ALPINE BANKS OF COLORADO
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2018 and 2017

DALBY, WENDLAND & CO., P.C.
CPAs and Business Advisors

DALBY, WENDLAND & CO., P.C.

Grand Junction

CPAs and Business Advisors

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

INDEPENDENT AUDITOR'S REPORT

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, 2018 and 2017, 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.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpine Banks of Colorado and Subsidiaries as of December 31, 2018 and 2017, 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.

Report on Internal Control Over Financial Reporting

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, 2018, based upon the criteria established in the *2013 Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 1, 2019 expressed an unmodified opinion.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.
Grand Junction, Colorado

February 1, 2019

ALPINE BANKS OF COLORADO
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2018 and 2017
(In thousands, except share amounts)

	2018	2017
ASSETS		
Cash and due from banks	$ **367,751**	$ 362,545
Investment securities:		
Securities available for sale, at fair value	**186,313**	146,162
Securities held to maturity, at amortized cost	**547,661**	537,350
Investments in Alpine Capital and trust preferred securities	**2,091**	2,089
Loans receivable, net of allowance for loan losses and deferred loan fees	**2,401,637**	2,235,050
Loans held for resale, at cost which approximates fair value	**5,253**	9,310
Accrued interest receivable	**11,712**	10,918
Cash surrender value of life insurance policies	**66,135**	60,520
Bank property, equipment, and leasehold improvements, net	**74,549**	71,471
Goodwill	**17,631**	17,631
Deferred tax asset, net	**11,646**	12,383
Other assets	**17,908**	16,373
Total Assets	$ **3,710,287**	$ 3,481,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand	$ **1,169,932**	$ 1,074,713
Interest checking	**759,487**	713,145
Money fund	**1,065,221**	995,381
Savings	**128,262**	121,311
Certificates of deposit	**152,277**	165,717
Repurchase agreements	**39,067**	51,088
Total Deposits	**3,314,246**	3,121,355
Other Liabilities		
Other liabilities	**29,041**	31,852
Accrued interest payable	**454**	414
FHLB advances	**-**	97
Subordinated debentures	**69,179**	69,179
Total Other Liabilities	**98,674**	101,542
Total Liabilities	**3,412,920**	3,222,897
Equity		
Alpine Banks of Colorado Stockholders' equity		
Common stock, Class A, voting no par value, 100,000 shares authorized, 53,440 (2018 and 2017) shares issued and outstanding	**26**	26
Common stock, Class B, non-voting no par value, 100,000 shares authorized, 51,692 (2018) and 52,397 (2017) shares issued and outstanding	**26**	26
Contributed capital	**1,483**	4,963
Retained earnings	**298,831**	255,019
Accumulated other comprehensive loss, net of tax effect	**(3,509)**	(1,720)
Total Alpine Banks of Colorado Stockholders' Equity	**296,857**	258,314
Noncontrolling interest	**510**	591
Total Equity	**297,367**	258,905
Total Liabilities and Stockholders' Equity	$ **3,710,287**	$ 3,481,802

See accompanying notes.

ALPINE BANKS OF COLORADO
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017
(In thousands, except per share amounts)

	2018	2017
Interest Income		
Loans receivable	**$ 128,052**	$ 111,415
Securities	**26,431**	22,979
Total Interest Income	**154,483**	134,394
Interest Expense		
Deposits	**3,238**	2,173
Other	**4,604**	3,866
Total Interest Expense	**7,842**	6,039
Net Interest Income Before Provision For Loan Losses	**146,641**	128,355
Loan Loss Reversal	**-**	(1,100)
Net Interest Income After Provision For Loan Losses	**146,641**	129,455
Non-interest Income		
Other income	**22,730**	19,061
Service charges on deposit accounts	**9,353**	8,540
Earnings on life insurance	**1,605**	1,307
Total Non-interest Income	**33,688**	28,908
Non-interest Expense		
Salaries and employee benefits	**65,261**	59,619
Other expense	**31,762**	28,923
Occupancy expense	**6,767**	6,271
Furniture and fixture expense	**9,569**	7,793
Total Non-interest Expense	**113,359**	102,606
Net Income Before Income Taxes	**66,970**	55,757
Income Tax Expense	**12,119**	22,122
Net Income	**54,851**	33,635
Less: Net loss attributed to noncontrolling interest	**(3)**	(6)
Net Income Attributed to Alpine Banks of Colorado and Subsidiaries	**54,854**	33,641
Other Comprehensive Income (Loss), Net of Tax		
Change in unrealized gain (loss) on securities, net of reclassification adjustment and tax effects	**(1,419)**	67
Reclassification of accumulated other comprehensive income due to tax rate change	**(370)**	-
Other Comprehensive Income (Loss), Net of Tax	**(1,789)**	67
Comprehensive Income Attributed to Alpine Bank and Subsidiaries	**$ 53,065**	$ 33,708
Earnings per Share, Based on Net Income	**$ 520**	$ 318

See accompanying notes.

ALPINE BANKS OF COLORADO
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017
(In thousands)

	Class A Common Stock	Class B Common Stock	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
Balance at December 31, 2016	$ 26	$ 26	$ 5,134	$ 231,868	$ (1,787)	$ 672	$ 235,939
Net income (loss)	-	-	-	33,641	-	(6)	33,635
Change in unrealized gain (loss) on securities, net of reclassification adjustment and tax effects	-	-	-	-	67	-	67
Capital contributions - noncontrolling interest	-	-	-	-	-	92	92
Capital stock retirement	-	-	(171)	-	-	-	(171)
Distributions - noncontrolling interest	-	-		-	-	(167)	(167)
Dividends paid							
Common stock	-	-	-	(10,490)	-	-	(10,490)
Balance at December 31, 2017	26	26	4,963	255,019	(1,720)	591	258,905
Net income (loss)	-	-	-	54,854	-	(3)	54,851
Change in unrealized gain (loss) on securities, net of reclassification adjustment and tax effects	-	-	-	-	(1,419)	-	(1,419)
Reclassification of accumulated other comprehensive income due to tax rate change	-	-	-	370	(370)	-	-
Capital contributions - noncontrolling interest	-	-	-	-	-	92	92
Capital stock retirement	-	-	(3,480)	-	-	-	(3,480)
Distributions - noncontrolling interest	-	-	-	-	-	(170)	(170)
Dividends paid							
Common stock	-	-	-	(11,409)	-	-	(11,409)
Balance at December 31, 2018	**$ 26**	**$ 26**	**$ 1,483**	**$ 298,831**	**$ (3,509)**	**$ 510**	**$ 297,367**

See accompanying notes.

ALPINE BANKS OF COLORADO
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017
(In thousands)

	2018	2017
Cash Flows From Operating Activities		
Net income	**$ 54,854**	$ 33,641
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	**7,078**	6,238
Write-down of other real estate owned	**-**	955
Amortization of premiums and accretion of discounts	**1,137**	1,345
Gain on sale of other real estate owned	**(162)**	(143)
Gain on sale of assets	**(30)**	(68)
Loan loss reversal	**-**	(1,100)
Proceeds from loan sales	**258,034**	172,817
Loans originated for resale	**(253,977)**	(173,027)
Change in cash surrender value of life insurance policies	**(1,615)**	(1,391)
Changes in operating assets and liabilities:		
Accrued interest receivable	**(794)**	(1,178)
Deferred tax asset, net	**737**	6,505
Other assets	**(4,906)**	27
Other liabilities	**(1,104)**	3,369
Accrued interest payable	**40**	33
Noncontrolling interest of limited liability companies	**(81)**	(81)
Net Cash Provided by Operating Activities	**59,211**	47,942
Cash Flows From Investing Activities		
Maturities of investment securities available for sale	**10,410**	23,436
Maturities of investment securities held to maturity	**31,482**	44,371
Purchases of investment securities available for sale	**(52,637)**	(41,079)
Purchases of investment securities held to maturity	**(42,643)**	(54,907)
Net increase in loans made to customers	**(166,587)**	(197,591)
Proceeds from sale of other real estate owned	**2,191**	2,169
Proceeds from sale of equipment and other assets	**144**	946
Purchase of Bank property and equipment	**(10,270)**	(8,055)
Premiums paid on life insurance policies	**(4,000)**	(3,680)
Net Cash Used by Investing Activities	**(231,910)**	(234,390)
Cash Flows From Financing Activities		
Net increase in deposits	**192,891**	398,543
Payments on other borrowed funds	**(97)**	(96)
Dividends paid:		
Common stock	**(11,409)**	(10,490)
Capital stock retirement	**(3,480)**	(171)
Net Cash Provided by Financing Activities	**177,905**	387,786
Net Increase in Cash and Due From Banks	**5,206**	201,338
Cash and Due From Banks - beginning of the year	**362,545**	161,207
Cash and Due From Banks - end of the year	**$ 367,751**	$ 362,545
Supplemental Disclosures:		
Cash paid during the year for interest	**$ 7,802**	$ 5,993
Cash paid during the year for income taxes	**$ 10,103**	$ 15,192
Transfers from loans to other real estate owned	**$ 57**	$ -

See accompanying notes.

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 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 insubstantial 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.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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. Bonds, notes, debentures, mutual funds and certain equity securities not classified as trading securities or as securities to be held to maturity.

Securities Held to Maturity. Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, and adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Unrealized holding gains and losses, net of tax, on securities available for sale are reported as a net amount in other comprehensive income.

Gains and losses on the sale of securities available for sale are determined using the specific-identification method.

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 loan 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 loan has 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled principal and interest when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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 $5,411,000 (2018) and $8,119,000 (2017), and the total recorded investment in loans past due 90 days or more and still accruing interest was $0 (2018 and 2017).

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 that they would not otherwise consider, the related loan is classified as a Troubled Debt Restructuring (TDR). 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 classified as TDRs, are considered impaired loans.

Allowance for Loan Losses
The allowance for loan losses reflects management's judgment as to the level considered appropriate to absorb inherent credit losses in the loan portfolio. This judgment is based on the size and current risk characteristics of the portfolio, a review of individual loans, along with historical and anticipated 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 the allowance.

The allowance is determined subjectively, requiring significant estimates, including the timing and amount of expected future cash flows on impaired loans, consideration of current economic conditions, and historical loss experience pertaining to pools of homogeneous loans, 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.

The Bank has established a formal process for determining an adequate allowance that has two components. The components of the allowance represent estimates developed pursuant to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450-10 and FASB ASC 310-10.

The FASB ASC 450-10 component represents the estimated probable, but undetected losses inherent within the portfolio due to uncertainties in economic conditions, delays in obtaining information about a borrower's financial condition, delinquent loans that have not been determined to be impaired, trends in speculative real estate construction lending, results of internal and external loan reviews, and other factors. This component of the allowance is calculated by assigning a certain risk weighting to each identified risk factor.

To determine the FASB ASC 310-10 component, management determines loans that are impaired. For loans that are impaired, an allowance is established when the discounted cash flows (or collateral value or observable market value) of the impaired loan is lower than the carrying value of that loan.

Loans Held for Sale
Mortgage loans originated and intended for sale in the secondary market are carried at cost which approximates estimated fair value in the aggregate. 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 $258,034,000 (2018) and $172,817,000 (2017).

The Bank enters into commitments to originate loans whereby the interest rate on the prospective loan 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. The fair value of rate lock commitments was immaterial in 2018 and 2017.

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.

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, 2018 and 2017.

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, any excess of cost over fair market value is charged to the allowance for loan losses. Operating expenses are charged to other expense.

Gains on sales of other real estate owned are recognized at the time of 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
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 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 19).

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, 2018 and 2017, 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 estimate changes or 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, 2018 and 2017, management of the Bank determined there were no uncertain tax positions.

Advertising Costs
Advertising and promotional costs are expensed when incurred. For the years ended December 31, such costs were $2,405,000 (2018) and $1,741,000 (2017).

Earnings Per Share
Basic earnings per common share is calculated by dividing net income by the weighted average number of Class A and B common shares outstanding during the year.

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.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

At December 31, 2018 and 2017, the Bank was not required to maintain average cash balances on hand or with the Federal Reserve Bank.

At December 31, the Bank had $573,000 (2018) and $4,978,000 (2017) 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:

(in thousands) 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. agency securities	$ 121,000	$ 74	$ (2,310)	$ 118,764
Mutual funds	29,409	8	(736)	28,681
Mortgage-backed securities	39,110	-	(1,694)	37,416
Other securities	1,452	-	-	1,452
	$ 190,971	$ 82	$ (4,740)	$ 186,313

(in thousands) 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity				
State and municipal securities	$ 542,548	$ 7,314	$ (7,862)	$ 542,000
Other securities	4,659	-	(1,403)	3,256
Mortgage-backed securities	454	33	(8)	479
	$ 547,661	$ 7,347	$ (9,273)	$ 545,735

(in thousands) 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. agency securities	$ 72,280	$ 31	$ (1,107)	$ 71,204
Mutual funds	36,547	14	(555)	36,006
Mortgage-backed securities	38,209	-	(1,157)	37,052
Other securities	1,900	-	-	1,900
	$ 148,936	$ 45	$ (2,819)	$ 146,162
Held to maturity				
State and municipal securities	$ 532,100	$ 13,700	$ (4,299)	$ 541,501
Other securities	4,723	-	(1,783)	2,940
Mortgage-backed securities	527	56	(40)	543
	$ 537,350	$ 13,756	$ (6,122)	$ 544,984

At December 31, other securities in available for sale include FHLB stock of $553,000 (2018) and $550,000 (2017), which is carried at cost. At December 31, this category also included equity securities totaling $900,000 (2018) and $1,350,000 (2017), 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, 2018 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	$ 10,000	$ 10,007	$ 47,972	$ 48,504
Due from one to five years	44,592	43,804	69,862	70,830
Due from five to ten years	27,034	26,545	127,845	128,910
Due after ten years	68,783	67,090	301,982	297,491
	$ 150,409	$ 147,446	$ 547,661	$ 545,735
Other	40,562	38,867	-	-
Total	$ 190,971	$ 186,313	$ 547,661	$ 545,735

At December 31, assets, principally securities, carried at cost of $357,633,000 (2018) and $341,521,000 (2017), were pledged to secure public deposits, securities sold under repurchase agreements, 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 consolidated statement of financial condition. The Bank's only item of other comprehensive income is the unrealized gain (loss) on securities available for sale, which is reported net of tax effect. The net accumulated unrealized holding loss at December 31 was $3,509,000 (2018) and $1,720,000 (2017). At December 31, 2018, the net change in accumulated unrealized holding losses on available for sale securities was $1,883,000 with a total tax effect of $464,000. The Bank early adopted ASU 2018-02 *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulate Other Comprehensive Income*, which reclassified $370,000 from accumulated other comprehensive income to retained earnings due to the tax effects of the Tax Cuts and Jobs Act. This reclassification is included in the total tax effect of $464,000. At December 31, 2017, the net change in accumulated unrealized holding losses on available for sale securities was $108,000 with a tax effect of $41,000.

The following table provides the gross unrealized losses and fair value of temporarily impaired securities, aggregated by investment category and length of time the individual securities have been in a continuous loss position at December 31, 2018.

(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	$ 117,608	$ (1,639)	$ 142,759	$ (6,223)	$ 260,367	$ (7,862)
U.S. agency securities	37,532	(438)	61,275	(1,872)	98,807	(2,310)
Mortgage-backed securities	3,636	(51)	23,169	(693)	26,805	(744)
Other securities	-	-	3,215	(1,403)	3,215	(1,403)
Mutual funds	-	-	37,416	(1,694)	37,416	(1,694)
Total Temporarily Impaired Securities	$ 158,776	$ (2,128)	$ 267,834	$ (11,885)	$ 426,610	$ (14,013)

The following table provides the gross unrealized losses and fair value of temporarily impaired securities, aggregated by investment category and length of time the individual securities have been in a continuous loss position at December 31, 2017.

(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	$ 86,756	$ (805)	$ 77,550	$ (3,494)	$ 164,306	$ (4,299)
U.S. agency securities	25,829	(297)	36,190	(810)	62,019	(1,107)
Mortgage-backed securities	13,647	(137)	18,973	(458)	32,620	(595)
Other securities	-	-	2,940	(1,783)	2,940	(1,783)
Mutual funds	-	-	37,052	(1,157)	37,052	(1,157)
Total Temporarily Impaired Securities	$ 126,232	$ (1,239)	$ 172,705	$ (7,702)	$ 298,937	$ (8,941)

Unrealized losses at December 31, 2018 and 2017 were due to fluctuations in the market interest rates of U.S. agency and mortgage-backed securities. 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, 2018 and 2017.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Bank had two securities that were other-than-temporarily impaired as of December 31, 2018 and 2017. For the year ended December 31, 2018 and 2017, the Bank did not have any gross realized losses from these impaired securities.

NOTE 4 - LOANS

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

(in thousands)		2018	2017
Real estate - construction		$ 334,672	$ 345,440
Real estate - commercial		891,310	832,446
Real estate - residential		1,017,761	928,263
Commercial and industrial		159,794	133,154
Consumer		26,977	24,988
Other		4,575	4,302
	Gross Loans	2,435,089	2,268,593
Less: Allowance for credit losses		(28,506)	(28,787)
Less: Deferred fees		(4,946)	(4,756)
	Net Loans	$ 2,401,637	$ 2,235,050

Changes in the allowance for credit losses and recorded investment in financing receivables by loan segment for the year ended December 31, 2018 are summarized as follows:

(in thousands)

Allowance for credit losses:	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Commercial and Industrial	Consumer	Other	Total
Beginning balance	$ 3,595	$ 9,881	$ 11,564	$ 2,971	$ 562	$ 214	$ 28,787
Charge-offs	(2)	(5)	(399)	(840)	(3,276)	(17)	(4,539)
Recoveries	378	450	668	557	2,186	19	4,258
Provision/(reversal)	280	(1,165)	(875)	831	1,047	(118)	-
Ending balance	$ 4,251	$ 9,161	$ 10,958	$ 3,519	$ 519	$ 98	$ 28,506
Ending balance: individually evaluated for impairment	$ 1,031	$ 333	$ 366	$ 104	$ 112	$ -	$ 1,946
Ending balance: collectively evaluated for impairment	$ 3,219	$ 8,828	$ 10,593	$ 3,415	$ 407	$ 98	$ 26,560
Financing receivables:							
Ending loan balance	$ 334,672	$ 891,310	$ 1,017,761	$ 159,794	$ 26,977	$ 4,575	$ 2,435,089
Ending balance: individually evaluated for impairment	$ 12,831	$ 8,731	$ 8,901	$ 611	$ 286	$ -	$ 31,360
Ending balance: collectively evaluated for impairment	$ 321,841	$ 882,579	$ 1,008,860	$ 159,183	$ 26,691	$ 4,575	$ 2,403,729

Changes in the allowance for credit losses and recorded investment in financing receivables by loan segment for the year ended December 31, 2017 are summarized as follows:

(in thousands) **Allowance for credit losses:**	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Commercial and Industrial	Consumer	Other	Total
Beginning balance	$ 3,349	$ 10,106	$ 13,892	$ 816	$ 1,157	$ 117	$ 29,437
Charge-offs	(197)	(384)	(394)	(762)	(2,528)	(121)	(4,386)
Recoveries	1,119	502	1,344	253	1,573	45	4,836
Provision/(reversal)	(676)	(344)	(3,278)	2,664	360	174	(1,100)
Ending balance	$ 3,595	$ 9,880	$ 11,564	$ 2,971	$ 562	$ 215	$ 28,787
Ending balance: individually evaluated for impairment	$ 722	$ 376	$ 421	$ 62	$ 100	$ -	$ 1,681
Ending balance: collectively evaluated for impairment	$ 2,873	$ 9,504	$ 11,143	$ 2,909	$ 462	$ 215	$ 27,106
Financing receivables:							
Ending loan balance	$ 345,440	$ 832,446	$ 928,263	$ 133,154	$ 24,988	$ 4,302	$ 2,268,593
Ending balance: individually evaluated for impairment	$ 13,772	$ 11,712	$ 8,396	$ 753	$ 140	$ -	$ 34,773
Ending balance: collectively evaluated for impairment	$ 331,668	$ 820,734	$ 919,867	$ 132,401	$ 24,848	$ 4,302	$ 2,233,820

Recorded investment in each risk category of loans by class of loan for the year ended December 31, 2018 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate - construction					
1-4 family residential	$ 111,373	$ 764	$ -	$ -	$ 112,137
Other construction, land development and land loans	203,187	14,877	4,471	-	222,535
Real estate - commercial					
Nonfarm nonresidential	882,617	3,031	5,662	-	891,310
Real estate - residential					
Revolving lines of credit	376,719	3,085	2,945	-	382,749
1-4 family residential	623,562	9,062	2,388	-	635,012
Commercial and industrial	155,023	3,231	1,540	-	159,794
Consumer	26,472	275	230	-	26,977
Other	4,575	-	-	-	4,575
Total	$ 2,383,528	$ 34,325	$ 17,236	$ -	$ 2,435,089

Recorded investment in each risk category of loans by class of loan for the year ended December 31, 2017 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate - construction					
1-4 family residential	$ 119,650	$ -	$ -	$ -	$ 119,650
Other construction, land development and land loans	205,212	15,627	4,951	-	225,790
Real estate - commercial					
Nonfarm nonresidential	819,759	4,352	8,335	-	832,446
Real estate - residential					
Revolving lines of credit	276,904	1,775	5,033	-	283,712
1-4 family residential	633,826	7,454	3,271	-	644,551
Commercial and industrial	132,263	153	738	-	133,154
Consumer	24,554	179	255	-	24,988
Other	4,302	-	-	-	4,302
Total	$ 2,216,470	$ 29,540	$ 22,583	$ -	$ 2,268,593

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 institutions' 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 definitions are pass credits, which are not considered to be adversely rated.

An age analysis of past due financing receivables and nonaccrual financing receivables as of December 31, 2018 by loan segment and class are summarized as follows:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Real estate - construction								
1-4 family residential	$ -	$ -	$ 235	$ -	$ 111,902	$ 112,137	$ -	$ -
Other construction, land development and land loans	1,094	-	-	-	221,441	222,535	-	435
Real estate - commercial								
Nonfarm nonresidential	75	90	-	-	891,145	891,310	-	2,256
Real estate - residential								
Revolving lines of credit	2,278	467	925	-	379,079	382,749	-	-
1-4 family residential	254	97	434	-	634,227	635,012	-	2,644
Commercial and industrial	1,011	4	-	-	158,779	159,794	-	43
Consumer	122	14	-	-	26,841	26,977	-	32
Other	-	-	-	-	4,575	4,575	-	-
Total	$ 4,834	$ 672	$ 1,594	$ -	$ 2,427,989	$ 2,435,089	$ -	$ 5,410

An age analysis of past due financing receivables and nonaccrual financing receivables as of December 31, 2017 by loan segment and class are summarized as follows:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Real estate - construction								
1-4 family residential	$ 468	$ -	$ -	$ 468	$ 119,182	$ 119,650	$ -	$ -
Other construction, land development and land loans	4,913	-	-	4,913	220,877	225,790	-	358
Real estate - commercial								
Nonfarm nonresidential	190	-	1,890	2,080	830,366	832,446	-	2,569
Real estate - residential								
Revolving lines of credit	1,037	341	1,440	2,818	280,894	283,712	-	-
1-4 family residential	2,008	887	207	3,102	641,449	644,551	-	4,912
Commercial and industrial	-	99	165	264	132,890	133,154	-	242
Consumer	-	15	15	30	24,958	24,988	-	38
Other	-	-	-	-	4,302	4,302	-	-
Total	$ 8,616	$ 1,342	$ 3,717	$ 13,675	$ 2,254,918	$2,268,593	$ -	$ 8,119

Impaired loans as of and for the year ended December 31, 2018 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	$ 8,646	$ 9,381	$ -	$ 393
Real estate - commercial	5,384	6,363	-	356
Real estate - residential	8,502	10,923	-	529
Commercial and industrial	462	768	-	50
Consumer	174	875	-	44
With an allowance recorded:				
Real estate - construction	4,185	4,194	1,031	184
Real estate - commercial	3,347	3,433	332	158
Real estate - residential	399	401	366	8
Commercial and industrial	149	180	106	11
Consumer	112	112	112	8
Total:				
Real estate - construction	$ 12,831	$ 13,575	$ 1,031	$ 577
Real estate - commercial	$ 8,731	$ 9,796	$ 322	$ 514
Real estate - residential	$ 8,901	$ 11,324	$ 366	$ 537
Commercial and industrial	$ 611	$ 948	$ 106	$ 61
Consumer	$ 286	$ 987	$ 112	$ 52
Total	$ 31,360	$ 36,630	$ 1,947	$ 1,741

Impaired loans as of and for the year ended December 31, 2017 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	$ 8,495	$ 9,527	$ -	$ 394
Real estate - commercial	7,795	9,408	-	413
Real estate - residential	6,269	9,240	-	430
Commercial and industrial	632	1,379	-	63
Consumer	40	835	-	38
With an allowance recorded:				
Real estate - construction	5,277	5,283	722	233
Real estate - commercial	3,917	3,917	376	100
Real estate - residential	2,127	2,194	421	87
Commercial and industrial	121	152	64	9
Consumer	100	100	100	4
Total:				
Real estate - construction	$ 13,772	$ 14,810	$ 722	$ 627
Real estate - commercial	$ 11,712	$ 13,325	$ 376	$ 513
Real estate - residential	$ 8,396	$ 11,434	$ 421	$ 517
Commercial and industrial	$ 753	$ 1,531	$ 64	$ 72
Consumer	$ 140	$ 935	$ 100	$ 42
Total	$ 34,773	$ 42,035	$ 1,683	$ 1,771

The majority of impaired loans requiring an allowance are measured using the fair value of the underlying collateral since these loans are considered collateral dependent. Any unsecured loans are measured using discounted cash flow analysis of the payments expected over the life of the loan, considering any internal or external factors that currently exist that would impact the amount or timing of cash flows. The average monthly recorded investment in impaired loans for the years ended December 31 was $33,505,000 (2018) and $35,865,000 (2017). When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method.

Troubled debt restructurings by loan segment as of December 31, 2018 consisted of the following:

(in thousands)	Number of Contracts at Year End	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate - construction	12	$ 13,166	$ 12,272
Real estate - commercial	7	7,082	6,749
Real estate - residential	21	3,078	2,985
Commercial and industrial	7	681	584
Consumer	8	185	92
Total	55	$ 24,192	$ 22,682

Troubled debt restructurings which subsequently re-defaulted during the year ended December 31, 2018 consisted of the following:

(in thousands)	Number of Contracts at Year End	Recorded Investment
Real estate – construction	-	$ -
Real estate - commercial	-	-
Real estate - residential	1	699
Consumer	-	-
Total	1	$ 699

Troubled debt restructurings by loan segment as of December 31, 2017 consisted of the following:

(in thousands)	Number of Contracts at Year End	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate - construction	13	$ 13,930	$ 13,533
Real estate - commercial	14	9,939	9,587
Real estate - residential	23	6,418	5,031
Commercial and industrial	7	701	564
Consumer	7	718	100
Total	64	$ 31,706	$ 28,815

Troubled debt restructurings which subsequently re-defaulted during the year ended December 31, 2017 consisted of the following:

(in thousands)	Number of Contracts at Year End	Recorded Investment
Real estate - construction	-	$ -
Real estate - commercial	1	1,741
Real estate - residential	2	1,015
Consumer	1	53
Total	4	$ 2,809

At December 31, 2018, there are no commitments to lend additional funds to any borrower whose loan term has been modified in a troubled debt restructuring.

From time to time, the Bank pledges real estate loans to government agencies to collateralize other borrowings. At December 31, loans of $395,643,000 (2018) and $408,711,000 (2017) were pledged.

At December 31, customer overdraft accounts included in installment loans were $1,951,000 (2018) and $1,094,000 (2017).

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)	2018	2017
Land, building, and leasehold improvements	$ 78,260	$ 76,618
Furniture and equipment	45,091	39,736
Safe deposit and vault equipment	1,971	1,971
Property and equipment of limited liability companies	19,780	19,722
	145,102	138,047
Less: accumulated depreciation	(75,103)	(68,672)
	69,999	69,375
Construction in progress	4,550	2,096
Total	$ 74,549	$ 71,471

At December 31, the Bank had construction in process of $4,550,000 (2018) and $2,096,000 (2017). Estimated cost to complete these projects is $3,211,000 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 $7,078,000 (2018) and $6,238,000 (2017).

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.

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

(in thousands)	
2019	$ 3,435
2020	2,263
2021	1,493
2022	1,272
2023 and thereafter	4,499
Total	$ 12,962

For the years ended December 31, rent expense from operating leases was $3,628,000 (2018) and $2,643,000 (2017).

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 15). The combined rent for these leases for December 31 was $1,355,000 (2018) and $1,282,000 (2017) 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, 2018 and 2017.

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 $55,799,000 (2018) and $55,990,000 (2017).

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

(in thousands)		
2019	$	92,374
2020		30,902
2021		16,289
2022		9,530
2023 and thereafter		3,182
Total	$	152,277

NOTE 8 - REPURCHASE AGREEMENTS

During the years ending December 31, 2018 and 2017, the Bank entered into collateralized overnight repurchase accounts with select customers under repurchase contracts. At December 31, account balances totaled $39,067,000 (2018) and $51,088,000 (2017). All of the repurchase accounts are settled nightly and all of the accounts are 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 $74,563,000 (2018) and $69,180,000 (2017). The Bank monitors the account balances and the pledged collateral market values on a daily basis to ensure adequate collateral is pledged. Collateral value fluctuations are mitigated by pledging only U.S. agency bonds and by pledging a ladder of bond maturities.

NOTE 9 - FHLB LINE OF CREDIT AND DRAWDOWN AGREEMENT

The Bank has an available line of credit with FHLB. Interest is charged at FHLB's floating interest rate. As of December 31, 2018 and 2017, the Bank had no outstanding draws. As of December 31, 2018, the Bank had borrowing capacity on the line of $298,530,000.

The Bank has an agreement with a financial institution in which the Bank can request funds and the funds will be sent through wire transfer. The drawdown wire per-transaction dollar limit is $25,000,000. There is no set maturity date for the agreement. The Bank has cash pledged to the agreement of $250,000. As of December 31, 2018 and 2017, the Bank had no outstanding draws.

NOTE 10 - FHLB ADVANCES

At December 31, 2017, the Bank had an advance from the FHLB. The advance was at a fixed interest rate of 4.566%. This advance matured during the year ended December 31, 2018, and there are no outstanding advances.

NOTE 11 - SUBORDINATED DEBENTURES

The Bank's subordinated debentures at December 31 consisted of the following:

(in thousands)	2018	2017
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 LIBOR plus 2.85% and repriced quarterly (5.29% and 4.21% at December 31, 2018 and 2017, respectively); principal due at maturity, interest payments due quarterly.	10,310	10,310
Subordinated debenture due March 2036, with interest at three-month LIBOR plus 1.30% (4.09% and 2.89% at December 31, 2018 and 2017, respectively); principal due at maturity, interest payments due quarterly.	25,774	25,774
Subordinated debenture due December 2036, with interest at three-month LIBOR plus 1.71% and repriced quarterly (4.50% and 3.30% at December 31, 2018 and 2017, respectively); principal due at maturity, interest payments due quarterly.	12,372	12,372
Subordinated debenture due June 2038, with interest at three-month LIBOR plus 3.50% and repriced quarterly (6.29% and 5.09% at December 31, 2018 and 2017, respectively); principal due at maturity, interest payments due quarterly.	10,310	10,310
Total	$ 69,179	$ 69,179

At December 31, 2018 and 2017, the Bank had an equity investment in business trusts of $2,091,000. 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 12 - 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.

NOTE 13 - EMPLOYEE STOCK OWNERSHIP AND 401(K) PLAN

The Bank established an employee stock ownership plan (the Plan) effective January 1, 1983, and was amended January 1, 2008, 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(l). 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 $3,252,000 (2018) and $2,820,000 (2017), 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 22,204 (2018) and 22,262 (2017). 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 lump sum or 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 14 - 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)	2018	2017
Current tax provision		
Federal	$ 8,596	$ 13,684
State	2,341	1,973
	10,917	15,657
Deferred	1,202	6,465
Income Tax Provision	$ 12,119	$ 22,122

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% (2018) and 35% (2017) for federal income taxes. The reasons for these differences are as follows:

(in thousands)	2018	2017
Statutory rate	$ 16,515	$ 21,174
Permanent differences – primarily tax-exempt interest income, earnings on life insurance and amortization on core deposit intangibles	(4,584)	(7,301)
Change in corporate tax rate	-	6,397
Other	188	1,852
Income Tax Provision	$ 12,119	$ 22,122

In December 2017, the U.S. congress enacted the New Tax Cuts and Jobs Act which reduced the corporate tax rate from the previous rate of 35% to 21%. FASB ASC 740 requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates. As shown above, the impact of this adjustment was an additional increase in the deferred tax provision of approximately $6,397,000 during the year ended December 31, 2017.

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

(in thousands)	2018	2017
Deferred tax asset:		
Federal	$ 14,390	$ 14,278
State	1,968	1,980
	16,358	16,258
Deferred tax liability:		
Federal	(4,138)	(3,403)
State	(574)	(472)
	(4,712)	(3,875)
Deferred tax asset, net	$ 11,646	$ 12,383

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)	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 7,031	$ 7,099
Deferred compensation	4,510	4,275
Net unrealized loss on available for sale securities	1,149	892
Net unrealized loss on other real estate owned	478	1,161
Other	3,190	2,831
Total Deferred Tax Assets	16,358	16,258
Deferred tax liabilities:		
Accelerated depreciation	(3,365)	(2,566)
Prepaid expenses	(487)	(504)
Other	(860)	(805)
Total Deferred Tax Liabilities	(4,712)	(3,875)
Deferred Tax Asset, Net	$ 11,646	$ 12,383

At December 31, 2018, the Bank had no tax carryforwards.

NOTE 15 - 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)	2018	2017
Balance at January 1	$ 9,336	$ 9,510
New loans, including renewals	562	200
Payments, including renewals	(1,222)	(374)
Balance at December 31	$ 8,676	$ 9,336

Terms and rates of interest on deposit accounts are similar to those extended to unrelated Bank customers. At December 31, related party deposits were $9,306,000 (2018) and $12,609,000 (2017).

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

NOTE 16 - 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 $18,290,000 (2018) and $17,334,000 (2017) 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 $2,855,000 (2018) and $2,718,000 (2017) 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 $138,000 (2018) and $134,000 (2017).

NOTE 17 - 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 $728,444,000 (2018) and $562,809,000 (2017).

NOTE 18 - 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, 2018, 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 will be fully phased in January 1, 2019.

As of September 30, 2018, which is the most recent notification from the FDIC, 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		
As of December 31, 2018:	Amount		Ratio	Amount		Ratio	Amount		Ratio
Common Equity Tier 1 Risk-Based Capital (to Risk Weighted Assets)									
Alpine Bank	$	333,376	12.24%	$	122,542	4.50%	$	177,005	6.50%
Alpine Banks of Colorado	$	280,081	10.27%	$	122,702	4.50%	$	177,234	6.50%
Total Risk Based Capital (to Risk Weighted Assets)									
Alpine Bank	$	362,248	13.30%	$	217,853	8.00%	$	272,316	10.00%
Alpine Banks of Colorado	$	367,054	13.37%	$	218,137	8.00%	$	272,671	10.00%
Tier 1 Risk-Based Capital (to Risk Weighted Assets)									
Alpine Bank	$	333,376	12.24%	$	163,390	6.00%	$	217,853	8.00%
Alpine Banks of Colorado	$	347,181	12.73%	$	163,602	6.00%	$	218,137	8.00%
Tier 1 Risk-Based Capital (to Average Assets) – Leverage Ratio									
Alpine Bank	$	333,376	9.23%	$	144,434	4.00%	$	180,543	5.00%
Alpine Banks of Colorado	$	347,181	9.61%	$	144,479	4.00%	$	180,599	5.00%

(in thousands)	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
As of December 31, 2017:	Amount		Ratio	Amount		Ratio	Amount		Ratio
Common Equity Tier 1 Risk-Based Capital (to Risk Weighted Assets)									
Alpine Bank	$	293,898	11.26%	$	117,433	4.50%	$	169,626	6.50%
Alpine Banks of Colorado	$	240,867	9.22%	$	117,614	4.50%	$	169,887	6.50%
Total Risk Based Capital (to Risk Weighted Assets)									
Alpine Bank	$	323,119	12.38%	$	208,770	8.00%	$	260,963	10.00%
Alpine Banks of Colorado	$	337,188	12.90%	$	209,092	8.00%	$	261,364	10.00%
Tier 1 Risk-Based Capital (to Risk Weighted Assets)									
Alpine Bank	$	293,898	11.26%	$	156,578	6.00%	$	208,770	8.00%
Alpine Banks of Colorado	$	301,084	11.52%	$	156,818	6.00%	$	209,091	8.00%
Tier 1 Risk-Based Capital (to Average Assets) – Leverage Ratio									
Alpine Bank	$	293,898	8.69%	$	135,263	4.00%	$	169,626	5.00%
Alpine Banks of Colorado	$	301,084	8.85%	$	135,314	4.00%	$	169,143	5.00%

NOTE 19 - 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. 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 of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. At December 31, the notional amounts of the interest rate swaps were $144,017,000 (2018) and $132,800,000 (2017).

The following table presents the fair value of derivative instruments at December 31:

	2018			
	Asset Derivatives		Liability Derivatives	
(in thousands)	Statement of Financial Condition Location	Fair Value	Statement of Financial Condition Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate contracts	Other Assets	$ 3,468	Other Liabilities	$ 3,468
Total derivatives		$ 3,468		$ 3,468

	2017			
	Asset Derivatives		Liability Derivatives	
(in thousands)	Statement of Financial Condition Location	Fair Value	Statement of Financial Condition Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate contracts	Other Assets	$ 2,175	Other Liabilities	$ 2,175
Total derivatives		$ 2,175		$ 2,175

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

Loans held for resale. Loans held for resale are carried at the lower of cost or market 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 judgment required in estimating the fair value of OREO, it is considered a Level 3 classification.

Derivative financial instruments. Valuations for interest rate swaps 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.

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
2018				
Securities available-for-sale	$ 186,313	$ 37,416	$ 148,898	$ -
Derivative financial instruments	3,468	-	3,468	-
	$ 189,781	$ 37,416	$ 152,366	$ -

(in thousands)	Fair Value	Level 1	Level 2	Level 3
2017				
Securities available-for-sale	$ 146,162	$ 37,052	$ 109,111	$ -
Derivative financial instruments	2,175	-	2,175	-
	$ 148,337	$ 37,052	$ 111,286	$ -

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
2018				
Other real estate owned	$ 2,103	$ -	$ -	$ 2,103
Loans held for resale	5,253	-	5,253	-
Impaired loans	36,654	-	-	36,654
	$ 44,010	$ -	$ 5,253	$ 38,757

(in thousands)	Fair Value	Level 1	Level 2	Level 3
2017				
Other real estate owned	$ 4,141	$ -	$ -	$ 4,141
Loans held for resale	9,310	-	9,310	-
Impaired loans	34,772	-	-	34,772
	$ 48,223	$ -	$ 9,310	$ 38,913

NOTE 21 - SUBSEQUENT EVENTS

The Bank has evaluated subsequent events through February 1, 2019, the date at which the consolidated financial statements were available to be issued, and determined that no event would require disclosure.