

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

December 31, 2021 and 2020



**Alpine Banks  
of Colorado**



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



DALBY, WENDLAND & CO., P.C.

Grand Junction

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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, 2021 and 2020, 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 Alpine Banks of Colorado and Subsidiaries as of December 31, 2021 and 2020, 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, 2021, 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, 2022 expressed an unmodified opinion.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

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

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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.



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

February 1, 2022

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2021 and 2020  
(In thousands, except share amounts)

	2021	2020
<b>ASSETS</b>		
Cash and due from banks	\$ 861,771	\$ 864,112
Investment securities:		
Securities available for sale, at fair value	848,050	232,041
Securities held to maturity, at amortized cost	896,561	614,158
Investments in Alpine Capital and trust preferred securities	2,126	2,126
Loans receivable, net of allowance for loan losses and deferred loan fees	3,344,477	3,182,778
Loans held for resale, at cost which approximates fair value	12,013	26,805
Accrued interest receivable	22,657	23,376
Cash surrender value of life insurance policies	76,290	74,208
Bank property, equipment, and leasehold improvements, net	70,214	74,220
Goodwill	17,631	17,631
Deferred tax asset, net	14,064	10,213
Other assets	52,767	56,590
<i>Total Assets</i>	\$ 6,218,621	\$ 5,178,258
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Demand	\$ 2,238,312	\$ 1,745,020
Interest Checking	1,244,954	1,037,378
Money Fund	1,843,977	1,514,507
Savings	168,693	144,155
Certificates of deposit	111,955	139,510
Repurchase agreements	9,078	35,450
<i>Total Deposits</i>	5,616,969	4,616,020
<b>Other Liabilities</b>		
Other liabilities	63,580	65,888
Accrued interest payable	444	466
Subordinated debentures held by subsidiary trusts	69,179	69,179
Subordinated debt	50,000	50,000
<i>Total Other Liabilities</i>	183,203	185,533
<i>Total Liabilities</i>	5,800,172	4,801,553
<b>Equity</b>		
Alpine Banks of Colorado Stockholders' equity		
Common stock, Class A, voting no par value, 100,000 shares authorized, 52,434 (2021) and 52,743 (2020) shares issued and outstanding	26	26
Common stock, Class B, non-voting no par value, 15,000,000 shares authorized, 7,529,502 (2021) and 7,547,550 (2020) shares issued and outstanding <sup>1</sup>	25	26
Contributed capital	8,626	8,635
Retained earnings	414,291	366,901
Accumulated other comprehensive gain (loss), net of tax effect	(4,965)	654
<i>Total Alpine Banks of Colorado Stockholders' Equity</i>	418,003	376,242
Noncontrolling interest	446	463
<i>Total Equity</i>	418,449	376,705
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 6,218,621</b>	<b>\$ 5,178,258</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.

See accompanying notes.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2021 and 2020  
(In thousands, except per share amounts)

	2021	2020
<b>Interest Income</b>		
Loans receivable	\$ 154,113	\$ 145,625
Securities	24,594	21,013
<i>Total Interest Income</i>	178,707	166,638
<b>Interest Expense</b>		
Deposits	1,378	2,680
Other	5,257	4,322
<i>Total Interest Expense</i>	6,635	7,002
<i>Net Interest Income Before Provision For Loan Losses</i>	172,072	159,636
<b>Provision for Loan Losses</b>	5,230	12,095
<i>Net Interest Income After Provision For Loan Losses</i>	166,842	147,541
<b>Non-interest Income</b>		
Other income	37,624	38,688
Service charges on deposit accounts	8,526	7,706
Earnings on life insurance	1,417	1,491
<i>Total Non-interest Income</i>	47,567	47,885
<b>Non-interest Expense</b>		
Salaries and employee benefits	78,631	73,744
Other expense	45,728	42,394
Occupancy expense	9,468	9,686
Furniture and fixture expense	7,237	7,025
<i>Total Non-interest Expense</i>	141,064	132,849
<i>Net Income Before Income Taxes</i>	73,345	62,577
<b>Income Tax Expense</b>	13,617	11,354
<i>Consolidated Net Income</i>	59,728	51,223
Less: Net income attributed to noncontrolling interest	82	83
<i>Net Income Attributable to Stockholders of Alpine Banks of Colorado</i>	\$ 59,646	\$ 51,140
<b>Consolidated Net Income</b>	\$ 59,728	\$ 51,223
<b>Other Comprehensive Income (Loss), Net of Tax</b>		
Change in unrealized gain (loss) on investment securities, net of reclassification adjustment and tax effects	(5,619)	468
<i>Total Comprehensive Income</i>	54,109	51,691
Less: Net income attributed to noncontrolling interest	82	83
<i>Total Comprehensive Income Attributable to Stockholders of Alpine Banks of Colorado</i>	\$ 54,027	\$ 51,608
Basic earnings per common Class A share <sup>1</sup>	\$ 579.63	\$ 492.75
Basic earnings per common Class B share <sup>1,2</sup>	\$ 3.86	\$ 3.28
Dividends declared per common Class A share	\$ 96.00	\$ 81.00
Dividends declared per common Class B share <sup>2</sup>	\$ 0.64	\$ 0.54

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

<sup>2</sup> All share and per share amounts reflect the Bank's 150-for-1 Class B stock split on December 1, 2020.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2021 and 2020  
(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, 2019</b>	26	26	8,668	333,536	186	449	342,891
Net income	-	-	-	51,140	-	83	51,223
Change in unrealized gain on securities, net of reclassification adjustment and tax effects	-	-	-	-	468	-	468
Capital contributions - noncontrolling interest	-	-	-	-	-	99	99
Capital stock retirement	-	-	(33)	(9,338)	-	-	(9,371)
Distributions - noncontrolling interest	-	-	-	-	-	(168)	(168)
Dividends paid	-	-	-	-	-	-	-
Common stock	-	-	-	(8,437)	-	-	(8,437)
<b>Balance at December 31, 2020</b>	<b>\$ 26</b>	<b>\$ 26</b>	<b>\$ 8,635</b>	<b>\$ 366,901</b>	<b>\$ 654</b>	<b>\$ 463</b>	<b>\$ 376,705</b>
Net income	-	-	-	59,646	-	82	59,728
Change in unrealized loss on securities, net of reclassification adjustment and tax effects	-	-	-	-	(5,619)	-	(5,619)
Capital contributions - noncontrolling interest	-	-	-	-	-	100	100
Capital stock retirement	-	(1)	(9)	(2,387)	-	-	(2,397)
Distributions - noncontrolling interest	-	-	-	-	-	(199)	(199)
Dividends paid	-	-	-	-	-	-	-
Common stock- Class A	-	-	-	(5,041)	-	-	(5,041)
Common stock- Class B	-	-	-	(4,828)	-	-	(4,828)
<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>

See accompanying notes.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2021 and 2020  
(In thousands)

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Net Income Attributed to Alpine Banks of Colorado and Subsidiaries	\$ 59,646	\$ 51,140
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	7,957	8,010
Write-down of other real estate owned	-	23
Amortization of premiums and accretion of discounts	4,098	415
(Gain)/Loss on sale of other real estate owned	(2)	20
Loss on sale of Bank property, equipment, and leasehold improvements	125	45
Gain on sale of held to maturity securities	(108)	-
Proceeds from loan sales	328,224	328,951
Loans originated for resale	(313,432)	(340,757)
Change in cash surrender value of life insurance policies	(1,442)	(1,177)
Changes in operating assets and liabilities:		
Accrued interest receivable	719	(11,956)
Deferred tax asset, net	(3,851)	(1,398)
Other assets	6,718	(13,864)
Other liabilities	(2,308)	8,272
Accrued interest payable	(22)	36
Minority interest of limited liability companies	(17)	13
<i>Net Cash Provided by Operating Activities</i>	<u>86,305</u>	<u>27,773</u>
<b>Cash Flows From Investing Activities</b>		
Maturities of investment securities available for sale	54,339	99,267
Maturities of investment securities held to maturity	43,032	71,437
Sales of investment securities held to maturity	1,199	-
Purchases of investment securities available for sale	(680,619)	(200,535)
Purchases of investment securities held to maturity	(328,957)	(143,893)
Net increase in loans made to customers	(161,699)	(541,951)
Proceeds from sale of other real estate owned	92	137
Proceeds from sale of Bank property, equipment, and leasehold improvements	1,902	591
Purchase of Bank property, equipment, and leasehold improvements	(5,978)	(10,331)
Premiums paid on life insurance policies	(640)	(4,290)
<i>Net Cash Used by Investing Activities</i>	<u>(1,077,329)</u>	<u>(729,568)</u>
<b>Cash Flows From Financing Activities</b>		
Net increase in deposits	1,000,949	1,218,486
Proceeds from Subordinated debt issuance	-	50,000
Dividends paid:		
Common class A shares	(5,041)	(4,297)
Common class B shares	(4,828)	(4,140)
Capital stock retirement	(2,397)	(9,371)
<i>Net Cash Provided by Financing Activities</i>	<u>988,683</u>	<u>1,250,678</u>
<i>Net Increase (Decrease) in Cash and Due From Banks</i>	<u>(2,341)</u>	<u>548,883</u>
<b>Cash and Due From Banks</b> - beginning of the year	864,112	315,229
<b>Cash and Due From Banks</b> - end of the year	<u>\$ 861,771</u>	<u>\$ 864,112</u>
<b>Supplemental Disclosures:</b>		
Cash paid during the year for interest	<u>\$ 6,657</u>	<u>\$ 6,966</u>
Cash paid during the year for income taxes	<u>\$ 16,130</u>	<u>\$ 11,872</u>

See accompanying notes.

**ALPINE BANKS OF COLORADO  
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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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-eight 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 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, and certain equity securities 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.

Securities Held to Maturity. 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.

## **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 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.

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 the circumstances surrounding the loans 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 \$2,666,000 (2021) and \$3,814,000 (2020), and the total recorded investment in loans past due 90 days or more and still accruing interest was \$425,000 (2021) and \$2,968,000 (2020).

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 otherwise consider, the related loan is classified as 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 at 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 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 estimates were 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 probability of 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 carry value of that loan.

### **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 \$328,224,000 (2021) and \$328,951,000 (2020).

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 Derivative Financial Instruments below 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, 2021 and 2020.

## **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 loan 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.

## **Financial Instruments**

The Bank adopted Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10)* on January 1, 2019. This standard revises accounting guidance related to the accounting and reporting of financial instruments. Some of the main provisions include: (a) equity investments that do not result in consolidation and are not accounted for under the equity method are measured at fair value; (b) changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option are recognized in other comprehensive income; and (c) elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost; however, it does require the use of exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes.

## **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 edging 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 brokers/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 \$30,000 (2021) and \$104,000 (2020) (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 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, 2021 and 2020, 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, 2021 and 2020, 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. Alpine Bank is an FDIC-insured bank, therefore, Alpine 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 Alpine customer deposits in denominations that meet or exceed the FDIC insurance limit of \$250,000 were \$2,575,700,000 (2021) and \$1,994,176,000 (2020).

## **Advertising Costs**

Advertising and promotional costs are expensed when incurred. For the years ended December 31, such costs were \$2,389,000 (2021) and \$2,216,000 (2020).

## **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. In general, FASB ASC 606 requires companies to use more judgment and make more estimates than under historical guidance, 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 will need to be renegotiated to reference another rate. Effective March 2021, the Bank will no longer underwrite loans or enter 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 will be indexed to an alternative reference rate by June 30, 2023; the overall impact to the Bank is currently 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, has 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, 2021 and 2020, the Bank was not required to maintain average cash balances on hand or with the Federal Reserve Bank.

At December 31, the Bank had \$8,931,000 (2021) and \$16,550,000 (2020) 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>2021</u>				
Available for sale				
U.S. agency and treasury securities	\$ 390,640	\$ 251	\$ (3,372)	\$ 387,519
Mutual funds	126,459	-	(1,757)	124,702
Mortgage-backed securities	334,198	275	(3,717)	330,756
Other securities	4,617	476	(20)	5,073
	<u>\$ 855,914</u>	<u>\$ 1,002</u>	<u>\$ (8,866)</u>	<u>\$ 848,050</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity				
State and municipal securities	\$ 891,883	\$ 40,044	\$ (2,933)	\$ 928,993
Other securities	4,427	-	(1,074)	3,354
Mortgage-backed securities	251	25	(5)	271
	<u>\$ 896,561</u>	<u>\$ 40,069</u>	<u>\$ (4,012)</u>	<u>\$ 932,618</u>

(in thousands)

<u>2020</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. agency and treasury securities	\$ 43,748	\$ 656	\$ (66)	\$ 44,338
Mutual funds	126,096	-	(476)	125,620
Mortgage-backed securities	60,052	446	(169)	60,329
Other securities	1,404	350	-	1,754
	<u>\$ 231,300</u>	<u>\$ 1,452</u>	<u>\$ (711)</u>	<u>\$ 232,041</u>

Held to maturity				
State and municipal securities	\$ 609,339	\$ 44,322	\$ (487)	\$ 653,174
Other securities	4,508	-	(1,156)	3,352
Mortgage-backed securities	311	200	-	511
	<u>\$ 614,158</u>	<u>\$ 44,522</u>	<u>\$ (1,643)</u>	<u>\$ 657,037</u>

At December 31, other securities in available for sale include FHLB stock of \$567,000 (2021) and \$564,000 (2020), which is carried at cost. At December 31, this category also included equity securities totaling \$800,000 (2021) and \$841,000 (2020), 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, 2021 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	\$ 6,432	\$ 6,482	\$ 11,879	\$ 12,069
Due from one to five years	299,505	297,154	87,901	91,514
Due from five to ten years	323,060	319,867	184,493	192,016
Due after ten years	99,091	98,001	612,288	637,019
	<u>\$ 728,088</u>	<u>\$ 721,504</u>	<u>\$ 896,561</u>	<u>\$ 932,618</u>
Other	127,826	126,546	-	-
<i>Total</i>	<u>\$ 855,914</u>	<u>\$ 848,050</u>	<u>\$ 896,561</u>	<u>\$ 932,618</u>

At December 31, assets, principally securities, carried at cost of \$465,932,000 (2021) and \$308,029,000 (2020), 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 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, 2021 was \$(4,965,000). The net accumulated unrealized holding gain at December 31, 2020 was \$654,000. At December 31, 2021, the net change in accumulated unrealized holding losses on available for sale securities was \$(7,450,000) with a tax effect of \$(1,831,000). At December 31, 2020, the net change in accumulated unrealized holding gains on available for sale securities was \$619,000 with a tax effect of \$151,000.

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, 2021.

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
State and municipal securities	\$ 212,389	\$ (2,782)	\$ 6,121	\$ (151)	\$ 218,510	\$ (2,933)
U.S. agency and treasury securities	248,656	(3,025)	9,996	(347)	258,652	(3,372)
Mortgage-backed securities	297,812	(3,682)	2,236	(40)	300,048	(3,722)
Other securities	1,980	(20)	3,356	(1,074)	5,336	(1,094)
Mutual funds	-	-	124,702	(1,757)	124,702	(1,757)
<i>Total Temporarily Impaired Securities</i>	<u>\$ 760,837</u>	<u>\$ (9,509)</u>	<u>\$ 146,411</u>	<u>\$ (3,369)</u>	<u>\$ 907,248</u>	<u>\$ (12,878)</u>

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, 2020.

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
State and municipal securities	\$ 33,303	\$ (456)	\$ 1,092	\$ (31)	\$ 34,395	\$ (487)
U.S. agency and treasury securities	10,383	(66)	-	-	10,383	(66)
Mortgage-backed securities	42,727	(161)	163	(8)	42,890	(169)
Other securities	-	-	3,352	(1,156)	3,352	(1,156)
Mutual funds	-	-	126,096	(476)	126,096	(476)
<i>Total Temporarily Impaired Securities</i>	<u>\$ 86,413</u>	<u>\$ (683)</u>	<u>\$ 130,703</u>	<u>\$ (1,671)</u>	<u>\$ 217,116</u>	<u>\$ (2,354)</u>

Unrealized losses at December 31, 2021 and 2020 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, 2021 and 2020.

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, 2021 and 2020. For the year ended December 31, 2021 and 2020, 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)	2021	2020
Real estate - construction	\$ 428,842	\$ 395,373
Real estate - commercial	1,166,626	1,066,040
Real estate - residential	1,431,337	1,344,641
Commercial and industrial	333,477	381,708
Consumer	31,336	38,526
Other	4,703	4,461
	<u>Gross Loans</u>	<u>3,396,321</u>
Less: Allowance for credit losses	(42,213)	(36,911)
Less: Deferred fees	(9,631)	(11,060)
	<u>Net Loans</u>	<u>\$ 3,344,477</u>
		<u>\$ 3,182,778</u>

Changes in the allowance for credit losses and recorded investment in financing receivables by loan segment for the year ended December 31, 2021 are summarized as follows:

(in thousands)	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Commercial and Industrial	Consumer	Other	Total
<b>Allowance for credit losses:</b>							
Beginning balance	\$ 5,044	\$ 11,745	\$ 15,388	\$ 3,353	\$ 1,214	\$ 167	\$ 36,911
Charge-offs	(72)	-	(102)	(490)	(2,252)	(176)	(3,092)
Recoveries	484	-	621	606	1,388	65	3,164
Provision/(reversal)	(323)	2,200	2,333	730	148	142	5,230
Ending balance	<u>\$ 5,133</u>	<u>\$ 13,945</u>	<u>\$ 18,240</u>	<u>\$ 4,199</u>	<u>\$ 498</u>	<u>\$ 198</u>	<u>\$ 42,213</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 146</u>	<u>\$ 64</u>	<u>\$ 105</u>	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 389</u>
Ending balance: collectively evaluated for impairment	<u>\$ 5,133</u>	<u>\$ 13,799</u>	<u>\$ 18,176</u>	<u>\$ 4,094</u>	<u>\$ 424</u>	<u>\$ 198</u>	<u>\$ 41,824</u>
<b>Financing receivables:</b>							
Ending loan balance	<u>\$ 428,842</u>	<u>\$ 1,166,626</u>	<u>\$ 1,431,337</u>	<u>\$ 333,477</u>	<u>\$ 31,336</u>	<u>\$ 4,703</u>	<u>\$ 3,396,321</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,117</u>	<u>\$ 4,527</u>	<u>\$ 4,313</u>	<u>\$ 1,664</u>	<u>\$ 184</u>	<u>\$ -</u>	<u>\$ 11,805</u>
Ending balance: collectively evaluated for impairment	<u>\$ 427,725</u>	<u>\$ 1,162,099</u>	<u>\$ 1,427,024</u>	<u>\$ 331,813</u>	<u>\$ 31,152</u>	<u>\$ 4,703</u>	<u>\$ 3,384,516</u>
Allowance to total loans	1.20%	1.20%	1.27%	1.26%	1.59%	4.20%	1.24%
Allowance to Nonaccrual loans	0.00%	1869.64%	977.23%	7900.73%	0.00%	0.00%	1583.64%
Net (charge-offs)/recoveries to average loans	0.10%	0.00%	0.04%	0.03%	-2.47%	-2.42%	0.00%

Changes in the allowance for credit losses and recorded investment in financing receivables by loan segment for the year ended December 31, 2020 are summarized as follows:

(in thousands)

<b>Allowance for credit losses:</b>	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Commercial and Industrial	Consumer	Other	Total
Beginning balance	\$ 4,129	\$ 8,364	\$ 9,143	\$ 3,495	\$ 834	\$ 107	\$ 26,072
Charge-offs	(52)	(6)	(237)	(1,013)	(2,747)	(195)	(4,250)
Recoveries	158	176	339	722	1,454	145	2,994
Provision/(reversal)	809	3,211	6,143	149	1,673	110	12,095
Ending balance	<u>\$ 5,044</u>	<u>\$ 11,745</u>	<u>\$ 15,388</u>	<u>\$ 3,353</u>	<u>\$ 1,214</u>	<u>\$ 167</u>	<u>\$ 36,911</u>
Ending balance: individually evaluated for impairment	<u>\$ 812</u>	<u>\$ 86</u>	<u>\$ 129</u>	<u>\$ 48</u>	<u>\$ 83</u>	<u>\$ -</u>	<u>\$ 1,158</u>
Ending balance: collectively evaluated for impairment	<u>\$ 4,232</u>	<u>\$ 11,659</u>	<u>\$ 15,259</u>	<u>\$ 3,305</u>	<u>\$ 1,131</u>	<u>\$ 167</u>	<u>\$ 35,753</u>
<b>Financing receivables:</b>							
Ending loan balance	<u>\$ 395,373</u>	<u>\$ 1,066,040</u>	<u>\$ 1,344,641</u>	<u>\$ 381,708</u>	<u>\$ 38,526</u>	<u>\$ 4,461</u>	<u>\$ 3,230,749</u>
Ending balance: individually evaluated for impairment	<u>\$ 10,676</u>	<u>\$ 6,179</u>	<u>\$ 8,476</u>	<u>\$ 695</u>	<u>\$ 169</u>	<u>\$ -</u>	<u>\$ 26,195</u>
Ending balance: collectively evaluated for impairment	<u>\$ 384,697</u>	<u>\$ 1,059,861</u>	<u>\$ 1,336,165</u>	<u>\$ 381,013</u>	<u>\$ 38,357</u>	<u>\$ 4,461</u>	<u>\$ 3,204,554</u>
Allowance to total loans	1.28%	1.10%	1.14%	0.88%	3.15%	3.76%	1.14%
Allowance to Nonaccrual loans	1,071.54%	1,669.11%	589.79%	11,117.69%	0.00%	0.00%	967.88%
Net (charge-offs) /recoveries to average loans	0.03%	0.02%	0.01%	-0.10%	-3.64%	-1.06%	-0.04%

Recorded investment in each risk category of loans by class of loan for the year ended December 31, 2021 is as follows:

(in thousands)

	Pass	Special Mention	Substandard	Doubtful	Total
Real estate - construction					
1-4 family residential	\$ 178,083	\$ -	\$ -	\$ -	\$ 178,083
Other construction, land development and land loans	249,346	1,191	222	-	250,759
Real estate - commercial					
Nonfarm nonresidential	1,140,071	24,333	2,222	-	1,166,626
Real estate - residential					
Revolving lines of credit	408,547	882	1,082	-	410,511
1-4 family residential	1,015,041	4,342	1,443	-	1,020,826
Commercial and industrial	327,799	4,419	1,259	-	333,477
Consumer	30,972	242	122	-	31,336
Other	4,703	-	-	-	4,703
<b>Total</b>	<u>\$ 3,354,562</u>	<u>\$ 35,409</u>	<u>\$ 6,350</u>	<u>\$ -</u>	<u>\$ 3,396,321</u>

Recorded investment in each risk category of loans by class of loan for the year ended December 31, 2020 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate - construction					
1-4 family residential	\$ 135,345	\$ -	\$ -	\$ -	\$ 135,345
Other construction, land development and land loans	235,960	21,040	3,028	-	260,028
Real estate - commercial					
Nonfarm nonresidential	1,045,196	17,287	3,557	-	1,066,040
Real estate - residential					
Revolving lines of credit	389,648	5,224	964	-	395,836
1-4 family residential	935,328	9,549	3,928	-	948,805
Commercial and industrial	377,274	3,878	556	-	381,708
Consumer	38,250	185	91	-	38,526
Other	4,461	-	-	-	4,461
<i>Total</i>	<u>\$ 3,161,462</u>	<u>\$ 57,163</u>	<u>\$ 12,174</u>	<u>\$ -</u>	<u>\$ 3,230,749</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.

An age analysis of past due financing receivables and nonaccrual financing receivables as of December 31, 2021 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	Nonaccrual Loans to Total Loans
Real estate - construction									
1-4 family residential	\$ -	\$ -	\$ -	\$ -	\$ 178,083	\$ 178,083	\$ -	\$ -	0.00%
Other construction, land development and land loans	1,043	-	-	1,043	249,716	250,759	-	-	0.00%
Real estate - commercial	2,238	2,989	200	5,427	1,161,199	1,166,626	200	746	0.06%
Real estate - residential									
Revolving lines of credit	606	-	216	822	409,689	410,511	216	1,867	0.45%
1-4 family residential	182	71	-	253	1,020,573	1,020,826	-	-	0.00%
Commercial and industrial	332	212	4	548	332,929	333,477	4	53	0.02%
Consumer	188	23	5	216	31,120	31,336	5	-	0.00%
Other	-	-	-	-	4,703	4,703	-	-	0.00%
<b>Total</b>	<b>\$ 4,589</b>	<b>\$ 3,295</b>	<b>\$ 425</b>	<b>\$ 8,309</b>	<b>\$ 3,388,012</b>	<b>\$3,396,321</b>	<b>\$ 425</b>	<b>\$ 2,666</b>	<b>0.08%</b>

An age analysis of past due financing receivables and nonaccrual financing receivables as of December 31, 2020 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	Nonaccrual Loans to Total Loans
Real estate - construction									
1-4 family residential	\$ -	\$ -	\$ 500	\$ 500	\$ 134,845	\$ 135,345	\$ 500	\$ -	0.00%
Other construction, land development and land loans	-	-	214	214	259,814	260,028	214	471	0.18%
Real estate - commercial	666	2,004	846	3,516	1,062,524	1,066,040	846	704	0.07%
Real estate - residential									
Revolving lines of credit	2,878	1,800	273	4,951	390,885	395,836	273	2,609	0.66%
1-4 family residential	1,206	199	1,053	2,458	946,347	948,805	1,053	-	0.00%
Commercial and industrial	688	286	72	1,046	380,662	381,708	72	30	0.01%
Consumer	113	48	10	171	38,355	38,526	10	-	0.00%
Other	-	-	-	-	4,461	4,461	-	-	0.00%
<b>Total</b>	<b>\$ 5,551</b>	<b>\$ 4,337</b>	<b>\$ 2,968</b>	<b>\$ 12,856</b>	<b>\$ 3,217,893</b>	<b>\$3,230,749</b>	<b>\$ 2,968</b>	<b>\$ 3,814</b>	<b>0.12%</b>

Impaired loans as of and for the year ended December 31, 2021 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	\$ 1,117	\$ 1,634	\$ -	\$ 91
Real estate - commercial	4,381	4,484	-	220
Real estate - residential	4,243	5,140	-	275
Commercial and industrial	1,555	1,868	-	57
Consumer	110	442	-	19
With an allowance recorded:				
Real estate - construction	-	-	-	-
Real estate - commercial	146	157	146	11
Real estate - residential	70	89	64	5
Commercial and industrial	109	131	105	6
Consumer	74	74	74	3
Total:				
Real estate - construction	<u>\$ 1,117</u>	<u>\$ 1,634</u>	<u>\$ -</u>	<u>\$ 91</u>
Real estate - commercial	<u>\$ 4,527</u>	<u>\$ 4,641</u>	<u>\$ 146</u>	<u>\$ 231</u>
Real estate - residential	<u>\$ 4,313</u>	<u>\$ 5,229</u>	<u>\$ 64</u>	<u>\$ 280</u>
Commercial and industrial	<u>\$ 1,664</u>	<u>\$ 1,999</u>	<u>\$ 105</u>	<u>\$ 63</u>
Consumer	<u>\$ 184</u>	<u>\$ 516</u>	<u>\$ 74</u>	<u>\$ 22</u>
<i>Total</i>	<u>\$ 11,805</u>	<u>\$ 14,019</u>	<u>\$ 389</u>	<u>\$ 687</u>

Impaired loans as of and for the year ended December 31, 2020 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	\$ 9,766	\$ 10,439	\$ -	\$ 454
Real estate - commercial	4,530	4,587	-	202
Real estate - residential	8,332	10,324	-	446
Commercial and industrial	602	1,046	-	37
Consumer	84	431	-	19
With an allowance recorded:				
Real estate - construction	910	910	812	51
Real estate - commercial	1,649	1,649	86	42
Real estate - residential	144	157	129	7
Commercial and industrial	93	139	48	10
Consumer	85	85	83	4
Total:				
Real estate - construction	<u>\$ 10,676</u>	<u>\$ 11,349</u>	<u>\$ 812</u>	<u>\$ 505</u>
Real estate - commercial	<u>\$ 6,179</u>	<u>\$ 6,236</u>	<u>\$ 86</u>	<u>\$ 244</u>
Real estate - residential	<u>\$ 8,476</u>	<u>\$ 10,481</u>	<u>\$ 129</u>	<u>\$ 453</u>
Commercial and industrial	<u>\$ 696</u>	<u>\$ 1,185</u>	<u>\$ 48</u>	<u>\$ 47</u>
Consumer	<u>\$ 169</u>	<u>\$ 516</u>	<u>\$ 83</u>	<u>\$ 23</u>
<i>Total</i>	<u>\$ 26,196</u>	<u>\$ 29,767</u>	<u>\$ 1,158</u>	<u>\$ 1,272</u>

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 \$18,888,000 (2021) and \$27,872,000

(2020). 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, 2021 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	6	\$ 1,377	\$ 1,117
Real estate - commercial	7	4,527	4,527
Real estate - residential	47	4,634	4,313
Commercial and industrial	16	2,087	1,664
Consumer	39	420	184
<i>Total</i>	<u>115</u>	<u>\$ 13,045</u>	<u>\$ 11,805</u>

There were no troubled debt restructurings which subsequently re-defaulted during the year ended December 31, 2021.

Troubled debt restructurings by loan segment as of December 31, 2020 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	\$ 10,964	\$ 10,976
Real estate - commercial	7	6,179	6,179
Real estate - residential	52	9,450	8,476
Commercial and industrial	14	1,314	695
Consumer	40	430	169
<i>Total</i>	<u>126</u>	<u>\$ 28,337</u>	<u>\$ 26,195</u>

Troubled debt restructurings which subsequently re-defaulted during the year ended December 31, 2020 consisted of the following:

(in thousands)	Number of Contracts at Year End	Recorded Investment
Real estate – construction	-	\$ -
Real estate - commercial	-	-
Real estate - residential	1	19
Consumer	-	-
<i>Total</i>	<u>1</u>	<u>\$ 19</u>

At December 31, 2021, 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 \$576,543,000 (2021) and \$486,450,000 (2020) were pledged.

At December 31, customer overdraft accounts included in installment loans were \$1,321,000 (2021) and \$1,148,000 (2020).

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 June 30, 2020, \$823.0 million of the loan portfolio (26.5%) was active in the loan deferral program. The majority of borrowers did not require a second 90-day deferral period. As of December 31, 2020, \$29.3 million (0.9%) of the loan portfolio remains on a COVID-19 deferral status. As of December 31, 2021, one loan for \$5,700 was on COVID-19 deferral status.

Also in response to the COVID-19 pandemic, the bank actively participated in the Round 1 and Round 2 of the PPP loan program. Throughout Q2, Q3 and Q4 of 2020, the bank originated 4,196 Round 1 PPP loans totaling \$310.2 million. Throughout Q1 and Q2 of 2021, the bank originated 1,965 Round 2 PPP loans totaling \$162.1 million. As of December 31, 2021, 912 PPP loans were still active with outstanding balances of \$58.6 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. Forgiveness activity began in the fourth quarter 2020 and the Bank has processed \$306.2 million in Round 1 PPP forgiveness approvals and \$107.5 million in Round 2 PPP forgiveness approvals from the SBA as of December 31, 2021.

**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)	2021	2020
Land, building, and leasehold improvements	\$ 83,759	\$ 81,909
Furniture and equipment	55,174	55,019
Safe deposit and vault equipment	2,025	2,012
Property and equipment of limited liability companies	21,025	20,758
	161,983	159,698
Less: accumulated depreciation	(94,016)	(89,500)
	67,967	70,198
Construction in progress	2,247	4,022
	<i>Total</i> \$ 70,214	\$ 74,220

At December 31, the Bank had construction in process of \$2,247,000 (2021) and \$4,022,000 (2020). Estimated cost to complete these projects at December 31 is \$6,163,000 (2021), \$4,114,000 (2020), 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 \$7,957,000 (2021) and \$8,010,000 (2020).

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, 2021 the Bank's lease ROU assets and related lease liabilities were \$17.7 million and \$18.6 million, respectively.

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

	<u>2021</u>	<u>2020</u>
Weighted average remaining lease term of operating leases, in years	10.86	11.15
Weighted average discount rate of operating leases	2.80%	2.76%

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

(in thousands)	
2022	\$ 4,397
2023	2,998
2024	2,494
2025	2,215
2026 and thereafter	<u>14,236</u>
<i>Total</i>	<u>\$ 26,340</u>

For the years ended December 31, rent expense from operating leases was \$4,613,000 (2021) and \$4,638,000 (2020).

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 \$1,525,000 (2021) and \$1,517,000 (2020) 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, 2021 and 2020.

#### **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 \$26,461,000 (2021) and \$41,684,000 (2020).

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

(in thousands)	
2022	\$ 80,594
2023	14,064
2024	5,437
2025	7,870
2026 and thereafter	<u>3,990</u>
<i>Total</i>	<u>\$ 111,955</u>

## NOTE 8 – REPURCHASE AGREEMENTS

During the years ending December 31, 2021 and 2020, the Bank entered into collateralized overnight repurchase accounts with select customers under repurchase contracts. At December 31, account balances totaled \$9,078,000 (2021) and \$35,450,000 (2020). 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 \$52,925,000 (2021) and \$43,111,000 (2020). 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 the FHLB. Interest is charged at the FHLB's floating interest rate. As of December 31, 2021 and 2020, the Bank had no outstanding draws. As of December 31, 2021, the Bank had borrowing capacity on the line of \$433,769,000.

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, 2021 and 2020, the Bank had no outstanding draws.

## 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 the 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)	2021	2020
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, fixed rate of 9.50% 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, LIBOR + 2.80% with a floor of 3.93% until April 7, 2009 and then LIBOR + 2.85% until maturity TruPS. 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.

In December 2005, the Bank formed Alpine Statutory Trust III, a Connecticut Business Trust. The trust completed an offering of \$25.0 million, LIBOR + 1.30% TruPS. 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.

In December 2006, the Bank formed Alpine Statutory Trust IV, a Delaware Business Trust. The trust completed an offering of \$12.0 million, LIBOR + 1.71% TruPS. 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.

In March 2008, the Bank formed Alpine Statutory Trust V, a Delaware Business Trust. The trust completed an offering of \$10.0 million, LIBOR + 3.50% TruPS. 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.

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)	2021	2020
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 (2.97% and 3.09% at December 31, 2021 and 2020, 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% (1.50% and 1.52% at December 31, 2021 and 2020, 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 (1.91% and 1.93% at December 31, 2021 and 2020, 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 (3.70% and 3.72% at December 31, 2021 and 2020, 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 \$2,088,000 (2021) and \$2,088,000 (2020). 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.

Changes in the Bank’s issued and outstanding common stock for the years ended December 31, 2019, 2020 and 2021 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, 2018</b>	<b>53,440</b>	<b>7,753,800</b>
Capital Stock Retirement	(397)	(9,150)
<b>Balance December 31, 2019</b>	<b>53,043</b>	<b>7,744,650</b>
Capital Stock Retirement	(300)	(197,100)
<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>

<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 \$3,916,000 (2021) and \$3,821,000 (2020) 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 1,319,253 (2021) and 1,362,741 (2020). 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)	2021	2020
Current tax provision		
Federal	\$ 12,460	\$ 11,108
State	3,175	1,796
	15,635	12,904
Deferred	(2,018)	(1,550)
<i>Income Tax Provision</i>	\$ 13,617	\$ 11,354

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 4.6%. The reason for these differences are as follows:

(in thousands)	2021	2020
Statutory rate	\$ 18,019	\$ 15,409
Permanent differences – primarily tax-exempt interest income, earnings on life insurance and amortization on core deposit intangibles	(4,093)	(3,727)
Other	(309)	(328)
<i>Income Tax Provision</i>	\$ 13,617	\$ 11,354

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

(in thousands)	2021	2020
Deferred tax asset:		
Federal	\$ 16,431	\$ 14,087
State	4,187	2,278
	20,618	16,365
Deferred tax liability:		
Federal	(5,223)	(5,296)
State	(1,331)	(856)
	(6,554)	(6,152)
Deferred tax asset, net	\$ 14,064	\$ 10,213

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)	2021	2020
Deferred tax assets:		
Allowance for loan losses	\$ 10,382	\$ 9,108
Deferred compensation	4,467	4,313
Net unrealized loss on available for sale securities	2,051	-
Net unrealized loss on other real estate owned	499	537
Other	3,219	2,407
<i>Total Deferred Tax Assets</i>	20,618	16,365
Deferred tax liabilities:		
Accelerated depreciation	(4,497)	(4,508)
Prepaid expenses	(654)	(504)
Net unrealized gain on available for sale securities	-	(99)
Other	(1,403)	(1,041)
<i>Total Deferred Tax Liabilities</i>	(6,554)	(6,152)
<i>Deferred Tax Asset, Net</i>	\$ 14,064	\$ 10,213

At December 31, 2021, 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)	2021	2020
Balance at January 1	\$ 5,854	\$ 8,547
New loans, including renewals	665	1,200
Payments, including renewals	(1,908)	(3,893)
Balance at December 31	<u>\$ 4,611</u>	<u>\$ 5,854</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 \$15,507,000 (2021) and \$11,341,000 (2020).

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 \$15,187,000 (2021) and \$14,526,000 (2020) 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 \$2,981,000 (2021) and \$2,965,000 (2020) 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 \$198,000 (2021) and \$200,000 (2020).

## **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 \$1,168,963,000 (2021) and \$886,420,000 (2020).

During the year ended December 31, 2020 the World Health Organization declared the spread of COVID-19 a worldwide pandemic. As a result of COVID-19, there has been heightened market risk and volatility associated with the pandemic, and this could materially affect the Bank's operations, account balances, investment balances and the amounts reported in the consolidated statements of financial position and consolidated statements of activities. Because of the uncertainty of the markets during this time, the Bank's management is unable to estimate the total impact the pandemic will have.

## 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, 2021, 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, 2021, 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, 2021:						
Common Equity Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 493,469	12.67%	\$ 175,202	4.50%	\$ 253,070	6.50%
Alpine Banks of Colorado	\$ 405,337	10.40%	\$ 175,367	4.50%	\$ 253,308	6.50%
Total Risk Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 536,128	13.77%	\$ 311,470	8.00%	\$ 389,338	10.00%
Alpine Banks of Colorado	\$ 565,096	14.50%	\$ 311,763	8.00%	\$ 389,704	10.00%
Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 493,469	12.67%	\$ 233,603	6.00%	\$ 311,470	8.00%
Alpine Banks of Colorado	\$ 472,437	12.12%	\$ 233,822	6.00%	\$ 311,763	8.00%
Tier 1 Risk-Based Capital (to Average Assets) – Leverage Ratio						
Alpine Bank	\$ 493,469	8.01%	\$ 246,511	4.00%	\$ 308,139	5.00%
Alpine Banks of Colorado	\$ 472,437	7.66%	\$ 246,665	4.00%	\$ 308,332	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, 2020:						
Common Equity Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 444,996	13.30%	\$ 150,577	4.50%	\$ 217,500	6.50%
Alpine Banks of Colorado	\$ 357,970	10.69%	\$ 150,730	4.50%	\$ 217,721	6.50%
Total Risk Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 482,357	14.42%	\$ 267,692	8.00%	\$ 334,615	10.00%
Alpine Banks of Colorado	\$ 512,431	15.30%	\$ 267,965	8.00%	\$ 334,956	10.00%
Tier 1 Risk-Based Capital (to Risk Weighted Assets)						
Alpine Bank	\$ 444,996	13.30%	\$ 200,769	6.00%	\$ 267,692	8.00%
Alpine Banks of Colorado	\$ 425,070	12.69%	\$ 200,974	6.00%	\$ 267,965	8.00%
Tier 1 Risk-Based Capital (to Average Assets) – Leverage Ratio						
Alpine Bank	\$ 444,996	8.78%	\$ 202,802	4.00%	\$ 253,503	5.00%
Alpine Banks of Colorado	\$ 425,070	8.38%	\$ 202,956	4.00%	\$ 253,695	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, 2021		December 31, 2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Customer-initiated and mortgage banking derivatives:				
Customer-initiated derivatives	\$ 165,358	\$ 7,045	\$ 173,223	\$ 14,522
Forward contracts related to mortgage loans to be delivered for sale	5,329	2	1,120	1
Interest rate lock commitments	22,442	28	49,599	103
<i>Total derivatives included in other assets</i>	<u>\$ 193,129</u>	<u>\$ 7,075</u>	<u>\$ 223,942</u>	<u>\$ 14,626</u>
Included in other liabilities:				
Customer-initiated and mortgage banking derivatives:				
Customer-initiated derivatives	\$ 165,358	\$ 7,045	\$ 173,223	\$ 14,522
Forward contracts related to mortgage loans to be delivered for sale	11,195	15	24,516	25
Interest rate lock commitments	3,630	8	6,855	4
<i>Total derivatives included in other liabilities</i>	<u>\$ 180,183</u>	<u>\$ 7,068</u>	<u>\$ 204,594</u>	<u>\$ 14,551</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, 2021, 2020 and 2019:

	2021	2020	2019
Net income	<u>\$ 59,646</u>	<u>\$ 51,140</u>	<u>\$ 58,021</u>
Weighted-average number of common shares:			
Class A shares outstanding – basic	52,641	52,810	53,218
Class B shares outstanding – basic <sup>1</sup>	7,539,441	7,646,200	7,747,287
Basic earnings per common share:			
Class A	\$ 579.63	\$ 492.75	\$ 553.28
Class B	\$ 3.86	\$ 3.28	\$ 3.69

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

### 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 depends 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, 2021, 2020 and 2019:

Declared	Class A Cash Dividend per Share	Class B Cash Dividend per Share <sup>1</sup>	Record Date	Paid Date
January 17, 2019	\$29.00	\$0.19	December 31, 2018	January 17, 2019
April 11, 2019	\$29.00	\$0.19	April 22, 2019	April 23, 2019
July 11, 2019	\$29.00	\$0.19	July 22, 2019	July 26, 2019
October 10, 2019	\$29.00	\$0.19	October 21, 2019	October 25, 2019
January 16, 2020	\$31.00	\$0.21	January 27, 2020	February 3, 2020
April 9, 2020	\$16.00	\$0.11	April 20, 2020	April 27, 2020
July 9, 2020	\$16.00	\$0.11	July 20, 2020	July 27, 2020
October 8, 2020	\$18.00	\$0.12	October 19, 2020	October 26, 2020
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

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

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 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 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.

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>2021</u>				
Securities available-for-sale	\$ 848,050	\$ 124,702	\$ 723,348	\$ -
Loans held for sale	12,013	-	12,013	-
Derivative assets:				
Customer-initiated derivatives	7,045	-	7,045	-
Forward contracts related to mortgage loans to be delivered for sale	2	-	2	-
Interest rate lock commitments	28	-	28	-
Total assets at fair value	<u>\$ 867,138</u>	<u>\$ 124,702</u>	<u>\$ 742,436</u>	<u>\$ -</u>
Derivative liabilities:				
Customer-initiated derivatives	\$ 7,045	\$ -	\$ 7,045	\$ -
Forward contracts related to mortgage loans to be delivered	15	-	15	-
Interest rate lock commitments	8	-	8	-
<i>Total liabilities at fair value</i>	<u>\$ 7,068</u>	<u>\$ -</u>	<u>\$ 7,068</u>	<u>\$ -</u>
(in thousands)	Fair Value	Level 1	Level 2	Level 3
<u>2020</u>				
Securities available-for-sale	\$ 232,041	\$ 125,620	\$ 106,421	\$ -
Loans held for sale	26,805	-	26,805	-
Derivative assets:				
Customer-initiated derivatives	14,522	-	14,522	-
Forward contracts related to mortgage loans to be delivered for sale	1	-	1	-
Interest rate lock commitments	103	-	103	-
Total assets at fair value	<u>\$ 273,472</u>	<u>\$ 125,620</u>	<u>\$ 147,852</u>	<u>\$ -</u>
Derivative liabilities:				
Customer-initiated derivatives	\$ 14,522	\$ -	\$ 14,522	\$ -
Forward contracts related to mortgage loans to be delivered	25	-	25	-
Interest rate lock commitments	4	-	4	-
<i>Total liabilities at fair value</i>	<u>\$ 14,551</u>	<u>\$ -</u>	<u>\$ 14,551</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>2021</u>				
Foreclosed and repossessed assets	\$ 1,170	\$ -	\$ -	\$ 1,170
Impaired loans	14,175	-	-	14,175
	<u>\$ 15,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,345</u>

(in thousands)	Fair Value	Level 1	Level 2	Level 3
<u>2020</u>				
Foreclosed and repossessed assets	\$ 1,260	\$ -	\$ -	\$ 1,260
Impaired loans	29,958	-	-	29,958
	<u>\$ 31,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,218</u>

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

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

<b>Condensed Statements of Financial Condition</b> (in thousands)	December 31,		
	2021	2020	
<b>Assets</b>			
Cash and interest earning deposits	\$ 27,255	\$ 28,620	
Investment securities	583	456	
Investment in subsidiary bank	508,222	465,369	
Other assets	1,551	1,421	
<i>Total Assets</i>	<u>537,611</u>	<u>495,866</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	429	432	
Total stockholders' equity	418,003	376,255	
<i>Total Liabilities and Stockholders' Equity</i>	<u>\$ 537,611</u>	<u>\$ 495,866</u>	
<b>Condensed Statements of Income</b> (in thousands)	Years Ended December 31,		
	2021	2020	2019
<b>Interest Income</b>			
Interest and dividends on interest earning deposits and other assets	\$ 33	\$ 66	\$ 99
<i>Total Interest Income</i>	<u>33</u>	<u>66</u>	<u>99</u>
<b>Interest Expense</b>			
Subordinated debentures	5,240	4,291	3,653
<i>Total Interest Expense</i>	<u>5,240</u>	<u>4,291</u>	<u>3,653</u>
<i>Net Interest Expense</i>	<u>(5,207)</u>	<u>(4,225)</u>	<u>(3,554)</u>
<b>Non-interest Income</b>			
Dividends from subsidiary bank	15,200	16,700	17,900
Equity in undistributed income of subsidiary bank	48,473	37,899	42,862
Other income	205	63	120
<i>Total Non-interest Income</i>	<u>63,878</u>	<u>54,662</u>	<u>60,882</u>
<b>Non-interest Expense</b>			
Professional services	210	343	130
Other expense	113	60	4
<i>Total Non-interest Expense</i>	<u>323</u>	<u>403</u>	<u>134</u>
<i>Net Income Before Income Taxes</i>	<u>58,348</u>	<u>50,034</u>	<u>57,194</u>
<b>Income Tax (Benefit) / Expense</b>	<u>(1,298)</u>	<u>(1,106)</u>	<u>(827)</u>
<i>Net Income</i>	<u>\$ 59,646</u>	<u>\$ 51,140</u>	<u>\$ 58,021</u>

<b>Condensed Statements of Cash Flows</b> (in thousands)	Years Ended December 31,		
	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income	\$ 59,646	\$ 51,140	\$ 58,021
Adjustments to reconcile net income to net cash provided operating activities:			
Equity in undistributed income of subsidiary bank	(48,472)	(37,896)	(42,862)
Deferred income taxes (benefits)	32	(15)	93
Net change in other assets and liabilities	(165)	439	(465)
Net cash provided by operating activities	11,041	13,668	14,787
<b>Cash flows from investing activities:</b>			
Capital Contribution to subsidiary bank	-	(30,000)	-
Other, net	(127)	92	(40)
Net cash (used in) provided by financing activities	(127)	(29,908)	(40)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt	-	50,000	-
Common stock cash dividends paid	(9,883)	(8,423)	(12,282)
Repurchase of common stock	(2,396)	(9,371)	(2,557)
Net cash (used in) provided by financing activities	(12,279)	32,207	(14,839)
Net increase in cash and cash equivalents	(1,365)	15,966	(92)
Cash and cash equivalents at the beginning of year	28,620	12,654	12,746
Cash and cash equivalents at the end of year	\$ 27,255	\$ 28,620	\$ 12,654

## NOTE 22 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events through February 1, 2022, the date at which the consolidated financial statements were available to be issued, and determined that no events have occurred would require disclosure.