

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

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

December 31, 2023 and 2022



FORTNER BAYENS, PC

Accountants and Advisors

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Solera National Bancorp, Inc. and subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statement of comprehensive income, changes in stockholders' equity, and cash flows for the year 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, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Company as of December 31, 2022, were audited by other auditors, whose report dated March 28, 2023, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 information on pages 48 through 51 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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.

Fortner Bayens, PC

Denver, Colorado
March 29, 2024

Solera National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,

	2023	2022
ASSETS	(in thousands, except for share data)	
Cash and due from banks	\$ 2,734	\$ 3,490
Interest-bearing deposits with banks	2,582	1,499
Total cash and cash equivalents	5,316	4,989
Investment securities, available-for-sale, at fair value, net of allowance for credit losses of \$-0- and \$-0-	183,579	164,176
Investment securities, held-to-maturity, net of allowance for credit losses of \$-0- and \$-0- (fair value \$196,005 and \$194,860)	200,825	207,048
Loans, net of allowance for credit losses of \$9,607 and \$8,005	777,672	570,188
Nonmarketable equity securities, restricted	12,225	3,954
Bank-owned life insurance	5,002	4,891
Premises and equipment, net	28,173	25,266
Accrued interest receivable	7,272	5,825
Tax asset, net	3,447	6,867
Other assets	3,179	2,113
Total Assets	\$ 1,226,690	\$ 995,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 511,616	\$ 551,990
Interest-bearing demand	48,122	40,853
Savings and money market	169,328	202,542
Certificates of deposit and IRA's	241,149	84,398
Total deposits	970,215	879,783
Accrued interest payable	2,677	438
Accounts payable and other liabilities	2,181	1,192
Federal Home Loan Bank advances	172,077	56,175
Total liabilities	1,147,150	937,588
Commitments and contingencies (see Notes A, N, O)		
Stockholders' equity		
Common stock ¹	43	43
Additional paid-in capital	38,748	38,748
Accumulated surplus	54,420	37,978
Accumulated other comprehensive loss	(13,671)	(19,040)
Total stockholders' equity	79,540	57,729
Total Liabilities and Stockholders' Equity	\$ 1,226,690	\$ 995,317

¹10,000,000 shares of \$0.01 par value authorized; 4,299,953 shares outstanding as of December 31, 2023 and 2022.

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,

	2023	2022
Interest income	(in thousands, except earnings per share)	
Interest and fees on loans	\$ 44,435	\$ 24,998
Loan pool (amortization)/accretion, net	1,431	-
Interest on investment securities	5,276	4,438
Interest on tax exempt investment securities	9,319	5,608
Dividends on nonmarketable equity securities	605	200
Other interest income	363	38
Total interest income	61,429	35,282
Interest expense		
Deposits	20,001	3,905
Borrowed funds	6,258	983
Total interest expense	26,259	4,888
Net interest income	35,170	30,394
Provision for credit losses	1,530	1,576
Net interest income after provision for credit losses	33,640	28,818
Noninterest income		
Service charges and fees	1,862	1,181
Other income	1,562	1,722
Gain on sale of assets	25	943
Gain on sale of available-for-sale securities, net	310	1,753
Total noninterest income	3,759	5,599
Noninterest expense		
Employee compensation and benefits	8,119	7,090
Occupancy and equipment	867	900
Professional fees	737	395
Data processing	2,012	1,592
Other general and administrative	4,401	2,454
Total noninterest expense	16,136	12,431
Income before income taxes	21,263	21,986
Income tax expense	4,607	3,818
Net income	\$ 16,656	\$ 18,168
Other Comprehensive income (loss)		
Unrealized holding gains/(losses) arising during the period	7,184	(25,802)
Reclassification adjustment for realized (gains) losses	(310)	-
Income tax effect	(1,505)	6,434
Total other comprehensive income (loss)	5,369	(19,368)
Total comprehensive income (loss)	\$ 22,025	\$ (1,200)
Earnings Per Share	\$ 3.87	\$ 4.25

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, 2023 and 2022

	Shares Outstanding	Common Stock	Additional Paid- in Capital	Accumulated Surplus	Accumulated Other Comprehensive Income (Loss)	Total
	(in thousands, except for shares outstanding)					
Balances at December 31, 2021	4,299,953	\$ 43	\$ 38,748	\$ 19,810	\$ 328	\$ 58,929
Net income	-	-	-	18,168	-	18,168
Other comprehensive loss	-	-	-	-	(19,368)	(19,368)
Balances at December 31, 2022	<u>4,299,953</u>	<u>\$ 43</u>	<u>\$ 38,748</u>	<u>\$ 37,978</u>	<u>\$ (19,040)</u>	<u>\$ 57,729</u>
Net income	-	-	-	16,656	-	16,656
Cumulative effect of adoption of Accounting Standards Update 2016-13	-	-	-	(214)	-	(214)
Other comprehensive income	-	-	-	-	5,369	5,369
Balances at December 31, 2023	<u>4,299,953</u>	<u>\$ 43</u>	<u>\$ 38,748</u>	<u>\$ 54,420</u>	<u>\$ (13,671)</u>	<u>\$ 79,540</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, 2023 and 2022

	2023	2022
Cash flows from operating activities	(in thousands)	
Net income	\$ 16,656	\$ 18,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	984	752
Provision for credit losses	1,530	1,576
Net amortization of premiums on investment securities	1,219	1,155
Net amortization (accretion) of loan pool premiums and discounts	(1,431)	(370)
Gain on sale of available-for-sale securities, net	(310)	(1,754)
Gain on sale of assets	(25)	(943)
Change in income tax asset, net	1,605	(614)
Federal Home Loan Bank stock dividends	(543)	(137)
Change in bank-owned life insurance cash surrender value	(111)	151
Net change in:		
Accrued interest receivable	(1,447)	(3,069)
Other assets	(1,066)	(125)
Accrued interest payable	2,239	403
Accounts payable and other liabilities	859	465
Net cash provided by operating activities	\$ 20,159	\$ 15,658
Cash flows from investing activities		
Activity in securities available-for-sale:		
Purchases	\$ (33,885)	\$ (132,058)
Maturities, prepayments, and calls	10,622	4,291
Sales	10,858	69,100
Activity in securities held-to-maturity:		
Purchases	-	(197,172)
Maturities, prepayments, and calls	5,500	-
Purchase of nonmarketable equity securities	(23,517)	(965)
Proceeds from sale of nonmarketable equity securities	15,789	-
Loan originations, net	(207,667)	(109,222)
Purchases of premises and equipment	(4,385)	(11,659)
Proceeds from sale of premises and equipment	519	5,600
Net cash used by investing activities	\$ (226,166)	\$ (372,085)

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

Solera National Bancorp, Inc. and Subsidiary
Consolidated Statement of Cash Flows (Continued)

Years ended December 31, 2023 and 2022

Cash flows from financing activities		
Net change in deposits	\$ 90,432	\$ 291,867
Net change in short-term advances	85,902	52,175
Proceeds from long-term borrowings	30,000	-
Net cash provided by financing activities	<u>\$ 206,334</u>	<u>\$ 344,042</u>
Net change in cash and cash equivalents	\$ 327	\$ (12,385)
Cash and cash equivalents at beginning of year	4,989	17,374
Cash and cash equivalents at end of year	<u>\$ 5,316</u>	<u>\$ 4,989</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 24,020	\$ 4,487
Cash paid during the year for income taxes	3,045	3,450

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

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022

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 the 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 Consolidation and Reclassifications

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. Certain reclassifications to 2022 amounts have been made to conform to the current year presentation.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, other real estate owned, if any, and the fair value of financial instruments.

Management believes that the allowance for credit 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 2023 and 2022, its business was comprised of one operating segment: Banking.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, transaction accounts at other financial institutions, interest-bearing balances at the Federal Reserve Bank and other correspondent banks, and federal funds sold. For the Consolidated Statement of Cash Flows, net cash flows are reported for customer loan and deposit transactions and short borrowings.

Balances in accounts at other financial institutions may exceed amounts covered by federal deposit insurance, and federal funds sold are unsecured. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Investment Securities

General Accounting Policies

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Debt securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

The amortized cost of debt securities available for sale and held to maturity are adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. For mortgage-backed securities, the term of the security is the expected life of the security given estimated paydowns. For other securities, the term of the security is the final maturity or the earliest call date, if applicable, except in the case of purchase discounts which are accreted to final maturity.

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

The accrual of interest on debt securities is discontinued at the time any principal or interest payments become significantly delinquent. Additionally, securities are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a security on nonaccrual status, interest accrued to date is reversed and is charged against the current year's interest income. Payments received on a security on nonaccrual status are applied against the balance of the security. A security is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Effect of Adoption of New Accounting Standards

Effective January 1, 2023, the Company adopted Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements Accounting Standards Codification (“ASC”) Topic 326 (“ASC 326”), replacing the previous “incurred loss” methodology for measuring credit losses with an “expected loss” methodology that encompasses allowances for losses expected to be incurred over the life of the portfolio based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption did not result in the Company recording any credit losses on its investment securities held to maturity or available for sale, but as discussed below resulted in 1) changes in the manner in which credit losses on securities are estimated, and 2) changes in the manner in which credit losses on securities are presented in the financial statements.

Allowance For Credit Losses – Held-to-Maturity Securities: The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account, calculated in accordance with ASC 326, that is deducted from the amortized cost basis of held-to-maturity securities to present management's best estimate of the net amount expected to be collected. Held to maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance are reported in the income statement as a component of credit loss expense.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Management measures expected credit losses on held to maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on held-to-maturity securities from the estimate of credit losses. As of December 31, 2023, there was no allowance for credit losses associated with the held-to-maturity security portfolio.

Allowance For Credit Losses – Available-for-Sale Securities: For available for sale securities in an unrealized loss position, management first assesses whether (i) it intends to sell or (ii) it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Adjustments to the allowance are reported in the income statement as a component of credit loss expense. Management has made the accounting policy election to exclude accrued interest receivable on available for sale securities from the estimate of credit losses.

Available-for-sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met. As of December 31, 2023, there was no allowance for credit losses associated with the available-for-sale security portfolio.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Prior to the adoption of ASU 2016-13, declines in the fair value of held to maturity and available for sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other than temporary impairment losses prior to January 1, 2023, management considered, among other things, (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees and origination costs are recognized as incurred based upon management's determination that the deferral of these items over the life of the loan would have an immaterial impact to earnings for any given period. Noncredit purchase premiums and discounts are amortized and accreted into interest income over the life of the loan.

The accrual of interest on any loan is discontinued at the time a loan is 90 days delinquent unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are generally applied against the balance of the loan, but may be recognized on the cash basis when received if the recorded investment in loan principal is deemed collectible. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Financial difficulty modification loans are loans containing concessions in terms 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 financial difficulty modification loans 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 financial difficulty modification loans that meet the Company's nonaccrual criteria. A loan may be considered a financial difficulty modification loan regardless of whether it is considered a continuation of an existing loan or a new loan that replaces an existing loan.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and nonaccrual loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan credit losses. The ratings on the Company's internal credit scale are broadly grouped into the categories "non-classified" and "classified," with detailed ratings as follows:

Non-Classified

Pass - Loans with minimal to average identified credit risk. These loans have borrowers considered creditworthy who can repay the debt in the normal course of business. Borrowers have a sound primary and secondary repayment source, with sufficient cash generation to meet ongoing debt service requirements. Loans are typically fully secured with marketable, margined collateral.

Special mention - Loans with potential credit weaknesses which deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Company's credit position at some future date. These loans exhibit characteristics such as declining or stressed financial condition of the borrower and declining or narrow collateral coverage.

Classified

Substandard - Loans inadequately protected by the current financial condition and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. In some instances, though not all, the weakness or weaknesses in these loans will necessitate nonaccrual treatment.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Doubtful - Loans in this category have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the loans, classification as a loss is deferred until more exact status may be determined. All doubtful loans necessitate nonaccrual treatment.

Loss - Loans considered loss are considered uncollectable and of such little value that their continuance as a bankable asset, even with a valuation allowance, is not warranted. This does not mean the loans have no recovery or salvage value, but rather it is not practical or desirable to defer a charge-off even though a partial recovery may be affected in the future. Loans classified as a loss are charged-off in the period they are deemed uncollectible.

Loans are charged off in whole or in part when they become significantly past due and/or management's periodic analysis classifies the loan as "loss." Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectable as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Provision and Allowance for Loan Credit Losses

General Accounting Policies

The allowance for loan credit losses is a contra-asset valuation account that is deducted from the amortized cost basis of loans to present management's best estimate of the net amount expected to be collected. Loans are charged-off against the allowance when deemed uncollectible by management. Subsequent recoveries, if any, are credited to the allowance. Adjustments to the allowance, other than charge-offs and recoveries (and the cumulative effect of new accounting standards as described below), are recorded to the income statement as a provision or reversal for credit loss.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the starting point for the estimation of expected credit losses. Adjustments to historical loss rates are made for differences between past, current and future expected loan risk characteristics such as economic conditions and the nature and volume of the loan portfolio – including internal credit ratings, the volume and severity of past due loans, credit concentrations, lending policies, management experience, collateral values, loan review systems and other relevant factors.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

The allowance is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share similar risk characteristics are evaluated on an individual basis. For purposes of collective evaluation, the Company classifies its loan portfolio by loan class, with certain classes disaggregated into more specific classifications for disclosure purposes. Loan classifications are described in Note C to the financial statements. For purposes of specific evaluation, the Company evaluates all nonaccrual loans and other loans that have specific risk characteristics. Although the allowance is determined through collective evaluation by loan segment and through specific evaluation, the entire allowance is available for any loan that, in management's judgment, should be charged off.

When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, the loans are considered collateral-dependent and expected losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Effect of Adoption of New Accounting Standards

Effective January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements Accounting Standards Codification ("ASC") Topic 326 ("ASC 326"), replacing the previous "incurred loss" methodology for measuring credit losses with an "expected loss" methodology that encompasses allowances for losses expected to be incurred over the life of the portfolio based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption resulted in a \$84,000 increase in the allowance for loan credit losses and a corresponding \$84,000 decrease in retained earnings for the cumulative effect of the change as of the date of adoption. Loan credit loss methodologies are discussed below.

Allowance for Loan Credit Losses Methodology - 2023

The allowance analysis is prepared at least quarterly. For each loan pool type the Company calculates the weighted average remaining term to maturity for the loans in the pool. The Company then uses an average annual charge-off rate and remaining life to estimate the allowance for credit losses for each pool. The average annual charge-off rate contains losses over the prior five-year period and is used as a foundation for estimating the credit losses for the remaining balances of financial assets in an asset pool as of the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining balance of the financial assets. The life-of-loan historical loss rate for each loan pool is then adjusted for loan risk characteristics expected to cause future losses to differ

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

from the historical amount. The expected future loss rate for each pool is multiplied by the current period-end outstanding pool balance to determine the collective credit loss amount. This amount is added to any credit loss determined on individually evaluated loans. Adjustments to life-of-loan historical loss rates for the effect of loan risk characteristics are inherently subjective and subject to significant revision as expectations about future conditions change.

For individually evaluated loans for which repayment is expected solely from the collateral, the allowance for credit losses is measured based on the fair value of the collateral. For other individually evaluated loans, the allowance for credit losses may be measured based on the fair value of the collateral or expected future cash flows determined through an analysis of the borrower's current and future expected financial condition and other relevant factors. Individually evaluated loans are assessed at least quarterly, though certain underlying information such as collateral appraisals and tax returns could be updated more infrequently depending on particular circumstances of the loan and type of information.

The Company has elected not to estimate an allowance for loan credit losses on accrued interest receivable and record losses against current year interest income when loans are placed on nonaccrual.

Allowance for Credit Losses Methodology – Prior to 2023

The allowance analysis was prepared at least quarterly. Similar to current methodology, the allowance for loan credit losses was determined by multiplying loan balances by an adjusted historical charge-off rate and adding the result to credit loss determined on individually evaluated loans. The primary differences to current methodology are that a singular total historical loss rate was applied to estimate losses currently within each loan class rather than applying class-specific proxy loss rates to estimate losses over the life of the loan class, type stratification of loan class was less granular at the model input level, and individually analyzed loans were limited to loans considered “impaired” which included only nonaccrual loans and certain loans modified to borrowers experiencing financial difficulty. The Company did not estimate an allowance for loan credit losses on accrued interest receivable and recorded losses against current year interest income when loans were placed on nonaccrual.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Allowance for Credit Losses Methodology – 2023 vs. Prior Years

Although methodology used throughout 2022 was an “incurred loss” methodology as compared to the 2023 “expected loss” methodology, practically the 2022 methodology contemplated expected losses due to limited recent loss history and heavier reliance on risk characteristic adjustments. The change in methodology from 2022 to 2023 resulted in the aforementioned \$84,000 adjustment to the allowance, though as indicated by the table of 2023 allowance activity in Note C the amount is the net effect of larger adjustments within the various loan types due to changes in historical loss rates with the change to a life-of-loan methodology. Certain loan and allowance for loan credit loss disclosures in Note C for 2022 have been modified to conform to the disclosure requirements under ASC 326.

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.

In conjunction with the determination of the allowance for loan credit losses and using the same criteria, the Company determines the extent of credit risk on its unfunded loan commitments and whether there are credit losses on those instruments for which a loss provision is necessary. Prior to January 1, 2023, the Company determined that there is minimal credit risk on its unfunded loan commitments and accordingly did not record a credit loss provision or allowance for those instruments separate from the provision and allowance for loan credit losses. As a result of the January 1, 2023 adoption of Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Company began separately presenting credit losses on unfunded loan commitments. The allowance for credit losses on unfunded loan commitments is carried as a component of Accounts Payable and Other Liabilities, and changes in the allowance are recorded as a credit loss provision or reversal. Adoption resulted in a \$130,000 increase in the allowance for credit losses on unfunded commitments and a corresponding \$130,000 decrease in retained earnings for the cumulative effect of the change as of the date of adoption.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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, 2023. The net right-of-use asset as of December 31, 2023 and 2022, was \$141,000 and \$174,000, respectively, and carried as a component of Other Assets. The related lease liability as of December 31, 2023 and 2022, was \$146,000 and \$177,000, respectively, and carried as a component of Accounts Payable and Other Liabilities. The lease expires in February 2028 and has monthly rent payments of approximately \$3,000 for the remainder of the lease.

Transfers of Financial Assets

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

Nonmarketable Equity Securities

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

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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 credit 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, 2023 or 2022.

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.

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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 credit losses, unrealized gains or losses on securities available for sale and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

As of December 31, 2023 and 2022, the Company has no uncertain income tax positions as defined in Accounting Standards Codification (“ASC”) 740, Income Taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. Tax benefits recognized are the amount of the benefit that is greater than 50% likely of being realized upon examination. No tax benefits are recognized if they do not meet the “more likely than not” test.

The Company files a consolidated income tax return inclusive of the Holding Company and the Bank; however, income tax expense is allocated to the entities on a separate return basis.

Comprehensive Income

For the years ended December 31, 2023 and 2022, the Company's comprehensive income included net income from operations and unrealized gains and losses on AFS securities, net of applicable taxes.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

NOTE B - SECURITIES

The amortized cost and fair value of investment securities available-for-sale and held-to-maturity, with gross unrealized gains and losses, follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
		Gains	Losses	
(in thousands)				
Securities Available-for-Sale:				
Corporate	\$ 38,537	\$ -	\$ (3,025)	\$ 35,512
State and municipal	131,061	620	(14,943)	116,738
Residential U.S. agency MBS and CMOs	12,147	17	(382)	11,782
U.S. agency	235	-	(14)	221
U.S. Treasuries	19,889	-	(563)	19,326
Total securities available-for-sale	\$ 201,869	\$ 637	\$ (18,927)	\$ 183,579
Securities Held-to-Maturity:				
Corporate	\$ 14,942	\$ -	\$ (1,471)	\$ 13,471
State and municipal	185,883	1,633	(4,982)	182,534
Total securities held-to-maturity	\$ 200,825	\$ 1,633	\$ (6,453)	\$ 196,005
December 31, 2022				
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
		Gains	Losses	
(in thousands)				
Securities Available-for-Sale:				
Corporate	\$ 35,891	\$ -	\$ (4,152)	\$ 31,739
State and municipal	118,628	152	(20,106)	98,674
Residential U.S. agency MBS and CMOs	14,998	-	(442)	14,556
U.S. agency	335	-	(28)	307
U.S. Treasuries	19,798	-	(898)	18,900
Total securities available-for-sale	\$ 189,650	\$ 152	\$ (25,626)	\$ 164,176
Securities Held-to-Maturity:				
Corporate	\$ 15,433	\$ -	\$ (1,132)	\$ 14,301
State and municipal	191,615	294	(11,350)	180,559
Total securities held-to-maturity	\$ 207,048	\$ 294	\$ (12,482)	\$ 194,860

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

At December 31, 2023 and 2022, U.S. agency securities and residential agency MBS and CMO's are comprised entirely of mortgage-backed bonds and collateralized mortgage obligations issued by Ginnie Mae, Freddie Mac and Fannie Mae, and pass-through loan pools issued the Small Business Administration. State and municipal securities are comprised of bonds issued by various states and municipalities and are all rated "Baa3" or better as of December 31, 2023 and 2022 by a nationally recognized statistical rating organization. Corporate securities are comprised of bonds issued by various financial institutions and are all rates "BBB+" or better as of December 31, 2023 and 2022 by a nationally recognized statistical rating organization.

At December 31, 2023 and 2022 there are no securities on nonaccrual status and no securities for which principal or interest is past due.

The amortized cost and fair value of debt securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because obligors may have the right to call or prepay obligations, and for mortgage-backed securities the repayment of the securities occurs on a monthly basis based on the repayment of the loans underlying the securities:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in one year or less	\$ 400	\$ 400	\$ -	\$ -
Due after one year through five years	56,730	52,813	5,500	5,220
Due after five years through ten years	16,042	14,076	10,894	9,695
Due after ten years	116,550	104,508	184,431	181,090
	189,722	171,797	200,825	196,005
 Residential agency MBS and CMOs	 12,147	 11,782	 -	 -
	\$ 201,869	\$ 183,579	\$ 200,825	\$ 196,005

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

For the years ended December 31, 2023 and 2022, the Company received \$10.8 and \$69.1 million, respectively, from the sale of investment securities with gross realized gains of \$310 thousand, and \$1.8 million, respectively. The Company had gross realized losses of \$0 for 2023 and 2022.

Securities with carrying values of \$335.5 million and \$48.4 million at December 31, 2023 and 2022, respectively, were pledged as collateral to secure public deposits, borrowing facilities or for other purposes as required or permitted by law.

NOTE C – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table sets forth the composition of the loan portfolio at December 31:

	2023	2022
	(in thousands)	
Loans Secured by Real Estate		
Construction & Land Development	\$ 73,017	\$ 63,311
Residential Real Estate	352,938	154,652
Commercial Real Estate	202,076	190,804
Multifamily Real Estate	48,876	40,995
Total Loans Secured by Real Estate	676,907	449,762
Commercial and Industrial	115,257	125,054
Consumer and Other	7,904	9,213
Total Gross Loans	800,068	584,029
Allowance for Credit Losses	(9,607)	(8,005)
Net Purchase Discount on Loans	(12,590)	(5,579)
Net Deferred Loan Fees	(199)	(257)
Loans, Net	\$ 777,672	\$ 570,188

A substantial portion of the Company's loans are purchased loan pools serviced by third-parties. At December 31, 2023 and 2022 purchased loan pools, net of purchase discounts, included in the tables above are \$319.4 million and \$150.8 million, respectively. Loans within the pools are in various states outside the Company's market area.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Activity in the allowance for credit losses for the years ended December 31, 2023 and 2022 is summarized as follows:

<u>December 31, 2023</u>	Construction & Land Development	Residential Real Estate	Multifamily Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
Allowance for Credit Losses:							
Balance at Beginning of Year	\$ 1,051	\$ 515	\$ 155	\$ 4,142	\$ 2,124	\$ 18	\$ 8,005
Adoption of ASC 326	(535)	3,856	167	(2,002)	(1,428)	26	84
Provision for Credit Losses	140	675	94	387	221	13	1,530
Loans Charged-Off	-	-	-	-	-	(12)	(12)
Recoveries of Loans Previously Charged-Off	-	-	-	-	-	-	-
Balance at End of Year	<u>\$ 656</u>	<u>\$ 5,046</u>	<u>\$ 416</u>	<u>\$ 2,527</u>	<u>\$ 917</u>	<u>\$ 45</u>	<u>\$ 9,607</u>

<u>December 31, 2022</u>	Construction & Land Development	Residential Real Estate	Multifamily Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
Allowance for Loan Losses:							
Balance at Beginning of Year	\$ 734	\$ 621	\$ 155	\$ 3,506	\$ 1,395	\$ 41	\$ 6,452
Provision for Loan Losses	317	(106)	-	636	729	-	1,576
Loans Charged-Off	-	-	-	-	-	(23)	(23)
Recoveries of Loans Previously Charged-Off	-	-	-	-	-	-	-
Balance at End of Year	<u>\$ 1,051</u>	<u>\$ 515</u>	<u>\$ 155</u>	<u>\$ 4,142</u>	<u>\$ 2,124</u>	<u>\$ 18</u>	<u>\$ 8,005</u>

The carrying amounts of loans by past due status are as follows:

	<u>December 31, 2023</u>				
	<u>Accruing Interest</u>				Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Nonaccrual	
	(in thousands)				
Construction & Land Development	\$ 73,017	\$ -	\$ -	\$ -	\$ 73,017
Residential Real Estate	346,398	5,033	1,507	-	352,938
Multifamily Real Estate	48,876	-	-	-	48,876
Commercial Real Estate	198,404	-	-	3,672	202,076
Commercial and Industrial	115,257	-	-	-	115,257
Consumer and Other	7,904	-	-	-	7,904
Total	<u>\$ 789,856</u>	<u>\$ 5,033</u>	<u>\$ 1,507</u>	<u>\$ 3,672</u>	<u>\$ 800,068</u>

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

December 31, 2022

	Accruing Interest			Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due (in thousands)		
Construction &					
Land Development	\$ 63,311	\$ -	\$ -	\$ -	\$ 63,311
Residential Real Estate	152,073	2,579	-	-	154,652
Multifamily Real Estate	40,995	-	-	-	40,995
Commercial Real Estate	185,443	-	-	5,361	190,804
Commercial and Industrial	125,054	-	-	-	125,054
Consumer and Other	7,538	502	1,169	4	9,213
Total	<u>\$ 574,414</u>	<u>\$ 3,081</u>	<u>\$ 1,169</u>	<u>\$ 5,365</u>	<u>\$ 584,029</u>

The quality of the Company's loan portfolio is impacted by a number of risk factors, often interrelated, that are considered by management in the development of the allowance for loan credit losses. For mortgage loans secured by residential real estate, major risk factors include unemployment levels, real estate prices and lack of available inventory. For mortgage loans secured by commercial real estate, major risk factors include demand levels for products and services, rental rates and real estate prices. For commercial non real estate loans, major risk factors include demand for products and services, and general economic activity levels. For consumer and other loans, the major risk factor is unemployment levels. High interest rates, inflation, and consumer spending are also pertinent risk factors across all loan segments.

In assessing the risk factors as of December 31, 2023, management considers current conditions to be stressed and future conditions to be uncertain with an economic downturn possible, which are similar assessments to December 31, 2022.

At December 31, 2023, the Company has no loans modified in 2023 where the modification was deemed a financial difficulty modification. At December 31, 2022, under legacy accounting standards, there was one troubled-debt restructuring loan which was also on nonaccrual status. At December 31, 2022, the loan had a recorded investment of \$5,207,000 and a valuation allowance of \$297,000.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

The carrying amount of loans by credit quality indicator as follows:

	December 31, 2023					
	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
	(in thousands)					
Construction & Land Development						
Pass	\$ 4,361	\$ 5,763	\$ 6,468	\$ 2,888	\$ 53,537	\$ 73,017
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Subtotal	4,361	5,763	6,468	2,888	53,537	73,017
Residential Real Estate						
Pass	188,601	96,841	24,908	8,590	29,401	348,341
Special Mention	2,000	-	-	-	-	2,000
Substandard	1,703	663	231	-	-	2,597
Subtotal	192,304	97,504	25,139	8,590	29,401	352,938
Multifamily Real Estate						
Pass	9,625	5,461	4,058	7,436	22,296	48,876
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Subtotal	9,625	5,461	4,058	7,436	22,296	48,876
Commercial Real Estate						
Pass	34,642	48,256	45,263	44,282	18,991	191,434
Special Mention	-	-	1,578	5,392	-	6,970
Substandard	-	-	-	3,672	-	3,672
Subtotal	34,642	48,256	46,841	53,346	18,991	202,076
Commercial and Industrial						
Pass	11,593	27,826	27,612	31,782	15,726	114,539
Special Mention	-	-	704	-	14	718
Substandard	-	-	-	-	-	-
Subtotal	11,593	27,826	28,316	31,782	15,740	115,257
Consumer and Other						
Pass	-	-	-	7,736	167	7,903
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	1	1
Subtotal	-	-	-	7,736	168	7,904
Total	\$ 252,525	\$ 184,810	\$ 110,822	\$ 111,778	\$ 140,133	\$ 800,068

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Credit Quality of Loans by Class					
Year Ended December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Total
(in thousands)					
Loans Secured by Real Estate					
Construction & Land Development	\$ 57,638	\$ 2,836	\$ -	\$ -	\$ 63,311
Residential Real Estate	106,243	-	1,739	-	107,982
Multifamily Real Estate	40,995	-	-	-	40,995
Commercial Real Estate	218,852	7,823	5,361	-	232,036
Commercial and Industrial	110,449	12,907	-	-	123,356
Consumer and Other	10,906	-	-	4	10,910
Total	<u>\$ 545,083</u>	<u>\$ 23,566</u>	<u>\$ 7,100</u>	<u>\$ 4</u>	<u>\$ 578,590</u>

Information relative to nonaccrual loans follows:

December 31, 2023				
Nonaccrual loans				
	With no allowance for credit losses	With an allowance for credit losses	Total	Related allowance for credit loss
(in thousands)				
Loans Secured by Real Estate				
Construction & Land Development	\$ -	\$ -	\$ -	\$ -
Residential Real Estate	-	-	-	-
Multifamily Real Estate	-	-	-	-
Commercial Real Estate	-	3,672	3,672	343
Commercial and Industrial	-	-	-	-
Consumer and Other	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 3,672</u>	<u>\$ 3,672</u>	<u>\$ 343</u>

December 31, 2022				
Nonaccrual loans				
	With no allowance for credit losses	With an allowance for credit losses	Total	Related allowance for credit loss
(in thousands)				
Loans Secured by Real Estate				
Construction & Land Development	\$ -	\$ -	\$ -	\$ -
Residential Real Estate	-	-	-	-
Multifamily Real Estate	-	-	-	-
Commercial Real Estate	-	5,361	5,361	291
Commercial and Industrial	-	-	-	-
Consumer and Other	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 5,361</u>	<u>\$ 5,361</u>	<u>\$ 291</u>

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Interest income recognized on nonaccrual loans in 2023 and 2022 was immaterial.

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

Loan and Allowance for Credit Losses by Portfolio Segment

December 31, 2023

	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	(in thousands)						
<u>Loan Balance:</u>							
Individually	\$ 3,672	\$ 3,424	\$ -	\$ -	\$ -	\$ 1	\$ 7,097
Collectively	198,404	349,514	48,876	115,257	73,017	7,903	792,971
Total	<u>\$ 202,076</u>	<u>\$ 352,938</u>	<u>\$ 48,876</u>	<u>\$ 115,257</u>	<u>\$ 73,017</u>	<u>\$ 7,904</u>	<u>\$ 800,068</u>

Allowance for Credit Losses:

Individually	\$ 343	\$ 254	\$ -	\$ -	\$ -	\$ 1	\$ 598
Collectively	2,184	4,792	416	917	656	44	9,009
Total	<u>\$ 2,527</u>	<u>\$ 5,046</u>	<u>\$ 416</u>	<u>\$ 917</u>	<u>\$ 656</u>	<u>\$ 45</u>	<u>\$ 9,607</u>

Loan and Allowance for Credit Losses by Portfolio Segment

December 31, 2022

	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	(in thousands)						
<u>Loan Balance:</u>							
Individually	\$ 5,361	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 5,365
Collectively	185,443	154,652	40,995	125,054	63,311	9,209	578,664
Total	<u>\$ 190,804</u>	<u>\$ 154,652</u>	<u>\$ 40,995</u>	<u>\$ 125,054</u>	<u>\$ 63,311</u>	<u>\$ 9,213</u>	<u>\$ 584,029</u>

Allowance for Credit Losses:

Individually	\$ 291	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 295
Collectively	3,851	515	155	2,124	1,051	14	7,710
Total	<u>\$ 4,142</u>	<u>\$ 515</u>	<u>\$ 155</u>	<u>\$ 2,124</u>	<u>\$ 1,051</u>	<u>\$ 18</u>	<u>\$ 8,005</u>

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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:

	2023	2022
	(in thousands)	
Federal Reserve Bank of Kansas City	\$ 1,039	\$ 1,039
Federal Home Loan Bank of Topeka	11,186	2,915
	\$ 12,225	\$ 3,954

NOTE E – BANK-OWNED LIFE INSURANCE (BOLI)

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. Currently there are no Company employees, officers or directors covered under the BOLI policies and policies relate to former employees, officers or directors.

NOTE F – PREMISES AND EQUIPMENT

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

	2023	2022
	(in thousands)	
Land	\$ 4,878	\$ 4,878
Airplane	20,142	17,094
Building and improvements	4,973	3,924
Furniture, fixtures and equipment	1,055	1,037
	31,048	26,933
Accumulated depreciation	(2,875)	(1,667)
Total premises and equipment	\$ 28,173	\$ 25,266

Depreciation expense on premises and equipment was \$984,000 and \$566,000 for the years ended December 31, 2023 and 2022, respectively, and is included in occupancy expense in the accompanying consolidated statements of income.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

The Company leases certain airplanes to third-parties for rental income. For the years ended December 31, 2023 and 2022, gross rental income was \$1,338,000 and \$732,000, respectively, and is included as a component of other income. Related expenses for the years ended December 31, 2023 and 2022 were pilot and fuel of \$213,000 and \$143,000 and airplane depreciation of \$781,000 and \$415,000, respectively.

NOTE G – CERTIFICATES OF DEPOSIT AND IRA'S

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2023 and 2022 was \$4.9 million and \$3.3 million, respectively.

At December 31, 2023, the scheduled maturities of interest-bearing time deposits are as follows:

<u>For the Years Ending December 31,</u>	<u>(in thousands)</u>
2024	\$ 222,353
2025	9,947
2026	2,852
Total certificates of deposit	<u>235,152</u>
Total non-maturity IRA's	<u>5,997</u>
Total	<u>\$ 241,149</u>

Time deposits at December 31, 2023 included approximately \$225.2 million in brokered deposits, none of which were reciprocal time deposits. Time deposits at December 31, 2022 included approximately \$69.2 million in brokered deposits, none of which were reciprocal time deposits. The increase in brokered time deposits in 2023 was primarily to fund investments and loans.

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 the FHLB. Overnight advances bear interest at a variable rate while other advances typically bear interest at a fixed rate. 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 limitations based on a discounted amount of the collateral pledged.

As of December 31, 2023 and 2022, respectively, the Company had fixed-rate borrowings of \$34.0 million and \$4 million at fixed rates ranging from 1.70% to 3.77%.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Additionally, the Company had \$138.1 million and \$52.2 million in variable-rate, overnight borrowings as of December 31, 2023 and 2022, respectively. The Bank's weighted-average effective interest rate on all FHLB borrowings was 5.15% and 4.28% as of December 31, 2023 and 2022, respectively.

Maturity and rate information on outstanding FHLB borrowings is as follows at December 31, 2023.

(in thousands)	Amount Maturing	Weighted- Average Interest Rate
Overnight	\$ 138,077	5.55%
2027	4,000	1.70%
2028	30,000	3.77%
Total	<u>\$ 172,077</u>	<u>5.15%</u>

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, 2023. As of both December 31, 2023 and 2022, there were no outstanding borrowings under these arrangements. The federal funds line is uncommitted, and funding requests made by the Company are subject to the lending institution's approval and funding availability at the time of request.

The Company's gross borrowing capacity at the FHLB is \$321.5 million at December 31, 2023, before the outstanding balances above. At December 31, 2023, the Company had loans of \$360.1 million pledged to the FHLB for borrowing purposes.

At December 31, 2023, the Company has available borrowing capacity of \$226.5 million with the Federal Reserve under the discount window program. This line is secured by investment securities. No Federal Reserve borrowings were outstanding at December 31, 2023 and 2022.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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:

	2023	2022
	(in thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 2,373	\$ 2,022
Non-qualified stock options	-	16
Net unrealized loss on AFS Securities	4,620	6,434
Section 174 amortization	415	-
Other	154	111
Total deferred tax assets	7,562	8,583
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(113)	(36)
Premises and equipment	(4,765)	(4,362)
Total deferred tax liabilities	(4,878)	(4,398)
Valuation reserve	-	-
Net deferred tax asset/(liability)	\$ 2,684	\$ 4,185
Current Tax Asset	\$ 763	\$ 2,682
Total Tax Asset	\$ 3,447	\$ 6,867

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

The Company's income tax expense is comprised of the following at December 31:

	2023	2022
	(in thousands)	
Current taxes:		
Federal	\$ 3,726	\$ 1,975
State	1,194	314
Deferred tax expense (benefit)	(313)	1,529
Total Income Taxes	\$ 4,607	\$ 3,818

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, 2023 and 2022, due to the following:

	2023	2022
	(in thousands)	
Tax expense at the federal statutory tax rate	\$ 4,465	\$ 4,618
Increase (decrease) in tax expense from:		
Tax-exempt income, net	(788)	(1,178)
State tax expense, net of federal tax benefit	933	663
Other, net	(3)	(285)
Income tax provision (benefit)	\$ 4,607	\$ 3,818

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. Employees may also make volunteer contributions to the Plan, subject to certain limits based on federal tax laws. For the years ended December 31, 2023 and 2022, expense attributable to the Plan amounted to \$141,000 and \$127,000 respectively.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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 terminated in September 2022 and all 125,000 stock options outstanding under the Plan at the time of expiration expired. No other stock awards were outstanding at the time of expiration. The Company did not recognize any stock-based compensation costs during 2023 and 2022. No stock option or restricted stock awards were granted or exercised in 2023 or 2022.

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
<u>Basic earnings per share computation</u>		
Net earnings to common stockholders	\$ 16,656,812	\$ 18,168,501
Weighted average shares outstanding - basic	4,299,953	4,276,953
Basic earnings per share	<u>\$ 3.87</u>	<u>\$ 4.25</u>
<u>Diluted earnings share computation</u>		
Net earnings to common stockholders	\$ 16,656,812	\$ 18,168,501
Weighted average shares outstanding - basic	4,299,953	4,276,953
<u>Shares assumed issued:</u>		
Stock options	-	-
Weighted average shares outstanding - diluted	4,299,953	4,276,953
Diluted earnings per share	<u>\$ 3.87</u>	<u>\$ 4.25</u>

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

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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, 2023 and 2022, the Company had \$22,347,000 and \$409,000, respectively, in deposits from related parties. There were no outstanding notes receivable from principal officers, directors and/or their affiliates as of December 31, 2023 or 2022.

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.

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.

At December 31, 2023 and 2022, the Company had \$113.1 million and \$131.5 million, respectively, in unfunded commitments outstanding whose contract amounts represent credit risk.

At December 31, 2023 and 2022 the Company has an allowance for credit losses on unfunded loan commitments of \$130,000 and \$0 respectively, carried as a component of Accounts Payable and Other Liabilities. In 2023 and 2022, the Company recorded a credit loss provision of \$0, related to unfunded loan commitments. For the initial adoption of ASC 326, \$130,000 was recorded as a reduction in retained earnings.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

NOTE O – LEGAL CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

NOTE P – FAIR VALUE

See additional discussion regarding fair value measurement in Note A under the discussion of significant accounting policies. The following is a description of the Company's valuation methodologies for financial assets and liabilities recorded at fair value:

Securities Available for Sale: Debt securities are reported at fair value based upon measurements obtained from an independent pricing service. The fair value measurements for debt securities are determined by quoted market prices, if available (Level 1), or consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (Level 2).

Collateral-Dependent Loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on collateral-dependent loans to reflect the current appraised or market-quoted value of the underlying collateral (less an estimate of cost to sell). In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent loans are obtained from independent appraisers or other third-party consultants (Level 3).

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Assets at December 31, 2023				
Securities available for sale				
Corporate	\$ -	\$ 35,512	\$ -	\$ 35,512
State and municipal	-	116,738	-	116,738
Residential agency MBS/CMOs	-	11,782	-	11,782
U.S. Agency	-	221	-	221
U.S. Treasuries	19,326	-	-	19,326
	\$ 19,326	\$ 164,253	\$ -	\$ 183,579

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Assets at December 31, 2022				
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
	\$ 18,900	\$ 145,276	\$ -	\$ 164,176

Assets and Liabilities Measured on a Nonrecurring Basis

At December 31, 2023, the Company had collateral-dependent loans with a total recorded investment of \$3,672,000. The collateral-dependent loans had a valuation allowance of \$343,000 based on the appraised value method.

At December 31, 2022, the Company had one collateral-dependent loan with a total recorded investment of \$5,361,000. The collateral-dependent loan had a valuation allowance of \$291,000 based on the appraised value method.

The Company had no other assets and no liabilities that were measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Fair Value of Financial Instruments

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

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

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

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

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

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

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

Loans, net: For fixed rate loans, fair value is estimated by discounting contractual future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans, fair value is estimated to be carrying amount due to the re-pricing provisions. Loans are presented net of the allowance for loan credit losses, purchase premiums and discounts, and deferred fees.

Nonmarketable equity securities: Fair value approximates cost due to the securities' redemption provisions.

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: Fair value for off-balance-sheet instruments such as unfunded loan commitments and letters of credit is not estimated because of the difficulty in assessing the likelihood and timing of advances, and management believes that it is not feasible or practical to fairly and accurately disclose a fair value for these instruments.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

The carrying amounts and estimated fair values of financial instruments are summarized as follows at December 31, 2023 and 2022:

(in thousands)	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial Assets:</u>				
Cash and cash equivalents	\$ 2,734	\$ 2,734	\$ 3,490	\$ 3,490
Interest-bearing deposits with banks	2,582	2,582	1,499	1,499
Investment securities, available for sale	183,579	183,579	164,176	164,176
Investment securities, held to maturity	200,825	196,005	207,048	194,860
Loans, net	777,672	762,424	570,188	559,768
Nonmarketable equity securities	12,225	12,225	3,954	3,954
Bank-owned life insurance	5,002	5,002	4,891	4,891
Accrued interest receivable	7,272	7,272	5,825	5,825
<u>Financial Liabilities:</u>				
Deposits - demand, savings, money market, and IRA's	\$ 735,063	\$ 735,063	\$ 795,385	\$ 795,385
Certificates of deposit	235,152	237,527	84,398	85,251
FHLB advances	172,077	173,815	56,175	56,742
Accrued interest payable	2,677	2,677	438	438

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.

Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined). The Basel III capital rules require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% common equity tier 1 capital ratio, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7.0%). The Bank is also required to

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital - consisting of common stock, paid-in-capital and retained earnings, less certain disallowed intangible assets and deferred tax assets; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital - consisting of a permissible portion of the allowances for credit losses; and 4) total capital - the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity tier 1 capital.

The following table presents the Bank's actual and required capital ratios as of December 31, 2023 and 2022 under the Basel III Capital Rules. Capital levels required to be considered well capitalized under prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules, are also presented:

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023			(dollars in thousands)			
Common Equity Tier I ratio Solera National Bank	\$ 93,173	10.20%	\$ 41,113	>4.5%	\$ 59,386	>6.5%
Tier 1 Capital To Risk Weighted Assets Solera National Bank	\$ 93,173	10.20%	\$ 54,818	>6.0%	\$ 73,091	>8.0%
Total Risk Based Capital to Risk Weighted Assets Solera National Bank	\$ 102,910	11.26%	\$ 73,091	>8.0%	\$ 91,363	>10.0%
Tier I Capital To Average Assets Solera National Bank	\$ 93,173	7.59%	\$ 49,073	>4.0%	\$ 61,342	>5.0%

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2022						
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	7.67%	\$ 39,952	>4.0%	\$ 49,939	>5.0%

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the consolidated financial statements. Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which it is subject and that the Bank exceeded the minimum levels necessary to be considered “well capitalized.”

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2023 and 2022

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, 2023 financial statements, management has considered subsequent events through March 29, 2024 and determined there are subsequent events to note.

Supplemental Consolidating Schedules
December 31, 2023 and 2022

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



Solera National Bancorp, Inc and Subsidiary

Consolidating Balance Sheet Schedule

December 31, 2023

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands)			
Cash and due from banks	\$ 3,505	\$ 13	\$ (784)	\$ 2,734
Interest-bearing deposits with banks	2,582	-	-	2,582
Total cash and cash equivalents	6,087	13	(784)	5,316
Investment securities, available-for-sale	183,579	-	-	183,579
Investment securities, held-to-maturity	200,825	-	-	200,825
Loans, net	777,672	-	-	777,672
Nonmarketable equity securities	12,225	-	-	12,225
Investment in subsidiary	-	79,501	(79,501)	-
Bank-owned life insurance	5,002	-	-	5,002
Premises and equipment, net	28,173	-	-	28,173
Accrued interest receivable	7,272	-	-	7,272
Tax asset, net	3,287	160	-	3,447
Other assets	3,182	-	(3)	3,179
Total Assets	\$ 1,227,304	\$ 79,674	\$ (80,288)	\$ 1,226,690
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	\$ 512,400	\$ -	\$ (784)	\$ 511,616
Interest-bearing demand	48,122	-	-	48,122
Savings and money market	169,328	-	-	169,328
Certificates of deposit and IRA's	241,149	-	-	241,149
Total deposits	970,999	-	(784)	970,215
Accrued interest payable	2,677	-	-	2,677
Accrued payable and other liabilities	2,050	134	(3)	2,181
Federal Home Loan Bank advances	172,077	-	-	172,077
Total liabilities	1,147,803	134	(787)	1,147,150
Stockholders' equity				
Common stock	16,600	43	(16,600)	43
Additional paid-in capital	18,038	38,748	(18,038)	38,748
Accumulated surplus	58,534	54,420	(58,534)	54,420
Accumulated other comprehensive loss	(13,671)	(13,671)	13,671	(13,671)
Total stockholders' equity	79,501	79,540	(79,501)	79,540
Total Liabilities & Stockholders' Equity	\$ 1,227,304	\$ 79,674	\$ (80,288)	\$ 1,226,690

Solera National Bancorp, Inc and Subsidiary

Consolidating Schedule of Income

Year Ended December 31, 2023

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
	(in thousands)			
Interest income				
Interest and fees on loans	\$ 44,435	\$ -	\$ -	\$ 44,435
Loan pool (amortization)/accretion, net	1,431	-	-	1,431
Interest on investment securities	5,276	-	-	5,276
Interest on tax exempt investment securities	9,319	-	-	9,319
Dividends on nonmarketable equity securities	605	-	-	605
Other interest income	363	-	-	363
Total interest income	61,429	-	-	61,429
Interest expense				
Deposits	20,001	-	-	20,001
Borrowed funds	6,258	-	-	6,258
Total interest expense	26,259	-	-	26,259
Net interest income	35,170	-	-	35,170
Provision for credit losses	1,530	-	-	1,530
Net interest income after provision for credit losses	33,640	-	-	33,640
Noninterest income				
Service charges and fees	1,862	-	-	1,862
Other income	1,562	-	-	1,562
Equity in undistributed earnings of subsidiary	-	16,832	(16,832)	-
Gain on sale of assets	25	-	-	25
Gain on sale of available-for-sale securities, net	310	-	-	310
Total noninterest income	3,759	16,832	(16,832)	3,759
Noninterest expense				
Employee compensation and benefits	8,119	-	-	8,119
Occupancy and equipment	867	-	-	867
Professional fees	582	155	-	737
Data processing	2,012	-	-	2,012
Other general and administrative	4,320	81	-	4,401
Total noninterest expense	15,900	236	-	16,136
Income before income taxes	21,499	16,596	(16,832)	21,263
Income tax expense (benefit)	4,667	(60)	-	4,607
Net income	\$ 16,832	\$ 16,656	\$ (16,832)	\$ 16,656

Solera National Bancorp, Inc and Subsidiary

Consolidating Balance Sheet Schedule

December 31, 2022

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands)			
Cash and due from banks	\$ 3,890	\$ 141	\$ (541)	\$ 3,490
Interest-bearing deposits with banks	1,499	-	-	1,499
Total cash and cash equivalents	5,389	141	(541)	4,989
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
Tax asset, net	6,867	-	-	6,867
Other assets	2,111	2	-	2,113
Total Assets	\$ 995,715	\$ 57,707	\$ (58,105)	\$ 995,317
LIABILITIES AND STOCKHOLDERS' EQUITY				
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
Certificates of deposit and IRA's	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
Federal Home Loan Bank 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 loss	(19,040)	(19,040)	19,040	(19,040)
Total stockholders' equity	57,564	57,729	(57,564)	57,729
Total Liabilities & Stockholders' Equity	\$ 995,715	\$ 57,707	\$ (58,105)	\$ 995,317

Solera National Bancorp, Inc and Subsidiary

Consolidating Schedule of Income

Year Ended December 31, 2022

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
	(in thousands)			
Interest income				
Interest and fees on loans	\$ 24,998	\$ -	\$ -	\$ 24,998
Interest on investment securities	4,438	-	-	4,438
Interest on tax exempt investment securities	5,608	-	-	5,608
Dividends on nonmarketable equity securities	200	-	-	200
Other interest income	38	-	-	38
Total interest income	35,282	-	-	35,282
Interest expense				
Deposits	3,905	-	-	3,905
Borrowed funds	983	-	-	983
Total interest expense	4,888	-	-	4,888
Net interest income	30,394	-	-	30,394
Provision for credit losses	1,576	-	-	1,576
Net interest income after provision for credit losses	28,818	-	-	28,818
Noninterest income				
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
Noninterest expense				
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
Income before income taxes	22,207	18,112	(18,333)	21,986
Income tax expense (benefit)	3,874	(56)	-	3,818
Net income	\$ 18,333	\$ 18,168	\$ (18,333)	\$ 18,168