

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

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

December 31, 2024 and 2023



FORTNER BAYENS, PC

Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Solera National Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Solera National Bancorp, Inc. and Subsidiary as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the 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 Solera National Bancorp, Inc.'s ability to continue as a going concern for one year after the date that the 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.

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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.
- 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 Solera National Bancorp, Inc.'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 51 through 54 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.

Report on Internal Control Over Financial Reporting

As required by the rules and regulations of the Federal Deposit Insurance Corporation codified in 12 CFR Part 363, we also have audited, in accordance with auditing standards generally accepted in the United States of America, the internal control over financial reporting of Solera National Bank (a wholly owned subsidiary of Solera National Bancorp, Inc.) as of December 31, 2024. Our audit of Solera National Bank's internal control over financial reporting was based on criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our separate audit report on Solera National Bank's internal control over financial reporting dated March 31, 2025 expressed an unmodified opinion.

A handwritten signature in cursive script that reads "Fortner Bayens, PC". The signature is written in dark ink and is positioned above the typed text.

Denver, Colorado
March 31, 2025

Solera National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,

	<u>2024</u>	<u>2023</u>
ASSETS		
(in thousands, except for share data)		
Cash and due from banks	\$ 1,576	\$ 2,734
Federal funds sold	800	-
Interest-bearing deposits with banks	148	2,582
Total cash and cash equivalents	<u>2,524</u>	<u>5,316</u>
Investment securities, available-for-sale, at fair value, net of allowance for credit losses of \$-0- and \$-0-	322,375	183,579
Investment securities, held-to-maturity, net of allowance for credit losses of \$-0- and \$-0- (fair value \$0 and \$196,005)	-	200,825
Loans, net of allowance for credit losses of \$10,913 and \$9,607	781,840	777,672
Nonmarketable equity securities, restricted	7,457	12,225
Bank-owned life insurance	5,127	5,002
Premises and equipment, net	33,476	28,173
Accrued interest receivable	7,750	7,272
Tax asset, net	5,828	3,447
Other assets	3,012	3,179
Total Assets	<u>\$ 1,169,389</u>	<u>\$ 1,226,690</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 484,604	\$ 511,616
Interest-bearing demand	54,734	48,122
Savings and money market	100,987	169,328
Certificates of deposit and IRA's	294,338	241,149
Total deposits	<u>934,663</u>	<u>970,215</u>
Accrued interest payable	3,157	2,677
Accounts payable and other liabilities	1,647	2,181
Notes Payable	140,967	172,077
Total liabilities	<u>1,080,434</u>	<u>1,147,150</u>
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	72,455	54,420
Accumulated other comprehensive loss	(22,291)	(13,671)
Total stockholders' equity	<u>88,955</u>	<u>79,540</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,169,389</u>	<u>\$ 1,226,690</u>

¹10,000,000 shares of \$0.01 par value authorized; 4,299,953 shares outstanding as of December 31, 2024 and 2023.

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,

	<u>2024</u>	<u>2023</u>
	(in thousands, except earnings per share)	
Interest income		
Interest and fees on loans	\$ 53,907	\$ 44,435
Loan pool (amortization)/accretion, net	1,029	1,431
Interest on taxable investment securities	5,936	5,276
Interest on tax exempt investment securities	8,320	9,319
Dividends on nonmarketable equity securities	763	605
Other interest income	192	363
Total interest income	<u>70,147</u>	<u>61,429</u>
Interest expense		
Deposits	22,995	20,001
Borrowed funds	7,616	6,258
Total interest expense	<u>30,611</u>	<u>26,259</u>
Net interest income	39,536	35,170
Provision for credit losses	1,318	1,530
Net interest income after provision for credit losses	<u>38,218</u>	<u>33,640</u>
Noninterest income		
Service charges and fees	1,956	1,862
Other income	2,118	1,562
Gain on sale of assets	113	25
Gain on sale of available-for-sale securities, net	918	310
Total noninterest income	<u>5,105</u>	<u>3,759</u>
Noninterest expense		
Employee compensation and benefits	10,015	8,119
Occupancy and equipment	1,084	867
Professional fees	1,002	737
Data processing	1,798	2,012
Other general and administrative	4,888	4,401
Total noninterest expense	<u>18,787</u>	<u>16,136</u>
Income before income taxes	24,536	21,263
Income tax expense	6,501	4,607
Net income	<u>\$ 18,035</u>	<u>\$ 16,656</u>
Other Comprehensive income (loss)		
Unrealized holding gains/(losses) arising during the period	(10,616)	7,184
Reclassification adjustment for realized (gains) losses	(918)	(310)
Income tax effect	2,914	(1,505)
Total other comprehensive income (loss)	<u>(8,620)</u>	<u>5,369</u>
Total comprehensive income (loss)	<u>\$ 9,415</u>	<u>\$ 22,025</u>
Earnings Per Share	<u>\$ 4.19</u>	<u>\$ 3.87</u>

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, 2024 and 2023

	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, 2022	4,299,953	\$ 43	\$ 38,748	\$ 37,978	\$ (19,040)	\$ 57,729
Net income	-	-	-	16,656	-	16,656
Cumulative effect of adoption of Accounting Standards Update 2016-13	-	-	-	(214)	-	(214)
Other comprehensive income (loss)	-	-	-	-	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>
Net income	-	-	-	18,035	-	18,035
Other comprehensive income (loss)	-	-	-	-	(8,620)	(8,620)
Balances at December 31, 2024	<u>4,299,953</u>	<u>\$ 43</u>	<u>\$ 38,748</u>	<u>\$ 72,455</u>	<u>\$ (22,291)</u>	<u>\$ 88,955</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, 2024 and 2023

	2024	2023
Cash flows from operating activities	(in thousands)	
Net income	\$ 18,035	\$ 16,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,219	984
Provision for credit losses	1,318	1,530
Net amortization of premiums on investment securities	1,142	1,219
Net amortization (accretion) of loan pool premiums and discounts	(1,029)	(1,431)
Gain on sale of available-for-sale securities, net	(918)	(310)
Gain on sale of assets	(113)	(25)
Change in income tax asset, net	533	1,605
Federal Home Loan Bank stock dividends	(700)	(543)
Change in bank-owned life insurance cash surrender value	(125)	(111)
Net change in:		
Accrued interest receivable	(478)	(1,447)
Other assets	167	(1,066)
Accrued interest payable	480	2,239
Accounts payable and other liabilities	(534)	859
Net cash provided by operating activities	\$ 18,997	\$ 20,159
Cash flows from investing activities		
Activity in securities available-for-sale:		
Purchases	\$ (38,113)	\$ (33,885)
Maturities, prepayments, and calls	5,700	10,622
Sales	82,593	10,858
Activity in securities held-to-maturity:		
Maturities, prepayments, and calls	91	5,500
Purchase of nonmarketable equity securities	(11,049)	(23,517)
Proceeds from sale of nonmarketable equity securities	16,517	15,789
Loan originations, net	(4,457)	(207,667)
Purchases of premises and equipment	(8,274)	(4,385)
Proceeds from sale of premises and equipment	1,865	519
Net cash provided by (used in) investing activities	\$ 44,873	\$ (226,166)

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, 2024 and 2023

Cash flows from financing activities

Net change in deposits	\$ (35,552)	\$ 90,432
Net change in short-term notes payable	(31,810)	85,902
Proceeds from long-term notes payable	700	30,000
Net cash provided by (used in) financing activities	<u>\$ (66,662)</u>	<u>\$ 206,334</u>

Net change in cash and cash equivalents

\$ (2,792) \$ 327

Cash and cash equivalents at beginning of year

5,316 4,989

Cash and cash equivalents at end of year

\$ 2,524 \$ 5,316

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for interest	\$ 30,131	\$ 24,020
Cash paid during the year for income taxes	4,196	3,045

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, 2024 and 2023

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 2023 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, 2024 and 2023

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 2024 and 2023, 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, 2024 and 2023

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 and Credit Losses

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, or any related cumulative effect adjustments to retained earnings, as of the date of adoption.

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, 2024 and 2023

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, 2024, 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, 2024 and 2023

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.

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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.

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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.

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 collective evaluation, the Company evaluates all nonaccrual loans and other loans that have unique risk characteristics. Although the allowance is determined through collective

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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

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 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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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, 2024 and 2023

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, the Company determines 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. The Company has lease agreements with lease and non-lease components for which the Company has elected to account for as a single lease component. The Company’s ROU asset is subject to an annual impairment analysis, and no impairment has been noted as of December 31, 2024. The net right-of-use asset as of December 31, 2024 and 2023, was \$0 and \$141,000, respectively, and carried as a component of Other Assets. The related lease liability as of December 31, 2024 and 2023, was \$0 and \$146,000, respectively, and carried as a component of Accounts Payable and Other Liabilities. Solera terminated the lease in November of 2024.

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, 2024 and 2023

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, 2024 or 2023.

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. The useful life of single & dual engine aircraft is 15 years. 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, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023

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, 2024				
Amortized	Gross	Gross		
Cost	Unrealized	Unrealized	Fair Value	
(in thousands)				
Securities Available-for-Sale:				
Corporate	\$ 71,428	\$ 102	\$ (3,251)	\$ 68,279
State and municipal	241,035	35	(25,987)	215,083
Residential U.S. agency MBS and CMOs	10,161	8	(280)	9,889
U.S. agency	149	-	(6)	143
U.S. Treasuries	29,426	-	(445)	28,981
Total securities available-for-sale	\$ 352,199	\$ 145	\$ (29,969)	\$ 322,375
December 31, 2023				
Amortized	Gross	Gross		
Cost	Unrealized	Unrealized	Fair Value	
(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

The Company reclassified all held-to-maturity securities on August 21, 2024.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

At December 31, 2024 and 2023, 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, 2024 and 2023 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, 2024 and 2023 by a nationally recognized statistical rating organization.

At December 31, 2024 and 2023 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, 2024, 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:

	<u>December 31, 2024</u>	
	<u>Available-for-Sale</u>	
	<u>Amortized</u>	<u>Estimated</u>
	<u>Cost</u>	<u>Fair Value</u>
	(in thousands)	
Due in one year or less	\$ 22,806	\$ 22,673
Due after one year through five years	51,702	48,144
Due after five years through ten years	49,478	43,256
Due after ten years	218,051	198,413
	<u>342,037</u>	<u>312,486</u>
Residential agency MBS and CMOs	<u>10,161</u>	<u>9,889</u>
	<u>\$ 352,198</u>	<u>\$ 322,375</u>

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

Securities with carrying values of \$213.6 million and \$335.5 million on December 31, 2024 and 2023, 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:

	2024	2023
	(in thousands)	
Loans Secured by Real Estate		
Construction & Land Development	\$ 134,770	\$ 73,017
Residential Real Estate	333,237	352,938
Commercial Real Estate	197,097	202,076
Multifamily Real Estate	45,818	48,876
Total Loans Secured by Real Estate	710,922	676,907
Commercial and Industrial	79,431	115,257
Consumer and Other	14,954	7,904
Total Gross Loans	805,307	800,068
Allowance for Credit Losses	(10,913)	(9,607)
Net Purchase Discount on Loans	(12,428)	(12,590)
Net Deferred Loan Fees	(126)	(199)
Loans, Net	\$ 781,840	\$ 777,672

A substantial portion of the Company's loans are purchased loan pools serviced by third-parties. At December 31, 2024 and 2023 purchased loan pools, net of purchase discounts, included in the tables above are \$274.6 million and \$319.4 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, 2024 and 2023

Activity in the allowance for credit losses for the years ended December 31, 2024 and 2023 is summarized as follows:

<u>December 31, 2024</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	\$ 656	\$ 5,046	\$ 416	\$ 2,527	\$ 917	\$ 45	\$ 9,607
Provision for Credit Losses	791	(202)	369	343	(207)	224	1,318
Loans Charged-Off	-	-	-	-	-	(12)	(12)
Recoveries of Loans Previously Charged-Off	-	-	-	-	-	-	-
Balance at End of Year	<u>\$ 1,447</u>	<u>\$ 4,844</u>	<u>\$ 785</u>	<u>\$ 2,870</u>	<u>\$ 710</u>	<u>\$ 257</u>	<u>\$ 10,913</u>

<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>

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

	December 31, 2024				
	Accruing Interest				Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Nonaccrual	
	(in thousands)				
Construction & Land Development	\$ 134,770	\$ -	\$ -	\$ -	\$ 134,770
Residential Real Estate	328,878	3,449	156	754	333,237
Commercial Real Estate	197,097	-	-	-	197,097
Multifamily Real Estate	29,964	12,520	-	3,334	45,818
Commercial and Industrial	79,431	-	-	-	79,431
Consumer and Other	13,643	393	918	-	14,954
Total	<u>\$ 783,783</u>	<u>\$ 16,362</u>	<u>\$ 1,074</u>	<u>\$ 4,088</u>	<u>\$ 805,307</u>

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

	December 31, 2023				
	Accruing Interest				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	\$ 789,856	\$ 5,033	\$ 1,507	\$ 3,672	\$ 800,068

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. Interest rates, inflation, and consumer spending are also pertinent risk factors across all loan segments.

In assessing the risk factors as of December 31, 2024, 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, 2023.

On December 31, 2024, the company had \$512 thousand retail mortgage loans, and a modification was made in 2024 to accommodate the consumer borrower's financial difficulty. The modifications were made in the form of payment deferment, where the deferred payments are added to the back end of the loan term. Financial difficulties for these borrowers were realized due to unforeseen events, i.e., hurricane impacts, job layoffs, etc.

On December 31, 2023, the Company had no loans modified in 2023 where the modification was deemed a financial difficulty modification.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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

December 31, 2024							
Term Loans Amortized Cost Basis by Origination Year							
	2024	2023	2022	2021	Prior	Revolving Loans	Total
	(in thousands)						
Construction & Land Development							
Pass	\$ 8,535	\$ 8,246	\$ 644	\$ 3,533	\$ 533	\$ 109,245	\$ 130,736
Special Mention	-	-	-	-	-	-	-
Substandard	4,034	-	-	-	-	-	4,034
Subtotal	12,569	8,246	644	3,533	533	109,245	134,770
Residential Real Estate							
Pass	10,460	169,538	97,441	23,920	6,473	22,463	330,296
Special Mention	799	-	-	-	-	-	799
Substandard	-	768	93	-	1,232	49	2,142
Subtotal	11,259	170,306	97,534	23,920	7,705	22,512	333,237
Multifamily Real Estate							
Pass	16,944	-	5,373	3,957	4,510	12,343	43,127
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	2,691	-	2,691
Subtotal	16,944	-	5,373	3,957	7,201	12,343	45,818
Commercial Real Estate							
Pass	20,620	22,340	54,051	42,566	34,309	13,341	187,227
Special Mention	-	-	-	-	-	-	-
Substandard	-	3,447	-	3,083	3,340	-	9,870
Subtotal	20,620	25,787	54,051	45,649	37,649	13,341	197,097
Commercial and Industrial							
Pass	5,560	7,104	22,613	16,914	9,059	7,827	69,077
Special Mention	-	-	-	-	-	9,931	9,931
Substandard	-	423	-	-	-	-	423
Subtotal	5,560	7,527	22,613	16,914	9,059	17,758	79,431
Consumer and Other							
Pass	7,881	-	-	-	5,955	1,118	14,954
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Subtotal	7,881	-	-	-	5,955	1,118	14,954
Total	\$ 74,833	\$ 211,866	\$ 180,215	\$ 93,973	\$ 68,102	\$ 176,317	\$ 805,307

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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, 2024 and 2023

Information relative to nonaccrual loans follows:

December 31, 2024				
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	91	663	754	308
Multifamily Real Estate	-	-	-	-
Commercial Real Estate	-	3,334	3,334	171
Commercial and Industrial	-	-	-	-
Consumer and Other	-	-	-	-
Total	\$ 91	\$ 3,997	\$ 4,088	\$ 479
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	\$ -	\$ 3,672	\$ 3,672	\$ 343

Interest income recognized on nonaccrual loans in 2024 and 2023 was immaterial.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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, 2024							
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
(in thousands)							
<u>Evaluated Loan Balance:</u>							
Individually	\$ 9,864	\$ 2,039	\$ 2,691	\$ 423	\$ 4,035	\$ -	\$ 19,052
Collectively	187,233	331,198	43,127	79,008	130,735	14,954	786,255
Total	\$ 197,097	\$ 333,237	\$ 45,818	\$ 79,431	\$ 134,770	\$ 14,954	\$ 805,307

<u>Allowance for Credit Losses:</u>							
Individually	\$ 938	\$ 308	\$ 420	\$ -	\$ 200	\$ -	\$ 1,866
Collectively	1,932	4,536	365	710	1,247	257	9,047
Total	\$ 2,870	\$ 4,844	\$ 785	\$ 710	\$ 1,447	\$ 257	\$ 10,913

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>Evaluated 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	\$ 202,076	\$ 352,938	\$ 48,876	\$ 115,257	\$ 73,017	\$ 7,904	\$ 800,068

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

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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:

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Federal Reserve Bank of Kansas City	\$ 1,060	\$ 1,039
Federal Home Loan Bank of Topeka	<u>6,397</u>	<u>11,186</u>
	<u>\$ 7,457</u>	<u>\$ 12,225</u>

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

NOTE F – PREMISES, EQUIPMENT AND AVIATION

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

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Land	\$ 4,878	\$ 4,878
Airplane	26,258	20,142
Building and improvements	5,123	4,973
Furniture, fixtures and equipment	402	1,055
	<u>36,661</u>	<u>31,048</u>
Accumulated depreciation	<u>(3,185)</u>	<u>(2,875)</u>
Total premises and equipment	<u>\$ 33,476</u>	<u>\$ 28,173</u>

Depreciation expense on premises and equipment was \$1,219,000 and \$984,000 for the years ended December 31, 2024 and 2023, respectively, and is included in occupancy expense in the accompanying consolidated statements of comprehensive income.

The Company leases certain airplanes to third-parties for rental income. For the years ended December 31, 2024 and 2023, gross rental income was \$1.9 million and \$1.3 million, respectively, and is included as a component of other income. Related expenses for the years ended December 31, 2024 and 2023 were pilot, fuel, and engine repair of \$426 thousand and \$213 thousand respectively, and airplane/hanger depreciation of \$1.04 million and \$781 thousand, respectively.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

The Company has expanded its aviation lending niche and below is additional detail on the aviation fleet.

Aviation	Airplane Rollforward (in thousands)							
	Count	12/31/2023	Count	Purchases	Count	Sales	Count	12/31/2024
Single/Dual Engine Planes	4	\$ 2,645	15	\$ 8,113	3	\$ 1,754	16	\$ 9,004
Honda Jets	3	15,983	-	-	-	-	3	15,983
Helicopters	1	1,271	-	-	-	-	1	1,271
Total Aviation	8	19,899	15	8,113	3	1,754	20	26,258
Accumulated Depreciation								
Single/Dual Engine Planes		116		297		22		391
Honda Jets		967		639		-		1,606
Helicopters		47		51		-		97
		1,130		987		22		2,095
Net Book Value								
Airplane	8	18,769	15	7,126	3	1,732	20	24,163
Total	8	\$ 18,769	15	\$ 7,126	3	\$ 1,732	20	\$ 24,163

Profit and Loss from Aviation Activities

(in thousands)

	2024	2023
Rental Income		
Single/Dual Engine Planes	\$ 970	\$ 345
Honda Jets	720	750
Helicopters	123	152
Aviation Related Income (Hanger & late fees)	56	-
Total Aviation Rental Income	1,869	1,247
Gain/(Loss) on Sales of Airplanes		
Single/Dual Engine Planes	126	25
Total Gain/(Loss) on Sales of Airplanes	126	25
Operating Expenses		
Depreciation Expense	1,040	781
Pilot Expense	50	53
Engine Rebuild Expense	178	-
Fuel and Miscellaneous Aviation Expenses	198	160
Total Aviation Operating Expense	1,466	994
Net Income/(Loss) from Aviation Activities	\$ 529	\$ 279

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

NOTE G – CERTIFICATES OF DEPOSIT AND IRA'S

The aggregate amount of time deposits in denominations of \$250,000 or more on December 31, 2024 and 2023 was \$3.8 million and \$4.9 million, respectively.

At December 31, 2024, the scheduled maturities of interest-bearing time deposits are as follows:

<u>For the Years Ending December 31,</u>	<u>(in thousands)</u>
2025	\$ 277,749
2026	10,622
2027	5,153
Total certificates of deposit	<u>293,524</u>
Total non-maturity IRA's	<u>814</u>
Total	<u>\$ 294,338</u>

Time deposits at December 31, 2024 included approximately \$193 million in brokered deposits, none of which were reciprocal time deposits. Time deposits at December 31, 2023 included approximately \$225 million in brokered deposits, none of which were reciprocal time deposits. The decrease in brokered time deposits in 2024 was primarily due to finding the lowest cost of funds opportunity.

NOTE H – NOTES PAYABLE

FHLB 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, 2024 and 2023, respectively, the Company had fixed-rate borrowings of \$34.0 million and \$34 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, 2024 and 2023

Additionally, the Company had \$106.3 million and \$138.1 million in variable-rate, overnight borrowings as of December 31, 2024 and 2023, respectively. The Bank's weighted-average effective interest rate on all FHLB borrowings was 4.32% and 5.15% as of December 31, 2024 and 2023, respectively.

Maturity and rate information on outstanding FHLB borrowings is as follows at December 31, 2024.

(in thousands)	Amount Maturing	Weighted- Average Interest Rate
Overnight	\$ 106,267	4.57%
2027	4,000	1.70%
2028	30,000	3.77%
Total	<u>\$ 140,267</u>	<u>4.32%</u>

The Company's gross borrowing capacity at the FHLB is \$234.4 million at December 31, 2024, before the outstanding balances above. At December 31, 2024, the Company had loans of \$401 million and securities of \$39 million pledged to the FHLB for borrowing purposes.

AVAILABLE LINES OF CREDIT

In addition to FHLB borrowings, the Company may borrow overnight funds on an unsecured basis from its correspondent banks. The Company had approved federal funds borrowing lines from correspondent banks of \$5 million as of December 31, 2024. As of both December 31, 2024 and 2023, there were no outstanding borrowings under these arrangements. The federal funds lines are uncommitted, and funding requests made by the Company are subject to the lending institution's approval and funding availability at the time of request.

At December 31, 2024, the Company has available borrowing capacity of \$138 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, 2024 and 2023.

SUBORDINATED DEBENTURE

During 2024, the Company privately placed \$700,000 of a subordinated debenture. The debenture is unsecured, and interest is due time to time at a rate of 9.75%, fixed until maturity. This debt will mature on August 1, 2034, but can be paid off as early as July 30, 2029. Total interest expense under the debenture totaled \$29 thousand for 2024.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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:

	2024	2023
	(in thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 2,794	\$ 2,373
Net unrealized loss on AFS Securities	7,534	4,620
Section 174 amortization	255	415
Other	223	154
Total deferred tax assets	10,806	7,562
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(82)	(113)
Premises and equipment	(5,036)	(4,765)
Total deferred tax liabilities	(5,118)	(4,878)
Net deferred tax asset/(liability)	\$ 5,688	\$ 2,684
Taxes receivable (payable)	\$ 140	\$ 763
Total Tax Asset	\$ 5,828	\$ 3,447

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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

	2024	2023
	(in thousands)	
Current taxes:		
Federal	\$ 4,818	\$ 3,726
State	1,773	1,194
Deferred tax expense (benefit)	(90)	(313)
Total Income Taxes	\$ 6,501	\$ 4,607

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, 2024 and 2023, due to the following:

	2024	2023
	(in thousands)	
Tax expense at the federal statutory tax rate	\$ 5,153	\$ 4,465
Increase (decrease) in tax expense from:		
Tax-exempt income, net	(544)	(788)
State tax expense, net of federal tax benefit	1,177	933
Other, net	715	(3)
Income tax provision (benefit)	\$ 6,501	\$ 4,607

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 voluntary contributions to the Plan, subject to certain limits based on federal tax laws. For the years ended December 31, 2024 and 2023, expense attributable to the Plan amounted to \$186,000 and \$141,000 respectively.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

NOTE K – STOCK-PURCHASED PROGRAM

In 2024, the Board of Directors authorized a program to make 300,000 shares of common stock available for purchase by the Chairman of the Board annually through 2028. Each annual offer expires on December 31st of that year. The shares are made available for purchase at their fair value at the time of purchase. No shares were purchased under this arrangement in 2024. This arrangement is primarily intended to raise capital if needed.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
<u>Basic earnings per share computation</u>		
Net earnings to common stockholders	\$ 18,034,393	\$ 16,656,812
Weighted average shares outstanding - basic	4,299,953	4,299,953
Basic earnings per share	<u>\$ 4.19</u>	<u>\$ 3.87</u>

The company has no dilutive instruments for 2024 and 2023.

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, 2024 and 2023, the Company had \$13,749,000 and \$22,347,000, respectively, in deposits from related parties. There were no outstanding notes receivable or commitments to fund loans from principal officers, directors and/or their affiliates as of December 31, 2024 or 2023.

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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, 2024 and 2023, the Company had \$77.5 million and \$113.1 million, respectively, in unfunded commitments outstanding whose contract amounts represent credit risk.

At December 31, 2024 and 2023 the Company has an allowance for credit losses on unfunded loan commitments of \$130,000 and \$130,000 respectively, carried as a component of Accounts Payable and Other Liabilities. In 2024 and 2023, the Company recorded a credit loss provision of \$0, related to unfunded loan commitments. For the initial adoption of ASC 326 in 2023, \$130,000 was recorded as a reduction in retained earnings.

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. While management is currently involved in a lawsuit with two shareholders, we do not believe there will be an estimable loss.

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).

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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, 2024 and 2023

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, 2024				
Securities available for sale				
Corporate	\$ -	\$ 68,279	\$ -	\$ 68,279
State and municipal	-	215,083	-	215,083
Residential agency MBS/CMOs	-	9,889	-	9,889
U.S. Agency	-	143	-	143
U.S. Treasuries	28,981	-	-	28,981
	<u>\$ 28,981</u>	<u>\$ 293,394</u>	<u>\$ -</u>	<u>\$ 322,375</u>

	<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
	<u>\$ 19,326</u>	<u>\$ 164,253</u>	<u>\$ -</u>	<u>\$ 183,579</u>

Assets and Liabilities Measured on a Nonrecurring Basis

On December 31, 2024, the Company had collateral-dependent loans with a total recorded investment of \$17.2 million. The collateral-dependent loans had a valuation allowance of \$1.9 million based on the appraised value method.

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.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

The Company had no other assets and no liabilities that were measured at fair value on a nonrecurring basis as of December 31, 2024 and 2023.

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.

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, 2024 and 2023

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.

Notes Payable: Fair value of fixed rate notes payable—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 on notes payable 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, 2024 and 2023

The carrying amounts and estimated fair values of financial instruments are summarized as follows at December 31, 2024 and 2023:

(in thousands)	2024		2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial Assets:</u>				
Cash and cash equivalents	\$ 2,385	\$ 2,385	\$ 2,734	\$ 2,734
Interest-bearing deposits with banks	148	148	2,582	2,582
Investment securities, available-for-sale	322,375	322,375	183,579	183,579
Investment securities, held-to-maturity	-	-	200,825	196,005
Loans, net	781,840	749,966	777,672	762,424
Nonmarketable equity securities	7,457	7,457	12,225	12,225
Bank-owned life insurance	5,127	5,127	5,002	5,002
Accrued interest receivable	7,750	7,750	7,272	7,272
<u>Financial Liabilities:</u>				
Deposits - demand, savings, money market, and IRA's	\$ 640,285	\$ 640,285	\$ 735,063	\$ 735,063
Certificates of deposit	294,378	282,377	235,152	237,527
Notes payable	140,967	142,391	172,077	173,815
Accrued interest payable	3,157	3,157	2,677	2,677

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 maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

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, 2024 and 2023 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, 2024			(dollars in thousands)			
Common Equity Tier I ratio						
Solera National Bank	\$ 111,734	12.43%	\$ 40,442	>4.5%	\$ 58,416	>6.5%
Tier 1 Capital To Risk Weighted Assets						
Solera National Bank	\$ 111,734	12.43%	\$ 53,923	>6.0%	\$ 71,897	>8.0%
Total Risk Based Capital to Risk Weighted Assets						
Solera National Bank	\$ 122,777	13.66%	\$ 71,897	>8.0%	\$ 89,871	>10.0%
Tier I Capital To Average Assets						
Solera National Bank	\$ 111,734	9.32%	\$ 47,945	>4.0%	\$ 59,931	>5.0%

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2024 and 2023

	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, 2023						
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%

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, 2024 and 2023, 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, 2024 and 2023

NOTE 5 – 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, 2024 financial statements, management has considered subsequent events through March 31, 2025.

Supplemental Consolidating Schedules
December 31, 2024 and 2023

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



Solera National Bancorp, Inc and Subsidiary

Consolidating Balance Sheet Schedule

December 31, 2024

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS				
(in thousands)				
Cash and due from banks	\$ 2,245	\$ -	\$ (669)	\$ 1,576
Federal funds sold	800	-	-	800
Interest-bearing deposits with banks	148	84	(84)	148
Total cash and cash equivalents	3,193	84	(753)	2,524
Investment securities, available-for-sale	322,375	-	-	322,375
Loans, net	781,840	-	-	781,840
Nonmarketable equity securities	7,457	-	-	7,457
Investment in subsidiary	-	89,443	(89,443)	-
Bank-owned life insurance	5,127	-	-	5,127
Premises and equipment, net	33,476	-	-	33,476
Accrued interest receivable	7,750	-	-	7,750
Tax asset, net	5,502	326	-	5,828
Other assets	3,045	-	(33)	3,012
Total Assets	\$ 1,169,765	\$ 89,853	\$ (90,229)	\$ 1,169,389
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	\$ 485,273	\$ -	\$ (669)	\$ 484,604
Interest-bearing demand	54,818	-	(84)	54,734
Savings and money market	100,987	-	-	100,987
Certificates of deposit and IRA's	294,338	-	-	294,338
Total deposits	935,416	-	(753)	934,663
Accrued interest payable	3,128	29	-	3,157
Accrued payable and other liabilities	1,511	169	(33)	1,647
Notes Payable	140,267	700	-	140,967
Total liabilities	1,080,322	898	(786)	1,080,434
Stockholders' equity				
Common stock	16,600	43	(16,600)	43
Additional paid-in capital	18,738	38,748	(18,738)	38,748
Accumulated surplus	76,396	72,455	(76,396)	72,455
Accumulated other comprehensive loss	(22,291)	(22,291)	22,291	(22,291)
Total stockholders' equity	89,443	88,955	(89,443)	88,955
Total Liabilities & Stockholders' Equity	\$ 1,169,765	\$ 89,853	\$ (90,229)	\$ 1,169,389

Solera National Bancorp, Inc and Subsidiary

Consolidating Schedule of Income

Year Ended December 31, 2024

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
	(in thousands)			
Interest income				
Interest and fees on loans	\$ 53,907	\$ -	\$ -	\$ 53,907
Loan pool (amortization)/accretion, net	1,029	-	-	1,029
Interest on investment securities	5,936	-	-	5,936
Interest on tax exempt investment securities	8,320	-	-	8,320
Dividends on nonmarketable equity securities	763	-	-	763
Other interest income	192	-	-	192
Total interest income	70,147	-	-	70,147
Interest expense				
Deposits	22,995	-	-	22,995
Borrowed funds & Sub Debt	7,587	29	-	7,616
Total interest expense	30,582	29	-	30,611
Net interest income	39,565	(29)	-	39,536
Provision for credit losses	1,318	-	-	1,318
Net interest income after provision for credit losses	38,247	(29)	-	38,218
Noninterest income				
Service charges and fees	1,956	-	-	1,956
Other income	2,118	-	-	2,118
Equity in undistributed earnings of subsidiary	-	18,122	(18,122)	-
Gain on sale of assets	113	-	-	113
Gain on sale of available-for-sale securities, net	918	-	-	918
Total noninterest income	5,105	18,122	(18,122)	5,105
Noninterest expense				
Employee compensation and benefits	10,015	-	-	10,015
Occupancy and equipment	1,084	-	-	1,084
Professional fees	868	134	-	1,002
Data processing	1,798	-	-	1,798
Other general and administrative	4,798	90	-	4,888
Total noninterest expense	18,563	224	-	18,787
Income before income taxes	24,789	17,869	(18,122)	24,536
Income tax expense (benefit)	6,667	(166)	-	6,501
Net income	\$ 18,122	\$ 18,035	\$ (18,122)	\$ 18,035

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