Alpine Banks of Colorado

RATINGS

Alpine Banks of Colorado	
Action: Affirmed	5/26/2023
Outlook/Watch LTR	**Stable**
Senior Unsecured Debt	**BBB**
Subordinated Debt	**BBB-**
Short-Term Debt	**K3**

Alpine Bank	
Action: Affirmed	5/26/2023
Outlook/Watch LTR	**Stable**
Deposit	**BBB+**
Senior Unsecured Debt	**BBB+**
Subordinated Debt	**BBB**
Short-Term Deposit	**K2**
Short-Term Debt	**K2**

FINANCIAL SNAPSHOT

ALPIB (%)	1Q23	YE22
Total Assets ($B)	6.6	6.3
ROAA	1.22	1.16
NIM	3.58	3.45
NCO Ratio	0.03	0.05
NPA Ratio	0.07	0.09
TCE Ratio	6.4	6.5
CET1 Ratio	11.2	11.0
Loans/Core Dep	75	72

ANALYTICAL CONTACTS

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Company Profile

- Alpine Banks of Colorado ("Alpine" or "the company") is the BHC for Colorado-chartered Alpine Bank (founded in 1973), with private Class A voting stock that remains majority-owned by a combination of its two founders (one that remains Chairman), along with other directors and employees, including a 23% Class A stake owned by the ESOP that was created in 1983. Alpine's non-voting Class B shares are thinly traded (OTC: ALPIB).
- With the leading and organically based deposit share position in the Western Slope (CO) markets through 27 branches, Alpine expanded east to the Front Range (Denver, Boulder, Fort Collins, and Colorado Springs MSAs) beginning in 2014 and currently has nearly $500 million of deposits in six area branches. Moreover, management plans to continue exploring options for future de novo locations in Denver and along the Front Range.
- A real estate-oriented lender at its core, Alpine balances a not insignificant C&D exposure (14% of loans and 81% of total capital at 1Q23) and a $812 million investor CRE portfolio (together with C&D representing 202% of total capital), with a meaningful prime residential mortgage book that totaled $1.8 billion, or 45% of loans, at 1Q23. Having begun developing commercial lending capabilities in 2017, as a result of more perceived opportunities in the particularly vibrant greater-Denver market, the now modest traditional C&I book ($645 million including owner-occupied CRE) is currently expected to grow to represent a greater proportion of the loan portfolio.

Key Credit Considerations

- The ratings are supported by Alpine's extremely low-cost and plentiful core deposit base that has highlighted its balance sheet for many years. Core deposit levels have normalized from peak levels at YE21 and Alpine experienced manageable outflows in 1Q23 during the period of liquidity uncertainties in the industry, with balances decreasing 2% from YE22, which were largely associated with normal business decisions and seasonal factors. Moreover, management bolstered on-balance sheet liquidity through a slightly higher utilization of noncore funding sources out of an abundance of caution, though core deposit levels remained very high at 87% of total funding as of 1Q23 compared to an average of 96% for the past five years. Moving forward, given the resiliency in the deposit franchise, we expect noncore funding to trend back to historical levels as it was mostly shorter-duration.
- The company has maintained strong profitability in recent quarters, with ROA tracking above 1.20%, which is, in part, due to the less price sensitive deposit base, with an average cost of 46 bps for 1Q23, compared to a median of 127 bps for all KBRA rated publicly traded banks for the same period, that facilitates a healthy NIM. With that said, deposit costs have been on the rise and NIM compression is expected to continue prospectively, which was observed in 1Q23. While this is certainly a trend that is occurring across the industry, given that Alpine's earnings power is starting at a higher level relative to peers, we believe that the company will be able to maintain comparatively favorable returns in the near-term. KBRA also recognizes a respectable level of revenue diversity, with noninterest income representing near 20% of revenues the past five years, which is largely comprised of more stable/recurring sources.
- Credit quality remains pristine, with the NPA ratio being amongst the lowest in its peer group, while NCOs have remained negligible, which has been supported by minimal exposure to vulnerable lending segments, and management's disciplined underwriting. With the potential for a weakening credit environment, we believe Alpine is well situated given its lower level of ICRE, solid reserve position, and strong risk-based capital measures.

Rating Sensitivities

+ An upgrade is unlikely given the challenging operating environment, though continued market share gains and stronger-than-peer profitability/capital could result in positive ratings momentum over time.

– A downgrade is unlikely, though any unforeseen deposit outflows or liquidity issues, or higher than peer credit quality problems through a potential downturn, could potentially pressure the ratings.

KBRA Bank & Bank Holding Company Global Rating Methodology November 8, 2021. KBRA ESG Global Rating Methodology June 16, 2021.

Financial Metrics

ALPINE BANKS OF COLORADO

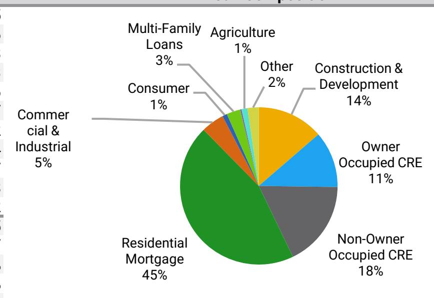
	1Q23	4Q22	3Q22	2Q22	1Q22	2022	2021	2020	2019	2018
Balance Sheet ($ millions)										
Loans (HFI)	3,941	3,895	3,741	3,603	3,404	3,895	3,387	3,220	2,667	2,430
Average Earning Assets	6,201	6,113	6,058	5,908	6,087	6,041	5,570	4,287	3,536	3,398
Total Assets	6,564	6,317	6,269	6,084	6,184	6,317	6,219	5,178	3,868	3,710
Core Deposits	5,286	5,406	5,636	5,490	5,572	5,406	5,581	4,539	3,325	3,232
Total Deposits	5,717	5,519	5,667	5,518	5,599	5,519	5,608	4,581	3,360	3,271
Total Equity	436	425	405	381	398	425	418	376	342	297
Tangible Common (TCE)	419	407	387	363	380	407	400	359	325	279
Income Statement ($ millions)										
Net Interest Income	53.7	56.8	53.2	48.7	43.1	201.8	172.1	159.6	157.4	144.7
Noninterest Income	11.2	10.8	13.1	11.8	11.0	46.7	48.6	46.7	40.2	34.8
Noninterest Expense	40.1	40.4	38.6	36.8	35.8	151.6	141.1	132.8	127.9	113.3
Provision for Loan Losses	0.3	2.6	-	-	-	2.6	5.2	12.1	-	-
Net Income	19.7	20.7	22.4	17.5	12.7	73.4	59.6	51.1	58.0	54.8
Performance Measures (%)										
Return on Average Assets	1.22%	1.29%	1.42%	1.14%	0.80%	1.16%	1.03%	1.13%	1.55%	1.54%
Return on Average Equity	18.6%	20.0%	21.6%	17.5%	12.1%	17.8%	14.9%	14.3%	18.2%	19.9%
Return on Risk-Weighted Assets	1.78%	1.83%	2.04%	1.64%	1.25%	1.70%	1.68%	1.65%	2.07%	2.07%
Net Interest Margin (TE)	3.58%	3.84%	3.63%	3.41%	2.93%	3.45%	3.09%	3.72%	4.45%	4.40%
Average Loan Yield	5.21%	5.09%	4.72%	4.59%	4.31%	4.69%	4.62%	4.78%	5.52%	5.31%
Cost of Interest-Bearing Deposits	0.72%	0.23%	0.05%	0.04%	0.03%	0.09%	0.04%	0.09%	0.15%	0.10%
Loans / Earning Assets	63%	63%	61%	59%	56%	60%	60%	71%	70%	69%
Noninterest Income / Op. Revenue	17%	16%	20%	19%	20%	19%	22%	23%	20%	19%
Efficiency Ratio	62%	60%	58%	61%	66%	61%	64%	64%	65%	63%
Asset Quality (%)										
NPA / Loans + OREO	0.07%	0.09%	0.14%	0.08%	0.20%	0.09%	0.13%	0.23%	0.16%	0.32%
LLR / Loans (HFI)	1.10%	1.10%	1.10%	1.15%	1.23%	1.10%	1.25%	1.15%	0.98%	1.17%
LLR / NPL	1629%	1167%	798%	1470%	757%	1167%	1339%	600%	915%	493%
NCO / Average Loans	0.03%	0.10%	0.03%	0.02%	0.06%	0.05%	(0.00%)	0.04%	0.10%	0.01%
Provision / NCO (x)	1.1	2.7	-	-	-	1.3	N/A	9.6	-	-
NPA Change Rate	(28%)	(29%)	83%	(58%)	55%	(15%)	(42%)	73%	(46%)	(40%)
Capital (%)										
TCE Ratio	6.4%	6.5%	6.2%	6.0%	6.2%	6.5%	6.5%	6.9%	8.4%	7.6%
Leverage Ratio	8.8%	8.7%	8.6%	8.0%	7.6%	8.7%	7.7%	8.4%	10.3%	9.6%
CET1 Ratio	11.2%	11.0%	10.9%	10.0%	10.4%	11.0%	10.4%	10.7%	10.9%	10.3%
Tier 1 Ratio	12.6%	12.5%	12.4%	11.6%	12.1%	12.5%	12.1%	12.7%	13.2%	12.7%
Total Capital Ratio	14.9%	14.6%	14.5%	13.7%	14.4%	14.6%	14.5%	15.3%	14.1%	13.8%
Leverage & Funding (%)										
Loans / Deposits	69%	71%	66%	65%	61%	71%	61%	71%	80%	74%
Loans / Core Deposits	75%	72%	66%	66%	61%	72%	61%	72%	81%	75%
Core Deposits / Total Funding	87%	93%	97%	97%	97%	93%	97%	97%	97%	97%
Double Leverage (Incl TRuPS)	106%	106%	107%	107%	105%	106%	105%	105%	97%	97%
RWA / Total Assets	68%	71%	69%	69%	65%	71%	63%	65%	77%	73%

Source: KBRA Financial Intelligence (KFI), Company Reports, Y9C, KBRA
Note: Beginning in 2020, NIM for BHCs with assets less than $5 billion is not TE due to reporting limitations

Loan Composition

($ millions)	1Q23	2022	2021	2020	2019
Construction & Development	540	563	429	395	375
Owner Occupied CRE	458	452	415	358	346
Non-Owner Occupied CRE	698	691	617	555	488
Residential Mortgage	1,771	1,726	1,443	1,371	1,133
Commercial & Industrial	187	191	237	338	126
Consumer	38	38	36	43	37
Multi-Family Loans	114	100	95	86	52
Leases	9	9	6	6	4
Agriculture	49	47	40	67	67
Other	92	91	90	38	58
Total Loans	3,944	3,897	3,399	3,246	2,682
Loans Held for Sale (HFS)	2	3	12	27	15
Loans Held for Investment (HFI)	3,941	3,895	3,387	3,220	2,667
Annual Loan Growth	16%	15%	5%	21%	10%
Investor CRE / Total Loans	34%	35%	34%	32%	34%
C&D / Risk-Based Capital	81%	87%	76%	77%	90%
Investor CRE / Risk-Based Capital	202%	208%	202%	202%	219%

Loan Composition

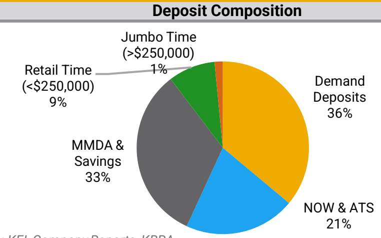


Source: KFI, Company Reports, KBRA

Deposit Composition

($ millions)	1Q23	2022	2021	2020	2019
Domestic Deposits					
Demand Deposits	2,062	2,175	2,238	1,745	335
NOW & ATS	1,190	1,235	1,245	1,037	87
MMDA & Savings	1,873	1,909	2,013	1,659	2,800
Time Deposits					
Retail Time (<$250,000)	503	161	85	98	103
Jumbo Time (>$250,000)	89	38	26	42	36
Foreign Deposits	0	0	0	0	0
Total Deposits	5,717	5,519	5,608	4,581	3,360
Total Core Deposits	5,286	5,406	5,581	4,539	3,325
Total Noninterest Bearing Deposits	2,062	2,175	2,238	1,745	1,248
Annual Core Deposit Growth Rate	(5%)	(3%)	23%	37%	3%

Deposit Composition



Source: KFI, Company Reports, KBRA

Source: KBRA Financial Intelligence (KFI), Company Reports, Y9C, KBRA

Peer Comparison Trends

Time Period	ALPINE BANKS OF COLORADO 1Q23	KBRA Peers BBB 1Q23	Benchmark $1-$10BN 1Q23	ALPINE BANKS OF COLORADO 2022	KBRA Peers BBB 2022	Benchmark $1-$10BN 2022	ALPINE BANKS OF COLORADO 2021	KBRA Peers BBB 2021	Benchmark $1-$10BN 2021
Balance Sheet ($ in mlns)									
Total Assets	6,564	7,421	4,908	6,317	7,145	4,942	6,219	6,564	4,764
Total Risk Weighted Assets	4,484	5,819	3,792	4,467	5,819	3,823	3,897	4,905	3,414
Loans (HFI)	3,941	5,375	3,338	3,895	5,274	3,322	3,387	4,478	2,966
Total Deposits	5,717	5,953	3,969	5,519	5,804	3,799	5,608	5,561	3,271
Average Loans / Average Earning Assets	63.0%	77.7%	72.1%	62.6%	75.1%	68.7%	56.0%	73.4%	68.7%
Performance Measures (%)									
Return on Average Assets	1.23%	0.98%	1.17%	1.16%	1.08%	1.25%	1.03%	1.22%	1.39%
Return on Average Equity	18.9%	12.1%	13.1%	17.8%	12.2%	13.5%	14.9%	12.8%	12.8%
Return on Risk-Weighted Assets	1.79%	1.25%	1.54%	1.75%	1.44%	1.72%	1.67%	1.76%	2.01%
Net Interest Margin (TE)	3.59%	3.38%	3.45%	3.41%	3.42%	3.35%	3.15%	3.17%	3.14%
Average Loan Yield	5.29%	5.41%	5.49%	4.69%	4.57%	4.71%	4.62%	4.28%	4.51%
Cost of Interest Bearing Deposits	0.74%	1.85%	1.68%	0.09%	0.60%	0.56%	0.04%	0.31%	0.31%
Noninterest Income / Op. Revenue	17.2%	15.3%	21.5%	18.8%	16.8%	22.9%	22.0%	21.1%	27.0%
Efficiency Ratio	61.8%	62.9%	62.5%	61.0%	59.7%	61.0%	63.9%	60.1%	61.4%
Asset Quality (%)									
NPA / Loans + OREO	0.07%	0.39%	0.46%	0.09%	0.37%	0.44%	0.13%	0.50%	0.61%
LLR / Loans(HFI)	1.10%	1.12%	1.25%	1.10%	1.07%	1.23%	1.25%	1.16%	1.42%
LLR / NPL	1629%	640%	921%	1167%	3824%	1070%	1339%	723%	779%
NCO / Average Loans	0.03%	0.08%	0.18%	0.05%	0.07%	0.08%	0.00%	0.09%	0.13%
Capital (%)									
TCE Ratio	6.4%	7.3%	8.3%	6.5%	7.3%	8.1%	6.5%	8.5%	9.7%
Leverage Ratio	8.8%	9.1%	10.2%	8.7%	9.3%	10.3%	7.7%	9.1%	10.4%
CET1 Ratio	11.2%	10.7%	12.6%	11.0%	10.8%	12.8%	10.4%	11.5%	13.3%
Tier 1 Ratio	12.6%	11.3%	13.3%	12.5%	11.4%	13.5%	12.1%	12.2%	14.1%
Total Capital Ratio	14.9%	13.7%	15.2%	14.6%	13.8%	15.4%	14.5%	14.8%	16.1%
Leverage & Funding (%)									
Noninterest Bearing / Total Dep.	36.1%	26.4%	25.4%	39.4%	28.5%	27.7%	39.9%	30.6%	28.4%
Loans / Deposits	69.0%	90.3%	85.3%	70.6%	91.1%	84.1%	60.6%	80.6%	76.8%
Loans / Core Deposits	74.6%	105.4%	98.9%	72.1%	103.1%	93.5%	60.9%	86.1%	81.9%
RWA / Total Assets	68.3%	77.2%	75.6%	70.7%	80.0%	76.8%	62.7%	73.5%	70.5%
Double Leverage (Incl TruPS)	105.7%	110.0%	103.6%	106.1%	108.3%	102.2%	104.8%	106.1%	101.1%
Loan Portfolio (%)									
C&I Loans / Total Loans	4.8%	14.6%	14.8%	4.9%	15.0%	15.2%	7.0%	15.9%	16.5%
Investor CRE / Total Loans	34.3%	41.8%	35.9%	34.8%	41.6%	35.5%	33.6%	41.7%	35.2%
Investor CRE / Risk-Based Capital	202%	292%	229%	208%	289%	223%	202%	268%	209%
C&D Loans / Total Loans	13.7%	8.1%	7.8%	14.5%	8.1%	7.7%	12.6%	8.0%	7.2%
C&D Loans / Risk-Based Capital	80.7%	54.4%	50.3%	86.6%	53.8%	48.5%	75.9%	49.1%	43.0%

*Annualized **NIM is presented as TE unless data is not available

Sources: KBRA Financial Intelligence (KFI), Company Reports, KBRA

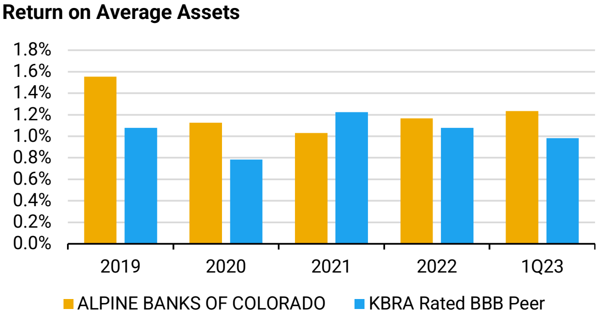
Key Quantitative Rating Determinants

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

Performance

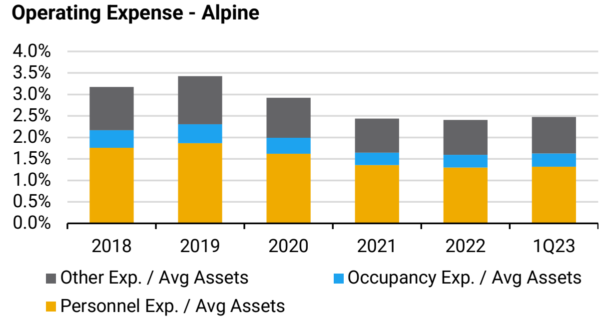
Alpine's profitability demonstrated improvements in 2022, with ROA surpassing 1.15% for the full-year, which compared to just below 1.05% in 2021. However, the company's returns remain relatively lower than peak levels witnessed in 2018-2019, in which ROA was comfortably above 1.50%. However, we recognize that these are completely different interest rate environments, which ultimately had a major impact to profitability during those periods. During 2018-2019, the Fed was also raising interest rates, though the upward adjustments were at a much more gradual pace, with a peak Fed Funds target rate of 2.50% (upper limit). While the current environment has been the most aggressive rate tightening cycle in history in terms of speed and magnitude, which has been widely documented and, in turn, has resulted in a higher level of depositor awareness to seek a higher yield on accounts this time around. As such, deposit pricing pressures have been much more pronounced, and while we acknowledge that the company has held the line with regard to deposit costs, which remain well below average at 46 bps for 1Q23 compared to a median of 127 bps for all KBRA rated publicly traded banks, Alpine has not been immune to the pricing acceleration. Given this, the company has reflected a slightly higher deposit beta than the previous rate cycle. ALPIB's NIM has still displayed steady expansion, which reached 3.45% for 2022 vs. 3.09% for 2021, and benefited primarily from the upward repricing on its comparatively larger level of cash balances ($861 million; 14% of assets at YE21) that immediately received higher rates after each Fed rate hike. Meanwhile average loan yields increased modestly, which were 4.69% for the full-year 2022 compared to 4.62%. Moreover, the average rate on the securities portfolio actually declined 6 bps year-over-year. With that said, deposit costs were also relatively unchanged during the year, which increased nominally to 6 bps versus 2 bps for 2021. The company also benefitted from a modest reduction in operating expenses, which decreased to 2.41% of average assets compared to 2.44% for 2021. KBRA acknowledges that Alpine's expenses run moderately higher than similarly sized peers, although through steady balance sheet growth that has resulted in positive operating leverage, the company has made tremendous improvements with operating efficiency over the years. Moreover, management continues to invest into internal processes and creating an infrastructure that is scalable that should result in further efficiencies moving forward. Additionally, provision for loan losses also declined, which accounted for $2.6 million vs. $5.2 million the prior year (ALPIB was on the incurred loss method until adopting CECL in 2023). This was offset by a lower level of noninterest income in absolute numbers and relative to total revenues, primarily due to a decrease in mortgage banking activity given the lower volume and GoS premiums. Despite the decline, Alpine continues to reflect a respectable level of revenue diversity, as fee income represented 19% of total revenues for 2022, which is supported by a solid level of deposit service charges, interchange fees, and wealth management service revenues.

Return on Average Assets



Sources: Company Filings, KBRA Research

Operating Expense - Alpine



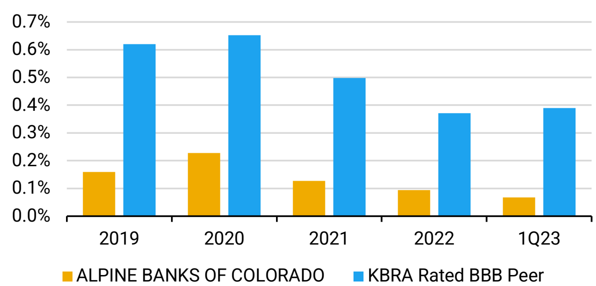
Sources: KFI, Company Reports, KBRA

Moving forward, profitability will likely continue to trend lower compared to peak levels observed between 3Q22 and 1Q23, with ROA averaging above 1.30%, which is due to the anticipated NIM compression from the aforementioned expected rise in deposit costs. With that said, we recognize ALPIB's profitability as comparatively solid entering this period of uncertainty, with the company reflecting a higher level of earnings power in early 2023 compared to similarly rated peers. While ROA across the industry and the peer group will potentially trend lower throughout the year, Alpine is starting at a higher base for both NIM and ROA. As such, this should result in the company maintaining a slightly higher level of earnings capacity, which is an envious position to be in considering the likelihood of rising credit costs from weakening economic conditions. Lastly, with a relatively lower level of risk-weighted assets, which generally track near or below 70% of total assets (68% as of 1Q23), the risk-adjusted returns also compare favorably to the peer group, which was nearing 1.80% for 1Q23 vs. 1.25% for the rated peer average.

Asset Quality

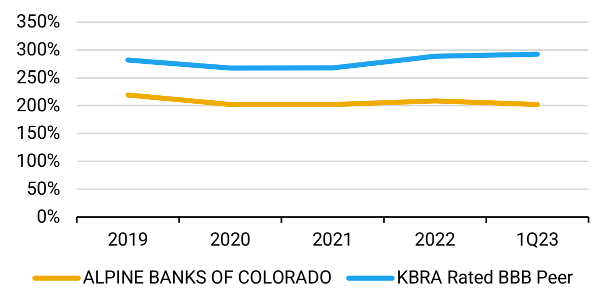
In recent years, Alpine has maintained pristine credit quality metrics, with both the NPA and NCO ratios tracking below the rated peer averages, which have averaged 0.19% and 0.04%, respectively, from 2018-2022. Moreover, the company's metrics have remained strong in 1Q23, with the NPA ratio falling to 0.07%, while the NCO ratio was a modest 0.03% during the quarter. The solid performance has been supported by a more prudent approach with regard to C&D lending that currently reflects a greater underwriting discipline and a more conservative approach to credit assessment, including an explainable emphasis on loan segment concentration risk management, as well as the strong economic conditions in the Colorado markets. As a reminder, ALPIB experienced some meaningful losses associated with the C&D portfolio during the global financial crisis, though the concentration of this portfolio has consistently been managed below the regulatory guidance threshold since that time (81% of total risk-based capital as of 1Q23). The current C&D portfolio is largely comprised of residential mortgage projects given the lack of supply in the footprint, with a manageable level of speculative projects. Moreover, if there are speculative projects, it is generally high-end housing in Aspen that has historically been purchased rather quickly given the desirability of those markets. Additionally, Alpine's diverse commercial loan book, which includes a minimal exposure vulnerable lending segments, including the hotel and office sectors, have helped facilitate favorable asset quality metrics in recent years. However, KBRA also recognizes the prolonged benign credit environment, which has persisted due to the massive amounts of government stimulus, PPP loans, loan deferrals, and the Fed's monetary policy throughout the COVID-19 pandemic have certainly assisted as well.

NPA / Loans + OREO



Sources: Company Filings, KBRA Research

Investor CRE / Risk-Based Capital



Sources: Company Filings, KBRA Research

Moving forward, with the likelihood for weakening economic conditions stemming from the Fed's aggressive interest rate hikes throughout 2022 and 2023, KBRA believes that the company is well positioned to endure any potential issues. Alpine's loan portfolio is largely concentrated in residential mortgage (45% of total loans) and despite the rising interest rates, home prices throughout Colorado have been resilient, particularly in the Western Slope markets, which continues to have minimal inventory. Moreover, most of the residential mortgage loans are first lien, though the portfolio has a sizable amount of home equity lines of credit (HELOC) and even considering the variable-rate nature of those particular products, there has been no meaningful uptick in past due loans during this period of rising rates.

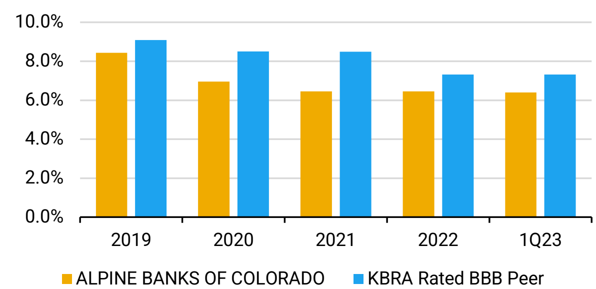
Additionally, despite some "chunkiness" in the residential mortgage book, with an average loan size of $637k, and the top 10 loans accounting for $85 million, the underwriting is conservative. The top 10 loans average LTV is 58%. Moreover, the top 10 HELOCs account for $34 million, with an average LTV of 55%. It should also be noted that these LTVs are at the time of the origination of the loan, when in fact many of the properties have appreciated in value since that time, which would result in an even lower actual LTV. As such, even in the event of some softening in the housing market, the borrowers have substantial equity in these properties and this provides an additional buffer to Alpine to offset against any material credit losses in the event of a foreclosure. With CRE loans becoming more scrutinized across the industry due to rising interest rates and lower rent collections in some markets, ALPIB reflects a below average exposure to investor CRE, which was just 21% of total loans or 202% of total risk-based capital as of 1Q23. Moreover, the largest exposure within the portfolio is retail, which is predominantly operated in the Western Slope markets that just had a good ski season and should help facilitate a high level of activity in that particular sector. Furthermore, the average LTV and DSCR for the investor CRE portfolio were below 50% and nearing 2.0x, respectively. Altogether, despite the rapid growth that has occurred in the Front Range markets in recent years, it appears that the residential and commercial markets have been resilient just given the strong population growth in the region. Moreover, with a continued low level of unemployment and favorable underlying demographics, we believe that the company's operating markets should be comparatively durable during a less conducive environment. If issues were to arise, we acknowledge the conservative underwriting criteria, as well as a strong level of earnings capacity that can absorb a relatively higher level of credit costs compared to peers, and a solid reserve (1.10% of total loans; 16x total NPAs) and capital position to endure unexpected losses.

Capital

Following the start of the COVID-19 pandemic, the company's TCE and CET1 ratios have fluctuated due to a variety of reasons, with the former decreasing considerably from the significant balance sheet growth that was created from a substantial inflow of deposits attributable to the excess liquidity entering the banking system following the monetary and fiscal policy decisions during the pandemic. Moreover, more recently the TCE ratio has been adversely impacted by the unrealized losses on its AFS securities portfolio that results in a higher level of negative AOCI ($81 million as of 1Q23). With that said, both the TCE and CET1 ratios have been rebounding in recent quarters compared to low points realized in 2Q22 (6.0% and 10.0%, respectively), which reached 6.4% and 11.2% at the end of 1Q23. The improvement in capital levels have been primarily due to the issuance of Class B non-voting common stock that occurred in 3Q22, with Alpine issuing nearly 1.2 million shares at $28.50 per share, that resulted in proceeds of approximately $34 million. Additionally, the company's stronger profitability resulting in a higher level of internal capital generation helped reinforce higher capital levels, which was offset by steady loan growth, and more recently sizable balance sheet growth in 1Q23 from the bolstering of on-balance sheet liquidity following the regional bank failures late in the quarter. Over a longer period of time, current ratios have mixed results to recent year averages, with the TCE ratio as of 1Q23 tracking below the prior 5-year average of 7.2% from 2018-2022, while the CET1 is slightly higher, which averaged 10.7% for the same period. However, we view current capitalization as adequate for the rating category, with management planning to continue to bolster capital levels prospectively, with a shorter-term target of the Tier 1 leverage ratio being 100 bps higher than current levels. This goal seems attainable given the solid profitability in recent quarters, as well as the slower balance sheet growth expected given the competitive deposit environment, and the moderate dividend payout, which represented a 17% payout ratio in 1Q23. Moreover, management does not foresee increasing the dividend further in 2023 following the increase to $0.20 per share for Class B shares in 1Q23 (Class A share dividend was recently increased to $30 per share in 2Q23 compared to $27 per share in 1Q23).

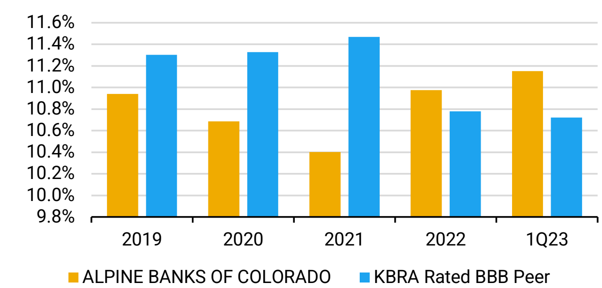
While the unrealized losses from the AFS portfolio are incorporated into the TCE ratio as of 1Q23, it is worth noting that the HTM securities portfolio reflects unrealized losses of $95 million, which would bring total negative AOCI to $177 million. If the HTM unrealized losses were incorporated into the TCE ratio it would drop to 4.9%, and if those carried over to regulatory capital ratios, the CET1 would decrease to approximately to 7.2%, which remains above well capitalized, though would likely rank below peer averages as Alpine carries a higher level of securities in the asset mix compared to most KBRA rated banks. However, this does not take into account the deleveraging that would take place in the event securities sales actually occurred, which would ultimately result in a lower level of RWAs, and, in turn, a higher CET1 ratio. Moreover, given the introduction of the Fed's BTFP facility, with the ability to pledge securities at par for borrowing purposes, many banks, Alpine likely included, would rather opt to utilize borrowings than crystalize losses in this current environment and avoid the impact to capital. Included in the capital stack is a meaningful amount of legacy trust preferreds (TruPS) at $69 million, which helps support the regulatory capital ratios, with a Tier 1 risk-based ratio of 12.6% as of 1Q23. Additionally, Alpine issued $50 million of subordinated debt in 2Q20 at 5.875% (10NC5), which helped reinforce the total risk-based capital ratio (14.9% as of 1Q23). Despite the issuance, the double leverage remains minimal at just 106%. Moreover, Alpine reflected $21.4 million of holding company cash at 1Q23, which comfortably covers multiple years of debt service obligations.

TCE Ratio



Sources: Company Filings, KBRA Research

CET1 Ratio

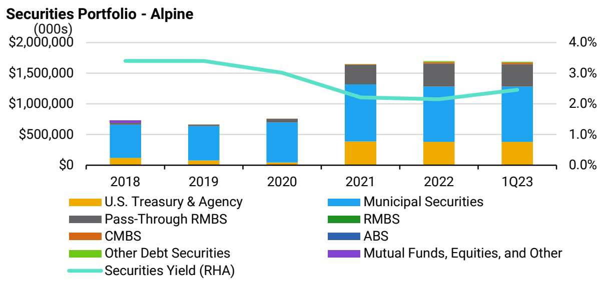


Sources: Company Filings, KBRA Research

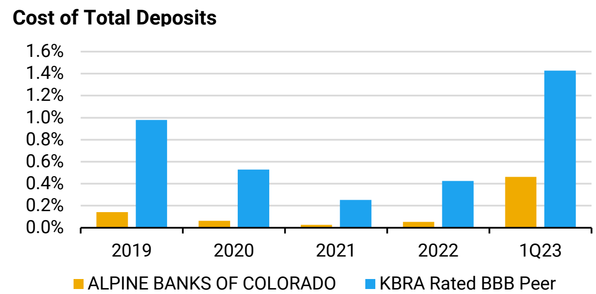
Funding & Liquidity

Alpine's deposit base was relatively unaffected in the first quarter, with core balances decreasing just 2% from YE22 ($5.3 billion vs. $5.4 billion, respectively), despite the liquidity concerns that rippled across the industry following multiple regional bank failures in late 1Q23, which resulted in extreme deposit volatility for a select number of institutions. However, over a long period of time, the company's core deposits have been trending lower, with balances decreasing nearly $300 million from the peak at YE21. With that said, this was largely expected and was categorized as a normalization in account balances following the excess liquidity that entered the banking system throughout the pandemic. ALPIB has consistently maintained a higher level of on-balance sheet liquidity, notably a larger cash position in recent years, which was more than enough to offset those deposit outflows over the past year. As such, the company has not had to rely on a significantly higher level of noncore funding utilization to replace those outflows. However, in 1Q23, management opted to bolster on-balance sheet liquidity even further given the unpredictable deposit market, and utilized a higher level of brokered deposits, which grew to $342 million compared to $75 million at YE22, as well as increased its FHLB/FRB borrowings to $209 million vs. $174 million for the same period. As such, the core deposits to total funding ratio has decreased to 87% at the end of 1Q23, albeit remaining very strong overall, though below recent year levels, which averaged 96% from 2018-2022. With that said, we believe this was a temporary decline as management strengthened its liquidity sources out of an abundance of caution. Moving forward, as the company generates cashflow from the securities portfolio (~$120 million in 2023) and deposit growth opportunities re-emerge, combined with slower loan growth, we believe the noncore funding utilization will trend back to historical levels. Altogether, Alpine appears to be well insulated from any potential future deposit disruptions that occur in the industry as the company's deposit base appears to be loyal and less impacted from the market dynamics. Additionally, uninsured deposit levels (excluding collateralized deposits) are comparatively minimal at 35% of total deposits, which is line with peers. The company has access to approximately $1.0 billion in contingency liquidity sources, which combined with another $1.1 billion of on-balance sheet liquidity available (cash/unpledged securities), comfortably covers all uninsured deposit balances. Additionally, management could pledge a higher level of loans/securities to gain access to more contingent funding, if necessary, as only 17% and 60% were pledged as of 1Q23, especially given the losses that would be realized if securities were sold in this current environment. Moreover, management has been utilizing the ICS/CDARs reciprocal deposit programs to reduce uninsured balances when needed, which they will continue to implement to reduce any potential depositor anxiety. Lastly, the top 20 deposit relationships comprise just

7% of total deposits, which is relatively granular in our view. Moreover, a majority of these customers already collateralized or utilize the ICS program. As such, the potential for losing a large number of deposits in a short period of time appears unlikely.



Sources: KFI, Company Reports, KBRA



Sources: Company Filings, KBRA Research

The deposit mix remains relatively favorable, with noninterest-bearing accounts representing 36% of total deposits as of 1Q23, though this has declined from the peak of 40% at YE21 as customers have moved money to higher yielding accounts during this period of rising rates. Moreover, higher cost time deposits remain comparatively minimal at just 10% of total. As noted in the Performance Section, ALPIB's cost of deposits continues to rank among the lowest in the KBRA rated universe at 46 bps for 1Q23 despite the higher deposit beta throughout this current rate cycle. Deposit costs will continue to rise in conjunction with the Fed's rate hikes, though should continue to lag similarly rated peers. While the asset liquidity coverage relative to uninsured balances appears adequate for the time being, it is worth noting that Alpine has consistently maintained a conservative liquidity position over a long period of time, notably the loan-to-core deposit ratio generally tracking near or below 80% over the years (averaged 72% from 2018-2022). While this ratio is not a perfect indicator of liquidity, we believe this positioned the company well to absorb any potential outflows. The nearly $2.0 billion securities portfolio (30% of total assets) is largely designated as HTM (62% of total), and reflects meaningful exposures to municipal bonds ($899 million), U.S. treasury and agency securities ($380 million), and mortgage-backed securities ($350 million). The average life of the portfolio is just above 7 years, with an effective duration of approximately 5.5 years. Altogether, Alpine's strong core deposit franchise and conservatism around liquidity management continue to be key ratings strengths.

Key Qualitative Rating Determinants

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

Market Strategy

Alpine embodies the description "Community Bank" in most ways, having been founded in 1973, and growing organically since then, other than a relatively small-scale acquisition in 2006 that expanded the company into the Telluride market. More recently (in 2014), the company opened its first branch in Denver, and has made good progress with six branches in Front Range markets of Colorado, having grown a nearly $950 million loan book, as well as nearly $500 million of deposits at 1Q23. ALPIB recently opened two new branches in Fort Collins, where it previously operated for two years as an LPO, as well as Colorado Springs, both in 4Q22. Having initially considered the diversification of the operating footprint into an economically vibrant Denver MSA, given its top share position in its heritage Western Slope markets, the company's strategic expansion plans have been focused and are likely to remain exclusively on the Front Range, with management continuing to explore options for future de novo locations. Beyond its footprint, which has developed from its headquarters' market (Glenwood Springs), Alpine seems very well connected to the communities it operates in, reflecting an enviable corporate culture that starts with a tenured senior management team, each of whom has been with the company for a long time. A longstanding "high touch" customer delivery and service model remains at the core of Alpine's business model and culture. From a financial perspective, it has manifested itself most clearly in the company's extremely low-cost core deposit base, but according to management, also exists with respect to loan pricing. Beyond the most traditional lending, deposit and payment related services, Alpine reflects an attractive and growing wealth management operation, which recently surpasses $1 billion AUM ($1.2 billion as of 1Q23). With significant demand for commercial and residential real estate, as well as comparatively limited attractive C&I lending opportunities in its core Western Slope markets, Alpine was deliberate in adding expertise in and infrastructure for the latter, until the opportunities became clearer in Front Range markets. While typically growing its management and senior staff internally through its operating history, Alpine aptly recognized the need to add C&I bankers as part of its successful Front Range expansion.

Risk Management

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

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

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

Liquidity Management

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

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how management teams plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in financial institution ratings can be found here. Over the medium-term, banks and other financial institutions will need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer- specific ESG issues but our analysis is often anchored around three core topics: climate change with particular focus on greenhouse gas emissions, stakeholder preferences, and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can affect financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can affect the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers regardless of size and industry.

Environmental Factors

Although near term climate-related risks are believed by KBRA to be well contained, we note the bank is currently in the process of introducing practices that are more sustainable and are geared toward decreasing its overall carbon footprint, among other initiatives. The bank and most of its peers do not yet estimate carbon emissions, but Scope 1 emissions are believed to be modest compared with many other types of industries. Calculating Scope 3, which primarily refers to the emissions banks finance across their portfolios, is a challenge across the sector, not only for smaller regional banks but for large multinational banks as well. Banks and other financial institutions will need to address increasing stakeholder pressure to improve disclosure of carbon and other greenhouse gas emissions, as well as prepare for the possibility of increased carbon regulation and/or carbon taxes. In common with most peers, the company's direct loan exposure to carbon-intensive industries is considered minimal relative to the total loan portfolio.

Social Factors

The banks have a strong social mission and is active in fostering economic development in its communities of operation, including small business lending and other lending, as well as other community banking services and Community Reinvestment Act (CRA) activities. Additionally, the bank received a satisfactory CRA rating during its last examination.

Governance Factors

An effective risk management framework includes the bank's process for identifying, assessing and responding to ESG-related risks and opportunities, such as ESG focused staff and resources, board oversight, ESG issues incorporated into capital allocation, cyber risk and fraud management. ALPIB's cybersecurity efforts are viewed as in line with peers, with no incidents of significance noted in recent years.

Operating Environment

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

External Support

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

Ratings Approach

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

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