result of more perceived opportunities in the particularly vibrant greater-Denver market, the now modest traditional C&I book ($133 million, but $482 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 is fairly evenly split between commercial and consumer customers; strong recent year earnings power that benefits from an above-peer NIM, driven more by the advantageous funding than outsized loan yields, as well as low credit costs, and adequate core capitalization.
- With respect to deposits, Alpine reflects the lowest cost base of any bank in the KBRA-rated universe, as total average deposit rates have been tracking below 0.10% for years, only drifting slightly above in 2019 because of a 5 bps uptick in interest-bearing yields (to 0.15%). Essentially unparalleled deposit costs, which are helped by a healthy amount noninterest-bearing balances (+35% of total), seem to be a function of unique customer loyalty developed through its well-executed high touch relationship delivery model. The company's business model does naturally lend itself to somewhat higher-than-peer relative operating costs.
- Alpine reflects a disciplined loan underwriting approach, that in KBRA's view, emanates from a strong credit culture (driven in part by significant insider ownership), as well as, admittedly, lessons learned from challenges associated with the financial crisis, centered in 2010.
- Following an aggressive approach to loss recognition (particularly C&D) during 2010, Alpine's post-2011 operating results have benefitted from nominal credit costs that have included meaningful loan recoveries. While ROA has recently tracked at roughly 1.5%, our ratings incorporate the potential for a material compression in returns as a result of increased 2020 credit costs. Reserves at 1% loans, and core capital measures – including TCE and CET1 ratios of 8.4% and 10.8%, respectively – also leave current loss absorbing capacity adequate for the assigned rating.

Please see our U.S. Bank 1Q 2020 Ratings Compendium for thoughts on the COVID-19 impact on the banking sector.

Rating Sensitivities	
Improved core capital, further revenue diversification, and comparative asset quality stability during the current economic downturn could facilitate a positive, intermediate-term ratings trend.	+
An unexpected deterioration in asset quality performance, leading to operating losses and lower core capital would mostly likely pressure ratings.	–

ESG Considerations

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 ESG Considerations for the Financial Institutions sector can be found **here**. There were no ESG factors that had significant impact on this rating analysis.

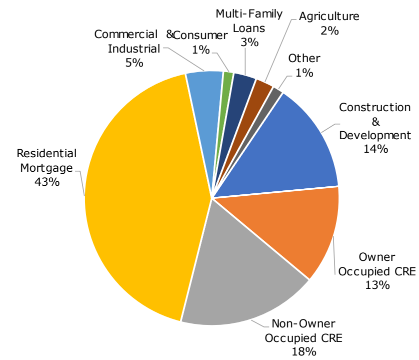
Financial Metrics

SUMMARY FINANCIAL HIGHLIGHTS
ALPINE BANKS OF COLORADO

	1Q20	4Q19	3Q19	2Q19	1Q19	2019	2018	2017	2016	2015
Balance Sheet ($ millions)										
Loans (HFI)	2,760	2,667	2,558	2,462	2,388	2,667	2,430	2,264	2,066	1,792
Average Earning Assets	3,622	3,622	3,582	3,474	3,466	3,536	3,398	3,112	2,719	2,452
Total Assets	3,946	3,868	3,844	3,697	3,729	3,868	3,710	3,483	3,057	2,744
Core Deposits	3,405	3,325	3,319	3,199	3,233	3,325	3,232	2,942	2,580	2,261
Total Deposits	3,438	3,360	3,354	3,237	3,267	3,360	3,271	3,071	2,681	2,377
Total Equity	349	342	332	320	309	342	297	258	235	213
Tangible Common (TCE)	331	325	314	302	291	325	279	241	218	195
Income Statement ($ millions)										
Net Interest Income	38.4	39.7	40.3	38.8	38.7	157.4	144.7	126.1	110.2	96.7
Noninterest Income	11.2	10.5	9.9	10.3	9.4	40.2	34.8	31.0	29.4	25.7
Noninterest Expense	34.5	33.8	32.0	31.5	30.6	127.9	113.3	102.6	94.0	89.5
Provision for Loan Losses	2.3	0.0	0.0	0.0	0.0	0.0	0.0	-1.1	0.0	-4.0
Net Income	10.9	13.9	15.0	14.5	14.6	58.0	54.8	33.6	33.4	27.6
Performance Measures (%)										
Return on Average Assets	1.12%	1.46%	1.59%	1.57%	1.59%	1.55%	1.54%	1.03%	1.16%	1.06%
Return on Average Equity	12.60%	16.55%	18.47%	18.43%	19.40%	18.17%	19.90%	13.55%	14.89%	13.75%
Net Interest Margin (TE)	4.41%	4.59%	4.64%	4.61%	4.60%	4.59%	4.40%	4.31%	4.30%	4.19%
Efficiency Ratio	69.5%	67.3%	63.8%	64.1%	63.6%	64.7%	63.1%	65.3%	67.3%	73.1%
Noninterest Income / Op. Revenue	22.6%	21.0%	19.7%	21.1%	19.6%	20.4%	19.4%	19.8%	21.1%	21.0%
Loans / Earning Assets	75%	73%	70%	70%	69%	70%	69%	69%	72%	68%
Cost of Interest-Bearing Deposits	0.12%	0.15%	0.16%	0.15%	0.15%	0.15%	0.10%	0.08%	0.06%	0.07%
Average Loan Yield	5.08%	5.40%	5.59%	5.55%	5.53%	5.52%	5.31%	4.98%	4.81%	4.86%
Asset Quality (%)										
NPA / Loans + OREO	0.18%	0.16%	0.23%	0.22%	0.27%	0.16%	0.32%	0.57%	0.75%	0.90%
LLR / Loans (HFI)	1.00%	0.98%	1.06%	1.13%	1.19%	0.98%	1.17%	1.27%	1.42%	1.53%
LLR / NPL	775%	915%	611%	842%	650%	915%	493%	359%	391%	393%
NCO / Average Loans	0.09%	0.14%	0.14%	0.07%	0.03%	0.10%	0.01%	(0.02%)	(0.10%)	(0.07%)
Provision / NCO (x)	3.6	0.0	0.0	0.0	0.0	0.0	0.0	2.4	0.0	3.5
NPA Change Rate	17%	(28%)	9%	(16%)	(17%)	(46%)	(40%)	(16%)	(5%)	(42%)
Capital (%)										
TCE Ratio	8.4%	8.4%	8.2%	8.2%	7.9%	8.4%	7.6%	6.9%	7.2%	7.2%
Leverage Ratio	10.3%	10.3%	10.1%	10.1%	9.8%	10.3%	9.6%	8.9%	9.1%	8.9%
CET 1 ratio	10.8%	10.9%	10.8%	10.8%	10.8%	10.9%	10.3%	9.2%	9.1%	9.1%
Tier 1 Ratio	13.0%	13.2%	13.1%	13.3%	13.3%	13.2%	12.7%	11.5%	11.4%	11.2%
Total Capital Ratio	13.9%	14.1%	14.1%	14.3%	14.4%	14.1%	13.8%	12.9%	13.2%	13.4%
Leverage & Funding (%)										
Loans / Deposits	81%	80%	77%	76%	73%	80%	74%	74%	77%	76%
Loans / Core Deposits	82%	81%	78%	77%	74%	81%	75%	77%	80%	80%
Core Deposits / Total Funding	97%	97%	97%	96%	97%	97%	97%	94%	94%	92%
Double Leverage (Incl TRuPS)	97%	97%	97%	97%	97%	97%	97%	96%	97%	97%

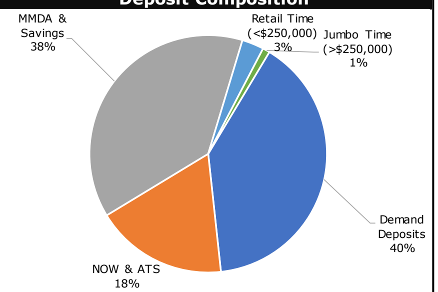
($ millions)	1Q20	2019	2018	2017	2016
Loan Composition					
Construction & Development	392	375	335	344	310
Owner Occupied CRE	349	346	337	313	298
Non-Owner Occupied CRE	497	488	430	408	377
Residential Mortgage	1,189	1,133	1,023	941	851
Commercial & Industrial	133	126	118	95	87
Consumer	37	37	32	29	29
Multi-Family Loans	81	52	59	51	46
Leases	4	4	4	5	5
Agriculture	65	67	65	58	51
Other	39	58	37	33	25
Total Loans	2,781	2,682	2,435	2,273	2,075
Loans Held for Sale (HFS)	22	15	5	9	9
Loans Held for Investment (HFI)	2,760	2,667	2,430	2,264	2,066
Annual Loan Growth	16%	10%	7%	10%	15%
Investor CRE / Total Loans	35%	34%	34%	35%	36%
C&D / Risk-Based Capital (RBC)	92%	90%	89%	102%	98%
Non-Owner Occupied CRE / RBC	228%	219%	219%	239%	234%

Loan Composition



($millions)	1Q20	2019	2018	2017	2016
Deposit Composition					
Domestic Deposits					
Demand Deposits	1,364	1,375	1,262	1,258	978
NOW & ATS	620	598	608	593	542
MMDA & Savings	1,318	1,249	1,253	1,054	992
Time Deposits					
Retail Time (<$250,000)	103	103	109	123	68
Jumbo Time (>$250,000)	33	36	39	42	101
Foreign Deposits	0	0	0	0	0
Total Deposits	3,438	3,360	3,271	3,071	2,681
Total Core Deposits	3,405	3,325	3,232	2,942	2,580
Total Non-interest Bearing	1,241	1,248	1,166	1,076	899
Annual Core Deposit Growth Rate	5%	3%	10%	14%	14%

Deposit Composition



Note: Deposit Composition is derived from Alpine's GAAP reporting due to analytically more relevant classification of noninterest bearing deposits than under regulatory reporting.

Comparative Statistics

Rated BHC Peer Comparison as of March 31, 2020

Company Name	ALPINE BANKS OF COLORADO	TRICO BANCSHARES	MIDLAND STATES BANCORP, INC.	INDEPENDENT BANK CORPORATION	GREAT SOUTHERN BANCORP, INC.	QCR HOLDINGS, INC.
State	CO	CA	IL	MI	MO	IL
Balance Sheet ($000's)						
Total Assets	3,945,571	6,474,309	6,208,230	3,632,387	5,075,781	5,232,076
Total Risk Weighted Assets	3,060,928	5,043,840	5,043,298	2,793,398	4,654,839	4,439,446
Risk Weighted Density	78%	78%	81%	77%	92%	85%
Loans (HFI)	2,759,707	4,379,062	4,376,204	2,718,866	4,238,963	3,700,674
Total Deposits	3,438,022	5,402,698	4,650,640	3,098,228	4,188,114	4,170,478
Loans / Deposits	81%	81%	94%	88%	101%	89%
Loans / Core Deposits	82%	83%	100%	97%	120%	101%
Performance Measures						
ROAA	1.12%	1.00%	0.10%	0.55%	1.21%	0.91%
ROAE	12.60%	7.10%	0.95%	5.51%	9.93%	8.23%
Risk Weighted ROA	1.48%	1.28%	0.13%	0.72%	1.32%	1.04%
Cost of Interest Bearing Dep.	0.13%	0.29%	0.99%	0.64%	1.30%	1.09%
Noninterest Bearing / Total Dep.	36%	35%	23%	42%	28%	20%
Average Loan Yield	5.08%	5.20%	4.96%	4.61%	5.16%	4.68%
NIM	4.41%	4.34%	3.48%	3.63%	3.84%	3.56%
Noninterest Inc./ Total Rev.	23%	16%	16%	26%	13%	29%
Efficiency	69.5%	59.8%	77.1%	70.2%	58.9%	59.4%
Asset Quality						
NCO / Average Loans	0.09%	(0.04%)	1.17%	0.05%	0.02%	0.23%
NPA / Loans + OREO	0.18%	0.44%	1.37%	0.66%	0.36%	0.43%
LLR / NPL	775%	323%	70%	186%	398%	326%
Capital						
TCE	8.4%	10.0%	7.1%	8.4%	12.0%	8.8%
CET1	10.8%	12.8%	8.5%	10.8%	12.6%	10.3%
Tier 1 Leverage	10.3%	11.2%	8.4%	9.6%	12.3%	10.2%
Loan Portfolio						
C&I Loans/Total Loans	5%	0%	0%	11%	6%	0%
ICRE Loans/Total Loans	35%	56%	24%	22%	68%	35%
C&D Loans / Total Loans	14%	6%	5%	9%	14%	12%

Key Quantitative Rating Determinants

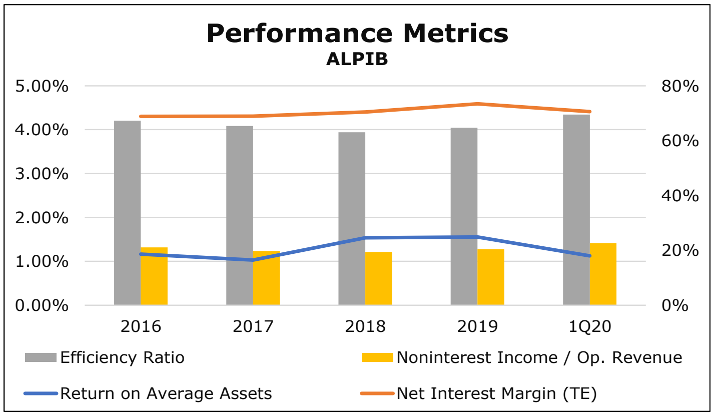
The quantitative financial fundamentals of the bank are derived from the analysis of the bank's intrinsic financial strength and potential adjustments due to KBRA's stress testing as well as an analysis of current and historical financial metrics.

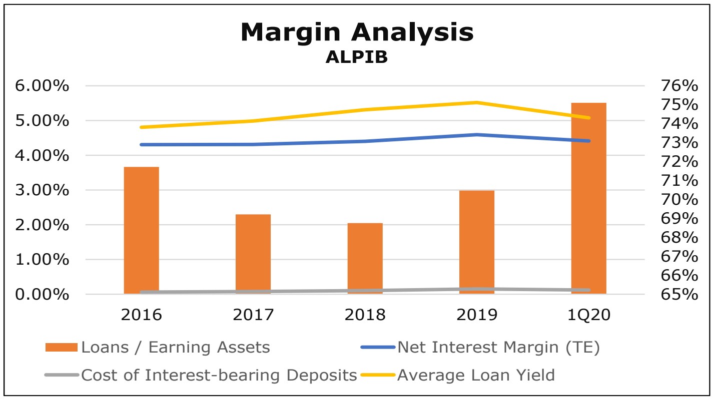
Performance

Alpine's multiyear performance track record has been favorable, as company returns (1.5% ROA in 2018 and 2019) have benefited from an above-peer net interest margin (NIM) that has recently been running in the 4.4%-4.6% range, as well as nominal credit costs; certainly a function of strong recent year economic conditions, particularly in Colorado. Regarding the latter, we would also note that, in our view, Alpine reflects greater underwriting discipline and a more conservative approach to credit assessment, including an explainable emphasis on loan segment concentration risk management, particularly with respect to Construction and Land Development (C&D) lending. We believe this stems principally from the company's performance challenges surrounding the Global Financial Crisis (GFC) that were primarily centered in 2010, when an aggregate of $96 million (gross) of loans were charged-off, leading to 4.9% NCO ratio that year. With the most significant loss recognition associated with the company's C&D book, Alpine had entered the crisis with a $787 million construction portfolio as of YE08; a concentration representing 37% of total loans. Positively, the single year of aggressive charge-off of the most challenged portfolio (and related provisions), led to the company's only loss year (2010), and allowed a fairly rapid and distinct improvement in bottom line results. By 2012, Alpine's ROA was approaching 1%, in no small part owing to recoveries, and related nominal provisioning, and has remained at or above 1% since 2013. We would note that Alpine's bottom-line and related performance measures continue to benefit somewhat from an effective tax rate recently in the 17%-18% range.

With respect to the company's NIM, the contribution from a uniquely low-cost deposit base – consistently less than 0.10% in average rate – outweighs the benefit of somewhat higher-than-peer loan yields (5.5% in 2019), which we believe are partly a function of well cultivated and well serviced banking relationships, both on the commercial customer and retail sides of the business. This noted 'high touch' banking model is not without cost, as Alpine's operating efficiency measures trail some peers (related ratio mid-60% range); however, one that is considered worthwhile given deposit costs, and ultimately, bottom-line returns. We would also note that a fairly well developed Wealth Management operation, which remains a nice contributor to Alpine's core fee generation – which in aggregate represents approximately 20% of total revenues – carries an expectedly higher operating cost base; slightly impacting efficiency measures, but not competitive bottom-line returns much. Alpine's recent year earning asset composition – loans recently representing low-to-mid 70% of AEA – is similar to peers.

Alpine's 1Q20 results unsurprisingly slipped from recent year performance to an annualized ROA of 1.1%, principally owing to a $2.3 million provision that represented approximately 0.35% of average loans. Solid core earnings power should allow the company to absorb the anticipated increase in credit costs over the balance of 2020.

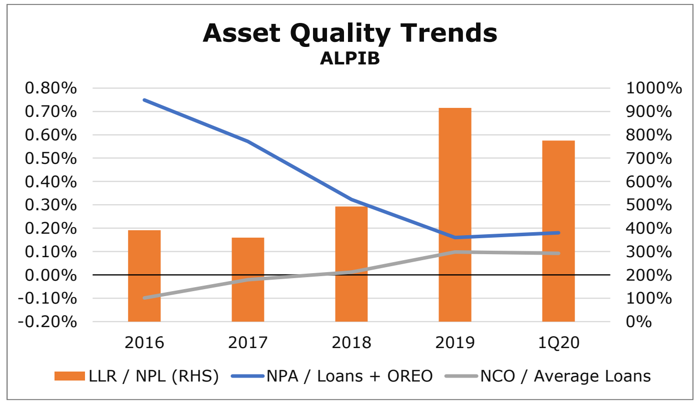




Asset Quality

Alpine's recent year credit quality measures have been, as alluded to, quite favorable, acknowledging the benefits of Colorado's solidly growing and increasingly diverse economy. In this regard, the company's NCOs and related ratio remarkably only moved positive (i.e. some net losses) beginning in 2018, as aforementioned, meaningful net recoveries were evident from 2013 through 2017. More recently (pre-COVID 19), a couple of idiosyncratic, but extremely manageable, losses have occurred in Alpine's growing C&I book, but in aggregate, the company's NCO ratio has averaged roughly 10 bps for the last six quarters.

Problem loans have also trended consistently downward since 2010 and remained at extremely low levels at 1Q20; NPA ratio of 0.18%. As noted, reserve management has incorporated negative or nominal (at worst) provisions; however, despite this enters the current economic uncertainty with a 1% LLR / loan measure to build from.

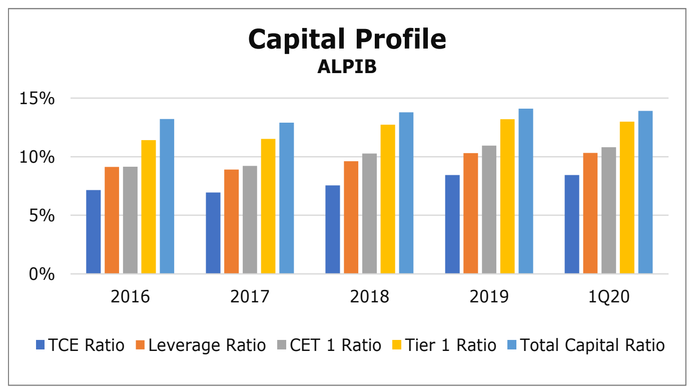


With respect to a bit more perspective on the company's GFC performance, we've noted that charge-offs were elevated particularly in one year (2010), and that C&D loss recognition was the principal driver, with a low double-digit NCO ratio for the loan class that year. While C&D charge-offs remained elevated in 2011 also (approximate 6% NCO ratio, compared with an aggregate NCO ratio of 2.3%), noted recoveries started flowing in beginning in 2012 and continuing through the next few years; a testament to Alpine's workout and collection efforts. Finally, to help better frame the timing associated with Alpine's GFC performance, it's worth noting that the company's footprint – the Western Slope of Colorado – was a region that was among the latest to enter the worst part of the economic downturn.

Capital

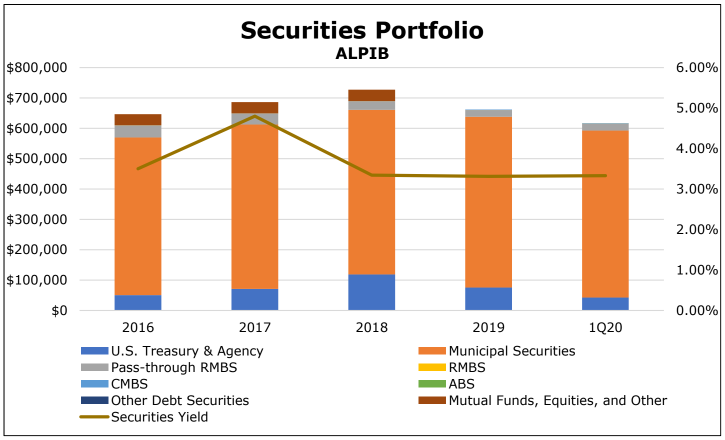
Alpine's current core capitalization – including 1Q20 TCE and CET 1 measures of 8.4% and 10.8%, respectively – are somewhat below peer, but nonetheless considered adequate for the rating category. The company's recent period core capital ratios are up from approximately 7% and 9%, respectively, during the 2015-2017 period.

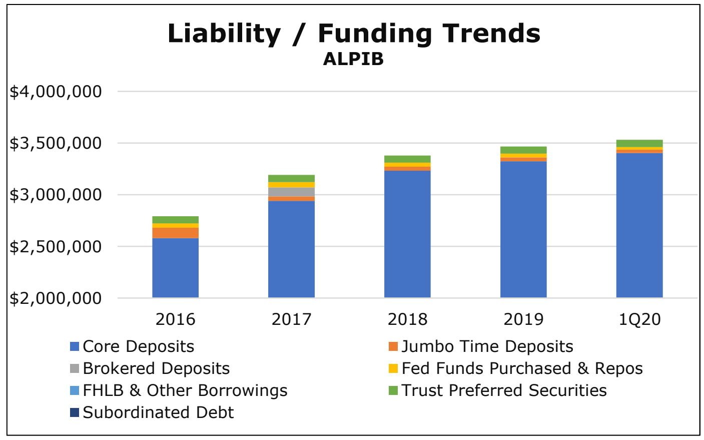
Alpine's regulatory capital ratios are more robust and similar to peers, owing to a meaningful amount ($69 million) of legacy trust preferreds (TruPS) in the company's capital stack; a total comprised of five issues that currently represents 17.5% of Tier 1 capital. Four of Alpine's five TruPS that are outstanding are currently considered to be anywhere from firmly below current likely "market" rates to somewhat below. Should the company complete a right sized subordinated debt raise, recent holding company double leverage is expected to increase from approximately 115% (excluding the TruPS) to just above 120%, a very manageable level in KBRA's view. Alpine reflected $12.5 million of holding company cash and equivalents at 1Q20 (a level that has remained consistent in recent periods), amply covering two years of potential holding company debt service requirements.



Funding & Liquidity

Alpine's funding and liquidity profile remain key credit strengths. As noted, the company reflects the lowest rate deposit base of any KBRA rated institution, with the cost of interest-bearing balances having only reached 0.10% towards the end of 2018 and peaked at 0.16% during 3Q19. Furthermore, the company's deposit base is quite granular, with Top 20 relationships recently representing approximately 7% of total balances. While Alpine's 2019 loan growth of approximately 10% (as compared with a 5-year CAGR of approximately 8%) was stronger than annual core deposit growth last year, the company's loan-to-core deposit ratio remains in the low-80% range. Extremely limited non-core funding has recently been only through modest repo borrowings, and with $345 million of unused FHLB capacity as the principal contingent liquidity source, Alpine remains well positioned. We would note that Alpine's robust core deposit base and related funding capacity has apparently contributed to the company's investment portfolio composition, which is comprised of almost exclusively municipal bonds (representing 90% of holdings), all of which are classified as held-to-maturity.





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 above 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

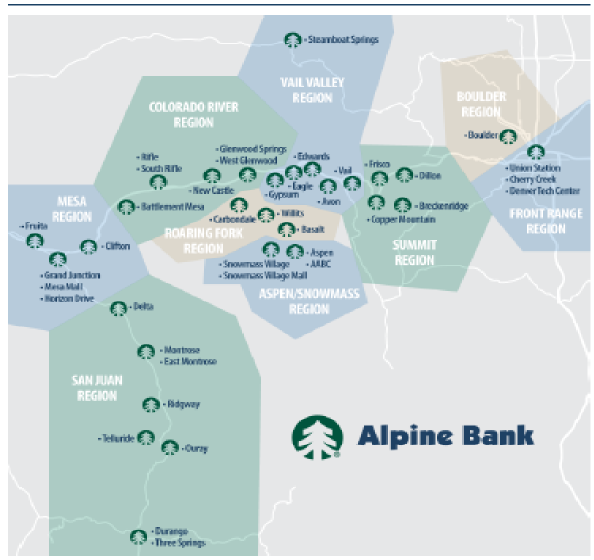
Deposit Market Share and Branch Footprint

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**	-

Note: FDIC Summary Deposits as of June 30, 2019
Source: S&P Global Market Intelligence

Branch Network



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Source: Company Presentation

Front Range markets of Colorado, having grown a $500 million loan book, as well as more than $200 million of deposits at 1Q20. 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, with a new branch expected in Fort Collins and other locations with Denver currently expected in the not too distant future.

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.

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 more clear 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.

While Alpine's institution wide credit culture is viewed favorably, the company, somewhat uniquely in our experience, doesn't have Chief Credit Officer by title. Instead, Alpine's Chief Operating Officer, who has been with the company for 22 years, has the Head of Loan Review and the EVP of Credit Analysis (who supervises a team of 15 credit analysts) as direct reports. 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 (note: even in a post COVID-19 credit environment). Holding company liquidity is managed conservatively in our view.

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.

Rating Approach

KBRA's ratings 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.