

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

December 31, 2023 and 2022



**Alpine Banks  
of Colorado**

**DWC**  

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**CPAS | ADVISORS**



Board of Directors  
Alpine Banks of Colorado and Subsidiaries  
Glenwood Springs, Colorado

## **INDEPENDENT AUDITOR'S REPORT**

### **Opinion**

We have audited the accompanying consolidated financial statements of Alpine Banks of Colorado and Subsidiaries (the Bank), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited in accordance with auditing standards generally accepted in the United States of America, Alpine Banks of Colorado and Subsidiaries' internal control over financial reporting as of December 31, 2023, based upon the criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 6, 2024 expressed an unmodified opinion.

### **Basis for Opinion**

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

DWC

Grand Junction, Colorado

February 6, 2024

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2023 and 2022  
(In thousands, except share amounts)

	2023	2022
<b>ASSETS</b>		
Cash and due from banks	\$ 223,731	\$ 171,646
Investment securities:		
Securities available for sale, at fair value	702,207	748,863
Securities held to maturity, at amortized cost	1,169,300	1,224,553
Investments in Alpine Capital and trust preferred securities	2,134	2,132
Loans receivable, net of deferred loan fees	4,042,975	3,894,684
Allowance for credit losses	(44,756)	(42,844)
Loans held for resale, at cost which approximates fair value	4,155	2,515
Accrued interest receivable	28,251	26,533
Cash surrender value of life insurance policies	102,112	98,135
Bank property, equipment, and leasehold improvements, net	77,942	76,283
Goodwill	17,631	17,631
Deferred tax asset, net	35,763	40,847
Other assets	58,114	56,277
<i>Total Assets</i>	\$ 6,419,559	\$ 6,317,255
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Demand	\$ 1,746,391	\$ 2,174,981
Interest checking	916,943	1,235,055
Money fund	1,792,860	1,732,306
Savings	124,816	176,819
Certificates of deposit	1,119,089	199,505
Repurchase agreements	-	6,764
<i>Total Deposits</i>	5,700,099	5,525,430
<b>Other Liabilities</b>		
Other liabilities	71,658	68,045
Accrued interest payable	11,690	1,640
Other borrowings	50,000	177,933
Subordinated debentures held by subsidiary trusts	69,179	69,179
Subordinated debt	50,000	50,000
<i>Total Other Liabilities</i>	252,527	366,797
<i>Total Liabilities</i>	5,952,626	5,892,227
<b>Equity</b>		
Alpine Banks of Colorado Stockholders' equity		
Common stock, Class A, voting no par value, 100,000 shares authorized, 52,328 (2023) and 52,393 (2022) shares issued and outstanding	26	26
Common stock, Class B, non-voting no par value, 15,000,000 shares authorized, 8,333,983 (2023) and 8,509,432 (2022) shares issued and outstanding	34,024	34,025
Contributed capital	6,801	6,826
Retained earnings	496,842	466,991
Accumulated other comprehensive income, net of tax effect	(71,197)	(83,272)
<i>Total Alpine Banks of Colorado Stockholders' Equity</i>	466,496	424,596
Noncontrolling interest	437	432
<i>Total Equity</i>	466,933	425,028
<b>Total Liabilities and Stockholders' Equity</b>	\$ 6,419,559	\$ 6,317,255

See accompanying notes.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2023 and 2022  
(In thousands, except per share amounts)

	2023	2022
<b>Interest Income</b>		
Loans receivable	\$ 220,712	\$ 168,659
Securities	52,844	42,830
<i>Total Interest Income</i>	<u>273,556</u>	<u>211,489</u>
<b>Interest Expense</b>		
Deposits	66,935	2,997
Other	13,121	6,728
<i>Total Interest Expense</i>	<u>80,056</u>	<u>9,725</u>
<i>Net Interest Income Before Provision For Credit Losses</i>	<u>193,500</u>	<u>201,764</u>
<b>Provision for Credit Losses</b>	3,703	2,595
<i>Net Interest Income After Provision For Credit Losses</i>	<u>189,797</u>	<u>199,169</u>
<b>Non-interest Income</b>		
Other income	34,187	29,159
Service charges on deposit accounts	10,157	10,056
Earnings on life insurance	2,643	1,866
<i>Total Non-Interest Income</i>	<u>46,987</u>	<u>41,081</u>
<b>Non-interest Expense</b>		
Salaries and employee benefits	88,179	81,845
Other expense	59,571	51,190
Occupancy expense	11,191	10,191
Furniture and fixture expense	9,190	8,362
<i>Total Non-Interest Expense</i>	<u>168,131</u>	<u>151,588</u>
<i>Net Income Before Income Taxes</i>	<u>68,653</u>	<u>88,662</u>
<b>Income Tax Provision</b>	11,471	15,230
<i>Consolidated Net Income</i>	<u>57,182</u>	<u>73,432</u>
Less: Net income attributed to noncontrolling interest	138	78
<i>Net Income Attributable to Stockholders of Alpine Banks of Colorado and Subsidiaries</i>	<u>\$ 57,044</u>	<u>\$ 73,354</u>
<b>Consolidated Net Income</b>	\$ 57,182	\$ 73,432
<b>Other Comprehensive Income, Net of Tax</b>		
Change in unrealized loss on investment securities, net of reclassification adjustment and tax effects	12,075	(78,307)
<i>Total Comprehensive Income (Loss)</i>	<u>69,257</u>	<u>(4,875)</u>
Less: Net income attributed to noncontrolling interest	138	78
<i>Total Comprehensive Income Attributable to Stockholders of Alpine Banks of Colorado and Subsidiaries</i>	<u>\$ 69,119</u>	<u>\$ (4,953)</u>
Basic earnings per common Class A share <sup>1</sup>	\$ 526	\$ 696
Basic earnings per common Class B share <sup>1</sup>	\$ 4	\$ 5
Dividends declared per common Class A share	\$ 120	\$ 108
Dividends declared per common Class B share	\$ 1	\$ 1

<sup>1</sup> Calculated based on net income attributable to stockholders of Alpine Banks of Colorado and subsidiaries.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

For the years ended December 31, 2023 and 2022  
(In thousands)

	Class A Common Stock	Class B Common Stock	Contributed Capital	Retained Earnings	Other Comprehensive Income	Noncontrolling Interest	Total Equity
<b>Balance at December 31, 2021</b>	<b>\$ 26</b>	<b>\$ 25</b>	<b>\$ 8,626</b>	<b>\$ 414,291</b>	<b>\$ (4,965)</b>	<b>\$ 446</b>	<b>\$ 418,449</b>
Net income	-	-	-	73,354	-	78	73,432
Change in unrealized gain (loss) on securities, net of reclassification adjustment and tax effects	-	-	-	-	(78,307)	-	(78,307)
Stock issued for cash	-	34,000	(1,770)	-	-	-	32,230
Capital contributions - noncontrolling interest	-	-	-	-	-	109	109
Capital stock retirement	-	-	(30)	(9,219)	-	-	(9,249)
Distributions - noncontrolling interest	-	-	-	-	-	(201)	(201)
Dividends paid	-	-	-	(5,660)	-	-	(5,660)
Common stock- Class A	-	-	-	(5,660)	-	-	(5,660)
Common stock- Class B	-	-	-	(5,775)	-	-	(5,775)
<b>Balance at December 31, 2022</b>	<b>\$ 26</b>	<b>\$ 34,025</b>	<b>\$ 6,826</b>	<b>\$ 466,991</b>	<b>\$ (83,272)</b>	<b>\$ 432</b>	<b>\$ 425,028</b>
Net income	-	-	-	57,044	-	138	57,182
Change in unrealized gain (loss) on securities, net of reclassification adjustment and tax effects	-	-	-	-	12,075	-	12,075
Cumulative effect from change in accounting policy adoption of ASU 2016-13	-	-	-	(6,496)	-	-	(6,496)
Capital contributions - noncontrolling interest	-	-	-	-	-	89	89
Capital stock retirement	-	(1)	(25)	(7,676)	-	-	(7,702)
Distributions - noncontrolling interest	-	-	-	-	-	(222)	(222)
Dividends paid	-	-	-	(6,284)	-	-	(6,284)
Common stock- Class A	-	-	-	(6,284)	-	-	(6,284)
Common stock- Class B	-	-	-	(6,737)	-	-	(6,737)
<b>Balance at December 31, 2023</b>	<b>\$ 26</b>	<b>\$ 34,024</b>	<b>\$ 6,801</b>	<b>\$ 496,842</b>	<b>\$ (71,197)</b>	<b>\$ 437</b>	<b>\$ 466,933</b>

See accompanying notes.

**ALPINE BANKS OF COLORADO  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2023 and 2022  
(In thousands)

	<u>2023</u>	<u>2022</u>
<b>Cash Flows From Operating Activities</b>		
Net Income Attributed to Alpine Banks of Colorado and Subsidiaries	\$ 57,044	\$ 73,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	7,640	7,455
Amortization of premiums and accretion of discounts	6,210	7,104
Loss on sale of available for sale securities	8,493	5,640
Loss on sale of held to maturity securities	-	11
Provision for loan losses	3,703	2,595
Proceeds from loan sales	75,869	117,356
Loans originated for resale	(79,082)	(107,858)
Change in cash surrender value of life insurance policies	-	(1,845)
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,718)	(3,876)
Deferred tax asset, net	5,084	(1,222)
Other assets	(5,778)	(3,510)
Other liabilities	3,613	4,465
Accrued interest payable	10,050	1,196
Minority interest of limited liability companies	5	(14)
<i>Net Cash Provided by Operating Activities</i>	<u>91,133</u>	<u>100,851</u>
<b>Cash Flows From Investing Activities</b>		
Maturities of investment securities available for sale	55,103	55,490
Sales of investment securities available for sale	88,986	124,437
Maturities of investment securities held to maturity	61,334	26,054
Purchases of investment securities available for sale	(91,406)	(192,255)
Purchases of investment securities held to maturity	(10,793)	(359,155)
Investment in trust preferred	(2)	(6)
Net increase in loans made to customers	(156,581)	(509,958)
Proceeds from sale of Bank property, equipment, and leasehold improvements	1,319	905
Purchase of Bank property, equipment, and leasehold improvements	(10,618)	(14,429)
Premiums paid on life insurance policies	(2,404)	(20,000)
<i>Net Cash Used by Investing Activities</i>	<u>(65,062)</u>	<u>(888,917)</u>
<b>Cash Flows From Financing Activities</b>		
Net increase (decrease) in deposits	174,669	(91,539)
Proceeds from borrowed funds	-	177,933
Payments on borrowed funds	(127,933)	
Issuance of common stock	-	32,230
Dividends paid:		
Common stock- A shares	(6,284)	(5,660)
Common stock- B shares	(6,737)	(5,775)
Capital stock retirement	(7,701)	(9,248)
<i>Net Cash Provided by Financing Activities</i>	<u>26,014</u>	<u>97,941</u>
<i>Net Increase (Decrease) in Cash and Due From Banks</i>	<u>52,085</u>	<u>(690,125)</u>
<b>Cash and Due From Banks - beginning of the year</b>	<u>171,646</u>	<u>861,771</u>
<b>Cash and Due From Banks - end of the year</b>	<u>\$ 223,731</u>	<u>\$ 171,646</u>
<b>Supplemental Disclosures:</b>		
Cash paid during the year for interest	<u>\$ 70,006</u>	<u>\$ 7,492</u>
Cash paid during the year for income taxes	<u>\$ 10,096</u>	<u>\$ 17,616</u>

See accompanying notes.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Alpine Banks of Colorado and Subsidiaries (the Bank), through its wholly-owned subsidiary, provides a variety of banking services to individuals and businesses at thirty-nine locations primarily on the Western Slope and the Front Range of Colorado. Its primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business, real estate mortgage, and installment loans. The Bank also owns real estate, which consists primarily of commercial buildings.

**Consolidation**

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alpine Bank (Alpine). Alpine has investments in four limited liability companies (LLCs) as follows: ENIPLA Building, LLC (99%); Check Clearing House Aviation, LLC (80%); Alpine Avon Building Company, LLC (99%); and I-70 Business Center, LLC (33%). All material intercompany transactions have been eliminated in consolidation.

The Bank evaluates variable interest entities in which it holds a beneficial interest for consolidation. Variable interest entities are legal entities with equity, whose equity investors lack the ability to make decisions about the entity's activities, or whose equity investors do not have the right to receive the residual returns of the entity if they occur. I-70 Business Center, LLC is considered to be a variable interest entity of the Bank and therefore is consolidated with the Bank.

**Segment Reporting**

The Bank is managed as a single entity and not by departments or lines of business. Based on management's analysis, no department or line of business meets the criteria established in Accounting Standards Codification 280, *Segment Reporting*, for reporting of selected information about operating segments.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

**Accounting Guidance Adopted in 2023**

*Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13 - Financial Instruments - Credit Losses.* In June 2016, FASB amended the FASB Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses* (ASC Topic 326) to replace the incurred loss model with a methodology that reflects current expected credit losses (“CECL”) over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. The Bank adopted the amendments on January 1, 2023 using the modified retrospective approach. The consolidated financial statement results and accounting policies beginning January 1, 2023 are presented under ASC Topic 326, whereas prior periods continue to be reported in accordance with previously applicable generally accepted accounting principles. The Bank recorded a net reduction of \$6,496,000 in retained earnings due to the adoption of the amendments. The transition adjustment included an increase in the allowance for credit losses (ACL) on off balance sheet credit exposures of \$8,600,000 and a corresponding increase in deferred tax assets of \$2,104,000. The



Bank developed internal implementation controls over the development of the ACL model and resulting financial statement disclosures.

The Bank has adjusted its processes and procedures to calculate the ACL, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the prior accounting practice that utilized the incurred loss model.

Further, the Bank revised procedures and accounting policies for determining an ACL related to held-to-maturity debt securities and off-balance sheet arrangements for other-than-temporary impairment on available-for-sale debt securities which utilize an allowance approach. The Bank engaged a third-party vendor solution (Abrigo) to evaluate the new methodology, including model validation, adjusting assumptions utilized, and to review the accuracy of the financial statement disclosures. For additional information on the allowances for credit losses, see Notes 3 and 4.

### **Cash and Due from Banks**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and amounts due from banks, which mature within three months at the date of purchase. At various times, cash and due from bank balances could exceed federally insured limits.

### **Investment Securities**

The Bank's investment securities are classified in two categories and accounted for as follows:

**Securities Available for Sale (AFS):** Bonds, notes, and debentures; are classified as available for sale when they might be sold before maturity. These securities are carried at fair value, with any unrealized gains and losses, net of tax, reported as a component of other comprehensive income. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. The transition to CECL, discussed in the Allowance for Credit Losses section, now requires that an allowance be considered for AFS bonds. The AFS portfolio is analyzed on a quarterly basis during the normal CECL calculation. As of December 31, 2023 no allowance has been recorded for AFS securities because it was determined by the Bank that the decline in bond valuations was only due to market conditions and not due to credit deterioration. See further discussion in Note 3.

**Securities Held to Maturity (HTM):** Bonds, notes, and debentures are classified as held to maturity when the Bank has the positive intent and ability to hold to maturity. These securities are carried at cost and adjusted for the amortization of premiums and accretion of discounts. Premiums are recognized in interest income using the interest method over the period to the first call date for callable securities and to maturity for non-callable securities. Discounts are recognized in interest income using the interest method over the period to maturity. The HTM portfolio is also analyzed on a quarterly basis for any required allowance. The bank is using a ratings based approach to the analysis of the HTM bond portfolio and no allowance was recorded as of December 31, 2023 based upon the analysis described further in Note 3.

### **Federal Home Loan Bank**

The Bank is a member of the Federal Home Loan Bank of Topeka (FHLB). Membership requires the Bank to maintain a minimum investment in FHLB capital stock. The minimum investment is determined by the FHLB board of directors based on their own regulatory capital requirements. The FHLB stock is a restricted security investment, carried at cost, and evaluated for impairment.

### **Loans Receivable**

Loans receivable, that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are reported at their outstanding unpaid principal balances adjusted for any charge-offs, allowance for credit losses, any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield.

Generally, the Bank places loans on nonaccrual status if the deterioration in the financial condition of the borrower renders collection of principal and interest unlikely, if payment in full of principal and interest is not expected, or if the loans have been in default for 90 days or more, unless it is both well secured and in the process of collection. Loans are returned to accrual status when none of their principal and interest are due or unpaid or when they otherwise become well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

As discussed above, the Bank adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses* as of January 1, 2023. The following loan and allowance for credit loss accounting policies are presented under ASC Topic 326, whereas prior periods are presented in accordance with the incurred loss model as disclosed in the Bank’s 2022 audit. The Bank will evaluate individual instruments for expected credit losses when those instruments do not share similar risk characteristics with instruments evaluated using a collective (pooled) basis. In contrast to GAAP, this criterion is broader than the “impairment” concept; management may evaluate assets individually even when no specific expectation of collectability is in place. Instruments will not be included in both collective and individual analysis. Individual analysis will establish a specific reserve for instruments in scope.

The Bank will consider various factors for each loan when deciding to move a loan out of a pool to be individually evaluated. These factors can include past due status, non-accrual status, loan grade, payment default, and a variety of other factors. FASB ASC 326 allows for various valuation methods to be utilized once a loan is moved to individual evaluation. These generally include the collateral value method and the cash flow method both of which were previously available under legacy GAAP.

A loan is charged off as soon as it becomes evident that there is no longer a reasonable chance of repayment. Any unsecured loan or unsecured portion of a loan which is more than 120 days past due is charged off unless repayment is imminent. Loans in nonaccrual status at year end were \$25,379,000 (2023) and \$2,625,000 (2022), and the total recorded investment in loans past due 90 days or more and still accruing interest was \$2,549,000 (2023) and \$1,047,000 (2022).

In situations where, for economic or legal reasons related to a borrower’s financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower than they would otherwise consider, the related loan is classified as a troubled debt restructuring (TDR) under legacy GAAP or a loan modification under CECL. These modified terms may include rate reductions, principal forgiveness, term extensions, payment forbearance and other actions intended to minimize our economic loss and to avoid foreclosure or repossession of the collateral, if applicable. For modifications where the Bank forgives principal, the entire amount of such principal forgiveness is immediately charged off. Loans that are modified to borrowers experiencing financial difficulty are disclosed in Note 4.

#### **Allowance for Credit Losses (ACL) and Current Expected Credit Loss (CECL) Methodology**

The allowance for credit losses for loans receivable represents management’s estimate of credit losses over the expected contractual life of the loan portfolio. The estimate is determined based on the amortized cost of the loan portfolio including the loan balance adjusted for charge-offs, recoveries, deferred fees and costs, and loan discount and premiums. Recoveries are included only to the extent that such amounts were previously charged-off. The Bank has elected to exclude accrued interest from the estimate of credit losses for loans.

The allowance for credit losses reflects management’s judgment as to the level considered appropriate to absorb inherent credit losses in the loan portfolio and it now considers the lifetime loss concept. This judgment is based on the size and current risk characteristics of the portfolio, a review of individual loans, along with historical and anticipated lifetime loss experience. External influences such as general economic conditions, economic conditions in the relevant geographic areas and specific industries, regulatory guidelines, and other factors are also assessed in determining the level of allowance. The allowance continues to have both a quantitative and qualitative component.

The allowance is determined subjectively, requiring significant estimates by management, including the historical loss experience pertaining to pools of homogeneous loans, timing and amount of expected future cash flows on individually evaluated loans, consideration of current economic conditions, and the ability to modify allowance methodologies as needed for specific asset classes all of which may be susceptible to change. The allowance is adjusted through a provision that is charged to earnings, based on management's periodic evaluation of the factors previously mentioned, and is reduced by charge-offs, net of recoveries.

As of December 31, 2023, an ACL was recorded for both the funded and unfunded loan portfolios, but no allowance was recorded for the AFS or HTM bond portfolios. The funded credit ACL is classified as a contra-asset and the unfunded credit ACL is represented in other liabilities in the consolidated statement of financial position.

The Bank elected to utilize a Static Pool Analysis and while this is a more simplistic approach the calculations are institution specific, supportable, and can be modified as needed by the Bank. This election also aligns closely with the existing pool structure and methodologies already being utilized by the Bank. The current platform however allows for ongoing analysis of other methodologies with the ability to compare them side-by-side with the current Static Pool Analysis.

For pools where historical loss data at the loan level was available, the Bank elected to utilize the Static Pool Analysis. The Static Pool Analysis is a cohort-based methodology that follows a closed pool of loans through time in order to calculate the associated charge-offs and recoveries for the loans in the starting cohort. Within the system, the number of cohorts to track, how spread apart the cohorts are, and how long to track the loans are configurable by the institution.

The calculations use loan-level data to drive the results – thus adding some sophistication over top-down analysis. Additionally, by tracking loans for the entire “life” it allows for the capture of the “lifetime” loss rate. The Bank was able to utilize data back to the Great Recession which provided a full economic cycle of data. Consideration must be given to what the most recent quarterly cohort is that should be included in the analysis. This may vary on a pool-by-pool basis.

For loans with longer lives, for the Bank, choosing an initial cohort that is too recent can result in loss rates that are artificially low, as not enough of the cohort has been exhausted. Abrigo refers to the distance from the current period back to the initial cohort for a given calculation as the “delay period”. The remaining life calculator was utilized for the number of quarters to be used in this portion of the calculation. Each pool has a specific delay period that is based upon the actual remaining life for the pool itself.

There are a few pools that will utilize a different methodology than what is described above because their charge-off characteristics don't allow for a Static Pool Analysis. Currently this only includes the overdraft pool and the Small Business Administration (SBA) Paycheck Protection Program (PPP) pool. For overdrafts a historical straight average charge-off rate will be manually input because of the drastic fluctuations in quarterly charge-off rates and because loan level data is not available to track a lifetime loss. This will be reassessed on an annual basis going forward. Additionally, the SBA PPP loan pool has small balances that remain from the loans originated, and guaranteed by the SBA, during the COVID pandemic. This pool does not require a reserve because the loans are guaranteed and they are tied to a specific loan program that resulted from the pandemic. The loans will be individually evaluated, as discussed in a later section, if needed.

### **Loans Held for Sale**

Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Loans held for sale are fixed and variable rate single-family residential mortgage loans under contract to be sold in the secondary market. In most cases, loans in this category are sold within thirty days. These are sold with the mortgage servicing rights released. During the year ended December 31, sales of mortgage loans held for sale were \$77,442,000 (2023) and \$117,357,000 (2022).

The Bank enters into commitments to originate loans whereby the interest rate on the prospective loans is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value as derivative assets or liabilities, with the changes in fair value recorded in other income and expense. See the Derivative Financial Instruments section of Note 1 for additional information.

### **Bank Property, Equipment, and Leasehold Improvements**

Bank property, equipment, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

### **Leases**

The Bank accounts for leases under FASB ASC 842, *Leases* (FASB ASC 842). FASB ASC 842 requires substantially all leases to be recognized by lessees on their balance sheets as a right-of-use (“ROU”) asset and a corresponding lease liability but recognize expenses in their income statements in a manner similar to current practice. The Bank enters into non-cancelable operating lease agreements related to certain banking offices and back-office operational facilities. The Bank does not have leases designated as finance leases. The Bank determines if an arrangement is a lease at inception. Operating lease ROU assets and liabilities are included in Bank property, equipment, and leasehold improvements, net and other liabilities on the consolidated statements of financial condition. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Bank’s leases do not provide an implicit rate, the Bank uses the FHLB of Topeka’s term advance borrowing rates based on the information available at commencement date in determining the present value of lease payments. The Bank’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise that option. Lease expense for the lease payments is recognized on a straight-line basis over the lease term (see Note 5).

### **Impairment of Long-Lived Assets**

FASB ASC 360-10 establishes accounting standards for determining and measuring impairment of certain long-lived assets. Under provisions of FASB ASC 360-10, impairment losses are recognized when expected future cash flows are less than the asset’s carrying value. No long-lived assets were considered impaired as of December 31, 2023 and 2022.

### **Goodwill**

Goodwill is recorded in business combinations under the purchase method of accounting when the purchase price is higher than the fair value of net assets, including identifiable intangible assets. Goodwill is assessed for impairment annually, and more frequently in certain circumstances. Impairment exists when the carrying amount of the goodwill exceeds its implied fair value. The Bank recognizes impairment losses as a charge to noninterest expense and an adjustment to the carrying value of the goodwill asset (see Note 6).

### **Other Real Estate Owned**

Real estate acquired in foreclosure is carried at the lower of cost or the fair market value of the property (less costs to sell) and is included in other assets on the consolidated statements of financial condition. Fair market value is based on independent appraisals and other relevant factors (see Note 20). At the time of acquisition, an excess of cost over fair market value is charged to the allowance for credit losses. Operating expenses are charged to other expense.

Gains and losses of other real estate owned are recognized at the time of the sale or deferred for recognition in future periods, as appropriate, based on the nature of the transaction. Losses on such sales are recognized at the time of the sale.

## **Derivative Financial Instruments**

Derivative instruments are contracts between two or more parties that have a notional and an underlying variable, require no net investment, and allow for the net settlement of positions. Derivative financial instruments are used to meet the ongoing credit needs of customers and the market exposure of certain types of interest rate risk. Derivative instruments are recognized as either assets or liabilities in the consolidated statements of financial condition at fair value. The Bank is a party to various interest rate swaps that are considered derivative instruments. For a fair value hedge, the gain or loss on the derivatives, as well as the offsetting gain or loss on the hedged item, are recognized in current earnings as fair value changes. For stand-alone derivatives that have no hedging designation, changes in the fair value of a derivative are recorded in the consolidated statements of income.

The Bank utilizes forward sales contracts associated with mortgage banking activities in its derivative risk management strategy. The Bank enters into forward sales contracts with broker/dealers to hedge the risk of changes in fair value due to changes in interest rates of both locked residential mortgage loan commitments and residential loans held for sale. The estimated fair value of these derivatives are determined by the changes in the market value of the related loans caused by changes in market interest rates during the period from the commitment date or contract date to the valuation date. At December 31, the estimated fair value of rate locks and forward sales agreements were \$29,000 (2023) and \$17,000 (2022) (see Note 18).

The Bank offers interest rate derivative products to certain high-quality commercial borrowers. This product allows customers to enter into an agreement with the Bank to swap their variable rate loan to a fixed rate or vice versa. The Bank limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate counterparty. The derivatives are recorded on the consolidated statements of the financial position at fair value and changes in fair value of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income (see Note 18).

## **Income Tax**

The Bank accounts for taxes in accordance with FASB ASC 740-10, resulting in two components of income tax: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. The Bank determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. At December 31, 2023 and 2022, management has determined that a valuation allowance was unnecessary.

The Bank accounts for uncertainty in income taxes in accordance with FASB ASC 740-10. If the Bank considered that a tax position is “more-likely-than-not” of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Bank measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. These assessments can be complex and the Bank obtains assistance from external advisors as necessary. To the extent that the Bank’s estimated changes of the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. If the initial assessment fails to result in the recognition of a tax benefit, the Bank regularly monitors its position and subsequently recognizes the tax benefit if (i) there are changes in tax law or analogous case law that sufficiently raise the likelihood of prevailing on the technical merits of the position to more-likely-than-not, (ii) the statute of limitations expires, or (iii) there is a completion of an audit resulting in a settlement of that tax year with the appropriate agency. Uncertain tax positions are classified as current only when the Bank expects to pay cash within the next twelve months. As of December 31, 2023 and 2022, management of the Bank determined there were no uncertain tax positions.

## **FDIC Insurance**

The Federal Deposit Insurance Corporation (“FDIC”) is an independent agency of the United States government that protects bank depositors against the loss of their insured deposits in the event that an FDIC-insured bank fails. FDIC insurance is backed by the full faith and credit of the United States government. The Bank is an FDIC-insured bank, therefore, the Bank customer deposits are insured up to \$250,000 per depositor. Uninsured deposits are

defined as the portion of deposit accounts that exceed the FDIC insurance limit. At December 31, the estimated amount of the Bank customer deposits in denominations that meet or exceed the FDIC insurance limit of \$250,000 were \$2,067,190,000 (2023) and \$2,575,700,000 (2022).

### **Advertising Costs**

Advertising and promotional costs are expensed when incurred. For the years ended December 31, such costs were \$3,507,000 (2023) and \$3,097,000 (2022).

### **Earnings per Share**

Basic earnings per common share is calculated by dividing net income by the weighted average number of Class A and Class B common shares outstanding during the year (see Note 19).

### **Off-Balance Sheet Credit Related Financial Instruments**

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

### **Revenue from Contracts with Customers**

FASB ASC 606, *Revenue from Contracts with Customers* (FASB ASC 606) establishes that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB ASC 606 requires companies to use judgment and make estimates, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Bank's revenues are primarily composed of interest income on financial instruments, such as loans and investment securities, which are excluded from the scope of FASB ASC 606. The Bank's revenue-generating activities that are within the scope of FASB ASC 606, are presented in service charges on deposit accounts and in other income on the Bank's consolidated statement of comprehensive income and are recognized as the Bank satisfies its obligations with the customer. Revenues within the scope of FASB ASC 606 include fiduciary income, interchange income, service charges on deposits, and the sale of other real estate owned.

Descriptions of the Bank's revenue-generating activities that are within the scope of FASB ASC 606, which are presented in service charges on deposit accounts and in other income on the Bank's consolidated statement of comprehensive income, are as follows:

- **Service Charges on Deposit Accounts:** The Bank earns fees from its deposit customers from a variety of deposit products and services. Non-transaction based fees such as account maintenance fees and monthly statement fees are considered to be provided to the customer under a day-to-day contract with ongoing renewals. Revenues for these non-transaction fees are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Transaction-based fees such as non-sufficient fund charges, stop payment charges and wire fees are recognized at the time the transaction is executed as the contract duration does not extend beyond the service performed.
- **Wealth Management Services:** The Bank earns fees from customers for fiduciary and investment services provided. Revenues are recognized on a monthly basis and are based on a percentage of the customer's assets under management.
- **Merchant Processing Services and Debit and Credit Card Fees:** The Bank earns fees from cardholder transactions conducted through third party payment network providers which consist of (i) interchange fees earned from the payment network as a debit/credit card issuer, (ii) other fee income, such as late payment fees on credit cards, and (iii) merchant fees earned for customers utilizing the Bank's merchant processing services. These fees are recognized when the transaction occurs, but may settle on a daily or monthly basis.

## Reference Rate Reform

On July 27, 2017, the Financial Conduct Authority (“FCA”) first announced the cessation of the London Interbank Offered Rate (“LIBOR”). On March 5, 2021, the FCA confirmed that the publication of the 1-week and 2-month US dollar LIBOR indices would cease immediately after December 31, 2021 and the publication of all other remaining US dollar LIBOR indices would cease immediately after June 30, 2023. As a result, existing and future contracts indexed to LIBOR needed to be renegotiated to reference another rate. Effective March 2021, the Bank no longer underwrites loans or enters into customer back-to-back swaps using LIBOR as a reference rate. All contracts, including loans, debt securities, Trust Preferred securities and derivatives referencing LIBOR were indexed to an alternative reference rate by June 30, 2023; the overall impact to the Bank was deemed immaterial. FASB ASC 848, *Reference Rate Reform*, was issued in March 2020 and provides optional relief for contract modifications that are related to reference rate reform. The guidance contains optional expedients that can be applied to debt contracts, receivables, leases, derivatives, and other contracts impacted by reference rate reform. It should be noted that the Alternative Reference Rates Committee, a group of private-market participants convened by the Federal Reserve Board and the New York Fed to help ensure a successful transition from USD-LIBOR to a more robust reference rate, recommended the Secured Overnight Financing Rate (“SOFR”) as its preferred alternative replacement rate.

## NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

At December 31, 2023 and 2022, the Bank was not required to maintain average cash balances on hand or with the Federal Reserve Bank.

At December 31, the Bank had \$880,000 (2023) and \$2,948,000 (2022) in cash pledged as collateral to financial institutions for the credit risk of the offset of swap agreements.

## NOTE 3 – INVESTMENT SECURITIES

The carrying amounts of investment securities as shown in the consolidated statements of financial condition of the Bank and their approximate fair values were as follows at December 31:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2023</u>				
Available for sale				
U.S. agency and treasury securities	\$ 364,374	\$ -	\$ (51,282)	\$ 313,092
Mortgage-backed securities	411,624	490	(40,056)	372,058
Other securities	20,173	312	(3,428)	17,057
	<u>\$ 796,171</u>	<u>\$ 802</u>	<u>\$ (94,766)</u>	<u>\$ 702,207</u>
Held to maturity				
State and municipal securities	\$ 959,654	\$ 4,044	\$ (72,587)	\$ 891,111
U.S. agency and treasury securities	158,009	-	(4,387)	153,622
Other securities	4,297	-	(1,171)	3,126
Mortgage-backed securities	47,340	3	(2,251)	45,092
	<u>\$ 1,169,300</u>	<u>\$ 4,047</u>	<u>\$ (80,396)</u>	<u>\$ 1,092,951</u>

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2022</u>				
Available for sale				
U.S. agency and treasury securities	\$ 444,609	\$ -	\$ (65,069)	\$ 379,540
Mortgage-backed securities	392,776	4	(43,043)	349,737
Other securities	21,457	447	(2,318)	19,586
	<u>\$ 858,842</u>	<u>\$ 451</u>	<u>\$ (110,430)</u>	<u>\$ 748,863</u>
Held to maturity				
State and municipal securities	\$ 991,732	\$ 2,440	\$ (93,073)	\$ 901,099
U.S. agency and treasury securities	175,757	-	(5,543)	170,214
Other securities	4,361	-	(1,203)	3,158
Mortgage-backed securities	52,703	23	(2,084)	50,642
	<u>\$ 1,224,553</u>	<u>\$ 2,463</u>	<u>\$ (101,903)</u>	<u>\$ 1,125,113</u>

At December 31, other securities in available for sale include FHLB stock of \$2,278,000 (2023) and \$3,533,000 (2022), which is carried at cost. At December 31, this category also included equity securities totaling \$664,000 (2023) and \$693,000 (2022), which are carried at cost because there is no readily available market for these securities.

The scheduled maturities of securities available for sale and securities held to maturity at December 31, 2023 were as follows:

(in thousands)	Available for Sale		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 5,939	\$ 5,529	\$ 23,573	\$ 23,430
Due from one to five years	339,995	308,228	231,234	224,430
Due from five to ten years	372,066	325,264	307,431	293,884
Due after ten years	75,124	59,826	605,062	551,207
	\$ 793,124	\$ 698,847	\$ 1,169,300	\$ 1,092,851
Other	3,047	3,360	-	-
<i>Total</i>	<u>\$ 796,171</u>	<u>\$ 702,207</u>	<u>\$ 1,169,300</u>	<u>\$ 1,092,951</u>

At December 31, assets, principally securities, carried at cost of \$1,002,000 (2023) and \$785,982,000 (2022), were pledged to secure public deposits, securities sold under repurchase agreements (2022 only), other borrowings, and for other purposes required or permitted by law.

Reporting comprehensive income requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and contributed capital in excess of par value in the equity section of a statement of financial condition. The Bank's only item of other comprehensive income is the change in the unrealized gain (loss) on securities available for sale, which is reported net of tax effect on the statement. The net accumulated unrealized holding loss at December 31, 2023 was \$(71,197,000). The net accumulated unrealized holding loss at December 31, 2022 was \$(83,272,000). At December 31, 2023, the net change in accumulated unrealized holding losses on available for sale securities was \$16,150,000 with a tax effect of \$3,954,000. At December 31, 2022, the net change in accumulated unrealized holding gains on available for sale securities was \$(103,843,000) with a tax effect of \$(25,536,000).

The following table provides the gross unrealized losses and fair value of temporarily impaired available for sale securities, aggregated by investment category and length of time the individual securities have been in a continuous loss position at December 31, 2023.



(in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	U.S. agency and treasury securities	\$ 1,949	\$ (1)	\$ 306,143	\$ (51,281)	\$ 308,092
Mortgage-backed securities	11,013	(1)	302,610	(40,055)	313,623	(40,056)
Other Securities	-	-	12,447	(3,428)	12,447	(3,428)
<i>Total Temporarily Impaired Securities</i>	<u>\$ 12,962</u>	<u>\$ (2)</u>	<u>\$ 621,200</u>	<u>\$ (94,764)</u>	<u>\$ 634,162</u>	<u>\$ (94,766)</u>

The following table provides the gross unrealized losses and fair value of temporarily impaired available for sale and held-to-maturity securities, aggregated by investment category and length of time the individual securities have been in a continuous loss position at December 31, 2022.

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	State and municipal securities	\$ 591,612	\$ (53,787)	\$ 171,746	\$ (39,286)	\$ 763,358
U.S. agency and treasury securities	330,835	(27,771)	218,918	(42,841)	549,753	(70,612)
Mortgage-backed securities	162,703	(13,362)	230,707	(31,765)	393,410	(45,127)
Other securities	12,004	(1,872)	4,713	(1,649)	16,717	(3,521)
<i>Total Temporarily Impaired Securities</i>	<u>\$ 1,097,154</u>	<u>\$ (96,792)</u>	<u>\$ 626,084</u>	<u>\$ (115,541)</u>	<u>\$ 1,723,238</u>	<u>\$ (212,333)</u>

Unrealized losses at December 31, 2023 and 2022 were due to fluctuations in the market interest rates. Management has the intent and ability to hold these investment securities until the fair value or unamortized cost is recovered, which may be maturity, and therefore, does not consider them to be other-than-temporarily impaired at December 31, 2022.

In assessing whether a credit loss existed on available-for-sale debt securities with unrealized losses, the Bank compared the present value of cash flows expected to be collected with the amortized cost basis. In addition the following factors were evaluated in determining the existence of potential credit losses:

- The extent to which fair value is less than cost;
- Adverse conditions, specifically related to the securities
- The overall payment structure of the securities including specific events which may affect the issuer's operations or future earnings
- Failure of the issuers, if any, to make scheduled payments of interest and principal.

As of December 31, 2023 a substantial portion of securities with unrealized losses are made up of government backed bonds in the form of U.S. Agency debt, mortgage-backed securities, and municipal debt of state and local municipalities. As of December 31, 2023, the Bank did not have any past due available-for-sale or held-to-maturity debt securities. Accrued interest receivable on available-for-sale and held-t-maturity securities totaled \$10,064,000 and was excluded from the estimate of credit losses.

Based on its analysis of its available-for-sale and held-to-maturity securities with unrealized losses as of December 31, 2023, the Bank determines the decline in value was unrelated to credit losses and was primarily a result of changes in interest rates. The fair value of the debt securities are expected to recover as payments are received and the debt securities approach maturity. In addition as of December 31, 2023, management does not intend to sell securities with unrealized losses. As a result, the Bank did not have an ACL on available-for-sale debt securities or held-to-maturity securities at December 31, 2023.

The Bank had one security that was other-than-temporarily impaired as of December 31, 2022 and it was still classified as other-than-temporarily impaired as of December 31, 2023. For the year ended December 31, 2023 and 2022, the Bank did not have any gross realized losses from this security and the bank expects full repayment by the maturity date.

## NOTE 4 – LOANS

The Bank's loan portfolio at December 31 consisted of the following:

(in thousands)	2023	2022
Real estate - construction	\$ 546,287	\$ 563,484
Real estate - commercial	1,387,634	1,290,032
Real estate - residential	1,797,249	1,725,725
Commercial and industrial	289,713	291,102
Consumer	32,207	33,397
Other	4,865	4,720
	<u>4,057,955</u>	<u>3,908,460</u>
<i>Gross Loans (includes loans held for sale)</i>		
Less: Allowance for credit losses	(44,756)	(42,844)
Less: Deferred fees	(10,825)	(11,261)
	<u>4,002,374</u>	<u>3,854,355</u>
<i>Net Loans</i>		

Changes in the allowance for credit losses (ACL) and recorded investment in financing receivables by loan segment for the year ended December 31, 2023 are summarized as follows:

(in thousands)

Allowance for credit losses:	Real Estate - Construction	Real Estate-Commercial	Real Estate-Residential	Commercial and Industrial	Consumer	Other	Unallocated	Total
Beginning balance	\$ 5,912	\$ 13,517	\$ 17,950	\$ 3,106	\$ 1,882	\$ 370	\$ 107	\$ 42,844
Impact of adopting CECL	2,539	(4,978)	1,783	1,100	(263)	(181)	-	-
Charge-offs	-	-	(11)	(4,023)	(3,235)	(197)	-	(7,466)
Recoveries	11	-	79	2,286	1,011	88	-	3,475
Provision	1,139	445	(434)	3,111	839	569	234	5,903
Ending Balance	<u>\$ 9,601</u>	<u>\$ 8,984</u>	<u>\$ 19,367</u>	<u>\$ 5,580</u>	<u>\$ 234</u>	<u>\$ 649</u>	<u>\$ 341</u>	<u>\$ 44,756</u>
Ending balance: individually evaluated for the ACL	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for the ACL	<u>\$ 9,601</u>	<u>\$ 8,984</u>	<u>\$ 19,367</u>	<u>\$ 5,580</u>	<u>\$ 234</u>	<u>\$ 649</u>	<u>\$ 341</u>	<u>\$ 44,756</u>
Financing receivables:								
Ending loan balance	<u>\$ 546,287</u>	<u>\$ 1,387,634</u>	<u>\$ 1,797,249</u>	<u>\$ 289,713</u>	<u>\$ 32,207</u>	<u>\$ 4,865</u>	<u>\$ -</u>	<u>\$ 4,057,955</u>
Ending balance: individually evaluated for the ACL	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for the ACL	<u>\$ 546,287</u>	<u>\$ 1,387,634</u>	<u>\$ 1,797,249</u>	<u>\$ 289,71</u>	<u>\$ 32,207</u>	<u>\$ 4,865</u>	<u>\$ -</u>	<u>\$ 4,057,955</u>
ACL to Total Loans	1.76%	0.65%	1.08%	2.00%	0.73%	13.34%	N/A	1.10%
ACL to Nonaccrual Loans	0.00%	654.79%	83.73%	665.87%	612.17%	0.00%	N/A	176.36%
Net (Charge-offs)/Recoveries to Average Loans	0.00%	0.00%	0.00%	-0.62%	-6.91%	-2.24%	N/A	-0.10%

Changes in the allowance for credit losses and recorded investment in financing receivables by loan segment for the year ended December 31, 2022 are summarized as follows:

(in thousands)

Allowance for credit losses:	Real Estate - Construction	Real Estate- Commercial	Real Estate- Residential	Commercial and Industrial	Consumer	Other	Unallocated	Total
Beginning balance	\$ 5,133	\$ 14,091	\$ 17,057	\$ 3,665	\$ 1,211	\$ 198	\$ 858	\$ 42,212
Charge-offs	(1)	-	(18)	(4,382)	(257)	(170)	-	(4,828)
Recoveries	4	-	120	2,451	233	56	-	2,864
Provision	775	(574)	791	1,372	695	286	(751)	2,595
Ending Balance	\$ 5,912	\$ 13,517	\$ 17,950	\$ 3,106	\$ 1,882	\$ 370	\$ 107	\$ 42,844
Ending balance: individually evaluated for impairment	\$ -	\$ -	\$ 61	\$ 18	\$ 63	\$ -	\$ -	\$ 142
Ending balance: collectively evaluated for impairment	\$ 5,912	\$ 13,517	\$ 17,889	\$ 3,088	\$ 1,819	\$ 370	\$ 107	\$ 42,702
Financing receivables:								
Ending loan balance	\$ 563,484	\$ 1,290,032	\$ 1,725,725	\$ 291,102	\$ 33,397	\$ 4,720	\$ -	\$ 3,908,460
Ending balance: individually evaluated for impairment	\$ 398	\$ 2,794	\$ 3,145	\$ 1,935	\$ 142	\$ -	\$ -	\$ 8,414
Ending balance: collectively evaluated for impairment	\$ 563,086	\$ 1,287,238	\$ 1,722,580	\$ 289,167	\$ 33,255	\$ 4,720		\$ 3,900,046
Allowance to Total Loans	1.05%	1.05%	1.04%	1.07%	5.64%	7.84%	N/A	1.10%
Allowance to Nonaccrual Loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	N/A	0.00%
Net (Charge-offs)/Recoveries to Average Loans	0.00%	0.00%	0.01%	-0.66%	-0.07%	-2.42%	N/A	-0.05%

As a result of the adoption of the CECL accounting standard, the Bank adjusted the January 1, 2023 ACL balances within each loan segment to reflect the changes from the incurred loss model to the current expected credit loss model which resulted in changes in each segment based on quantitative and qualitative assumptions and economic forecasts to estimate the provision for credit losses over the expected life of the loans.

The new CECL methodology did not materially change the overall allowance levels between the December 31, 2022 and the first quarter of 2023. However, the calculation shifted in which the majority of the allowance is now derived from the quantitative calculation under CECL whereas the prior loan reserve was derived mostly from the qualitative calculation. The new CECL calculation includes both quantitative and qualitative calculations, similar to the prior model, but the life of loan concept increased the historical charge-off rates thus increasing the quantitative allowance portion.

Additionally, CECL now requires an allowance for the unfunded credits the Bank has committed to funding or unfunded credits that are not unconditionally cancellable. This allowance is presented in other liabilities on the consolidated statement of financial condition as of December 31, 2023. The impact of this adjustment as of January 1, 2023 was approximately \$8,600,000 and this allowance has since decreased to approximately \$6,400,000 as of December 31, 2023 as the unfunded commitment balances have decreased during the year. The unfunded credit balances are multiplied by an expected funding rate, which for the Bank mirrors the average funding rates for the industry supplied by Abrigo, and that result is then multiplied by the funded credit allowance rates to derive an allowance for the unfunded credits. The chart below details the unfunded allowance as of December 31, 2023 which is evaluated on a quarterly basis.

Loan Pools	Unfunded Commitment	Benchmark Type	Funding Rate	Loss Rate	Required Reserve
1-4 Secured, Closed-end 1st DOT	\$ 1,900,769	All Real Estate Loans (1)	51.30%	1.09%	\$ 10,605
1-4 Secured, Closed-end Junior Lien	\$ 1,338,602	All Real Estate Loans (1)	51.30%	1.97%	\$ 13,513
1-4 Secured, Revolving (Open-end)	\$ 591,230,938	Home Equity Lines of Credit (HELOC) (1c1)	35.42%	1.00%	\$ 2,085,347
Auto Loans	\$ -	All Loans	36.56%	0.40%	\$ -
Commercial Credit Cards	\$ -	Home Equity Lines of Credit (HELOC) (1c1)	27.07%	4.69%	\$ -
Commercial/Industrial, U.S. Domicile	\$ 133,558,448	Commercial & Industrial (C&L) (4)	31.63%	1.36%	\$ 574,625
Leases	\$ -	All Loans	36.56%	1.36%	\$ -
Loans for Personal Expenditures	\$ 25,241,327	Consumer (6)	34.20%	3.27%	\$ 282,442
Non-Owner Occupied Commercial Real Estate	\$ 39,309,448	All Real Estate Loans (1)	51.30%	0.93%	\$ 188,090
Other Loans	\$ 17,159,956	Commercial Real Estate (CRE) (1e)	31.63%	1.36%	\$ 73,829
Overdrafts	\$ -	All Loans	27.07%	55.00%	\$ -
Owner Occupied Commercial Real Estate	\$ 22,146,788	All Real Estate Loans (1)	51.30%	0.23%	\$ 25,743
Personal Credit Cards	\$ -	All Loans	27.07%	4.80%	\$ -
Real Estate Secured, 1-4 Family	\$ 112,836,473	1-4 Family Residential Construction (1a1)	77.04%	1.93%	\$ 1,680,642
Real Estate Secured, Other/Land Development	\$ 105,629,936	Construction and Land Development (1a)	78.14%	1.64%	\$ 1,356,768
SBA PPP	\$ -	All Loans	27.07%	0.00%	\$ -
Secured by Farmland	\$ 2,057,442	Farm Loans (3)	43.07%	0.61%	\$ 5,362
Secured by Multi-Family	\$ 19,027,130	All Real Estate Loans (1)	51.30%	0.50%	\$ 48,947
<b>Total Unfunded Commitments:</b>	<b>\$ 1,071,437,257</b>		<b>ACL for Unfunded Credits:</b>		<b>\$ 6,345,913</b>

Recorded investment in each risk category of loans by class of loan for the year ended December 31, 2023 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate - construction					
1-4 family residential	\$ 184,470	\$ 1,440	\$ 220	\$ -	\$ 186,130
Other construction, land development and land loans	358,441	973	450	293	360,157
Real estate - commercial					
Nonfarm nonresidential	1,378,409	3,452	5,773	-	1,387,634
Real estate - residential					
Revolving lines of credit	434,588	4,068	4,307	144	443,107
1-4 family residential	1,331,883	3,046	19,124	89	1,354,142
Commercial and industrial	285,203	3,501	891	118	289,713
Consumer	32,024	75	108	-	32,207
Other	4,865	-	-	-	4,865
<i>Total</i>	<u>\$ 4,009,883</u>	<u>\$ 16,555</u>	<u>\$ 30,873</u>	<u>\$ 644</u>	<u>\$ 4,057,955</u>

Recorded investment in each risk category of loans by class of loan for the year ended December 31, 2022 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate - construction					
1-4 family residential	\$ 242,946	\$ 502	\$ 5,296	\$ -	\$ 248,743
Other construction, land development and land loans	312,292	2,291	168	-	314,741
Real estate - commercial					
Nonfarm nonresidential	1,269,63	19,930	469	-	1,290,032
Real estate - residential					
Revolving lines of credit	445,717	6,441	1,296	-	453,454
1-4 family residential	1,265,422	5,731	1,118	-	1,272,271
Commercial and industrial	285,955	3,116	2,031	-	291,102
Consumer	33,013	212	172	-	33,397
Other	4,720	-	-	-	4,720
<i>Total</i>	<u>\$ 3,859,697</u>	<u>\$ 38,213</u>	<u>\$ 10,550</u>	<u>\$ -</u>	<u>\$ 3,908,460</u>

The Bank categorizes each loan into Credit Risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience and current economic trends. The Bank uses the following definitions for Credit Risk ratings:

**Special Mention:** Loans classified as special mention, or watch credits, have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution may sustain some loss if the deficiencies are not corrected.

**Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credits not covered by the above definition are pass credits, which are not considered to be adversely rated.

The Bank pooled all loans into the Static Pool Analysis and therefore no loans, including those loans considered substandard and doubtful, are individually evaluated as of December 31, 2023. Based on the Bank's analysis and underlying collateral, it was determined that whether the loans were pooled or individually evaluated would not have a material impact to the ACL and therefore no loans were considered collateral dependent as of December 31, 2023.

An age analysis of past due financing receivables and nonaccrual financing receivables as of December 31, 2023 by loan segment and class are summarized as follows:

(in thousands)	30-89 Days Past Due and still Accruing	Greater than 90 Days Past Due and still Accruing	Total Past Due and Accruing	Total Current Financing Receivable	Total Financing Receivables on Accrual	Nonaccrual Loans	Nonaccrual Loans to Total Loans
Real estate - construction							
1-4 family residential	\$ 573	\$ 2,232	\$ 2,805	\$ 183,325	\$ 186,130	\$ -	0.00%
Other construction, land development and land loans	-	-	-	360,157	360,157	-	0.00%
Real estate - commercial							
Nonfarm nonresidential	4,652	-	4,652	1,381,610	1,386,262	1,372	0.10%
Real estate - residential							
Revolving lines of credit	1,518	-	1,518	437,528	439,046	4,061	0.93%
1-4 family residential	816	-	816	1,334,257	1,335,073	19,069	1.43%
Commercial and industrial	870	284	1,154	287,721	288,875	838	0.30%
Consumer	276	-	276	31,892	32,168	39	0.12%
Other	297	33	330	4,535	4,865	-	0.00%
<i>Total</i>	<u>\$ 9,002</u>	<u>\$ 2,549</u>	<u>\$ 11,551</u>	<u>\$ 4,021,025</u>	<u>\$ 4,032,576</u>	<u>\$ 25,379</u>	<u>0.63%</u>

An age analysis of past due financing receivables and nonaccrual financing receivables as of December 31, 2022 by loan segment and class are summarized as follows:

(in thousands)	30-89 Days Past Due and still Accruing	Greater than 90 Days Past Due and still Accruing	Total Past Due and Accruing	Total Current Financing Receivable	Total Financing Receivables on Accrual	Nonaccrual Loans	Nonaccrual Loans to Total Loans
Real estate - construction							
1-4 family residential	\$ -	\$ 501	\$ 501	\$ 248,242	\$ 248,743	\$ -	0.00%
Other construction, land development and land loans	574	-	574	314,167	314,741	-	0.00%
Real estate - commercial							
Nonfarm nonresidential	1,137	164	1,301	1,288,731	1,290,032	-	0.00%
Real estate - residential							
Revolving lines of credit	671	150	821	452,633	453,222	232	0.05%
1-4 family residential	107	-	107	1,272,164	1,271,359	912	0.07%
Commercial and industrial	1,854	173	2,027	289,075	289,621	1,481	0.51%
Consumer	320	9	329	33,068	33,397	-	0.00%
Other	334	50	384	4,336	4,720	-	0.00%
<i>Total</i>	<u>\$ 4,997</u>	<u>\$ 1,047</u>	<u>\$ 6,044</u>	<u>\$ 3,902,416</u>	<u>\$ 3,905,835</u>	<u>\$ 2,625</u>	<u>0.07%</u>

As noted above, the Bank did not have any individually evaluated loans. All loans are currently evaluated within a pool of like kind loans and the standard allowance rates are applied. The prior year chart and narrative is reflected below for comparative purposes, but it will no longer be reflected after this year.

Impaired loans as of and for the year ended December 31, 2022 by loan segment are summarized as follows:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized for the Year
With no related allowance recorded:				
Real estate - construction	\$ 398	\$ 895	\$ -	\$ 52
Real estate - commercial	2,794	2,835	-	145
Real estate - residential	3,084	3,927	-	240
Commercial and industrial	1,903	3,050	-	170
Consumer	79	397	-	21
With an allowance recorded:				
Real estate - construction	-	-	-	-
Real estate - commercial	-	-	-	-
Real estate - residential	61	85	61	5
Commercial and industrial	32	57	18	4
Consumer	63	63	63	4
Total:				
Real estate - construction	<u>\$ 398</u>	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ 52</u>
Real estate - commercial	<u>\$ 2,794</u>	<u>\$ 2,835</u>	<u>\$ -</u>	<u>\$ 145</u>
Real estate - residential	<u>\$ 3,145</u>	<u>\$ 4,012</u>	<u>\$ 61</u>	<u>\$ 245</u>
Commercial and industrial	<u>\$ 1,935</u>	<u>\$ 3,017</u>	<u>\$ 18</u>	<u>\$ 174</u>
Consumer	<u>\$ 142</u>	<u>\$ 460</u>	<u>\$ 63</u>	<u>\$ 25</u>
<i>Total</i>	<u>\$ 8,414</u>	<u>\$ 11,309</u>	<u>\$ 142</u>	<u>\$ 641</u>

Occasionally, the Bank modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses. As of December 31, 2022, these modifications were referred to as troubled debt restructurings. Upon the adoption of CECL, these are now referred to as modifications to borrowers experiencing financial difficulty.

In some cases, the Bank will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

The following table shows the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted (numbers in thousands):

<b><u>Interest Rate Reduction</u></b>		
(in thousands)	<u>Amortized Cost</u>	<u>% of Total</u>
Real estate - construction	\$ -	N/A
Real estate - commercial	293	0.02%
Real estate - residential	279	0.02%
Commercial and Industrial	-	N/A
Consumer	-	N/A
<i>Total</i>	<u>\$ 572</u>	<u>0.01%</u>

<b>Term Extension</b>		
(in thousands)	<u>Amortized Cost</u>	<u>% of Total</u>
Real estate - construction	\$ -	N/A
Real estate - commercial	2,192	0.16%
Real estate - residential	182	0.01%
Commercial and Industrial	2,736	0.98%
Consumer	-	N/A
<i>Total</i>	<u>\$ 5,110</u>	<u>0.13%</u>

<b>Combination: Interest Rate Reduction &amp; Term Extension</b>		
(in thousands)	<u>Amortized Cost</u>	<u>% of Total</u>
Real estate - construction	\$ -	N/A
Real estate - commercial	-	N/A
Real estate - residential	121	0.01%
Commercial and Industrial	-	N/A
Consumer	-	N/A
<i>Total</i>	<u>\$ 121</u>	<u>0.00%</u>

There were no modified loans which subsequently re-defaulted during the year ended December 31, 2023.

Troubled debt restructurings by loan segment as of December 31, 2022 consisted of the following:

(in thousands)	<u>Number of Contracts at Year End</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
Real estate - construction	1	\$ 895	\$ 398
Real estate - commercial	3	2,645	2,645
Real estate - residential	10	1,183	678
Commercial and industrial	7	1,174	467
Consumer	6	604	59
<i>Total</i>	<u>27</u>	<u>\$ 6,501</u>	<u>\$ 4,247</u>

There were no troubled debt restructurings which subsequently re-defaulted during the year ended December 31, 2022.

At December 31, 2023, there are no commitments to lend additional funds to any borrower whose loan term has been modified.

From time to time, the Bank pledges real estate loans to government agencies to collateralize other borrowings. At December 31, loans of \$667,752,000 (2023) and \$644,466,000 (2022) were pledged.

At December 31, customer overdraft accounts included in installment loans were \$2,676,000 (2023) and \$1,905,000 (2022).

In response to the economic turmoil caused by the pandemic, several pieces of legislation were passed, including the Coronavirus Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act, and the massive COVID-19 rescue package, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which included the Paycheck Protection Program (“PPP”) and distribution of stimulus checks to qualifying individuals.



In order to support our customer base during the COVID-19 pandemic, the Bank enacted a 90-day loan payment deferral program in late March 2020. Both principal and interest payments during the period were deferred to the end of the loan. As the 90-day deferral period came to an end, the Bank reviewed options to extend the deferral period for up to 180 days as provided for in regulatory guidance. Reviews for an additional 90-day extension to the deferral period included an analysis of the borrower's plan and ability to resume normal payments when the deferral period ends. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2022, no loans remained on COVID-19 deferral status.

Also in response to the COVID-19 pandemic, the bank actively participated in Round 1 and Round 2 of the PPP loan program. Throughout 2020 and 2021, the bank originated 6,161 PPP loans totaling \$472.3 million. As of December 31, 2023, 24 PPP loans were still active with outstanding balances of \$1.0 million. The Bank entered into a contract with a third party technology provider to assist with the PPP loan forgiveness process for our borrowers. The Bank's web portal for processing PPP forgiveness was activated in September 2020. All remaining PPP customers have either applied for forgiveness or are making payments on the outstanding balance.

#### NOTE 5 – BANK PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

The Bank's property, equipment, and leasehold improvements at December 31, consisted of the following:

(in thousands)	2023	2022
Land, building, and leasehold improvements	\$ 88,257	\$ 86,052
Furniture and equipment	58,207	53,259
Safe deposit and vault equipment	2,027	2,060
Property and equipment of limited liability companies	21,706	21,558
	170,197	162,929
Less: accumulated depreciation	(101,150)	(94,419)
	69,047	68,510
Construction in progress	8,895	7,773
<i>Total</i>	\$ 77,942	\$ 76,283

At December 31, the Bank had construction in process of \$8,895,000 (2023) and \$7,773,000 (2022). Estimated cost to complete these projects at December 31 is \$2,709,000 (2023), \$1,519,000 (2022), and is related to architectural design for new branches, remodeling of bank locations, and technology projects.

For the years ended December 31, consolidated depreciation expense was \$7,640,000 (2023) and \$7,455,000 (2022).

The Bank leases certain buildings and land for its bank locations under long-term leases. These leases are operating leases with terms ranging from one to ten years and provide rate increases based on the consumer price index and, in one lease, changes in the prime rate of interest.

As of December 31, 2023 the Bank's lease ROU assets and related lease liabilities were \$20.7 million and \$22.0 million, respectively.

The table below summarized information related to the Bank's operating leases at December 31:

	2023	2022
Weighted average remaining lease term of operating leases, in years	9.95	9.90
Weighted average discount rate of operating leases	2.44%	2.66%

The following is a schedule by year of future minimum rental payments, not including extensions, required under the operating leases:

(in thousands)		
2024	\$	5,163
2025		3,708
2026		3,732
2027		3,602
2028 and thereafter		<u>11,951</u>
	<i>Total</i>	<u>\$ 28,156</u>

For the years ended December 31, rent expense from operating leases was \$5,258,000 (2023) and \$4,851,000 (2022).

Included above are certain leases between the Bank and separate entities for buildings occupied by certain bank locations. The Bank and these entities are related by common ownership (see Note 14). The combined rent for these leases for December 31 was \$1,730,000 (2023) and \$1,583,000 (2022) and are eliminated in consolidation.

#### **NOTE 6 – GOODWILL**

Goodwill of \$17,631,000 was acquired in 2006 and is subject to annual impairment testing. The Bank has selected September 30 as the annual impairment testing date. Based on the results of the annual impairment testing, goodwill was not considered to be impaired as of December 31, 2023 and 2022.

#### **NOTE 7 – CERTIFICATES OF DEPOSIT**

At December 31, the aggregate amount of time deposits in denominations that meet or exceed the FDIC insurance limit of \$250,000 were \$257,114,000 (2023) and \$38,200,000 (2022).

Scheduled maturities of all certificates of deposit at December 31 are as follows:

(in thousands)		
2024	\$	963,431
2025		146,795
2026		3,242
2027		4,462
2028 and thereafter		<u>1,159</u>
	<i>Total</i>	<u>\$ 1,119,089</u>

#### **NOTE 8 – REPURCHASE AGREEMENTS**

During the years ending December 31, 2023 and 2022, the Bank entered into collateralized overnight repurchase accounts with select customers under repurchase contracts. At December 31, account balances totaled \$0 (2023) and \$6,764,000 (2022). All of the repurchase accounts were settled nightly and all of the accounts were collateralized with U.S. agency bonds. As of December 31, the pledged bonds that are actively being used to secure the deposits had a market value of \$0 (2023) and \$35,595,000 (2022). For the year ended December 31, 2022, the Bank monitored the account balances and the pledged collateral market values on a daily basis to ensure adequate collateral was pledged. Collateral value fluctuations were mitigated by pledging only U.S. agency bonds and by pledging a ladder of bond maturities. The repurchase account program was discontinued during the year ended December 31, 2023.

## NOTE 9 – OTHER BORROWINGS

### (a) FHLB

The FHLB functions as a member-owned cooperative providing credit for member financial institutions. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Limitations on the amount of advances are based on a percentage of the Bank's assets or on the FHLB's assessment of the institution's creditworthiness. At December 31, 2023, the Bank maintained a credit facility with the FHLB with a borrowing capacity of \$505.0 million. At December 31, 2023 and December 31, 2022 the Bank had FHLB advances outstanding of \$50.0 million and \$77.9 million, respectively.

Advances from the FHLB may be collateralized by FHLB stock owned by the Bank, deposits at the FHLB, certain commercial and residential real estate loans, investment securities or other assets. In accordance with the pledge agreement, the Company must maintain unencumbered collateral in an amount equal to varying percentages ranging from 100% to 160% of outstanding advances depending on the type of collateral.

Maturities and interest rates of the FHLB advances are as follows:

(in thousands)	December 31, 2023		December 31, 2022	
	Borrowings	Interest Rate	Borrowings	Interest Rate
		Range		Range
2023	\$ -	-	\$ 77,932	4.48%
2024	50,000	5.55%	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028 and thereafter	-	-	-	-
	<u>\$ 50,000</u>	<u>5.55%</u>	<u>\$ 77,932</u>	<u>4.48%</u>

Principal reductions of the FHLB advances at December 31 are as follows:

(in thousands)	
2024	\$ 50,000
2025	-
2026	-
2027	-
2028 and thereafter	-
	<u>Total \$ 50,000</u>

### (b) Federal Funds Purchased

The Bank maintains advance lines with two correspondent banks to purchase federal funds totaling \$100.0 million as of December 31, 2023. The lines generally mature annually or are reviewed annually. As of December 31, 2023 and December 31, 2022, there were no federal funds purchased.

### (c) Federal Reserve Bank

The Bank maintains a credit facilities with the Federal Reserve Bank with a borrowing capacity of \$518.1 million as of December 31, 2023. At December 31, 2023 and December 31, 2022 the Bank had Federal Reserve advances outstanding of \$0.0 million and \$100.0 million respectively. Any advances on the credit facility must be secured by either investment securities or certain types of the Bank's loans receivable.

Maturities and interest rates of the Federal Reserve advances are as follows:

(in thousands)	December 31, 2023		December 31, 2022	
	Borrowings	Interest Rate Range	Borrowings	Interest Rate Range
	2023	\$ -	-	\$ 100,000
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028 and thereafter	-	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 100,000</u>	<u>4.5%</u>

## NOTE 10 – SUBORDINATED DEBT AND SUBORDINATED DEBENTURES

On June 11, 2020, the Bank announced the completion of the private placement of \$50 million in fixed-to-floating rate subordinated notes (the “Notes”) due 2030 to certain qualified institutional buyers and institutional accredited investors. The Notes were structured to qualify as Tier 2 capital at the Bank level for regulatory purposes, and the Bank intends to utilize the proceeds from the sale of the Notes for general corporate purposes. The Notes will initially bear interest at a fixed rate of 5.875% per annum until June 15, 2025, payable semi-annually in arrears. For the remainder of the term or up to an earlier redemption date, the Notes, which mature on June 15, 2030, will bear an interest rate that will reset quarterly to an annual floating rate equal to the then-current three-month term Secured Overnight Financing Rate (“SOFR”) plus 569 basis points, payable quarterly in arrears. The Bank is entitled to redeem the Notes, in whole or in part, on any interest payment date on or after June 15, 2025, and to redeem the Notes at any time in whole upon certain other specified events.

The Bank’s subordinated debt at December 31 consisted of the following:

(in thousands)	2023	2022
Subordinated debt due June 2030, with interest at 5.875% per annum until June 15, 2025 and then repriced quarterly at SOFR plus 5.69%; principal due at maturity with semi-annual interest payments.	\$ 50,000	\$ 50,000
<i>Total</i>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

In January 1999, the Bank formed Alpine Capital, a Delaware Business Trust. The trust completed an offering of \$10.1 million in 9.50% fixed rate Trust Preferred Securities (“TruPS”). The trust also issued common securities which the Bank purchased for \$313,000. Interest is paid quarterly and is distributed to the holders of the TruPS. The TRuPS mature on January 22, 2029 and have been redeemable in whole or in part at par based on a schedule of pre-payment penalties since January 22, 2009.

In February 2004, the Bank formed Alpine Statutory Trust II, a Delaware Business Trust. The trust completed an offering of \$10.0 million TruPS at LIBOR + 2.80% with a floor of 3.93% until April 7, 2009 and then LIBOR + 2.85% until maturity. The trust also issued common securities which the Bank purchased for \$310,000. Interest is paid quarterly and is distributed to the holders of the TruPS. The TRuPS mature on April 7, 2034 and have been redeemable in whole or in part at any time since April 7, 2009. Subsequent to LIBOR ceasing publication after June 30, 2023 the index on this issue became three month CME Term SOFR plus the applicable tenor spread adjustment (.26161%) per the U.S. Adjustable Interest Rate (LIBOR) Act.

In December 2005, the Bank formed Alpine Statutory Trust III, a Connecticut Business Trust. The trust completed an offering of \$25.0 million TruPS at LIBOR + 1.30%. The trust also issued common securities which the Bank purchased for \$774,000. Interest is paid quarterly and is distributed to the holders of the TruPS. The TRuPS mature on March 15, 2036 and have been redeemable in whole or in part at any time since December 14, 2010. Subsequent to LIBOR ceasing publication after June 30, 2023 the index on this issue became three month CME Term SOFR plus the applicable tenor spread adjustment (.26161%) per the U.S. Adjustable Interest Rate (LIBOR) Act.

In December 2006, the Bank formed Alpine Statutory Trust IV, a Delaware Business Trust. The trust completed an offering of \$12.0 million TruPS at LIBOR + 1.71%. The trust also issued common securities which the Bank purchased for \$372,000. Interest is paid quarterly and is distributed to the holders of the TruPS. The TRuPs mature on December 15, 2036 and have been redeemable in whole or in part at any time since December 14, 2011. Subsequent to LIBOR ceasing publication after June 30, 2023 the index on this issue became three month CME Term SOFR plus the applicable tenor spread adjustment (.26161%) per the U.S. Adjustable Interest Rate (LIBOR) Act.

In March 2008, the Bank formed Alpine Statutory Trust V, a Delaware Business Trust. The trust completed an offering of \$10.0 million TruPS at LIBOR + 3.50%. The trust also issued common securities which the Bank purchased for \$310,000. Interest is paid quarterly and is distributed to the holders of the TruPS. The TRuPs mature on June 15, 2038 and have been redeemable in whole or in part at any time since June 15, 2013. Subsequent to LIBOR ceasing publication after June 30, 2023 the index on this issue became three month CME Term SOFR plus the applicable tenor spread adjustment (.26161%) per the U.S. Adjustable Interest Rate (LIBOR) Act.

Under the Dodd-Frank Act and the joint rule from the Federal Reserve Board, the OCC and the FDIC, certain TruPS are no longer eligible to be included as Tier 1 capital for regulatory purposes. However, an exception to this statutory prohibition applies to securities issued prior to May 19, 2010 by bank holding companies with less than \$15 billion of total assets. As the Bank has less than \$15 billion in total assets and issued all of its TruPS prior to May 19, 2010, the Bank expects its TruPS will continue to be eligible to be treated as Tier 1 capital, subject to other rules and limitations.

The Bank's Trust Preferred Securities at December 31 consisted of the following:

(in thousands)	2023	2022
Subordinated debenture due January 2029, with interest at 9.5%; principal due at maturity, interest payments due quarterly.	\$ 10,413	\$ 10,413
Subordinated debenture due November 2034, with interest at three-month CME Term SOFR plus 0.26161% plus 2.85% and repriced quarterly (8.51% and 6.93% at December 31, 2023 and 2022, respectively); principal due at maturity, interest payments due quarterly.	10,310	10,310
Subordinated debenture due March 2036, with interest at three-month CME Term SOFR plus 0.26161% plus 1.30% (6.95% and 6.07% at December 31, 2023 and 2022, respectively); principal due at maturity, interest payments due quarterly.	25,774	25,774
Subordinated debenture due December 2036, with interest at three-month CME Term SOFR plus 0.26161% plus 1.71% and repriced quarterly (7.36% and 6.48% at December 31, 2023 and 2022, respectively); principal due at maturity, interest payments due quarterly.	12,372	12,372
Subordinated debenture due June 2038, with interest at three-month CME Term SOFR plus 0.26161% plus 3.50% and repriced quarterly (9.15% and 8.27% at December 31, 2023 and 2022, respectively); principal due at maturity, interest payments due quarterly.	10,310	10,310
<i>Total</i>	\$ 69,179	\$ 69,179

At December 31, the Bank had an equity investment in business trusts of \$2,095,000 (2023) and \$2,094,000 (2022). Under FASB ASC 810-10, the business trusts, which had been formed for the sole purpose of issuing trust preferred securities, are not consolidated.

## NOTE 11 – COMMON STOCK

In August 1998, the Bank amended its Articles of Incorporation for the creation of a second, non-voting class of stock, known as Class B common stock (all voting common stock being re-designated as Class A common stock). The Bank can authorize a right of refusal on certain transfers of Class A and Class B common stock.

In April 2019, the Bank listed the Class B non-voting common stock for trading on the OTC Pink Market, with a trading symbol of ALPIB. The Class A voting common stock is not traded on any securities market.

On September 9, 2020, the Class B non-voting common stock qualified to trade on the OTCQX® Best Market with the symbol of ALPIB. The OTCQX® Best Market enables banks to maximize the value of being a public company by providing transparent trading and easy access to company information for shareholders. To qualify for OTCQX®, community banks must meet high financial standards, follow best practice corporate governance, and demonstrate compliance with applicable securities laws.

On November 12, 2020, the Bank stockholders voted to approve amended and restated Articles of Incorporation to increase the number of the Bank’s authorized Class B nonvoting common shares, effect a 150-for-1 stock split of the Class B shares and provide that dividends payable on the Class B shares shall equal 1/150th of any dividends paid on the Bank’s Class A voting shares, among other things. The amended and restated Articles of Incorporation and the related stock split became effective upon filing with the Colorado Secretary of State, which occurred on December 1, 2020.

On July 18, 2022, the Bank completed a private placement of \$34.0 million of common stock through the sale of 1,192,983 shares of Class B nonvoting common stock at \$28.50 per share to certain qualified institutional and accredited investors. Net proceeds after fees were \$32.2 million. The Company expects to use the proceeds from the capital raise for general corporate purposes, including but not limited to supporting continued organic growth and enhancing regulatory capital ratios.

Changes in the Bank’s issued and outstanding common stock for the years ended December 31, 2021, 2022 and 2023 are shown in the table below.

	Class A, Voting No Par Value (100,000 shares authorized)	Class B, Voting No Par Value (15,000,000 shares authorized)
	Issued and Outstanding	Issued and Outstanding <sup>1</sup>
<b>Balance December 31, 2020</b>	<b>52,743</b>	<b>7,547,550</b>
Capital Stock Retirement	(309)	(18,048)
<b>Balance December 31, 2021</b>	<b>52,434</b>	<b>7,529,502</b>
Capital Stock Issuance	-	1,192,983
Capital Stock Retirement	(41)	(213,053)
<b>Balance December 31, 2022</b>	<b>52,393</b>	<b>8,509,432</b>
Capital Stock Issuance	-	-
Capital Stock Retirement	(65)	(175,449)
<b>Balance December 31, 2023</b>	<b>52,328</b>	<b>8,333,983</b>

<sup>1</sup> All share and per share amounts reflect the Bank’s 150-for-1 Class B stock split on December 1, 2020.

## NOTE 12 – EMPLOYEE STOCK OWNERSHIP AND 401(K) PLAN

The Bank established an employee stock ownership plan (the Plan) effective January 1, 1983, and was amended and restated on December 10, 2020, for the benefit of its eligible employees and their beneficiaries under section 401(a) of the Internal Revenue Code (“IRC”). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”). The Plan is designed with two components: an ESOP and 401(k). The ESOP is designed to invest primarily in qualifying employer securities (“Bank Stock”), as defined in IRC Section 409(1). The 401(k) provides eligible employees a qualified cash or deferred arrangement as defined in IRC section 401(k).

Employees of the Bank become eligible to participate in the 401(k) component of the Plan upon completion of three months of service. Employees become eligible for the ESOP component of the Plan upon completion of one year of service. One year of service is defined as a twelve consecutive month period during which the employee completes not less than 1,000 hours of service.

The ESOP component of the Plan is a non-contributory plan that is funded by the Bank with Bank stock or cash. The amount of the contribution is determined annually by the Bank's Board of Directors. For the years ended December 31, the Bank contributed \$4,711,000 (2023) and \$4,325,000 (2022) to the Plan. The amount contributed to the plan is recorded as compensation expense by the Bank. Forfeitures, if any, are reallocated among remaining participants. Dividends on ESOP shares are recorded as a reduction of retained earnings.

As of December 31, shares in the ESOP were 11,973 Class A and 956,173 Class B (2023) and 11,973 Class A and 1,119,649 Class B (2022). ESOP shares are included in the earnings per share computation.

The Bank stock that is held by the Plan and its participants includes a put option. The put option is a right to demand that the Bank buy any shares of its stock distributed to participants. The put price is representative of the fair value of the stock. The Bank can pay for the purchase, with interest, over a period of five years. These distributions are available upon retirement, death, disability, or termination of employment.

For the ESOP component, a participant's accrued benefit derived from the Bank's contributions shall be 100% vested after attaining normal retirement age, or if the employee terminates as a result of death or disability. If a participant's employment terminates prior to normal retirement age or for any reason other than death or disability, then, for each year of service they shall be vested in their account based on continuous years of service at 20% per year, beginning at the end of year two and becoming fully vested at the end of year six.

For the 401(k) component of the Plan, participants may elect to defer before-tax contributions up to 75% of their annual compensation, not to exceed annual limits as determined by the Internal Revenue Service ("IRS").

Participants age 50 or older may also elect to defer additional catch-up contributions to the Plan, which are limited by the IRS. Participants are 100% vested in their voluntary contributions and actual earnings or losses thereon.

Distributions are available upon retirement, death, disability, attainment of age 59 ½, or termination of employment. Distributions from the ESOP component of the Plan will be made either in Bank stock or cash. The Plan's ESOP distribution policy dictates the period over which participants are paid based on their event of termination and the vested account balance at termination. The participant will receive the 401(k) component, equal to the participant's vested account balance, in either a lump sum or in installment distributions based on the participant's election. If the participant's total vested balance, including the ESOP and the 401(k) components combined, is greater than \$1,000, the participant may elect not to receive a distribution until required by law to receive required minimum distributions.

## NOTE 13 – INCOME TAXES

The Bank files a consolidated federal income tax return. The consolidated provision for income taxes consisted of the following for the years ended December 31:

(in thousands)	2023	2022
Current tax provision		
Federal	\$ 7,014	\$ 13,571
State	1,343	2,906
	8,357	16,477
Deferred	3,114	(1,247)
<i>Income Tax Provision</i>	\$ 11,471	\$ 15,230

At December 31, the income tax provision for the consolidated financial statements results in an effective rate, which varies from the normal statutory corporate rate of 21% for federal income taxes and state income tax of 4.40% for 2023 and of 21% for federal income taxes and state income tax of 4.55% 2022. The reason for these differences are as follows:

(in thousands)	<u>2023</u>	<u>2022</u>
Statutory rate	\$ 16,773	\$ 21,787
Permanent differences – primarily tax-exempt interest income, earnings on life insurance and amortization on core deposit intangibles	(4,235)	(5,150)
Other	<u>(1,066)</u>	<u>(1,407)</u>
<i>Income Tax Provision</i>	<u>\$ 11,471</u>	<u>\$ 15,230</u>

The components of the deferred tax asset and the deferred tax liability are as follows at December 31:

(in thousands)	<u>2023</u>	<u>2022</u>
Deferred tax asset:		
Federal	\$ 36,201	\$ 39,311
State	<u>6,931</u>	<u>8,416</u>
	<u>43,132</u>	<u>47,728</u>
Deferred tax liability:		
Federal	(6,185)	(5,667)
State	<u>(1,184)</u>	<u>(1,213)</u>
	<u>(7,369)</u>	<u>(6,881)</u>
<i>Deferred Tax Asset, Net</i>	<u>\$ 35,763</u>	<u>\$ 40,487</u>

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting. Significant components of the Bank's deferred tax assets and liabilities are as follows:

(in thousands)	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for credit losses	\$ 12,741	\$ 10,540
Deferred compensation	4,968	4,644
Net unrealized loss on available for sale securities	23,079	28,863
Other	<u>2,345</u>	<u>3,681</u>
<i>Total Deferred Tax Assets</i>	<u>43,133</u>	<u>47,728</u>
Deferred tax liabilities:		
Accelerated depreciation	(4,758)	(4,542)
Prepaid expenses	(994)	(921)
Other	<u>(1,618)</u>	<u>(1,418)</u>
<i>Total Deferred Tax Liabilities</i>	<u>(7,370)</u>	<u>(6,881)</u>
<i>Deferred Tax Asset, Net</i>	<u>\$ 35,763</u>	<u>\$ 40,847</u>

At December 31, 2023, the Bank had no tax carryforwards.



## NOTE 14 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans receivable from directors and executive officers of the Bank and their affiliates. Interest rates on loans are based upon the Bank's base rate and are negotiated on an individual basis. Loans to related parties were as follows:

(in thousands)	2023	2022
Balance at January 1	\$ 4,530	\$ 4,611
New loans, including renewals	105	1,205
Payments, including renewals	(951)	(1,286)
Balance at December 31	<u>\$ 3,684</u>	<u>\$ 4,530</u>

Terms and rates of interest on deposit accounts are similar to those extended to unrelated Bank customers. At December 31, related party deposits were \$12,749,000 (2023) and \$12,473,000 (2022).

The Bank leases buildings from separate entities related by common ownership (see Note 5).

## NOTE 15 – DEFERRED COMPENSATION AND SALARY CONTINUATION PLAN

Effective January 1, 1990, the Bank adopted a deferred compensation plan (the Compensation Plan) for certain key executives. The Compensation Plan is a nonqualified executive benefit plan in which the eligible bank officer or director voluntarily elects to defer some or all of his or her current compensation in exchange for the Bank's promise to pay a deferred benefit sometime in the future. Under this type of plan, the deferred fees or salaries are expensed by the Bank and set aside in a separate liability account and interest is periodically credited on the account balance. Benefits are payable under certain conditions and in amounts set forth by the Compensation Plan. As of December 31, the Bank reflected a liability, which is included in the accompanying consolidated statements of financial condition as part of other liabilities, of \$17,288,000 (2023) and \$15,892,000 (2022) in connection with the Compensation Plan. The Compensation Plan is an unfunded plan, which means that the employee has no rights under the agreement beyond those of a general creditor of the Bank, and there are no specific assets set aside by the Bank in connection with the Compensation Plan.

The Compensation Plan is informally linked with a single premium universal life insurance policy on the life of each participant, which has been purchased by the Bank in connection with the implementation of the Compensation Plan.

The Bank also adopted a salary continuation plan (the Continuation Plan) for certain key executives. The Continuation Plan provides, among other things, that if the executive remains with the Bank until retirement, the Bank will pay the scheduled benefits. The Continuation Plan terminates if the employee leaves the Bank prior to retirement. This Continuation Plan is also linked informally with life insurance policies acquired by the Bank. As of December 31, the Bank reflected a liability, which is included in the accompanying consolidated statements of financial condition as part of other liabilities, of \$3,005,000 (2023) and \$2,994,000 (2022) in connection with the Continuation Plan. The Continuation Plan is an unfunded plan, which means that the employee has no rights under the agreement beyond those of a general creditor of the Bank, and there are no specific assets set aside by the Bank in connection with the Continuation Plan. For the years ended December 31, the Continuation Plan expense was \$194,000 (2023) and \$196,000 (2022).

## NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Bank is involved in various legal actions arising from its lending and collection activities. In the opinion of management, the outcome of these legal actions will not significantly affect the consolidated financial condition of the Bank.

The Bank's consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. In the normal course of business, the Bank is a party to certain off-balance sheet financial instruments to meet the needs of its customers. These financial instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recorded on the consolidated statements of financial condition. The Bank does not anticipate that losses, if any, as a result of credit risk or market risk, would materially affect the consolidated stockholders' equity position of the Bank.

Credit risk represents the maximum potential loss the Bank faces due to possible non-performance by obligors and counterparties of the terms of their contracts. Market risk represents the potential loss the Bank faces due to the decrease in the value of an off-balance sheet financial instrument caused primarily by changes in interest rates.

Credit risk is represented by the contractual amount of the letters of credit and commitments to extend credit. Letters of credit and commitments to extend credit have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a variable rate of interest.

The majority of the Bank's loan portfolio and collateral for those loans is concentrated in Colorado. However, obligors and counterparties are diversified nationally. Because of this, the risks of lending reflect both general and local economic conditions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterpart. Collateral held varies, however may include accounts receivable, inventory, property, plant, and equipment, and income-producing residential and commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. At December 31, standby letters of credit, loan commitments, and unused lines of credit were \$1,173,248,000 (2023) and \$1,337,326,000 (2022).

## **NOTE 17 – CAPITAL REQUIREMENTS**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures, established by regulation to ensure capital adequacy, require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2023, the Bank meets all capital adequacy requirements to which it is subject.

In 2013, the Federal Reserve voted to adopt final capital rules implementing Basel III requirements for U.S. Banking organizations. Under the final rule, minimum requirements increased for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the final rule included a new minimum ratio of common equity tier 1 capital to risk-weighted assets, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule modified the methodology for

calculating risk-weighted assets to enhance risk sensitivity. The Bank used risk weighting to assign different levels of risk to different classes of assets. The rule has raised the minimum ratio of tier 1 capital to risk-weighted assets and includes a minimum leverage ratio of 4%. These new minimum capital ratios were effective on January 1, 2015 and were fully phased by January 1, 2019.

As of September 30, 2023, in accordance with Basel III, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity tier 1 risk-based capital, total risk-based capital, Tier I risk-based capital, and Tier I capital leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023:						
Common Equity Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 613,938	13.76%	\$ 200,741	4.50%	\$ 289,959	6.50%
Alpine Banks of Colorado	\$ 520,062	11.64%	\$ 200,992	4.50%	\$ 290,322	6.50%
Total Risk Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 665,531	14.92%	\$ 356,873	8.00%	\$ 446,091	10.00%
Alpine Banks of Colorado	\$ 688,755	15.42%	\$ 357,319	8.00%	\$ 446,649	10.00%
Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 613,938	13.76%	\$ 267,655	6.00%	\$ 356,873	8.00%
Alpine Banks of Colorado	\$ 587,162	13.15%	\$ 267,989	6.00%	\$ 357,319	8.00%
Tier 1 Risk-Based Capital (to Average Assets) – Leverage Ratio						
Alpine Bank	\$ 613,938	9.44%	\$ 260,054	4.00%	\$ 325,067	5.00%
Alpine Banks of Colorado	\$ 587,162	9.02%	\$ 260,261	4.00%	\$ 325,326	5.00%
(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Common Equity Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 585,358	13.12%	\$ 200,807	4.50%	\$ 290,054	6.50%
Alpine Banks of Colorado	\$ 490,237	10.98%	\$ 201,003	4.50%	\$ 290,338	6.50%
Total Risk Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 628,634	14.09%	\$ 356,990	8.00%	\$ 446,237	10.00%
Alpine Banks of Colorado	\$ 650,613	14.57%	\$ 357,339	8.00%	\$ 446,673	10.00%
Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 585,358	13.12%	\$ 267,742	6.00%	\$ 356,990	8.00%
Alpine Banks of Colorado	\$ 557,337	12.48%	\$ 268,004	6.00%	\$ 357,339	8.00%
Tier 1 Risk-Based Capital (to Average Assets) – Leverage Ratio						
Alpine Bank	\$ 585,358	9.19%	\$ 254,665	4.00%	\$ 318,331	5.00%
Alpine Banks of Colorado	\$ 557,337	8.75%	\$ 254,840	4.00%	\$ 318,549	5.00%

## NOTE 18 – DERIVATIVE FINANCIAL INFORMATION

The Bank offers interest rate derivative products (e.g. interest rate swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Bank to swap their variable rate loan to a fixed rate or vice versa. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and underwriting standards as the related traditional credit product. The Bank limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well capitalized and rated counterparty previously approved by the Chief Financial Officer. By using these interest rate swap arrangements, the Bank is also better insulated from the interest rate risk associated with underwriting fixed-rate loans.

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Bank's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. The estimated fair value of these derivatives are determined by the changes in the market value of the related loans, caused by changes in market interest rates, during the period from the commitment date or contract date to the valuation date.

These derivative contracts are not designated against specific assets or liabilities under FASB ASC 815-10 and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the consolidated statements of financial condition at fair value and changes in fair value essentially offset in non-interest income.

The following table presents the notional amount and fair value of the Bank's derivative instruments held or issued in connection with customer-initiated and mortgage banking activities:

(in thousands)	December 31, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Customer-initiated and mortgage banking derivatives:				
Customer-initiated derivatives	\$ 94,774	\$ 8,925	\$ 71,581	\$ 8,932
Forward contracts related to mortgage loans to be delivered for sale	-	-	1,487	15
Interest rate lock commitments	5,485	29	266	2
<i>Total derivatives included in other assets</i>	<u>\$ 100,259</u>	<u>\$ 8,954</u>	<u>\$ 73,334</u>	<u>\$ 8,937</u>
Included in other liabilities:				
Customer-initiated and mortgage banking derivatives:				
Customer-initiated derivatives	\$ 94,774	\$ 8,925	\$ 71,581	\$ 8,920
Forward contracts related to mortgage loans to be delivered for sale	4,185	13	-	-
Interest rate lock commitments	-	-	4,535	34
<i>Total derivatives included in other liabilities</i>	<u>\$ 98,059</u>	<u>\$ 8,938</u>	<u>\$ 76,116</u>	<u>\$ 8,954</u>

## NOTE 19 – STOCKHOLDERS' EQUITY

### Earnings Per Common Share

The following table illustrates the reconciliation of weighted average shares used for earnings per common share computations for the years ended December 31, 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income	<u>\$ 57,044</u>	<u>\$ 73,354</u>	<u>\$ 59,646</u>
Weighted-average number of common shares:			
Class A shares outstanding – basic	52,364	52,409	52,641
Class B shares outstanding – basic	8,400,413	7,952,661	7,539,441
Basic earnings per common share:			
Class A	\$ 526.39	\$ 695.77	\$ 579.63
Class B	\$ 3.51	\$ 4.64	\$ 3.86

### Dividends

The timing and amount of cash dividends paid on the Bank's common stock depends on the Bank's earnings, capital requirements, financial condition and other relevant factors. Dividends on common stock from the Bank depend substantially upon receipt of dividends from Alpine, the wholly-owned bank subsidiary, which is the Bank's predominant source of income.

The following table summarizes the dividend activity for the years ended December 31, 2023, 2022 and 2021:

Declared	Class A Cash Dividend per Share	Class B Cash Dividend per Share	Record Date	Paid Date
January 14, 2021	\$24.00	\$0.16	January 25, 2021	February 1, 2021
April 9, 2021	\$24.00	\$0.16	April 19, 2021	April 26, 2021
July 8, 2021	\$24.00	\$0.16	July 19, 2021	July 26, 2021
October 14, 2021	\$24.00	\$0.16	October 25, 2021	November 1, 2021
January 13, 2022	\$27.00	\$0.18	January 24, 2022	January 31, 2022
April 14, 2022	\$27.00	\$0.18	April 25, 2022	May 2, 2022
July 14, 2022	\$27.00	\$0.18	July 25, 2022	August 1, 2022
October 13, 2022	\$27.00	\$0.18	October 24, 2022	October 31, 2022
January 12, 2023	\$30.00	\$0.20	January 23, 2023	January 30, 2023
April 13, 2023	\$30.00	\$0.20	April 24, 2023	May 1, 2023
July 13, 2023	\$30.00	\$0.20	July 24, 2023	July 31, 2023
October 12, 2023	\$30.00	\$0.20	October 23, 2023	October 30, 2023

The FDIC and the Colorado Division of Banking have the authority under their supervisory powers to prohibit the payment of dividends by Alpine to the Bank. Additionally, current guidance from the Board of governors of the Federal Reserve System provides, among other things, that dividends per share on the Bank's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters. Current regulations allow the Bank and Alpine to pay dividends on their common stock if the Bank's or Alpine's regulatory capital would not be reduced below the statutory capital requirements set by the Federal Reserve and the FDIC.

## NOTE 20 – FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with the Fair Value Measurements of FASB ASC 820-10, assets and liabilities are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobserved assumptions reflect the Bank's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

In accordance with the Fair Value Measurements and Disclosures topic of the Codification, the Bank bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon the Bank's estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value:

Cash and due from banks and federal funds sold. These assets are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Securities to be held to maturity and available for sale. Securities held to maturity are recorded at amortized cost while securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange for identical securities that the Bank has the ability to access at the measurement date and consist of mutual funds. Level 2 securities consist of U.S. government and agency debt securities, agency mortgage-backed securities, corporate debt securities and other securities.

Loans receivable. The Bank does not record loans at fair value. However, from time to time, the Bank will record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

Fair values for collateral dependent or impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. As such, the Bank classifies collateral dependent loans subject to nonrecurring fair value adjustments as Level 3.

Loans held for sale. Loans held for sale are carried at fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics.

Other Real Estate Owned (OREO). OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu from the borrower. The fair value of OREO is primarily based on property appraisals less costs to sell. The appraised value may further be adjusted by management based on relevant facts and circumstances to reflect current market conditions. Because of the high degree of judgement required in estimating the fair value of OREO it is considered a Level 3 classification.

Derivative financial instruments. Customer-initiated derivatives valuations are derived from third-party models whose significant inputs are readily observable market parameters, primarily yield curves. These fair value measurements are classified as Level 2.

Deposit liabilities. Deposit liabilities are carried at historical cost. FASB ASC 825-10 states that the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking, and market rate and other savings, is equal to the amount payable on demand at the measurement date. The fair value of other deposits is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for like wholesale deposits with similar remaining maturities. The fair value of deposit liabilities at December 31 was \$4,626,000,000 (2023) and \$4,108,000,000 (2022).

Federal Home Loan Bank advances. The fair value of FHLB advances are estimated using a discounted cash flow calculation at interest rates currently being offered by the FHLB. The fair value of FHLB advances at December 31 was \$50,000,000 (2023) and \$77,932,000 (2022).

Federal Reserve Bank advances. The fair value of Fed advances are estimated using a discounted cash flow calculation at interest rates currently being offered by the Fed. The fair value of Fed advances at December 31 was \$0 (2023) and \$100,000,000 (2022).

Subordinate debentures and notes payable. The fair value of subordinated debentures and notes payable is estimated using a discounted cash flow calculation at interest rates currently being offered for similar terms to issuers of similar credit risk. The fair value of subordinated debentures at December 31 was \$111,762,000 (2023) and \$85,998,000 (2022).

Mortgage banking related derivatives, including commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans, are recorded at fair value on a recurring basis. The fair value of these commitments is based on the fair value of related mortgage loans determined using observable market data. Interest rate lock commitments are adjusted for expectations of exercise and funding (this adjustment is not considered to be a material input). Valuations on mortgage banking derivatives are classified as Level 2.

Fair value measurements for assets recorded at fair value on a recurring basis at December 31, are as follows:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
<u>2023</u>				
Securities available-for-sale	\$ 702,207	\$ -	\$ 702,207	\$ -
Loans held for sale	4,155	-	4,155	-
Derivative assets:				
Customer-initiated derivatives	8,925	-	8,925	-
Forward contracts related to mortgage loans to be delivered for sale	-	-	-	-
Interest rate lock commitments	29	-	29	-
Total assets at fair value	<u>\$ 715,316</u>	<u>\$ -</u>	<u>\$ 715,316</u>	<u>\$ -</u>
Derivative liabilities:				
Customer-initiated derivatives	\$ 8,925	\$ -	\$ 8,925	\$ -
Forward contracts related to mortgage loans to be delivered	13	-	13	-
Interest rate lock commitments	-	-	-	-
<i>Total liabilities at fair value</i>	<u>\$ 8,938</u>	<u>\$ -</u>	<u>\$ 8,938</u>	<u>\$ -</u>

(in thousands)	Fair Value	Level 1	Level 2	Level 3
<u>2022</u>				
Securities available-for-sale	\$ 748,863	\$ -	\$ 748,863	\$ -
Loans held for sale	2,515	-	2,515	-
Derivative assets:				
Customer-initiated derivatives	8,922	-	8,922	-
Forward contracts related to mortgage loans to be delivered for sale	15	-	15	-
Interest rate lock commitments	2	-	2	-
Total assets at fair value	<u>\$ 760,317</u>	<u>\$ -</u>	<u>\$ 760,317</u>	<u>\$ -</u>
Derivative liabilities:				
Customer-initiated derivatives	\$ 8,920	\$ -	\$ 8,920	\$ -
Forward contracts related to mortgage loans to be delivered	-	-	-	-
Interest rate lock commitments	34	-	34	-
<i>Total liabilities at fair value</i>	<u>\$ 8,954</u>	<u>\$ -</u>	<u>\$ 8,954</u>	<u>\$ -</u>

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The valuation methodologies used to measure these fair value adjustments are described above. For assets measured at fair value on a nonrecurring basis at December 31, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at year end.

(in thousands)	Fair Value	Level 1	Level 2	Level 3
<u>2023</u>				
Foreclosed and repossessed assets	\$ -	\$ -	\$ -	\$ -
Collateral dependent loans	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(in thousands)	Fair Value	Level 1	Level 2	Level 3
<u>2022</u>				
Foreclosed and repossessed assets	\$ -	\$ -	\$ -	\$ -
Impaired loans	11,309	-	-	11,309
	<u>\$ 11,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,309</u>

## NOTE 21 – ALPINE BANKS OF COLORADO (Parent Company Only)

The following are the condensed financial statements of the Parent Company.

Condensed Statements of Financial Condition (in thousands)	December 31,	
	2023	2022
<b>Assets</b>		
Cash and interest earning deposits	\$ 19,991	\$ 19,782
Investment securities	419	554
Investment in subsidiary bank	562,468	521,811
Other assets	3,461	2,254
<i>Total Assets</i>	<u>586,339</u>	<u>544,392</u>
<b>Liabilities and Stockholders' Equity</b>		
Subordinated debentures held by subsidiary trusts	69,179	69,179
Subordinated debt	50,000	50,000
Other liabilities	664	617
Total stockholders' equity	466,496	424,596
<i>Total Liabilities and Stockholders' Equity</i>	<u>\$ 586,339</u>	<u>\$ 544,392</u>



<b>Condensed Statements of Income</b> (in thousands)	Years Ended December 31,		
	2023	2022	2021
<b>Interest Income</b>			
Interest and dividends on interest earning deposits and other assets	\$ 66	\$ 30	\$ 33
<i>Total Interest Income</i>	<u>66</u>	<u>30</u>	<u>33</u>
<b>Interest Expense</b>			
Subordinated debentures	8,276	6,192	5,240
<i>Total Interest Expense</i>	<u>8,276</u>	<u>6,192</u>	<u>5,240</u>
<i>Net Interest Expense</i>	<u>(8,210)</u>	<u>(6,162)</u>	<u>(5,207)</u>
<b>Non-interest Income</b>			
Dividends from subsidiary bank	28,350	18,300	15,200
Equity in undistributed income of subsidiary bank	35,076	59,889	48,473
Other income	178	98	205
<i>Total Non-interest Income</i>	<u>63,603</u>	<u>78,287</u>	<u>63,878</u>
<b>Non-interest Expense</b>			
Professional services	192	206	210
Other expense	224	145	113
<i>Total Non-interest Expense</i>	<u>416</u>	<u>351</u>	<u>323</u>
<i>Net Income Before Income Taxes</i>	<u>54,977</u>	<u>71,774</u>	<u>58,348</u>
<b>Income Tax Benefit</b>	<u>(2,067)</u>	<u>(1,580)</u>	<u>(1,298)</u>
<i>Net Income</i>	<u>\$ 57,044</u>	<u>\$ 73,354</u>	<u>\$ 59,646</u>
<b>Condensed Statements of Cash Flows</b> (in thousands)	Years Ended December 31,		
	2023	2022	2021
<b>Cash flows from operating activities:</b>			
Net income	\$ 57,044	\$ 73,354	\$ 59,646
Adjustments to reconcile net income to net cash provided operating activities:			
Equity in undistributed income of subsidiary bank	(35,075)	(58,895)	(48,472)
Deferred income taxes (benefits)	(34)	(8)	32
Net change in other assets and liabilities	<u>(1,137)</u>	<u>(501)</u>	<u>(165)</u>
Net cash provided by operating activities	20,797	12,950	11,041
<b>Cash flows from investing activities:</b>			
Capital Contribution to subsidiary bank	-	(32,000)	-
Other, net	135	30	(127)
Net cash (used in) provided by financing activities	135	(31,970)	(127)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common stock	-	32,230	-
Common stock cash dividends paid	(13,021)	(11,435)	(9,883)
Repurchase of common stock	<u>(7,702)</u>	<u>(9,248)</u>	<u>(2,396)</u>
Net cash (used in) provided by financing activities	<u>(20,723)</u>	<u>11,547</u>	<u>(12,279)</u>
Net increase (decrease) in cash and cash equivalents	209	(7,473)	(1,365)
Cash and cash equivalents at the beginning of year	19,782	27,255	28,620
Cash and cash equivalents at the end of year	<u>\$ 19,991</u>	<u>\$ 19,782</u>	<u>\$ 27,255</u>

**NOTE 22 – SUBSEQUENT EVENTS**

The Bank has evaluated subsequent events through February 6, 2024, the date at which the consolidated financial statements were available to be issued, and determined that no events have occurred would require disclosure.