CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

SOLERA NATIONAL BANCORP, INC.
AND SUBSIDIARY

December 31, 2020 and 2019

Independent Auditor's Report

To the Audit Committee and Board of Directors
Solera National Bancorp, Inc. and Subsidiary
Lakewood, Colorado

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Solera National Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solera National Bancorp, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 51 through 55 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Eide Bailly LLP

Denver, Colorado
March 24, 2021

Solera National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,

	2020	2019
ASSETS	(in thousands, except for shares outstanding)	
Cash and cash equivalents	$ 10,584	$ 1,703
Interest-bearing deposits with banks	807	16,033
Investment securities, available-for-sale	52,877	29,094
Investment securities, held-to-maturity	10,418	6,411
Loans, net	337,687	212,024
Nonmarketable equity securities, restricted	1,322	1,247
Bank-owned life insurance	4,937	4,830
Premises and equipment, net	13,155	8,316
Accrued interest receivable	1,886	1,076
Deferred tax asset, net	178	797
Other assets	1,941	582
Total Assets	$ 435,792	$ 282,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	$ 235,172	$ 154,105
Interest-bearing demand	12,576	7,955
Savings and money market	83,399	39,624
Time deposits	50,999	35,285
Total deposits	382,146	236,969
Accrued interest payable	50	120
Accounts payable and other liabilities	1,566	494
FHLB advances	4,000	4,000
Total liabilities	387,762	241,583
Commitments and contingencies (see Notes N, O)		
Stockholders' equity		
Common stock [1]	43	41
Additional paid-in capital	38,518	37,587
Accumulated surplus	8,718	2,784
Accumulated other comprehensive income	751	118
Total stockholders' equity	48,030	40,530
Total Liabilities and Stockholders' Equity	$ 435,792	$ 282,113

[1] 10,000,000 shares of $0.01 par value authorized; 4,276,953 and 4,143,620 shares outstanding as of December 31, 2020 and 2019, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years ended December 31,

	2020	2019
	(in thousands)	
Interest income		
Interest and fees on loans	$ 12,539	$ 9,342
Interest on investment securities	1,502	1,031
Dividends on nonmarketable equity securities	62	67
Other interest income	108	357
Total interest income	14,211	10,797
Interest expense		
Deposits	955	1,444
FHLB advances and Fed borrowings	87	71
Total interest expense	1,042	1,515
Net interest income	13,169	9,282
Provision for loan losses	2,147	540
Net interest income after provision for loan losses	11,022	8,742
Noninterest income		
Service charges and fees	422	261
Other income	448	155
Gain on loan sold	84	-
Gain on sale of available-for-sale securities, net	1,476	278
Total noninterest income	2,430	694
Noninterest expense		
Employee compensation and benefits	3,576	3,103
Occupancy and equipment	420	223
Professional fees	163	179
Data processing	935	774
Other general and administrative	684	568
Total noninterest expense	5,778	4,847
Income before income taxes	7,674	4,589
Income tax expense	1,740	1,027
Net income	$ 5,934	$ 3,562
Comprehensive income		
Net change in unrealized gains on securities	845	923
Income tax effect	(212)	(228)
Total other comprehensive income	633	695
Total comprehensive income	$ 6,567	$ 4,257

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2020 and 2019

	Shares Outstanding	Common Stock	Additional Paid- in Capital	Accumulated Surplus (Deficit)	Treasury Stock	Accumulated Other Comprehensive Gain (Loss)	Total
			(in thousands, except for shares outstanding)				
Balances at January 1, 2019	4,089,396	$ 41	$ 36,953	$ (778)	$ (156)	$ (577)	$ 35,483
Stock-based compensation	-	-	240	-	-	-	240
Options exercised	80,000	-	550	-	-	-	550
Reissuance of common stock held in treasury	(25,776)	-	(156)	-	156	-	-
Net income	-	-	-	3,562	-	-	3,562
Other comprehensive gain	-	-	-	-	-	695	695
Balances at December 31, 2019	4,143,620	$ 41	$ 37,587	$ 2,784	$ -	$ 118	$ 40,530
Options exercised	133,333	2	931	-	-	-	933
Net income	-	-	-	5,934	-	-	5,934
Other comprehensive gain	-	-	-	-	-	633	633
Balances at December 31, 2020	4,276,953	$ 43	$ 38,518	$ 8,718	$ -	$ 751	$ 48,030

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years ended December 31,

	2020	2019
Cash flows from operating activities	(in thousands)	
Net income	$ 5,934	$ 3,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	219	198
Provision for loan losses	2,147	540
Net amortization of premiums on investment securities	587	250
Stock-based compensation	-	240
Gain on sale of loan	(84)	-
Gain on sale of available-for-sale securities, net	(1,476)	(278)
Deferred income tax benefit (expense)	407	(135)
Federal Home Loan Bank stock dividends	(3)	(9)
Increase in bank-owned life insurance cash surrender value	(107)	(109)
Net change in:		
Accrued interest receivable	(810)	19
Other assets	(1,365)	462
Accrued interest payable	(71)	(12)
Accounts payable and other liabilities	1,072	107
Net cash provided by operating activities	$ 6,450	$ 4,835
Cash flows from investing activities		
Purchases of investment securities held to maturity	$ (4,000)	$ (1,497)
Activity in securities available for sale:		
Purchases	(66,195)	(11,526)
Maturities, prepayments, and calls	9,171	3,651
Sales	34,967	10,731
Purchases of nonmarketable equity securities, net	(72)	(37)
Loan originations, net	(127,809)	(44,903)
Purchases of premises and equipment	(4,971)	(6,743)
Proceeds from sale of premises and equipment	4	-
Decrease (increase) in interest bearing deposits in banks, net	15,227	(15,474)
Net cash (used by) investing activities	$ (143,678)	$ (65,798)

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years ended December 31,

	2020	2019
	(in thousands)	
Cash flows from financing activities		
Net change in deposits	$ 145,176	$ 56,287
Proceeds from stock options exercised	933	550
Net cash provided by financing activities	$ 146,109	$ 56,837
Net change in cash and cash equivalents	$ 8,881	$ (4,126)
Cash and cash equivalents at beginning of year	1,703	5,829
Cash and cash equivalents at end of year	$ 10,584	$ 1,703
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 1,114	$ 1,526
Cash paid during the year for income taxes	$ 2,545	$ 1,265

The accompanying notes are an integral part of these consolidated financial statements.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Solera National Bancorp, Inc. (the "Holding Company") is a Delaware corporation that was incorporated to organize and serve as the holding company for Solera National Bank (the "Bank"), which opened for business in 2007. Solera National Bank is a full-service commercial bank headquartered in Lakewood, Colorado. The entities collectively are referred to as the "Company".

The Company offers a broad range of commercial and consumer banking services to small and medium-sized businesses, licensed professionals and individuals who are particularly responsive to the personalized service that Solera National Bank provides to its customers. The Company believes that local ownership and control allows the Bank to serve customers efficiently and effectively. Solera National Bank competes on the basis of providing a personalized banking experience combined with a broad range of services, customized and tailored to fit the individual needs of its clients. The Company remains focused on executing its strategy of delivering prudent and controlled growth to efficiently leverage the Company's capital while controlling its expense base to achieve sustained profitability.

The Company's ultimate objective is to create shareholder value through its recognition as the premier community bank in Colorado. We are committed to running a lean and efficient organization that can execute on business decisions quickly. Additionally, the Company believes in providing transparent financial reporting to our stakeholders through publication of quarterly earnings releases and annual audited financial statements. The Company's common stock is traded over-the-counter under the ticker symbol SLRK.

Since the Company operates in Colorado, the operating results are significantly influenced by economic conditions in Colorado, particularly the health of the real estate market. Additionally, the Company is subject to competition from other financial institutions and is impacted by fiscal and regulatory policies of the federal government as well as regulatory oversight by the Office of the Comptroller of the Currency, (the "OCC") and the Federal Reserve Bank of Kansas City (the "FRB").

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of Solera National Bancorp, Inc. and its wholly-owned subsidiary, Solera National Bank. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and prevailing practices within the banking industry.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 fair value of financial instruments.

In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral. Management believes that the allowance for loan losses and the valuation of other real estate owned, if any, are adequate. While management uses available information to recognize losses on loans and other real estate owned, changes in economic conditions may necessitate revisions in future years.

Business Segments

The Company uses the "management approach" for reporting information about segments and has determined that during 2020 and 2019, its business was comprised of one operating segment: community banking.

Presentation of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents includes cash, balances due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. Cash flows from loans, deposits, and securities sold under agreements to repurchase and federal funds purchased are reported net.

The Company may maintain amounts due from banks, which exceed federally insured limits. The Company has not experienced nor does it anticipate any losses in such accounts.

Investment Securities

Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investments to be held for an indefinite amount of time, but not necessarily to maturity, are classified as available-for-sale and reported at fair value using Level 2 inputs. For these securities, the Company obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things. Unrealized gains and losses are reported as a separate component of accumulated other comprehensive income. Premiums or discounts are amortized or accreted into income using the interest method. Realized gains or losses are recorded using the specific identification method.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than temporary. Securities are evaluated for impairment utilizing criteria such as the magnitude and duration of the decline, current market conditions, payment history, the credit worthiness of the obligor, the intent of the Company to retain the security or whether it is more likely than not that the Company will be required to sell the security before recovery of the value, as well as other qualitative factors. If a decline in value below amortized cost is determined to be other-than-temporary, which does not necessarily indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not favorable, the security is reviewed in more detail in order to determine the portion of the impairment that relates to credit (resulting in a charge to earnings) versus the portion of the impairment that is noncredit related (resulting in a charge to accumulated other comprehensive income, net of taxes). If it is more likely than not that sale of the security will be required prior to recovery of its amortized cost, the entire impairment is recognized in earnings equal to the difference between the amortized cost basis and the fair value. A credit loss is determined by comparing the amortized cost basis to the present value of cash flows expected to be collected, computed using the original yield as the discount rate.

Loan Commitments and Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note N. Such financial instruments are recorded in the financial statements when they are funded, or related fees are incurred or received.

Loans

Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances net of any deferred fees or costs, and reduced by any charge-offs and the allowance for loan losses.

Credit and loan decisions are made by management and the Board of Directors' Credit Committee in conformity with established loan policies. The Company's practice is to charge-off any loan or portion of a loan when the loan is determined to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss, or for other reasons.

The Company considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans (see Interest and Fees on Loans, below).

Troubled debt restructurings ("TDRs") are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria. See *Impaired Loans and Troubled Debt Restructurings* in Note C regarding the treatment of TDRs for customers affected by the Coronavirus.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectability of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Interest and Fees on Loans

Interest income is recognized daily in accordance with the terms of each note based on the outstanding principal balance. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Generally, the accrual of interest on loans is discontinued when principal or interest is 90 days past due based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the Company's recorded investment in the loan (the customer's balance less any partial charge-offs) is deemed collectible. Interest accruals are resumed on such loans only when they are brought current and when, in the judgment of management, the loans are estimated to be fully collectible as to all interest and the Company's recorded investment. Past due government-guaranteed student loans are not placed on nonaccrual status, even when over 90 days past due, as both the principal and accrued unpaid interest are covered by the government guarantee.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent by 30 days or more. During the 2020 global pandemic, known as COVID-19, the Company approved payment deferrals to certain customers that resulted in payments being deferred. However, these loans were not classified as past due, given the unusual circumstances. See additional discussion under *COVID-19 and CARES Act*.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan using the effective interest method and without anticipating prepayments.

Provision and Allowance for Loan Losses

Implicit in the Company's lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loans being made and the creditworthiness of the borrowers over the terms of the loans. The allowance for loan losses represents the Company's recognition of the risks of extending credit and its evaluation of the loan portfolio. The evaluation of the allowance is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses based on management's assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged-off, net of recoveries. Loan losses are charged against the allowance for loan losses when management believes the balance is uncollectible.

The Company has established a formal process for determining an adequate allowance for loan losses. The allowance for loan losses calculation has two components. The first component represents the allowance for loan losses for impaired loans; that is, loans where the Company believes collection of the contractual principal and interest payments is not probable. To determine this component of the calculation, impaired loans and leases are individually evaluated by either discounting the expected future cash flows or determining the fair value of the collateral, if repayment is expected solely from collateral. The fair value of the collateral is determined using internal analyses as well as third-party information, such as appraisals. That value, less estimated costs to sell, is compared to the recorded investment in the loan and any shortfall is charged-off. Unsecured loans and loans that are not collateral-dependent are evaluated by calculating the discounted cash flow of the payments expected over the life of the loan using the loan's effective interest rate and giving consideration to currently existing factors that would impact the amount or timing of the cash flows. The shortfall between the recorded investment in the loan and the discounted cash flows, or the fair value of the collateral less estimated costs to sell, represents the first component of the allowance for loan losses.

The second component of the allowance for loan losses represents contingent losses – the estimated probable losses inherent within the portfolio due to uncertainties. To determine this component, management calculates an historical loss rate based on the Bank's actual loss rate over its history. Management then adjusts the loss rate for environmental factors which include, but are not limited to: 1) historical and current trends in downgraded loans; 2) the level of the allowance in relation to total loans; 3) the levels and trends in non-performing and past due loans; and 4) management's assessment of economic conditions and certain qualitative factors as defined by bank regulatory guidance, including but not limited to, changes in the size, composition and concentrations of the loan portfolio, changes in the legal and regulatory environment, and changes in lending management. The qualitative factors also consider the risk elements within each segment of the loan portfolio.

The risk of loss on any particular loan is primarily influenced by the difference between the expected and actual cash flows of the borrower and the type of collateral securing the loan. For real estate secured loans, conditions in the real estate markets, as well as the general economy, influence real estate values and may impact the Company's ability to recover its investment due to declines in the fair value of the underlying collateral. The risks in non-real estate secured loans include general economic conditions, as well as interest rate changes.

Additionally, classified and criticized loans, which are closely monitored by management, are taken out of their original category for calculating their contingent loss rate and are assigned an appropriate loss rate. The aggregate of the above described segments represents the contingent losses in the loan portfolio.

The recorded allowance for loan losses is the aggregate of the impaired loan component and the contingent loss component. The Company aggregates loans into five portfolio segments: Commercial Real Estate; Residential Real Estate; Commercial and Industrial; Construction and Land Development; and Consumer. These segments are based upon the loan's categorization in the Consolidated Report of Condition and Income, as set forth by banking regulators, (the "Call Report"). The methodology for estimating the allowance has not changed materially during the current or prior reporting period and is consistent across all portfolio segments and classes of loans.

At December 31, 2020, the Company had an allowance for loan losses of approximately $4.9 million. The Company believes that this is adequate to cover probable losses based on currently available information. Future additions to the allowance for loan losses may be required based on management's continuing evaluation of the inherent risks in the portfolio. Additional provisions for loan losses may be needed if the economy declines, asset quality deteriorates, or the loss experience changes. Additionally, the measure of the allowance for loan losses is dependent on the accounting standards in effect. The adoption of a new accounting standard could have a material impact on the measure of the allowance for loan losses. In June 2016, the Financial Accounting Standards Board, ("FASB"), issued the Current Expected Credit Loss, ("CECL"), standard which will require financial institutions to estimate a provision for credit losses for the lifetime of the loan, as opposed to reserving for incurred or probable losses up to the balance sheet date. Accordingly, CECL could require the Bank to increase its allowance for loan losses and may also cause more volatility in the Bank's level of allowance for loan losses. In October 2019, the FASB voted to delay CECL implementation for certain companies, therefore ASU 2016-13 is effective for the Company beginning January 1, 2023. See Applicable Accounting Standards Update for further information regarding CECL.

Transition of LIBOR to an Alternative Reference Rate

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that after 2021 it will no longer persuade or compel banks to submit rates for the calculation of LIBOR. In response, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee to identify a set of alternative reference interest rates for possible use as market benchmarks. This committee has proposed the Secured Overnight Financing Rate ("SOFR") as its recommended alternative to U.S. dollar LIBOR, and the Federal Reserve Bank of New York began publishing SOFR rates in the second quarter of 2018. SOFR is based on a broad segment of the overnight Treasury repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Certain of the Company's assets and liabilities are indexed to LIBOR, with exposure extending past December 31, 2021. The Company is currently evaluating and planning for the eventual replacement of the LIBOR benchmark interest rate, including the possibility of SOFR as the dominant replacement. In general, the transition away from LIBOR may result in increased market risk, credit risk, operational risk and business risk for the Company.

Leases

A lease is defined as a contract that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The Company evaluates whether an arrangement contains a lease at contract inception and recognizes a right-of-use ("ROU") asset and operating lease liability based on the present value of lease payments over the lease term. Options to extend operating lease terms are included in the calculation of an ROU asset and lease liability when it is reasonably certain the option will be exercised. Most of the Company's leases do not provide an implicit rate and, therefore, we determine the present value of lease payments using the Company's incremental borrowing rate. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets. Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components for which we have elected to account for as a single lease component. The Company's ROU asset is subject to an annual impairment analysis, and no impairment is noted as of December 31, 2020.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Nonmarketable Equity Securities

The Bank is a member of the Federal Home Loan Bank of Topeka ("FHLB") and the Federal Reserve Bank of Kansas City ("FRB"). In both banks, members are required to own a certain amount of stock. As such, the Bank owns stock in both the FHLB and FRB. Bank stocks are carried at cost, classified as restricted securities and periodically reviewed for impairment. Both cash and stock dividends are reported as income in the period declared.

Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure or deed in lieu of foreclosure and is carried at its fair value less estimated costs to sell. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are taken as a valuation allowance and charged to earnings as an operating expense. Operating income of such properties, net of related expenses, are included in other noninterest income. There was no other real estate owned as of December 31, 2020 or 2019.

Premises and Equipment

Land is carried at cost. Buildings, equipment, and software are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful life of the asset. Building and improvements carry an estimated useful life of 39 years and equipment and software carry estimated useful lives ranging from one to seven years. Expenditures for improvements or major repairs are capitalized and those for ordinary repairs and maintenance are charged to noninterest expense when incurred.

Core Deposit Intangible

The Company's core deposit intangible includes the deposit premium paid and other transaction costs incurred in conjunction with the acquisition of customer deposits. Intangible assets are amortized over their estimated useful lives, using the straight-line method. Intangible assets are assessed for impairment at least quarterly, or when events or circumstances indicate a possible inability to realize the carrying amount. The core deposit intangible is included in Other Assets on the Company's Consolidated Balance Sheets and the amortization of the core deposit intangible is included in Other General and Administrative expenses on the Company's Consolidated Statements of Comprehensive Income. The core deposit intangible was fully amortized during 2020 and had a zero balance as of December 31, 2020.

Share-Based Compensation

The Company can grant stock options as incentive compensation to employees and directors. The cost of employee/director services received in exchange for an award of equity instruments is based on the grant-date fair value of the award, which is determined using a Black-Scholes-Merton model. This cost is expensed to employee compensation and benefits over the period in which the recipient is required to provide services in exchange for the award, generally the vesting period.

Additionally, the Company can grant restricted stock awards. These stock awards may vest based on a performance or service condition. For awards that vest based on a service condition, the compensation expense is recognized over the service period based on the grant-date fair value of the award (as determined by the quoted market price on the date of grant). For awards that vest based on a performance condition, the expense is recognized based on the number of awards that are expected to vest based on then-current projections. Should these expectations change in future periods, additional expense could be recorded or expense previously recorded could be reversed. Prior to the vesting of stock awards, each restricted stock grantee shall have the rights of a stockholder with respect to voting and dividend rights of the granted stock.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

COVID-19 and CARES Act:

On March 11, 2020 the World Health Organization declared the outbreak of COVID-19 a global pandemic, which continues to spread throughout the United States and the around the world. In response to the COVID-19 pandemic, the President signed the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") into law on March 27, 2020. The objective of the CARES Act is to prevent a severe economic downturn using various measures, including economic stimulus to significantly impacted industry sectors. We continue to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act and other government actions. However, the extent to which the COVID-19 pandemic will impact our operations and financial results is highly uncertain.

The CARES Act created the Paycheck Protection Program ("PPP"), which is administered by the Small Business Administration ("SBA"). The PPP is intended to provide loans to small businesses to pay their employees, rent, mortgage interest and utilities. The loans may be forgiven conditioned upon the client providing payroll documentation evidencing their compliant use of funds and otherwise complying with the terms of the program. The Bank is an approved SBA lender and supported the community and clients by originating PPP loans during 2020. PPP loans are classified in the commercial and industrial segment of the loan portfolio. See Note C for further discussion on our PPP loans.

As a result of the COVID-19 pandemic, a loan modification program was designed and implemented to assist our clients experiencing financial stress resulting from the economic impacts caused by the global pandemic. The Company offered, temporary payment moratoriums, loan extensions and financial covenant waivers for commercial and consumer borrowers impacted by the pandemic.

The CARES Act provides banks optional, temporary relief from accounting for certain loan modifications as TDRs. The modifications must be related to the adverse effects of COVID-19, and certain other criteria are required to be met in order to apply the relief. Interagency guidance from Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") confirmed with the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered a TDR. We believe our loan modification program meets that definition and have not classified any of these modifications as a TDR or past due at December 31, 2020. See Note C for further discussion on our loan modification program.

Applicable Accounting Standards Updates

Adoption of New Accounting Standards:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The standard established a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. ASU 2016-02 became effective for the Company on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the Financial Accounting Standards Board issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* which, among other things, provided an additional transition method that allows entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by the related accounting guidance). The updates did not significantly change lease accounting requirements applicable to lessors and therefore did not significantly impact our financial statements in relation to contracts where we act as a lessor. We applied the modified-retrospective transition approach prescribed by ASU 2018-11. Upon adoption of ASU 2016-02 and ASU 2018-11 on January 1, 2019, we recognized a right-of-use asset and related lease liability of $46,000; no cumulative-effect adjustment to beginning retained earnings was recorded due to insignificance.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The amendments in the update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, for entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. ASU 2018-13 was effective for the Company beginning January 1, 2020 and did not have a significant impact on the Company's consolidated financial statements as the Company does not have any recurring Level 3 assets or liabilities.

In March 2020, various regulatory agencies, including the Federal Reserve and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the Coronavirus. The interagency statement was effective immediately and impacted accounting for loan modifications. This interagency statement was later revised in April 2020 to clarify the interaction between the original interagency statement and section 4013 of the CARES Act, as well as the agencies' views on consumer protection considerations. Under Accounting Standards Codification 310-40, *Receivables – Troubled Debt Restructurings by Creditors,* ("ASC 310-40"), a restructuring of debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. To qualify, borrowers had to be current (e.g. less than 30 days past due) with their contractual payments at the time of modification. As of December 31, 2020, there were eight loans, with principal balances totaling $16.1 million, that were not considered TDRs despite the loans being granted payment concessions, as those concessions were within the scope of the interagency guidance – short-term modifications made in response to the COVID-19 pandemic.

In April 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). ASU 2020-04 is intended to provide relief for companies preparing for discontinuation of interest rates based on LIBOR. The ASU provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or other reference rates expected to be discontinued. ASU 2020-04 also provides for a one-time sale and/or transfer to AFS or trading to be made for HTM debt securities that both reference an eligible reference rate and were classified as HTM before January 1, 2020. ASU 2020-04 was effective for all entities as of March 12, 2020 and through December 31, 2022. Companies can apply the ASU as of the beginning of the interim period that includes March 12, 2020 or any date thereafter. The guidance requires companies to apply the guidance prospectively to contract modifications and hedging relationships while the one-time election to sell and/or transfer debt securities classified as HTM may be made any time after March 12, 2020. ASU 2020-04 was effective for the Company on March 12, 2020 and did not have a material impact on the Company's financial statement disclosures.

Recently Issued, but Not-Yet-Effective, Accounting Standards:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The objective of ASU 2016-13 is to provide financial statement users with decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 includes provisions that require financial assets measured at amortized cost (such as loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected. This will be accomplished through recognition of an estimate of all expected credit losses over the contractual term of the financial asset. The estimate will include forecasted information for the timeframe that an entity is able to develop reasonable and supportable forecasts. This is a change from the current practice of recognizing incurred losses based on the probable initial recognition threshold under current GAAP. In addition, credit losses on available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a write-down. Under ASU 2016-13, an entity will be able to record reversals of credit losses in current period income when the estimate of credit losses declines, whereas current GAAP prohibits reflecting those improvements in current period earnings.

In October 2019, the FASB voted to delay CECL implementation for certain companies. ASU 2016-13 is effective for the Company beginning January 1, 2023, and early adoption is permitted. ASU 2016-13 will be applied through a cumulative effect adjustment to retained earnings (modified-retrospective approach), except for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective transition approach is required for these debt securities. We are currently developing an implementation plan, including assessment of processes, segmentation of the loan portfolio and identifying and adding data fields necessary for the analysis. The adoption of this standard is likely to result in an increase in the allowance for loan and lease losses as a result of changing from an incurred loss model to an expected loss model. While we currently cannot reasonably estimate the impact of adopting this standard, we expect the impact will be influenced by the composition, characteristics and quality of our loan and securities portfolios, as well as the general economic conditions and forecasts as of the adoption date. ASU 2016-13 adds complexity and costs to our current credit loss evaluation process. The Company will continue to evaluate the effects on its financial statements and disclosures.

During 2020, and thus far in 2021, the FASB has issued other ASU's which may impact banks or other entities but do not, or are not expected to, have a material impact on our financial position, results of operations or cash flows. Given their insignificance to the Company, these ASUs have not been disclosed in this document.

Income per Common Share

Basic earnings per common share ("EPS") is based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share is similar to basic EPS except that the weighted-average number of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period. See Note L – Earnings Per Share for further information.

Income Taxes

Income tax expense (benefit) is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes relate primarily to differences between the timing of recognizing tax expense for items such as start-up costs, the allowance for loan losses, unrealized gains or losses on securities available for sale and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company recognizes interest and penalties, if any, in Other General and Administrative expense. There were no interest or penalties recorded or accrued at December 31, 2020 or 2019. Similarly, as of December 31, 2020 and 2019, the Company has no uncertain income tax positions as defined in Accounting Standards Codification ("ASC") 740, *Income Taxes*.

Comprehensive Income

For the years ended December 31, 2020 and 2019, the Company's comprehensive income included net income from operations and unrealized gains and losses on investment securities, net of applicable taxes.

NOTE B - SECURITIES

The Company owns bonds in corporations, state and local municipalities, residential agency mortgage-backed securities ("MBS"), residential agency collateralized mortgage obligations ("CMOs") and bonds issued directly by the United States Government ("U.S. Agency"). The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale:				
Corporate	$ 13,076	$ 48	$ (98)	$ 13,026
State and municipal	29,142	656	(9)	29,789
Residential agency MBS and CMOs	8,925	389	(14)	9,300
U.S. agency	732	30	-	762
Total securities available-for-sale	$ 51,875	$ 1,123	$ (121)	$ 52,877
Securities Held-to-Maturity:				
Corporate	$ 10,418	$ 191	$ (313)	$ 10,296
Total securities held-to-maturity	$ 10,418	$ 191	$ (313)	$ 10,296

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale:				
Corporate	$ 9,891	$ 39	$ (36)	$ 9,894
State and municipal	6,130	70	(7)	6,193
Residential Agency MBS and CMOs	12,080	167	(68)	12,179
U.S. agency	836	-	(8)	828
Total securities available-for-sale	$ 28,937	$ 276	$ (119)	$ 29,094
Securities Held-to-Maturity:				
Corporate	$ 6,411	$ 5	$ (310)	$ 6,106
Total securities held-to-maturity	$ 6,411	$ 5	$ (310)	$ 6,106

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2020 are shown below. Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in one year or less	$ 4,007	$ 4,045	$ -	$ -
Due after one year through five years	8,783	8,758	3,248	3,099
Due after five years through ten years	1,829	1,915	7,170	7,197
Due after ten years	28,331	28,859	-	-
	42,950	43,577	10,418	10,296
Residential agency MBS and CMOs	8,925	9,300	-	-
	$ 51,875	$ 52,877	$ 10,418	$ 10,296

The following tables show the estimated fair value and gross unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous loss position as of December 31, 2020 and 2019.

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
Securities Available-for-Sale:						
Corporate	$ 5,093	$ (82)	$ 984	$ (16)	$ 6,077	$ (98)
State and municipal	958	(9)	-	-	958	(9)
Residential agency MBS and CMOs	338	(2)	476	(12)	814	(14)
Total temporarily-impaired, securities available-for-sale	$ 6,389	$ (93)	$ 1,460	$ (28)	$ 7,849	$ (121)
Securities Held-to-Maturity:						
Corporate	$ 1,469	$ (29)	$ 4,216	$ (284)	$ 5,685	$ (313)
Total temporarily-impaired, securities held-to-maturity	$ 1,469	$ (29)	$ 4,216	$ (284)	$ 5,685	$ (313)

	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
Securities Available-for-Sale:						
Corporate	$ 1,583	$ (13)	$ 1,977	$ (23)	$ 3,560	$ (36)
State and municipal	1,222	(1)	542	(6)	1,764	(7)
Residential agency MBS and CMOs	832	(1)	4,232	(67)	5,064	(68)
U.S. Agency	828	(8)	-	-	828	(8)
Total temporarily-impaired, securities available-for-sale	$ 4,465	$ (23)	$ 6,751	$ (96)	$ 11,216	$ (119)
Securities Held-to-Maturity:						
Corporate	$ -	$ -	$ 4,603	$ (310)	$ 4,603	$ (310)
Total temporarily-impaired, securities held-to-maturity	$ -	$ -	$ 4,603	$ (310)	$ 4,603	$ (310)

Management evaluates securities for other-than-temporary impairment 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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2020 and 2019, no declines were deemed to be other-than temporary.

For the years ended December 31, 2020 and 2019, the Company received $35.0 million and $10.7 million in proceeds from the sale of investment securities with gross realized gains of $1.5 million and $283,000, respectively. The Company had gross realized losses of $1,000 for 2020 and gross realized losses of $5,000 during 2019.

Securities with carrying values of $14.4 million and $10.4 million at December 31, 2020 and 2019, respectively, were pledged as collateral to secure public deposits, borrowings from the FHLB or for other purposes as required or permitted by law.

NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table sets forth the composition of the loan portfolio:

	December 31, 2020	December 31, 2019
	(in thousands)	
Commercial real estate ("CRE")	$ 149,461	$ 129,789
Residential real estate	29,436	29,045
Commercial and industrial	126,935 [1]	22,311
Construction and land development	24,066	17,890
Consumer	14,991	16,424
Subtotal	344,889 [2]	215,459
Less: Allowance for loan losses	(4,900)	(2,770)
Net deferred loan fees and discount on student loans	(2,302)	(665)
Loans, net	$ 337,687	$ 212,024

[1] 2020 amount includes PPP loans.

[2] 2020 amount includes $706 thousand of COVID-19 related payment deferrals, which have been added to fees due at payoff/maturity and have not been capitalized to the principal balance of the loan.

The Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral. No single borrower can be approved for a loan over the Company's current legal lending limit of approximately $7.8 million. This regulatory requirement helps to ensure the Company's exposure to one individual customer is limited.

With the passage of the PPP, the Company actively participated in assisting small and medium-sized businesses obtaining emergency funds through the program. PPP loans originated prior to June 5, 2020, have a two-year term and those originated on or after June 5, 2020, have a five-year term. All PPP loans earn interest at 1.0%. As of December 31, 2020, there were 554 loans with outstanding principal balances of $73.7 million that were originated under the PPP program and are included in the commercial and industrial segment of the loan portfolio. It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish additional allowance for loan loss through additional provision for loan loss expense charged to earnings.

In addition to generating interest income, the SBA pays a lender's fees for processing PPP loans. As of December 31, 2020, the Company has $1.5 million in PPP-related SBA processing fees ("PPP fees") remaining to be recognized and is accreting these deferred fees into interest income over the life of the applicable loans. If a PPP loan is forgiven or paid off before maturity, the remaining deferred fee is realized into interest-income at that time. The Company began to receive PPP forgiveness payments from the SBA in October and recognized $1.5 million in PPP fees through December 31, 2020. PPP activity for the year ended December 31, 2020 is summarized as follows:

	PPP Loan Activity	
	Year Ended December 31, 2020	
(in thousands)	Principal	Deferred PPP fees
Originated PPP loans	$ 93,719	$ 2,970
Principal paydowns/fees earned	(20,014)	(1,450)
Outstanding balance	$ 73,705	$ 1,520

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Activity in the allowance for loan and lease losses for the years ended December 31, 2020 and 2019 is summarized as follows:

Rollforward of Allowance for Loan and Lease Losses by Portfolio Segment

Twelve Months Ended December 31, 2020

(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Balance at December 31, 2019	$ 1,745	$ 178	$ 454	$ 304	$ 89	$ 2,770
Provision for loan losses	912	717	388	128	2	2,147
Charge-offs	-	-	(2)	-	(17)	(19)
Recoveries	-	-	2	-	-	2
Net (charge-offs) recoveries	-	-	-	-	(17)	(17)
Balance at December 31, 2020	$ 2,657	$ 895	$ 842	$ 432	$ 74	$ 4,900

Rollforward of Allowance for Loan and Lease Losses by Portfolio Segment

Twelve Months Ended December 31, 2019

(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Balance at December 31, 2018	$ 1,481	$ 264	$ 307	$ 75	$ 147	$ 2,274
Provision for loan losses	264	(86)	147	229	(14)	540
Charge-offs	-	-	-	-	(45)	(45)
Recoveries	-	-	-	-	1	1
Net (charge-offs) recoveries	-	-	-	-	(44)	(44)
Balance at December 31, 2019	$ 1,745	$ 178	$ 454	$ 304	$ 89	$ 2,770

Components of the allowance for loan and lease losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

Loan and Allowance for Loan and Lease Losses by Portfolio Segment

December 31, 2020

(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Loan Balance (based on evaluation of impairment method):						
Individually	$ 962	$ -	$ -	$ -	$ 8	$ 970
Collectively	149,461	29,436	126,935	24,066	14,983	344,881
Total	$ 150,423	$ 29,436	$ 126,935	$ 24,066	$ 14,991	$ 345,851
Allowance for Loan Losses (based on evaluation of impairment method):						
Individually	$ -	$ -	$ -	$ -	$ 4	$ 4
Collectively	2,657	895	842	432	70	4,896
Total	$ 2,657	$ 895	$ 842	$ 432	$ 74	$ 4,900

Loan and Allowance for Loan and Lease Losses by Portfolio Segment

December 31, 2019

(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Loan Balance (based on evaluation of impairment method):						
Individually	$ -	$ -	$ -	$ -	$ 11	$ 11
Collectively	129,789	29,045	22,311	17,890	16,413	215,448
Total	$ 129,789	$ 29,045	$ 22,311	$ 17,890	$ 16,424	$ 215,459
Allowance for Loan Losses (based on evaluation of impairment method):						
Individually	$ -	$ -	$ -	$ -	$ 5	$ 5
Collectively	1,745	178	454	304	84	2,765
Total	$ 1,745	$ 178	$ 454	$ 304	$ 89	$ 2,770

Impaired Loans and Troubled Debt Restructurings

In keeping with regulatory guidance to work with borrowers during this unprecedented situation and as outlined in the CARES Act, the Company has worked with customers affected by COVID-19 and offered short-term assistance in accordance with regulatory guidelines. Commercial borrowers needing assistance have been offered either a 90-day principal and interest deferral or a 180-day principal only deferral. Commercial borrowers have to provide their previous year financial information, current year interim financial information, projections for the calendar year and information related to cash reserves to show a need for the payment deferral. Consumers needing assistance have been offered a 90-day principal and interest deferral. Deferred interest was added to the loan balance as an added fee to be collected at the time of pay-off or maturity. As of December 31, 2020, the Company had six remaining deferrals on outstanding commercial real estate loan balances of $14.5 million, with interest deferred of $204,000, and two remaining deferrals on outstanding residential real estate loan balances of $1.6 million, with interest deferred of $31,000. In accordance with interagency guidance issued in March 2020, these short-term deferrals are not automatically considered troubled debt restructurings, are not reflected in past due loan balances, and have not been reported as a classified loan solely due to a deferral. These deferred loans are subject to ongoing monitoring and will be downgraded or placed on nonaccrual if a noted weakness exists.

There was one impaired, TDR nonaccrual loan with a recorded investment[1] of $997,000 and unpaid principal balance totaling $962,000 as of December 31, 2020. The impaired loan was a CRE loan and had no valuation allowance at December 31, 2020 as the loan was well secured. The Company recognized $15,000 of interest income during 2020 on this impaired loan. Additionally, there was one impaired, nonaccrual consumer loan with a recorded investment and unpaid principal balance totaling $8,000 as of December 31, 2020. This impaired loan had a valuation allowance of $4,000 and no interest income was recognized during 2020 on this impaired loan.

As of December 31, 2019, there was one impaired, nonaccrual consumer loan with a recorded investment and unpaid principal balance totaling $11,000. This impaired loan had a valuation allowance of $5,000 and no interest income was recognized during 2019 on this impaired loan.

No previously restructured loans subsequently defaulted and were charged-off during 2020 or 2019.

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[1] The recorded investment represents the customer balance less partial charge-offs, if any, and excluding any accrued interest receivable since most impaired loans are on nonaccrual status.

Past Due and Nonaccrual Loans

The following tables show past due loans, by class, as of December 31, 2020 and 2019:

Age Analysis of Loans by Class

Year Ended December 31, 2020

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
CRE - owner occupied	$ -	$ -	$ -	$ -	$ -
CRE - non-owner occupied	-	-	-	962	962
Commercial and industrial	-	-	-	-	-
Residential real estate	1,571	-	-	-	1,571
Construction and land development	-	-	-	-	-
Government guaranteed	737	657	2,106	-	3,500
Consumer	-	-	-	8	8
Total	$ 2,308	$ 657	$ 2,106	$ 970	$ 6,041

The government guaranteed past due loans relate to a pool of rehabilitated student loans. Student loans are managed on a pool basis due to their homogeneous nature. Student loans have been acquired at 98.5% of par value. Approximately 97.5% of this principal and interest is guaranteed by the full faith and credit of the United States Treasury under the Higher Education Act of 1965.

Age Analysis of Loans by Class

Year Ended December 31, 2019

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
CRE - owner occupied	$ -	$ -	$ -	$ -	$ -
CRE - non-owner occupied	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Government guaranteed	635	788	1,032	-	2,455
Consumer	-	-	-	11	11
Total	$ 635	$ 788	$ 1,032	$ 11	$ 2,466

The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance and are the same for all classes of loans:

Special Mention: Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment at some future date.

Substandard: Loans in this category are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. These loans have well-defined weaknesses that jeopardize the liquidation of the debt and have the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

Loss: Loans in this category are deemed not collectible and are charged-off.

Loans not meeting any of the definitions above are considered to be pass and pass-watch rated loans.

As of December 31, 2020, and based on the most recent analysis performed during the month of December 2020, the recorded investment in each risk category of loans by class of loan is as follows:

	Credit Quality of Loans by Class				
	Year Ended December 31, 2020				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
CRE - owner occupied	$ 16,205	$ 1,964	$ -	$ -	$ 18,169
CRE - non-owner occupied	117,946	5,766	6,815	-	130,527
Commercial and industrial	52,200	-	-	-	52,200
Residential real estate	24,579	-	4,857	-	29,436
Construction and land development	24,066	-	-	-	24,066
Government guaranteed[1]	90,396	-	-	-	90,396
Consumer	87	-	-	8	95
Total	$ 325,479	$ 7,730	$ 11,672	$ 8	$ 344,889

[1] includes PPP loans

As of December 31, 2019, and based on the analysis performed during the month of December 2019, the recorded investment in each risk category of loans by class of loan is as follows:

	Credit Quality of Loans by Class				
	Year Ended December 31, 2019				
(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
CRE - owner occupied	$ 17,800	$ 1,706	$ 2,695	$ -	$ 22,201
CRE - non-owner occupied	104,206	2,907	475	-	107,588
Commercial and industrial	19,311	3,000	-	-	22,311
Residential real estate	29,045	-	-	-	29,045
Construction and land development	17,890	-	-	-	17,890
Government guaranteed	16,330	-	-	-	16,330
Consumer	83	-	-	11	94
Total	$ 204,665	$ 7,613	$ 3,170	$ 11	$ 215,459

NOTE D – NONMARKETABLE EQUITY SECURITIES

The Company, through its subsidiary bank, is a member of both the Federal Reserve Bank of Kansas City and the Federal Home Loan Bank of Topeka. Membership in these banks requires the Company to maintain an investment in the capital stock of each. These investments are restricted in that they can only be redeemed by the issuer at par value. The Company's investments at December 31, were as follows:

(in thousands)	2020	2019
Federal Reserve Bank of Kansas City	$ 1,039	$ 973
Federal Home Loan Bank of Topeka	283	274
	$ 1,322	$ 1,247

NOTE E – BANK-OWNED LIFE INSURANCE

Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Increases in the cash surrender value are recognized as other noninterest income.

NOTE F – PREMISES AND EQUIPMENT

At December 31, premises and equipment, less accumulated depreciation consisted of the following:

(in thousands)	2020	2019
Land	$ 4,878	$ 4,878
Airplane	4,899	-
Building and improvements	3,573	3,574
Furniture, fixtures and equipment	820	753
	14,170	9,205
Accumulated depreciation	(1,015)	(889)
Total premises and equipment	$ 13,155	$ 8,316

As a tax planning strategy, and to allow for safer travel during the pandemic, the Company invested in a corporate jet in 2020. Depreciation expense on premises and equipment was $128,000 and $73,000 for the years ended December 31, 2020 and 2019, respectively, and is included in occupancy expense in the accompanying consolidated statements of comprehensive income. The Company purchased a building in Cherry Creek, Colorado, during 2019, which primarily accounts for the increase in depreciation expense year-over-year.

NOTE G – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2020 and 2019 was $5.8 million and $10.2 million, respectively.

At December 31, 2020, the scheduled maturities of interest-bearing time deposits are as follows:

For the Years Ending December 31,	(in thousands)
2021	$ 36,099
2022	2,826
2023	5,155
2024	1,614
2025	5,172
Thereafter	133
Total	$ 50,999

Time deposits at December 31, 2020 included approximately $25.9 million in brokered deposits, none of which were reciprocal time deposits. Time deposits at December 31, 2019 included approximately $396,000 in brokered deposits, none of which were reciprocal time deposits. The increase in brokered time deposits in 2020 was primarily to fund PPP loans.

In 2020 and 2019, the Company recorded $28,000 and $67,000, respectively, in amortization expense related to the core deposit intangible from the acquisition of customer deposits in 2013. The core deposit intangible was fully amortized in 2020. As of December 31, 2019, the core deposit intangible balance was $28,000 and is included in Other Assets on the Company's Consolidated Balance Sheets.

NOTE H – FHLB ADVANCES AND OTHER BORROWINGS

The Company is a member of the FHLB and, as a regular part of its business, obtains advances from this FHLB. Overnight advances bear interest at a variable rate while other advances typically bear interest at a fixed rate. All advances are collateralized by certain securities pledged by the Company and some of the Company's qualifying loans. The Company's authorized borrowing line with the FHLB is capped at 40% of total assets, subject to the availability of sufficient collateral to pledge against such borrowings.

As of both December 31, 2020 and 2019, the Company had no fixed-rate borrowings and a $4.0 million European style 10-year advance at a 1.70% fixed rate that was purchased in August 2017 and matures in August 2027. The $4.0 million advance had a convertible call option that was not exercised during 2020 and therefore remains at the 1.70% fixed rate for the remaining 7 years. The borrowing is subject to the FHLB’s standard fixed-rate advance prepayment penalty.

Additionally, the Company had no variable-rate, overnight borrowings as of both December 31, 2020 and 2019. The Bank’s weighted-average effective interest rate on all FHLB borrowings was 1.70% as of December 31, 2020 and 2019.

In addition to FHLB borrowings, the Company may borrow overnight funds on an unsecured basis from its correspondent banks. The Company had approved borrowing lines from correspondent banks up to $18.3 million as of December 31, 2020 and 2019. As of both December 31, 2020 and 2019, there were no outstanding borrowings under these arrangements. The Company also has the ability to borrow at the Federal Reserve Bank Discount Window on a secured basis.

NOTE I – INCOME TAXES

A deferred tax asset or liability is recognized for the tax consequences of temporary differences in the recognition of revenue and expense for financial reporting and tax purposes. Listed below are the components of the net deferred tax asset at December 31:

	2020	2019
	(in thousands)	
Deferred tax assets:		
Start-up and organizational expenses	$ 104	$ 162
Allowance for loan losses	1,087	545
Non-qualified stock options	57	81
Deferred fees on PPP loans	380	-
Other	81	52
Total deferred tax assets	1,709	840
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(5)	(4)
Accelerated Depreciation	(1,275)	-
Net unrealized gain on available-for-sale securities	(251)	(39)
Total deferred tax liabilities	(1,531)	(43)
Net deferred tax asset	$ 178	$ 797

Management believes, based upon the Bank's historical performance and future projections, it is more likely than not that the Bank's deferred tax asset will be realized in the normal course of operations, and has determined that no valuation allowance is necessary at December 31, 2020 and 2019. The Bank had no federal net operating loss carryforwards as of both December 31, 2020 and 2019.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the years ended December 31, 2020 and 2019, due to the following:

	2020		2019	
Federal tax, at statutory rates	$ 1,612	21.0%	$ 964	21.0%
State income taxes, net of federal effect	261	3.4%	157	3.4%
Other	(133)	-1.7%	(94)	-2.0%
Federal tax, at effective rate	$ 1,740	22.7%	$ 1,027	22.4%

NOTE J - EMPLOYEE BENEFIT PLANS

The Company sponsors a Qualified Automatic Contribution Arrangement ("QACA") 401(k) Plan whereby the Company contributes three percent of an employee's compensation to the Plan. Employer contributions cliff-vest after two years of service. Employees may also make volunteer contributions to the Plan, subject to certain limits based on federal tax laws. The employee's contributions vest immediately. For the years ended December 31, 2020 and 2019, expense attributable to the Plan amounted to $79,000 and $69,000, respectively.

NOTE K – STOCK-BASED COMPENSATION

In 2012, the Board of Directors adopted the Company's 2012 Long-Term Incentive Plan, (the "2012 Plan"). Under the terms of the 2012 Plan, the Company may grant incentive stock options, nonqualified stock options, restricted stock awards, and/or stock appreciation rights to eligible persons, including officers and directors of the Company. The 2012 Plan does not terminate or amend the Company's 2007 Stock Incentive Plan (the "2007 Plan"). The 2012 Plan reserves 250,000 shares of common stock of the Company for issuance. At December 31, 2020 and 2019, approximately 242,000 shares were available for future grant. Stock options expire no later than 10 years from the date of the grant and generally vest over 4 years. The 2012 Plan provides for accelerated vesting if there is a change of control, as defined in the 2012 Plan. The 2012 Plan is expected to terminate in September 2022.

The Company's 2007 Plan terminated on April 17, 2018. As such, no additional shares can be granted out of the 2007 Plan. No shares were outstanding under the 2007 Plan as of

December 31, 2020. As of December 31, 2019, the 2007 Plan had 1,000 shares issued and outstanding that expired unexercised in 2020.

The Company did not recognize any stock-based compensation costs during 2020, compared to $240,000 recognized during 2019. The 2019 expense included accelerated vesting charges for all outstanding stock options due to a change of control clause that was tripped during second quarter 2019. As of December 31, 2020, the Company has no unrecognized compensation costs as all stock options have vested.

There were no shares granted in 2020 or 2019. The fair value of the 2018 stock option grants was estimated on the date of the grant using the Black-Scholes-Merton option pricing model with the assumptions presented in the following table:

	2018 Nonqualified Grants
Number of Options Granted	425,000
Expected Volatility	7.0%
Expected Term	4.2 - 6 years
Expected Dividend	0%
Risk-Free Rate	2.7% - 3.0%
Grant-Date Fair Value	$0.31 - $0.77

As of December 31, 2020, and 2019, the aggregate intrinsic value of in-the-money outstanding stock options was approximately $124,000 and $945,000, respectively. As of December 31, 2020, there were approximately 467,000 fully vested and exercisable stock options outstanding with a weighted-average exercise price of $10.48 per share and a weighted-average remaining contractual term of 2.7 years.

The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2020:

	Options	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Outstanding at January 1, 2020	601,000	$ 0.54	$ 9.70
Granted	-	-	-
Exercised	(133,333)	0.71	7.00
Expired	(1,000)	0.66	3.48
Forfeited	-	-	-
Outstanding at December 31, 2020	466,667	$ 0.50	$ 10.48

The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2019:

	Options	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Outstanding at January 1, 2019	681,000	$ 0.57	$ 9.37
Granted	-	-	-
Exercised	(80,000)	0.74	6.88
Expired	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2019	601,000	$ 0.54	$ 9.70

NOTE L – EARNINGS PER SHARE

The following table presents the net earnings and weighted average common shares outstanding used to calculate earnings per share for the years ended December 31, 2020 and 2019:

	2020	2019
Basic earnings per share computation		
Net earnings to common stockholders	$ 5,933,921	$ 3,561,819
Weighted average shares outstanding - basic	4,184,786	4,078,743
Basic earnings per share	$ 1.42	$ 0.87
Diluted earnings share computation		
Net earnings to common stockholders	$ 5,933,921	$ 3,561,819
Weighted average shares outstanding - basic	4,184,786	4,078,743
Shares assumed issued:		
Stock options	12,412	86,120
Weighted average shares outstanding - diluted	4,197,198	4,164,863
Diluted earnings per share	$ 1.41	$ 0.86

For the years ended December 31, 2020 and 2019, there were 36,384 and 16,430, respectively, anti-dilutive options excluded from the computation of weighted average shares outstanding.

NOTE M – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company may grant loans to or hold deposits of principal officers, directors and/or their affiliates. As of December 31, 2020, and 2019, the Company had $658,000 and $631,000, respectively, in deposits from related parties. There were no outstanding notes receivable from principal officers, directors and/or their affiliates as of December 31, 2020 or 2019.

NOTE N – COMMITMENTS AND CONTINGENCIES

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2020 and 2019, the Company had $45.3 million and $35.6 million, respectively, in unfunded commitments outstanding whose contract amounts represent credit risk.

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 some of the commitments are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income producing commercial properties.

NOTE O – LEGAL CONTINGENCIES

In the ordinary course of the business, the Company may be party to various legal actions, which it believes are incidental to the operation of the business and will not have a material impact on the financial condition, cash flow, or results of operations of the Company.

NOTE P – FAIR VALUE MEASUREMENTS

The Company carries its available-for-sale securities at fair value measured on a recurring basis. Fair value measurements are determined based on the assumptions the market participants would use in pricing the asset. See additional discussion regarding fair value measurement in Note A under the discussion of significant accounting policies.

For available-for-sale securities, fair value measurement is obtained from independent pricing services that utilize observable data which may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things. As of December 31, 2020, and 2019, all of the Company's available-for-sale securities were valued using Level 2 inputs.

Impaired loans, if any, are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans or the present value of expected cash flows and is classified as Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals performed by qualified licensed appraisers hired by the Company. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans, if any, are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

There were no changes to management's valuation methodology during 2020 or 2019.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets at December 31, 2020				
Securities available for sale				
Corporate	$ -	$ 13,026	$ -	$ 13,026
State and municipal	-	29,789	-	29,789
Residential agency MBS/CMOs	-	9,300	-	9,300
U.S. Agency	-	762	-	762
Assets at December 31, 2019				
Securities available for sale				
Corporate	$ -	$ 9,894	$ -	$ 9,894
State and municipal	-	6,193	-	6,193
Residential agency MBS/CMOs	-	12,179	-	12,179
U.S. Agency	-	828	-	828

Assets and Liabilities Measured on a Nonrecurring Basis

At December 31, 2020, the Company had two impaired loans with a total recorded investment of $966,000 that are measured at fair value on a nonrecurring basis and classified as Level 3 in the fair value hierarchy. The impaired loans had a valuation allowance of $4,000 based on the discounted cash-flow method.

At December 31, 2019, the Company had one impaired loan with a recorded investment of $11,000 that is measured at fair value on a nonrecurring basis and is classified as Level 3 in the fair value hierarchy. The impaired loan had a valuation allowance of $5,000 based on the discounted cash-flow method. The loan is unsecured.

The Company had no other assets and no liabilities that were measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019.

Fair Value of Financial Instruments

Disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate such value is required by U.S. GAAP. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value information is not required to be disclosed for certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the financial instruments held by the Company. Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and cash equivalents: The carrying amounts of cash, due from banks and federal funds sold approximate their fair values.

Interest-bearing deposits with banks: The carrying amount of interest-bearing deposits with banks is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Investment securities: Fair value measurement is obtained from independent pricing services which utilize observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things.

Loans, net: The fair value of loans was determined using an exit price methodology as prescribed by ASU 2016-01. The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital (Level 3).

Nonmarketable equity securities: It is not practical to determine the fair value of bank stocks due to the restrictions placed on the transferability of FHLB stock and Federal Reserve Bank stock.

Bank-owned life insurance: The carrying amount of bank-owned life insurance is based on the cash surrender value of the policies, which is a reasonable estimate of fair value.

Accrued interest receivable: The carrying value of interest receivable approximates fair value due to the short period of time between accrual and receipt of payment.

Deposits: The fair value of noninterest-bearing demand deposits, interest-bearing demand deposits and savings and money market accounts is determined to be the amount payable on demand at the reporting date. The fair value of fixed rate time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities. Carrying value is assumed to approximate fair value for all variable rate time deposits.

Federal Home Loan Bank advances: Fair value of fixed rate FHLB advances are estimated using a discounted cash flow model based on current market rates for similar types of borrowing arrangements including similar remaining maturities. The fair value of variable rate FHLB advances is assumed to approximate the carrying value.

Accrued interest payable: The carrying value of interest payable approximates fair value due to the short period of time between accrual and payment.

Loan commitments and letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The difference between the carrying value of commitments to fund loans or standby letters of credit and their fair values are not significant and, therefore, are not included in the following table.

The carrying amounts and estimated fair values of financial instruments are summarized as follows:

(in thousands)	2020 Carrying Value	2020 Fair Value	2019 Carrying Value	2019 Fair Value
Financial Assets:				
Cash and cash equivalents	$ 10,584	$ 10,584	$ 1,703	$ 1,703
Interest-bearing deposits with banks	807	807	16,033	16,033
Investment securities, available for sale	52,877	52,877	29,094	29,094
Investment securities, held to maturity	10,418	10,296	6,411	6,106
Loans, net	337,687	337,889	212,024	210,986
Nonmarketable equity securities	1,322	1,322	1,247	1,247
Bank-owned life insurance	4,937	4,937	4,830	4,830
Accrued interest receivable	1,886	1,886	1,076	1,076
Financial Liabilities:				
Deposits - demand, savings, and money market	$331,147	$331,147	$201,684	$201,684
Time deposits	50,999	51,383	35,285	35,504
FHLB advances	4,000	4,121	4,000	3,996
Accrued interest payable	50	50	120	120

NOTE Q – REGULATORY MATTERS

An important area of banking regulation is the federal banking system's promulgation and enforcement of minimum capitalization standards for banks and bank holding companies. In January 2020, the federal banking regulators implemented the Community Bank Leverage Ratio ("CBLR"), which allows community banking organizations, with less than $10 billion in total consolidated assets and limited amounts of off-balance-sheet exposure and trading assets and liabilities, to adopt a simplified calculation to ascertain capital adequacy. Solera National Bank elected to utilize the CBLR framework beginning with the first quarter of 2020. Under the CBLR framework, a bank with a leverage ratio of greater than 9% is considered to have met the well-capitalized ratio requirements under the "prompt corrective action" regulations and will not be required to report, or calculate, risk-based capital ratios. The CBLR is calculated as the ratio of "tier 1 capital" divided by "average total consolidated assets." If a banking entity fails to qualify for the CBLR framework or if the banking entity's CBLR ratio falls below the minimum threshold, the banking entity will be subject to the regulatory capital guidelines established under the Dodd Frank legislation. Under the Dodd Frank capital guidelines, federal banking regulators are required to take prompt corrective action with respect to depository institutions that do not meet certain minimum capital requirements. For these purposes, the regulators have established five capital classifications for banking institutions, ranging from the highest category of "well-capitalized" to the lowest category of "critically under-capitalized".

As of December 31, 2020, and 2019, the most recent regulatory notifications categorized the Bank as well-capitalized under the CBLR framework and, for 2019, the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

(in thousands)	December 31, 2020		December 31, 2019	
Tier 1 Capital	$	47,066	$	38,824
Average Total Consolidated Assets	$	416,452	$	273,308
CBLR		**11.3%**		**14.2%**

Basel III Capital Ratios:

	December 31, 2019							
	Risk-based						Leverage	
	Tier 1		Common Equity Tier 1		Total capital		Tier 1	
			(in thousands)					
Actual regulatory capital	$	38,824	$	38,824	$	41,594	$	38,824
Well-capitalized requirement		18,395		14,946		22,994		13,665
Excess regulatory capital	$	20,429	$	23,878	$	18,600	$	25,159
Solera National Bank's Capital ratios		16.9%		16.9%		18.1%		14.2%
Well-capitalized requirement (fully phased-in)		8.0%		6.5%		10.0%		5.0%

Capital adequacy ratios are not presented on a consolidated basis, as they are only applicable for bank holding companies with consolidated assets of $1 billion or more, or for those bank holding companies that are engaged in significant nonbanking activities.

NOTE R – SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material or disclosed if the financial statements would otherwise be misleading.

With respect to the December 31, 2020 financial statements, management has considered subsequent events through March 24, 2021 and determined there are no recognized subsequent events.

Supplemental Consolidating Schedules
December 31, 2020 and 2019

SOLERA NATIONAL BANCORP, INC.
AND SUBSIDIARY

Solera National Bancorp, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2020

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands, except for shares outstanding)			
Cash and cash equivalents	$ 10,584	$ 229	$ (229)	$ 10,584
Interest-bearing deposits with banks	807	-	-	807
Investment securities, available-for-sale	52,877	-	-	52,877
Investment securities, held-to-maturity	10,418	-	-	10,418
Loans, net	337,687	-	-	337,687
Nonmarketable equity securities	1,322	-	-	1,322
Investment in subsidiary	-	47,817	(47,817)	-
Bank-owned life insurance	4,937	-	-	4,937
Premises and equipment, net	13,155	-	-	13,155
Accrued interest receivable	1,886	-	-	1,886
Deferred tax asset, net	178	-	-	178
Other assets	1,936	5	-	1,941
Total Assets	$ 435,787	$ 48,051	$ (48,046)	$ 435,792
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	$ 235,172	$ -	$ -	$ 235,172
Interest-bearing demand	12,576	-	-	12,576
Savings and money market	83,628	-	(229)	83,399
Time deposits	50,999	-	-	50,999
Total deposits	382,375	-	(229)	382,146
Accrued interest payable	50	-	-	50
Accrued payable and other liabilities	1,545	21	-	1,566
FHLB advances	4,000	-	-	4,000
Total liabilities	387,970	21	(229)	387,762
Stockholders' equity				
Common stock	16,600	43	(16,600)	43
Additional paid-in capital	18,038	38,518	(18,038)	38,518
Accumulated surplus	12,428	8,718	(12,428)	8,718
Accumulated other comprehensive income	751	751	(751)	751
Total stockholders' equity	47,817	48,030	(47,817)	48,030
Total Liabilities & Stockholders' Equity	$ 435,787	$ 48,051	$ (48,046)	$ 435,792

Solera National Bancorp, Inc. and Subsidiary

Consolidating Statement of Income

Year Ended December 31, 2020

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
		(in thousands)		
Interest income				
Interest and fees on loans	$ 12,539	$ -	$ -	$ 12,539
Interest on investment securities	1,502	-	-	1,502
Dividends on nonmarketable equity securities	62	-	-	62
Other interest income	108	1	(1)	108
Total interest income	14,211	1	(1)	14,211
Interest expense				
Deposits	956	-	(1)	955
FHLB advances and Fed borrowings	87	-	-	87
Total interest expense	1,043	-	(1)	1,042
Net interest income	13,168	1	-	13,169
Provision for loan losses	2,147	-	-	2,147
Net interest income after provision for loan losses	11,021	1	-	11,022
Noninterest income				
Service charges and fees	422	-	-	422
Other income	448	-	-	448
Equity in undistributed earnings of subsidiary	-	6,014	(6,014)	-
Gain on loan sold	84	-	-	84
Gain on sale of available-for-sale securities, net	1,476	-	-	1,476
Total noninterest income	2,430	6,014	(6,014)	2,430
Noninterest expense				
Employee compensation and benefits	3,576	-	-	3,576
Occupancy and equipment	420	-	-	420
Professional fees	110	53	-	163
Data processing	935	-	-	935
Other general and administrative	629	55	-	684
Total noninterest expense	5,670	108	-	5,778
Income before income taxes	7,781	5,907	(6,014)	7,674
Income tax expense (benefit)	1,767	(27)	-	1,740
Net income	$ 6,014	$ 5,934	$ (6,014)	$ 5,934

Solera National Bancorp, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2019

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands, except for shares outstanding)			
Cash and cash equivalents	$ 1,703	$ 1,561	$ (1,561)	$ 1,703
Interest-bearing deposits with banks	16,033	-	-	16,033
Investment securities, available-for-sale	29,094	-	-	29,094
Investment securities, held-to-maturity	6,411	-	-	6,411
Loans, net	212,024	-	-	212,024
Nonmarketable equity securities	1,247	-	-	1,247
Investment in subsidiary	-	38,970	(38,970)	-
Bank-owned life insurance	4,830	-	-	4,830
Premises and equipment, net	8,316	-	-	8,316
Accrued interest receivable	1,076	-	-	1,076
Deferred tax asset, net	797	-	-	797
Other assets	560	22	-	582
Total Assets	$ 282,091	$ 40,553	$ (40,531)	$ 282,113
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	$ 154,105	$ -	$ -	$ 154,105
Interest-bearing demand	7,955	-	-	7,955
Savings and money market	41,185	-	(1,561)	39,624
Time deposits	35,285	-	-	35,285
Total deposits	238,530	-	(1,561)	236,969
Accrued interest payable	120	-	-	120
Accrued payable and other liabilities	471	23	-	494
FHLB advances	4,000	-	-	4,000
Total liabilities	243,121	23	(1,561)	241,583
Stockholders' equity				
Common stock	15,500	41	(15,500)	41
Additional paid-in capital	16,938	37,587	(16,938)	37,587
Accumulated surplus	6,414	2,784	(6,414)	2,784
Accumulated other comprehensive income	118	118	(118)	118
Total stockholders' equity	38,970	40,530	(38,970)	40,530
Total Liabilities & Stockholders' Equity	$ 282,091	$ 40,553	$ (40,531)	$ 282,113

Solera National Bancorp, Inc. and Subsidiary

Consolidating Statement of Income

Year Ended December 31, 2019

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
Interest income		(in thousands)		
Interest and fees on loans	$ 9,342	$ -	$ -	$ 9,342
Interest on investment securities	1,031	-	-	1,031
Dividends on nonmarketable equity securities	67	-	-	67
Other interest income	357	2	(2)	357
Total interest income	10,797	2	(2)	10,797
Interest expense				
Deposits	1,446	-	(2)	1,444
FHLB advances and Fed borrowings	71	-	-	71
Total interest expense	1,517	-	(2)	1,515
Net interest income	9,280	2	-	9,282
Provision for loan losses	540	-	-	540
Net interest income after provision for loan losses	8,740	2	-	8,742
Noninterest income				
Service charges and fees	261	-	-	261
Other income	155	-	-	155
Equity in undistributed earnings of subsidiary	-	3,631	(3,631)	-
Gain on sale of available-for-sale securities, net	278	-	-	278
Total noninterest income	694	3,631	(3,631)	694
Noninterest expense				
Employee compensation and benefits	3,103	-	-	3,103
Occupancy and equipment	223	-	-	223
Professional fees	126	53	-	179
Data processing	774	-	-	774
Other general and administrative	527	41	-	568
Total noninterest expense	4,753	94	-	4,847
Income before income taxes	4,681	3,539	(3,631)	4,589
Income tax expense (benefit)	1,050	(23)	-	1,027
Net income	$ 3,631	$ 3,562	$ (3,631)	$ 3,562