

CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**SOLERA NATIONAL BANCORP, INC.  
AND SUBSIDIARY**

December 31, 2022 and 2021





## **Independent Auditor's Report**

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

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Solera National Bancorp, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021 the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

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

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating schedules are presented for purposes of additional analysis and are 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 audit 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Denver, Colorado  
March 28, 2023

**Solera National Bancorp, Inc. and Subsidiary**

**Consolidated Balance Sheets**

December 31,

	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>	(in thousands, except for shares outstanding)	
Cash and cash equivalents	\$ 3,490	\$ 16,124
Interest-bearing deposits with banks	1,499	1,251
Investment securities, available-for-sale	164,176	130,199
Investment securities, held-to-maturity	207,048	10,500
Loans, net	570,188	462,172
Nonmarketable equity securities, restricted	3,954	2,853
Bank-owned life insurance	4,891	5,042
Premises and equipment, net	25,266	18,830
Accrued interest receivable	5,825	2,756
Deferred tax asset, net	6,867	-
Other assets	2,113	2,703
<b>Total Assets</b>	<b>\$ 995,317</b>	<b>\$ 652,430</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand	\$ 551,990	\$ 464,050
Interest-bearing demand	40,853	11,071
Savings and money market	202,542	93,937
Time deposits	84,398	18,860
Total deposits	879,783	587,918
Accrued interest payable	438	36
Accounts payable and other liabilities	1,192	815
Deferred tax liability, net	-	732
FHLB advances	56,175	4,000
Total liabilities	937,588	593,501
Commitments and contingencies (see Notes N, O)		
<b>Stockholders' equity</b>		
Common stock <sup>1</sup>	43	43
Additional paid-in capital	38,748	38,748
Accumulated surplus	37,978	19,809
Accumulated other comprehensive (loss) income	(19,040)	329
Total stockholders' equity	57,729	58,929
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 995,317</b>	<b>\$ 652,430</b>

<sup>1</sup>10,000,000 shares of \$0.01 par value authorized; 4,299,953 and 4,299,953 shares outstanding as of December 31, 2022 and 2021, 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,

	2022	2021
<b>Interest income</b>	(in thousands)	
Interest and fees on loans	\$ 24,998	\$ 18,446
Interest on investment securities	10,046	2,670
Dividends on nonmarketable equity securities	200	91
Other interest income	38	11
Total interest income	35,282	21,218
<b>Interest expense</b>		
Deposits	3,905	755
FHLB advances and Fed borrowings	983	101
Total interest expense	4,888	856
<b>Net interest income</b>	30,394	20,362
Provision for loan losses	1,576	1,596
<b>Net interest income after provision for loan losses</b>	28,818	18,766
<b>Noninterest income</b>		
Service charges and fees	1,181	1,073
Other income	1,722	465
Gain on sale of assets	943	-
Gain on sale of available-for-sale securities, net	1,753	2,180
Total noninterest income	5,599	3,718
<b>Noninterest expense</b>		
Employee compensation and benefits	7,090	4,364
Occupancy and equipment	900	669
Professional fees	395	328
Data processing	1,592	1,166
Other general and administrative	2,454	1,281
Total noninterest expense	12,431	7,808
<b>Income before income taxes</b>	21,986	14,676
Income tax expense	3,818	3,585
<b>Net income</b>	\$ 18,168	\$ 11,091
<b>Earnings Per Share Diluted</b>	\$ 4.25	\$ 2.58
<b>Other Comprehensive (loss) income</b>		
Unrealized holding gain/loss arising during the period	(25,802)	(566)
Reclassification adjustment for losses (gains)	-	-
Income Tax effect	6,434	144
Total Other comprehensive (loss) income	(19,368)	(988)
<b>Total comprehensive (loss) income</b>	\$ (1,200)	\$ 10,103

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

**Solera National Bancorp, Inc. and Subsidiary**  
**Consolidated Statement of Changes in Stockholders' Equity**

Years ended December 31, 2022 and 2021

	Shares	Common	Additional	Accumulated	Accumulated	
	Outstanding	Stock	Paid-	Surplus	Other	
			in Capital		Comprehensive	Total
					Income (Loss)	
	(in thousands, except for shares outstanding)					
<b>Balances at December 31, 2020</b>	<u>4,276,953</u>	<u>\$ 43</u>	<u>\$ 38,518</u>	<u>\$ 8,718</u>	<u>\$ 751</u>	<u>\$ 48,030</u>
Options exercised	23,000	-	230	-	-	230
Net income	-	-	-	11,091	-	11,091
Other comprehensive loss	-	-	-	-	(422)	(422)
<b>Balances at December 31, 2021</b>	<u>4,299,953</u>	<u>\$ 43</u>	<u>\$ 38,748</u>	<u>\$ 19,809</u>	<u>\$ 329</u>	<u>\$ 58,929</u>
Options exercised	-	-	-	-	-	-
Net income	-	-	-	18,168	-	18,168
Other comprehensive loss	-	-	-	-	(19,368)	(19,368)
<b>Balances at December 31, 2022</b>	<u>4,299,953</u>	<u>\$ 43</u>	<u>\$ 38,748</u>	<u>\$ 37,978</u>	<u>\$ (19,040)</u>	<u>\$ 57,729</u>

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

# Solera National Bancorp, Inc. and Subsidiary

## Consolidated Statement of Cash Flows

Years ended December 31, 2022 and 2021

	2022	2021
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net income	\$ 18,168	\$ 11,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	752	440
Provision for loan losses	1,576	1,596
Net amortization of premiums on investment securities	1,155	633
Gain on sale of available-for-sale securities, net	(1,754)	(2,180)
Gain on disposal of premises and equipment	(943)	-
Deferred income tax benefit	(614)	1,044
Federal Home Loan Bank stock dividends	(137)	(28)
Increase in bank-owned life insurance cash surrender value	151	(105)
Net change in:		
Accrued interest receivable	(3,069)	(869)
Other assets	(125)	(873)
Accrued interest payable	403	(13)
Accounts payable and other liabilities	465	(743)
<b>Net cash provided by operating activities</b>	<b>\$ 16,028</b>	<b>\$ 9,993</b>
<b>Cash flows from investing activities</b>		
Purchases of investment securities held to maturity	\$ (197,172)	\$ -
Activity in securities available for sale:		
Purchases	(132,058)	(153,638)
Maturities, prepayments, and calls	4,291	8,835
Sales	69,100	68,380
Purchases of nonmarketable equity securities, net	(965)	(1,503)
Loan originations, net	(109,592)	(126,080)
Purchases of premises and equipment	(11,659)	(6,004)
Proceeds from sale of premises and equipment	5,600	-
Increase (decrease) in interest bearing deposits in banks, net	(249)	(444)
<b>Net cash (used by) investing activities</b>	<b>\$ (372,704)</b>	<b>\$ (210,454)</b>
<b>Cash flows from financing activities</b>		
Net change in deposits	\$ 291,867	\$ 205,771
Net change in short-term FHLB advances	52,175	-
Proceeds from stock options exercised	-	230
<b>Net cash provided by financing activities</b>	<b>\$ 344,042</b>	<b>\$ 206,001</b>
<b>Net change in cash and cash equivalents</b>	<b>\$ (12,634)</b>	<b>\$ 5,540</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>16,124</b>	<b>10,584</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,490</b>	<b>\$ 16,124</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 4,487	\$ 870
Cash paid during the year for income taxes	\$ 3,450	\$ 2,822

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



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**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. 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.

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.

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

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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.

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 2022 and 2021, its business was comprised of one operating segment: 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. 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.

**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

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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.

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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.

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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 2020-2021 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.

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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

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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, 2022, the Company had an allowance for loan losses of approximately \$8.1 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

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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 has transitioned to SOFR as the dominant replacement of LIBOR. 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, 2022.

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.



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#### 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, 2022 or 2021.

#### Premises and Equipment

Land is carried at cost. Buildings, equipment, airplanes 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.

#### 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.

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*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. 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 was to prevent a severe economic downturn using various measures, including economic stimulus to significantly impacted industry sectors.

The CARES Act created the Paycheck Protection Program (“PPP”), which is administered by the Small Business Administration (“SBA”). The PPP was intended to provide loans to small businesses to pay their employees, rent, mortgage interest and utilities. The loans are 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 2021 and 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, 2022 and 2021. See Note C for further discussion on our loan modification program.

Adoption of New Accounting Standards:

In March 2020, various regulatory agencies, including the Federal Reserve and the Federal Deposit Insurance Corporation, (“the agencies”) issued an interagency statement on loan

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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, 2022 and 2021, there were no loans, 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.

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

During 2021, and thus far in 2022, 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

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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, 2022 or 2021. Similarly, as of December 31, 2022 and 2021, 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, 2022 and 2021, the Company's comprehensive income included net income from operations and unrealized gains and losses on AFS securities, net of applicable taxes.

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**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:

	<b>December 31, 2022</b>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
<b>Securities Available-for-Sale:</b>				
Corporate	\$ 35,891	\$ -	\$ (4,152)	\$ 31,739
State and municipal	118,628	152	(20,106)	98,674
Residential agency MBS and CMOs	14,998	-	(442)	14,556
U.S. agency & treasuries	20,133	-	(926)	19,207
Total securities available-for-sale	<u>\$ 189,650</u>	<u>\$ 152</u>	<u>\$ (25,626)</u>	<u>\$ 164,176</u>
<b>Securities Held-to-Maturity:</b>				
Corporate	\$ 15,433	\$ -	\$ (1,132)	\$ 14,301
State and municipal	191,615	294	(11,350)	180,559
Total securities held-to-maturity	<u>\$ 207,048</u>	<u>\$ 294</u>	<u>\$ (12,482)</u>	<u>\$ 194,860</u>

  

	<b>December 31, 2021</b>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
<b>Securities Available-for-Sale:</b>				
Corporate	\$ 35,869	\$ 498	\$ (111)	\$ 36,256
State and municipal	87,734	358	(466)	87,626
Residential Agency MBS and CMOs	5,602	158	(8)	5,752
U.S. agency	558	7	-	565
Total securities available-for-sale	<u>\$ 129,763</u>	<u>\$ 1,021</u>	<u>\$ (585)</u>	<u>\$ 130,199</u>
<b>Securities Held-to-Maturity:</b>				
Corporate	10,500	155	(99)	10,556
Total securities held-to-maturity	<u>\$ 10,500</u>	<u>\$ 155</u>	<u>\$ (99)</u>	<u>\$ 10,556</u>

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The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2022 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	\$ 2,532	\$ 2,526	\$ 500	\$ 499
Due after one year through five years	41,765	38,015	5,500	5,132
Due after five years through ten years	24,705	20,730	10,551	9,774
Due after ten years	105,650	88,350	190,497	179,455
	<u>174,652</u>	<u>149,620</u>	<u>207,048</u>	<u>194,860</u>
Residential agency MBS and CMOs	14,998	14,556	-	-
	<u>\$ 189,650</u>	<u>\$ 164,176</u>	<u>\$ 207,048</u>	<u>\$ 194,860</u>

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, 2022 and 2021.

	December 31, 2022					
	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)					
<b>Securities Available-for-Sale:</b>						
Corporate	\$ 17,968	\$ (1,787)	\$ 13,772	\$ (2,365)	\$ 31,740	\$ (4,152)
State and municipal	31,185	(1,789)	63,491	(18,317)	94,676	(20,106)
Residential agency MBS and CMOs	13,399	(316)	1,154	(126)	14,553	(442)
U.S. Agencies & Treasuries	18,900	(898)	307	(28)	19,207	(926)
Total temporarily-impaired, securities available-for-sale	<u>\$ 81,452</u>	<u>\$ (4,790)</u>	<u>\$ 78,724</u>	<u>\$ (20,836)</u>	<u>\$ 160,176</u>	<u>\$ (25,626)</u>
<b>Securities Held-to-Maturity:</b>						
Corporate	\$ 8,827	\$ (672)	\$ 5,473	\$ (460)	\$ 14,300	\$ (1,132)
State and municipal	150,985	(10,262)	3,893	(1,088)	154,878	(11,350)
Total temporarily-impaired, securities held-to-maturity	<u>\$ 159,812</u>	<u>\$ (10,934)</u>	<u>\$ 9,366</u>	<u>\$ (1,548)</u>	<u>\$ 169,178</u>	<u>\$ (12,482)</u>

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	<b>December 31, 2021</b>					
	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)					
<b>Securities Available-for-Sale:</b>						
Corporate	\$ 9,640	\$ (111)	\$ -	\$ -	\$ 9,640	\$ (111)
State and municipal	41,474	(466)	-	-	41,474	(466)
Residential agency MBS and CMOs	68	(1)	316	(7)	384	(8)
U.S. Agency	-	-	-	-	-	-
Total temporarily-impaired, securities available-for-sale	<u>\$ 51,182</u>	<u>\$ (578)</u>	<u>\$ 316</u>	<u>\$ (7)</u>	<u>\$ 51,498</u>	<u>\$ (585)</u>
<b>Securities Held-to-Maturity:</b>						
Corporate	<u>\$ 5,827</u>	<u>\$ (99)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,827</u>	<u>\$ (99)</u>
Total temporarily-impaired, securities held-to-maturity	<u>\$ 5,827</u>	<u>\$ (99)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,827</u>	<u>\$ (99)</u>

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, 2022 and 2021, no declines were deemed to be other-than temporary.

For the years ended December 31, 2022 and 2021, the Company received \$69 million and \$68 million in proceeds from the sale of investment securities with gross realized gains of \$1.8 million and \$2.2 million, respectively. The Company had gross realized losses of \$0 for 2022 and gross realized losses of \$0 during 2021.

Securities with carrying values of \$48.4 million and \$11.2 million at December 31, 2022 and 2021, respectively, were pledged as collateral to secure public deposits, borrowings from the FHLB or for other purposes as required or permitted by law.

Total other-than-temporary impairment recognized in accumulated other comprehensive income was \$58 thousand and \$98 thousand for securities available for sale and securities held to maturity at December 31, 2021.

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As of December 31, 2022, the Company's security portfolio consisted of 216 securities, 197 of which were in an unrealized loss position. The majority of the unrealized losses are related to the Company's Municipal and Corporate Bonds, as discussed below:

#### AFS Portfolio

The AFS portfolio is comprised of 120 securities as follows:

BOND TYPE	BOOK BALANCE	UNREALIZED LOSS
• 74 Municipal Bonds	\$118.6 million	\$ 20.1 million
• 27 Mortgage-Backs	\$ 14.9 million	\$ 442 thousand
• 14 Corporate Bonds	\$ 35.9 million	\$ 4.2 million
• 1 Agency	\$335 thousand	\$ 28 thousand
• 4 U.S. Treasuries	\$19.8 million	\$ 898 thousand

109 securities are in an unrealized loss position as of December 31, 2022 and totals approximately \$25.6 million. While the mortgage-backed securities have been in an unrealized loss position for greater than 12 months, Solera believes these amounts are immaterial to the consolidated financial statements and, as such, no further analysis will be performed on the mortgage backed securities

The unrealized loss of approximately \$20 million in municipal bonds is approximately 17% of the total net book value of these securities. Individually, there are 46 securities that have an unrealized loss greater than 10% of net book value.

In regard to the municipal securities that have been in loss position greater than one year, the unrealized loss is attributable to changes in interest rates and not the credit worthiness of the municipality. These entities maintain strong credit ratings with no significant downgrades. These securities have been individually reviewed for credit quality with zero bonds identified for downgrade in credit quality.

The recent increase in interest rates has caused the market value of the bonds held in the Banks portfolio to decrease which has increased the Bank's unrealized loss position overall. Many of these securities were purchased at a premium and Solera has noted no credit concerns from these issuers. Solera also noted none of the securities included in this portfolio were downgraded by Moody's or S&P during 2022.

The unrealized loss of approximately \$4.2 million in the corporate category is approximately 12% of the book value of these securities. Based upon our quarterly monitoring of these securities, these securities exhibit strong credit worthiness and Solera expects to be paid in full of all amounts owed. Similar to the municipal portfolio, the unrealized loss is attributed to the increase in interest rates in 2022.



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The unrealized loss positions on the Agency and U.S Treasuries are immaterial to the consolidated financial statements, and as such, no further analysis will be performed.

Based on the above noted facts and circumstances, Solera believes the decline in market value for Solera's municipal bond portfolio is driven by the interest rate environment and not due to credit concerns of the issuers. As such, Solera concludes these securities are not other-than-temporarily impaired as of December 31, 2022.

**HTM Portfolio**

The HTM portfolio is comprised of 96 securities as follows:

<b>BOND TYPE</b>	<b>BOOK BALANCE</b>	<b>UNREALIZED LOSS</b>
• 85 Municipal Bonds	\$191.6 million	\$11.3 million
• 11 Corporate Bonds	\$ 15.4 million	\$1.1 million

Eighty-eight of the HTM portfolio are in an unrealized loss position as of December 31, 2022. Solera noted none of the securities included in this portfolio were downgraded by Moody's or S&P during 2022. The unrealized loss for HTM bonds is approximately \$12.5 million. The total unrealized loss for these bonds was approximately 6.03% of the total net book value of these bonds. Solera will continue to monitor all bonds, but Solera feels like it will be able to recapture its carrying values for these securities.

We believe all securities in an unrealized loss position at December 31, 2022 reflect temporary losses related to changes in interest rates rather than reduced credit quality. Solera has the intent and ability to hold these securities until maturity or full recovery of value and it is not probable that we will be required to sell these securities before recovery of value. As such, all securities are considered not other-than-temporarily impaired as of December 31, 2022.

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**NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES**

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

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
	(in thousands)	
Commercial real estate ("CRE")	\$ 232,036	\$ 227,573
Residential real estate	148,977	49,654
Commercial and industrial	125,010 <sup>1</sup>	143,446
Construction and land development	63,311	38,074
Consumer	9,256	11,696
Subtotal	<u>578,590</u>	<u>470,443</u>
Less: Allowance for loan losses	(8,005)	(6,452)
Net deferred loan fees and discount on student loans	(397)	(1,819)
Loans, net	<u>\$ 570,188</u>	<u>\$ 462,172</u>

<sup>1</sup> 2021 and 2022 amount includes PPP loans.

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 \$12.7 million. This regulatory requirement helps to ensure the Company's exposure to one individual customer is limited.

With the passage of the Paycheck Protection Program (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, 2022, there were 3 loans with outstanding principal balances of \$578 thousand that were originated under the PPP program and are included in the commercial and industrial segment of the loan portfolio.

In addition to generating interest income, the SBA pays a lender's fees for processing PPP loans. As of December 31, 2022, the Company has \$6 thousand 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

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Company began to receive PPP forgiveness payments from the SBA in October 2020 and recognized \$1.5 million in PPP fees through December 31, 2022. PPP activity for the year ended December 31, 2022 is summarized as follows:

	PPP Loan Activity		
	Year Ended December 31, 2021		
(in thousands)	Principal		Deferred PPP fees
Beginning Balance	\$ 73,705		\$ 1,520
Originated PPP Loans/Deferred PPP Fees 2021	\$ 64,863		\$ 3,161
Principal paydowns/fees earned	(87,667)		(3,188)
Outstanding balances as of December 31, 2021	\$ 50,901		\$ 1,493
	PPP Loan Activity		
	Year Ended December 31, 2022		
(in thousands)	Principal		Deferred PPP fees
Beginning Balance	\$ 50,901		\$ 1,493
Originated PPP Loans/Deferred PPP Fees 2022	\$ -		\$ -
Principal paydowns/fees earned	(50,323)		(1,487)
Outstanding balances as of December 31, 2022	\$ 578		\$ 6

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Activity in the allowance for loan and lease losses for the years ended December 31, 2022 and 2021 is summarized as follows:

(in thousands)	Rollforward of Allowance for Loan and Lease Losses by Portfolio Segment					
	Twelve Months Ended December 31, 2022					
	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Balance at December 31, 2021	\$ 3,506	\$ 776	\$ 1,395	\$ 734	\$ 41	\$ 6,452
Provision for loan losses	636	(106)	729	317	-	1,576
Charge-offs					(23)	(23)
Recoveries						-
Net (charge-offs) recoveries	-	-	-	-	(23)	(23)
Balance at December 31, 2022	\$ 4,142	\$ 670	\$ 2,124	\$ 1,051	\$ 18	\$ 8,005

(in thousands)	Rollforward of Allowance for Loan and Lease Losses by Portfolio Segment					
	Twelve Months Ended December 31, 2021					
	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
Balance at December 31, 2020	\$ 2,657	\$ 895	\$ 842	\$ 432	\$ 74	\$ 4,900
Provision for loan losses	849	(119)	553	302	11	1,596
Charge-offs	-	-		-	(44)	(44)
Recoveries	-	-		-	-	-
Net (charge-offs) recoveries	-	-	-	-	(44)	(44)
Balance at December 31, 2021	\$ 3,506	\$ 776	\$ 1,395	\$ 734	\$ 41	\$ 6,452

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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, 2022						
(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
<u>Loan Balance (based on evaluation of impairment method):</u>						
Individually	\$ 5,360	\$ -	\$ -	\$ -	\$ 4	\$ 5,364
Collectively	226,676	148,977	125,010	63,311	9,252	573,226
Total	<u>\$ 232,036</u>	<u>\$ 148,977</u>	<u>\$ 125,010</u>	<u>\$ 63,311</u>	<u>\$ 9,256</u>	<u>\$ 578,590</u>
<u>Allowance for Loan Losses (based on evaluation of impairment method):</u>						
Individually	\$ 291	\$ -	\$ -	\$ -	\$ 6	\$ 297
Collectively	3,851	670	2,124	1,051	12	7,708
Total	<u>\$ 4,142</u>	<u>\$ 670</u>	<u>\$ 2,124</u>	<u>\$ 1,051</u>	<u>\$ 18</u>	<u>\$ 8,005</u>

  

Loan and Allowance for Loan and Lease Losses by Portfolio Segment						
December 31, 2021						
(in thousands)	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
<u>Loan Balance (based on evaluation of impairment method):</u>						
Individually	\$ 6,623	\$ -	\$ -	\$ -	\$ 6	\$ 6,629
Collectively	220,950	49,654	143,446	38,074	11,690	\$ 463,814
Total	<u>\$ 227,573</u>	<u>\$ 49,654</u>	<u>\$ 143,446</u>	<u>\$ 38,074</u>	<u>\$ 11,696</u>	<u>\$ 470,443</u>
<u>Allowance for Loan Losses (based on evaluation of impairment method):</u>						
Individually	\$ 362	\$ -	\$ -	\$ -	\$ 6	\$ 368
Collectively	3,144	776	1,395	734	35	\$ 6,084
Total	<u>\$ 3,506</u>	<u>\$ 776</u>	<u>\$ 1,395</u>	<u>\$ 734</u>	<u>\$ 41</u>	<u>\$ 6,452</u>

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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, 2022, the Company had ten loans on deferrals. The value of these loans total \$325 thousand. 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 non-accrual loan in 2022. The loan has a recorded investment of \$5,207,495 and unpaid balances of \$5,593,778 with a valuation allowance at December 31, 2022 of \$297,000.

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### Past Due and Nonaccrual Loans

The following tables show past due loans, by class, as of December 31, 2022 and 2021:

<b>Age Analysis of Loans by Class</b>					
(in thousands)	<b>Year Ended December 31, 2022</b>				
	<b>30-59 Days Past Due</b>	<b>Past Due</b>	<b>Days or More</b>	<b>Nonaccrual</b>	<b>Due and</b>
CRE - owner occupied	\$ -	\$ -	\$ -	\$ -	\$ -
CRE - non-owner occupied	-	-	-	5,361	5,361
Commercial and industrial	-	-	-	-	-
Residential real estate	2,579	-	-	-	2,579
Construction and land development	-	-	-	-	-
Government guaranteed	382	120	1,169	-	1,671
Consumer	-	-	-	4	4
Total	<u>\$ 2,961</u>	<u>\$ 120</u>	<u>\$ 1,169</u>	<u>\$ 5,365</u>	<u>\$ 9,615</u>

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.

<b>Age Analysis of Loans by Class</b>					
(in thousands)	<b>Year Ended December 31, 2021</b>				
	<b>30-59 Days Past Due</b>	<b>Past Due</b>	<b>Days or More</b>	<b>Nonaccrual</b>	<b>Due and</b>
CRE - owner occupied	\$ -	\$ -	\$ -	\$ -	\$ -
CRE - non-owner occupied	-	-	-	6,623	6,623
Commercial and industrial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Government guaranteed	683	201	1,306	-	2,190
Consumer	-	-	-	6	6
Total	<u>\$ 683</u>	<u>\$ 201</u>	<u>\$ 1,306</u>	<u>\$ 6,629</u>	<u>\$ 8,819</u>

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:

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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, 2022, and based on the most recent analysis performed during the month of December 2022, the recorded investment in each risk category of loans by class of loan is as follows:

(in thousands)	Credit Quality of Loans by Class				
	Year Ended December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
CRE - owner occupied	\$ 20,870	\$ 3,454	\$ -	\$ -	\$ 24,324
CRE - non-owner occupied	197,982	4,369	5,361	-	207,712
Commercial and industrial	110,449	12,907	-	-	123,356
Residential real estate	147,238	-	1,739	-	148,977
Construction and land development	57,638	2,836	-	-	63,311
Government guaranteed <sup>1</sup>	10,845	-	-	-	10,845
Consumer	61	-	-	4	65
Total	\$ 545,083	\$ 23,566	\$ 7,100	\$ 4	\$ 578,590



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As of December 31, 2021, and based on the analysis performed during the month of December 2021, the recorded investment in each risk category of loans by class of loan is as follows:

(in thousands)	Credit Quality of Loans by Class				
	Year Ended December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
CRE - owner occupied	\$ 26,618	\$ 11,062	\$ -	\$ -	\$ 37,680
CRE - non-owner occupied	178,605	4,664	6,624	-	189,893
Commercial and industrial	92,450	-	-	-	92,450
Residential real estate	45,888	-	3,766	-	49,654
Construction and land development	36,055	2,019	-	-	38,074
Government guaranteed <sup>1</sup>	62,535	-	-	-	62,535
Consumer	151	-	-	6	157
Total	<u>\$ 442,302</u>	<u>\$ 17,745</u>	<u>\$ 10,390</u>	<u>\$ 6</u>	<u>\$ 470,443</u>

## 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)	2022	2021
Federal Reserve Bank of Kansas City	\$ 1,039	\$ 1,039
Federal Home Loan Bank of Topeka	2,915	1,814
	<u>\$ 3,954</u>	<u>\$ 2,853</u>

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**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)	<b>2022</b>	<b>2021</b>
Land	\$ 4,878	\$ 4,878
Airplane	17,094	10,648
Building and improvements	3,924	3,573
Furniture, fixtures and equipment	1,037	880
	<u>26,933</u>	<u>19,979</u>
Accumulated depreciation	(1,667)	(1,149)
Total premises and equipment	<u>\$ 25,266</u>	<u>\$ 18,830</u>

Depreciation expense on premises and equipment was \$566,000 and \$329,000 for the years ended December 31, 2022 and 2021, respectively, and is included in occupancy expense in the accompanying consolidated statements of income.

**NOTE G – TIME DEPOSITS**

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2022 and 2021 was \$3.3 million and \$4.3 million, respectively.

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At December 31, 2022, the scheduled maturities of interest-bearing time deposits are as follows:

<u>For the Years Ending December 31,</u>	<u>(\$ in thousands)</u>
2023	68,810
2024	8,021
2025	7,019
2026	340
2027	-
Thereafter	208
Total	<u>\$ 84,398</u>

Time deposits at December 31, 2022 included approximately \$69.2 million in brokered deposits, none of which were reciprocal time deposits. Time deposits at December 31, 2021 included approximately \$405 thousand in brokered deposits, none of which were reciprocal time deposits. The increase in brokered time deposits in 2022 was primarily to fund investment purchases.

**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 December 31, 2022 and 2021, the Company had fixed-rate borrowings of \$4.0 million that is an European style 10-year advance at a 1.70% fixed rate and was purchased in August 2017, maturing 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 \$52.2 million and \$0.0 in variable-rate, overnight borrowings as of both December 31, 2022 and 2021. The Bank's weighted-average effective interest rate on all FHLB borrowings was 4.28% and 1.70% as of December 31, 2022 and 2021, respectively.

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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 of \$10 million as of December 31, 2022. As of both December 31, 2022 and 2021, there were no outstanding borrowings under these arrangements.

The Company also has the ability to borrow on a secured basis from the FHLB up to \$139 million on a secured basis and \$1.4 million at the Federal Reserve Bank Discount Window. The Company also has the ability to pledge over \$200 million to either FHLB or the Federal Reserve Bank Discount Window.

**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 (liability) at December 31:

	<u>2022</u>	<u>2021</u>
	(in thousands)	
Deferred tax assets:		
Start-up and organizational expenses	\$ -	\$ 45
Allowance for loan losses	2,022	1,500
Non-qualified stock options	16	16
Net unrealized loss on AFS Securities	6,434	-
Other	111	581
Total deferred tax assets	<u>8,583</u>	<u>2,142</u>
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(36)	(2)
Accelerated Depreciation	(4,362)	(2,762)
Net unrealized gain on available-for-sale securities	-	(110)
Total deferred tax liabilities	<u>(4,398)</u>	<u>(2,874)</u>
Valuation reserve	-	-
Net deferred tax asset/liability	<u>\$ 4,185</u>	<u>\$ (732)</u>
Current Tax Asset	<u>\$ 2,682</u>	
Total Tax Asset	<u>\$ 6,867</u>	

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

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December 31, 2022 and 2021. The Bank had no federal net operating loss carryforwards as of both December 31, 2022 and 2021.

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, 2022 and 2021, due to the following:

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	(in thousands)	
Current taxes:		
Federal	\$ 1,975	\$ 2,186
State	314	348
Deferred taxes	1,529	1,051
Total Income Taxes	<u>\$ 3,818</u>	<u>\$ 3,585</u>

	<b>Year ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
	(in thousands)	
Tax expense at the federal statutory tax rate	\$ 4,618	\$ 3,082
Increase (decrease) in tax expense from:		
Tax-exempt income, net	(1,178)	(514)
State tax expense, net of federal tax benefit	663	560
Other, net	(285)	457
Income tax provision (benefit)	<u>\$ 3,818</u>	<u>\$ 3,585</u>

**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, 2022 and 2021, expense attributable to the Plan amounted to \$127,000 and \$91,000, respectively.

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**NOTE K – STOCK-BASED COMPENSATION**

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, 2021 and 2020, 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 terminated 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, 2021.

The Company did not recognize any stock-based compensation costs during 2022 and 2021. As of December 31, 2022, the Company has no unrecognized compensation costs as all stock options have vested.

There were no shares granted in 2022 or 2021. 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:

As of December 31, 2022, and 2021, the aggregate intrinsic value of in-the-money outstanding stock options was approximately \$0 and \$0, respectively. As of December 31, 2022, there were approximately 125,000 fully vested and exercisable stock options outstanding with a weighted-average exercise price of \$11.23 per share and a weighted-average remaining contractual term of 1.3 years.

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The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2022:

	Options	Weighted- Average Grant Date Fair Value	Weighted- Average Exercise Price
Outstanding at January 1, 2022	175,000	\$ 0.50	\$ 12.00
Granted	-	-	-
Exercised	-	-	-
Expired	(50,000)	0.45	3.48
Forfeited	-	-	-
Outstanding at December 31, 2022	125,000	\$ 0.50	\$ 11.23

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**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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Basic earnings per share computation</u>		
Net earnings to common stockholders	\$ 18,168,501	\$11,091,029
Weighted average shares outstanding - basic	4,276,953	4,297,216
Basic earnings per share	\$ 4.25	\$ 2.58
<u>Diluted earnings share computation</u>		
Net earnings to common stockholders	\$ 18,168,501	\$11,091,029
Weighted average shares outstanding - basic	4,276,953	4,297,216
<u>Shares assumed issued:</u>		
Stock options	-	-
Weighted average shares outstanding - diluted	4,276,953	4,297,216
Diluted earnings per share	\$ 4.25	\$ 2.58

Stock options for 125,000 and 175,000 shares of common stock were not considered in computing diluted earnings per share for December 31, 2022 and 2021, respectively, because they were anti-dilutive.



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**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, 2022, and 2021, the Company had \$409,000 and \$663,000, respectively, in deposits from related parties. There were no outstanding notes receivable from principal officers, directors and/or their affiliates as of December 31, 2022 or 2021.

**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, 2022 and 2021, the Company had \$131.5 million and \$105.3 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.

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**NOTE P – FAIR VALUE**

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, 2022 and 2021, 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 2022 or 2021.

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***Assets and Liabilities Measured on a Recurring Basis***

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

(in thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets at December 31, 2022</b>				
Securities available for sale				
Corporate	\$ -	\$ 31,739	\$ -	\$ 31,739
State and municipal	-	98,674	-	98,674
Residential agency MBS/CMOs	-	14,556	-	14,556
U.S. Agency	-	307	-	307
U.S. Treasuries	-	18,900	-	18,900
<b>Assets at December 31, 2021</b>				
Securities available for sale				
Corporate	\$ -	\$ 36,256	\$ -	\$ 36,256
State and municipal	-	87,626	-	87,626
Residential agency MBS/CMOs	-	5,752	-	5,752
U.S. Agency	-	565	-	565

***Assets and Liabilities Measured on a Nonrecurring Basis***

At December 31, 2022, the Company had one impaired loan with a total recorded investment of \$5,364,000 that is measured at fair value on a nonrecurring basis and classified as Level 3 in the fair value hierarchy. The valuation technique used was based on appraised value or the discounted cash flow methodology. The impaired loan had a valuation allowance of \$297,000 based on the appraised value method.

At December 31, 2021, the Company had two impaired loans with a total recorded investment of \$6,629,000 that are measured at fair value on a nonrecurring basis and classified as Level 3 in the fair value hierarchy. The valuation technique used was based on appraised value or the discounted cash flow methodology. The impaired loans had a valuation allowance of \$354,000 based on the ASC 310 analysis included in the ALLL Narrative.

The Company had no other assets and no liabilities that were measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021.

***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

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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).

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*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.

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

(in thousands)	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial Assets:</u>				
Cash and cash equivalents	\$ 3,490	\$ 3,490	\$ 16,124	\$ 16,124
Interest-bearing deposits with banks	1,499	1,499	1,251	1,251
Investment securities, available for sale	164,176	164,176	130,199	130,199
Investment securities, held to maturity	207,048	194,860	10,500	10,556
Loans, net	570,188	559,768	462,172	465,033
Nonmarketable equity securities	3,954	3,954	2,853	2,853
Bank-owned life insurance	4,891	4,891	5,042	5,042
Accrued interest receivable	5,825	5,825	2,756	2,756
<u>Financial Liabilities:</u>				
Deposits - demand, savings, and money market	\$ 795,385	\$ 795,385	\$ 569,528	\$ 569,528
Time deposits	84,398	85,251	18,860	19,051
FHLB advances	56,175	56,742	4,000	4,121
Accrued interest payable	438	438	36	36

## NOTE Q – REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Company and Bank meet all the capital adequacy requirements to which they are subject.

As of December 31, 2022 the Bank remained Well-Capitalized but because the Bank's Tier 1 Capital was below 8.5% for two consecutive quarters in 2022, the Bank measured capital under the Dodd Frank capital guidelines.

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Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

								Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions				
				Actual		Minimum Capital Requirements						
				Amount	Ratio	Amount	Ratio	Amount	Ratio			
December 31, 2022				(dollars in thousands)								
Common Equity Tier I ratio												
Solera National Bank				\$ 76,604	9.56%	\$ 36,046	>4.5%	\$ 52,067	>6.5%			
Tier 1 Capital To Risk Weighted Assets												
Solera National Bank				\$ 76,604	9.56%	\$ 48,062	>6.0%	\$ 64,083	>8.0%			
Total Risk Based Capital to Risk Weighted Assets												
Solera National Bank				\$ 84,609	10.56%	\$ 64,083	>8.0%	\$ 80,103	>10.0%			
Tier I Capital To Average Assets												
Solera National Bank				\$ 76,604	7.90%	\$ 38,799	>4.0%	\$ 48,499	>5.0%			
December 31, 2021												
Common Equity Tier I ratio												
Solera National Bank				\$ 58,271	9.53%	\$ 27,521	>4.5%	\$ 39,752	>6.5%			
Tier 1 Capital To Risk Weighted Assets												
Solera National Bank				\$ 58,271	9.53%	\$ 36,694	>6.0%	\$ 48,926	>8.0%			
Total Risk Based Capital to Risk Weighted Assets												
Solera National Bank				\$ 64,101	10.48%	\$ 48,926	>8.0%	\$ 61,157	>10.0%			
Tier I Capital To Average Assets												
Solera National Bank				\$ 58,271	9.53%	\$ 24,463	>4.0%	\$ 30,579	>5.0%			

**Solera National Bancorp, Inc. and Subsidiary**  
**Schedules to Consolidated Financial Statements**

December 31, 2022 and 2021

Capital adequacy ratios are not presented on a consolidated basis, as they are only applicable for bank holding companies with consolidated assets of \$3 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, 2022 financial statements, management has considered subsequent events through March 28<sup>h</sup>, 2023 and determined there are subsequent events to note. On January 6<sup>th</sup>, 2023, Solera National Bank purchased \$144 million in loans.



Supplemental Consolidating Schedules  
December 31, 2022 and 2021

**SOLERA NATIONAL BANCORP, INC.  
AND SUBSIDIARY**



# Solera National Bancorp, Inc and Subsidiary

## Consolidating Balance Sheet Schedule

December 31, 2022

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
	(in thousands)			
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,890	\$ 141	\$ (541)	\$ 3,490
Interest-bearing deposits with banks	1,499	-	-	1,499
Investment securities, available-for-sale	164,176	-	-	164,176
Investment securities, held-to-maturity	207,048	-	-	207,048
Loans, net	570,188	-	-	570,188
Nonmarketable equity securities	3,954	-	-	3,954
Investment in subsidiary	-	57,564	(57,564)	-
Bank-owned life insurance	4,891	-	-	4,891
Premises and equipment, net	25,266	-	-	25,266
Accrued interest receivable	5,825	-	-	5,825
Deferred tax asset, net	6,867	-	-	6,867
Other assets	2,111	2	-	2,113
Total Assets	<u>\$ 995,715</u>	<u>\$ 57,707</u>	<u>\$ (58,105)</u>	<u>\$ 995,317</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Liabilities				
Deposits				
Noninterest-bearing demand	\$ 552,390	\$ -	\$ (400)	\$ 551,990
Interest-bearing demand	40,853	-	-	40,853
Savings and money market	202,683	-	(141)	202,542
Time deposits	84,398	-	-	84,398
Total deposits	880,324	-	(541)	879,783
Accrued interest payable	438	-	-	438
Accrued payable and other liabilities	1,214	(22)	-	1,192
Deferred tax liability, net	-	-	-	-
FHLB advances	56,175	-	-	56,175
Total liabilities	938,151	(22)	(541)	937,588
Stockholders' equity				
Common stock	16,600	43	(16,600)	43
Additional paid-in capital	18,038	38,748	(18,038)	38,748
Accumulated surplus	41,966	37,978	(41,966)	37,978
Accumulated other comprehensive income	(19,040)	(19,040)	19,040	(19,040)
Total stockholders' equity	57,564	57,729	(57,564)	57,729
Total Liabilities & Stockholders' Equity	<u>\$ 995,715</u>	<u>\$ 57,707</u>	<u>\$ (58,105)</u>	<u>\$ 995,317</u>

**Solera National Bancorp, Inc and Subsidiary**

**Consolidating Schedule of Income**

**For the year ended December 31, 2022**

	Solera	Solera		
	National	National	Consolidating	
	Bank	Bancorp, Inc.	Entries	Consolidated
<b>Interest income</b>	(in thousands)			
Interest and fees on loans	\$ 24,998	\$ -	\$ -	\$ 24,998
Interest on investment securities	10,046	-	-	10,046
Dividends on nonmarketable equity securities	200	-	-	200
Other interest income	38	-	-	38
Total interest income	35,282	-	-	35,282
<b>Interest expense</b>				
Deposits	3,905	-	-	3,905
FHLB advances and Fed borrowings	983	-	-	983
Total interest expense	4,888	-	-	4,888
<b>Net interest income</b>	30,394	-	-	30,394
Provision for loan losses	1,576	-	-	1,576
<b>Net interest income after provision for loan losses</b>	28,818	-	-	28,818
<b>Noninterest income</b>				
Service charges and fees	1,181	-	-	1,181
Other income	1,722	-	-	1,722
Equity in undistributed earnings of subsidiary	-	18,333	(18,333)	-
Gain on sale of Assets	943			943
Gain on sale of available-for-sale securities, net	1,753	-	-	1,753
Total noninterest income	5,599	18,333	(18,333)	5,599
<b>Noninterest expense</b>				
Employee compensation and benefits	7,090	-	-	7,090
Occupancy and equipment	900	-	-	900
Professional fees	246	149	-	395
Data processing	1,592	-	-	1,592
Other general and administrative	2,382	72	-	2,454
Total noninterest expense	12,210	221	-	12,431
<b>Income before income taxes</b>	22,207	18,112	(18,333)	21,986
Income tax expense (benefit)	3,874	(56)	-	3,818
<b>Net income</b>	<u>\$ 18,333</u>	<u>\$ 18,168</u>	<u>\$ (18,333)</u>	<u>\$ 18,168</u>

**Solera National Bancorp, Inc and Subsidiary**

**Consolidating Balance Sheet Schedule**

**December 31, 2021**

	Solera	Solera		
	National	National	Consolidating	
	Bank	Bancorp, Inc.	Entries	Consolidated
<b>ASSETS</b>	(in thousands)			
Cash and cash equivalents	\$ 16,124	\$ 313	\$ (313)	\$ 16,124
Interest-bearing deposits with banks	1,251	-	-	1,251
Investment securities, available-for-sale	130,199	-	-	130,199
Investment securities, held-to-maturity	10,500	-	-	10,500
Loans, net	462,172	-	-	462,172
Nonmarketable equity securities	2,853	-	-	2,853
Investment in subsidiary	-	58,598	(58,598)	-
Bank-owned life insurance	5,042	-	-	5,042
Premises and equipment, net	18,830	-	-	18,830
Accrued interest receivable	2,756	-	-	2,756
Deferred tax asset, net	-	-	-	-
Other assets	2,656	47	-	2,703
<b>Total Assets</b>	<b>\$ 652,383</b>	<b>\$ 58,958</b>	<b>\$ (58,911)</b>	<b>\$ 652,430</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Deposits				
Noninterest-bearing demand	\$ 464,050	\$ -	\$ -	\$ 464,050
Interest-bearing demand	11,071	-	-	11,071
Savings and money market	94,250	-	(313)	93,937
Time deposits	18,860	-	-	18,860
Total deposits	588,231	-	(313)	587,918
Accrued interest payable	36	-	-	36
Accrued payable and other liabilities	786	29	-	815
Deferred tax liability, net	732	-	-	732
FHLB advances	4,000	-	-	4,000
Total liabilities	593,785	29	(313)	593,501
<b>Stockholders' equity</b>				
Common stock	16,600	43	(16,600)	43
Additional paid-in capital	18,038	38,748	(18,038)	38,748
Accumulated surplus	23,632	19,809	(23,632)	19,809
Accumulated other comprehensive income	328	329	(328)	329
Total stockholders' equity	58,598	58,929	(58,598)	58,929
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$ 652,383</b>	<b>\$ 58,958</b>	<b>\$ (58,911)</b>	<b>\$ 652,430</b>

**Solera National Bancorp, Inc and Subsidiary**

**Consolidating Schedule of Income**

**For the year ended December 31, 2021**

	Solera	Solera		
	National	National	Consolidating	
	Bank	Bancorp, Inc.	Entries	Consolidated
<b>Interest income</b>	(in thousands)			
Interest and fees on loans	\$ 18,446	\$ -	\$ -	\$ 18,446
Interest on investment securities	2,670	-	-	2,670
Dividends on nonmarketable equity securities	91	-	-	91
Other interest income	11	-	-	11
Total interest income	21,218	-	-	21,218
<b>Interest expense</b>				
Deposits	755	-	-	755
FHLB advances and Fed borrowings	101	-	-	101
Total interest expense	856	-	-	856
<b>Net interest income</b>	20,362	-	-	20,362
Provision for loan losses	1,596	-	-	1,596
<b>Net interest income after provision for loan losses</b>	18,766	-	-	18,766
<b>Noninterest income</b>				
Service charges and fees	1,073	-	-	1,073
Other income	465	-	-	465
Equity in undistributed earnings of subsidiary	-	11,203	(11,203)	-
Gain on sale of available-for-sale securities, net	2,180	-	-	2,180
Total noninterest income	3,718	11,203	(11,203)	3,718
<b>Noninterest expense</b>				
Employee compensation and benefits	4,364	-	-	4,364
Occupancy and equipment	669	-	-	669
Professional fees	245	83	-	328
Data processing	1,166	-	-	1,166
Other general and administrative	1,215	66	-	1,281
Total noninterest expense	7,659	149	-	7,808
<b>Income before income taxes</b>	14,825	11,054	(11,203)	14,676
Income tax expense (benefit)	3,622	(37)	-	3,585
<b>Net income</b>	<u>\$ 11,203</u>	<u>\$ 11,091</u>	<u>\$ (11,203)</u>	<u>\$ 11,091</u>