

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2023
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE
TRANSITION PERIOD FROM ____ TO ____

Commission File Number 001-38595

First Western Financial, Inc.
(Exact name of Registrant as specified in its Charter)

Colorado
(State or other jurisdiction of
incorporation or organization)
1900 16th Street, Suite 1200
Denver, CO
(Address of principal executive offices)

37-1442266
(I.R.S. Employer
Identification No.)
80202
(Zip Code)

Registrant's telephone number, including area code: 303.531.8100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, no par value	MYFW	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2023, the last day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on the NASDAQ Global Select Market, was approximately \$140.9 million.

The number of shares of the registrant's common stock outstanding as of March 12, 2024 was 9,621,310.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to its 2024 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2023.

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Important Notice about Information in this Annual Report

Unless we state otherwise or the context otherwise requires, references in this Annual Report on Form 10-K to "we," "our," "us," "the Company" and "First Western" refer to First Western Financial, Inc. and its consolidated subsidiaries, including First Western Trust Bank, which we sometimes refer to as "the Bank" or "our Bank."

The information contained in this Annual Report on Form 10-K is accurate only as of the date of this Annual Report on Form 10-K and as of the dates specified herein.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control, particularly with regard to developments related to soundness of other financial institutions. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described in "Item 1A – Risk Factors" of this Annual Report on Form 10-K.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- geographic concentration in Colorado, Arizona, Wyoming, Montana, and California;
- the soundness of other financial institutions;
- changes in the economy affecting real estate values and liquidity;
- risks associated with higher inflation;
- changes in interest rates;
- weak economic conditions and global trade;
- our ability to continue to originate residential real estate loans and sell such loans;
- risks specific to commercial loans and borrowers;
- risks related to non-performing assets, borrowers' solvency and ability to repay and the value of loan collateral;
- claims and litigation pertaining to our fiduciary responsibilities;
- competition for investment managers and professionals and our ability to retain our associates;
- fluctuation in the value of our investment securities;
- the terminable nature of our investment management contracts;
- changes to the level or type of investment activity by our clients;
- investment performance, in either relative or absolute terms;
- legislative changes or the adoption of tax reform policies;
- external business disruptors in the financial services industry;
- the adequacy of our allowance for credit losses;
- liquidity risks;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- continued positive interaction with and financial health of our referral sources;

- retaining our largest trust clients;
- our ability to achieve our strategic objectives;
- competition from other banks, financial institutions, and wealth and investment management firms;
- our ability to implement our internal growth strategy and manage the risks associated with our anticipated growth;
- the acquisition of other banks and financial services companies and integration risks and other unknown risks associated with acquisitions;
- the accuracy of estimates and assumptions;
- our ability to protect against and manage fraudulent activity, breaches of our information security, and cybersecurity attacks;
- our reliance on communications, information, operating and financial control systems technology and related services from third-party service providers;
- technological change, including the use of artificial intelligence as a commonly used resource and its effects;
- our ability to attract and retain clients;
- unforeseen or catastrophic events, including pandemics, wars, terrorist attacks, extreme weather events or other natural disasters;
- new lines of business or new products and services;
- regulation of the financial services industry;
- legal and regulatory proceedings, investigations and inquiries, fines and sanctions;
- limited trading volume and liquidity in the market for our common stock;
- fluctuations in the market price of our common stock;
- actual or anticipated issuances or sales of our common stock or preferred stock in the future;
- the initiation and continuation of securities analysts coverage of the Company;
- potential impairment of goodwill recorded on our balance sheet and possible requirements to recognize significant charges to earnings due to impairment of intangible assets;
- future issuances of debt securities;
- our ability to manage our existing and future indebtedness;
- available cash flows from the Bank; and
- other factors that are discussed in "Part I – Item 1A - Risk Factors".

The foregoing factors should not be construed as exhaustive. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I

Item 1: Business

Our Company

First Western Financial, Inc. is a financial holding company headquartered in Denver, Colorado. We provide a fully integrated suite of wealth management services on our private trust bank platform, which includes a comprehensive selection of deposit, loan, trust, wealth planning and investment management products and services. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of December 31, 2023, we provided fiduciary and advisory services on \$6.75 billion of trust and investment management assets ("AUM"), and we had total assets of \$2.98 billion, total loans, excluding mortgage loans held for sale, of \$2.53 billion, total deposits of \$2.53 billion and total shareholders' equity of \$242.7 million.

Our mission is to be the best private bank for the Western wealth management client. We believe that the "Western wealth management client" shares our entrepreneurial spirit and values our sophisticated, high-touch integrated financial services that are tailored to meet their specific needs. Our target clients include successful entrepreneurs, professionals and other high net worth individuals or families, along with their businesses and philanthropic organizations. We offer our services through a branded network of boutique private trust bank offices, loan production offices, and trust offices, which we believe are strategically located in affluent and high-growth markets in eighteen locations across Colorado, Arizona, Wyoming, Montana, and California.

We generate a significant portion of our revenues from non-interest income, which we produce from our trust, investment management and other advisory services as well as through the origination and sale of mortgage loans. The balance of our revenue is generated from net interest income, which we derive from our traditional banking products and services. For the year ended December 31, 2023, non-interest income was \$21.9 million or 26.5% of total income before non-interest expense and net interest income, before the provision for credit losses, was \$71.1 million, or 86.0% of total income before non-interest expense.

We believe that we have developed a unique approach to private banking to best serve our Western wealth management clients primarily as a result of the combination of the following factors:

- Offering sophisticated wealth management products and services, including traditional banking as well as trust, wealth planning, investment management and other related services often provided by larger financial institutions with the high-touch and personalized experience that is typically associated with community and trust banks;
- Delivering services through our strategically located private trust bank offices, which we refer to internally as "profit centers"; and
- Using our relationship-based team approach to become a "trusted advisor" to our clients by understanding their investment management, ultimate goals and banking needs and tailoring our products and services to meet those needs.

Our History

We were founded in 2002 by our Chairman, Chief Executive Officer and President, Scott C. Wylie, and a group of local business leaders with the vision of building the best private bank for the Western wealth management client. Since opening our first office in Denver, Colorado in 2004, we have grown organically primarily by establishing boutique private trust bank offices, attracting new clients and expanding our relationships with existing clients, as well as through a series of strategic acquisitions of various trust, registered investment advisory, bank branch and full bank institutions, and other financial services firms. Since we completed an initial public offering of our common stock on July 23, 2018, our common stock has been listed on the NASDAQ Global Select Market under the symbol "MYFW."

Our Business Strategy

We believe we have built a premier private trust bank in the Western United States that focuses on providing the best financial solutions to our clients. We are service-driven, solution-oriented and relationship-based. We accomplish this by continuing to execute on the following strategies:

- *Building Out Existing Markets.* Once we have established a presence in a particular geographic market that contains attractive high net worth household demographics, we then look to establish additional locations that are closely situated to sub-concentrations of affluent households and/or commercial activity (a "hub and spoke" market build-out, as we have commenced in Denver, Phoenix, and Jackson Hole). We continue to seek out talent to hire as part of our strategy of building out existing markets and continue to be successful in hiring teams that help us accomplish this goal. We also seek to employ highly capable associates with local market experience and relationships.
- *Deepening Existing Client Relationships.* We deliver our services through our eighteen local boutique private trust bank offices, loan production offices, and trust offices. This allows us to use multi-discipline sales and client service teams, in-market, to ensure we are meeting each client's comprehensive set of needs. These teams take the time to understand the complexities of our clients' financial world through wealth planning solutions and create the financial plan that helps them reach their goals. This profit center-based service model is a critical component of our future growth as we continue to develop our understanding of our clients' evolving needs, allowing us to deepen, broaden and grow our existing relationships.
- *Generating Referrals for New Client Relationships.* We believe we have demonstrated a successful sales and marketing capability, built around the personal and professional networks and centers of influence of our local profit center leadership. Our existing client base has historically provided a significant amount of new clients through referrals. In surveys, our clients generally rate us very favorably overall in areas of professionalism, reliability, service-orientation, and trust.
- *Developing Client Relationships through our Product Groups.* Each profit center is designed to feel like a boutique private trust bank office and is staffed with business development and client service personnel. The profit centers work closely with our central product groups to customize our services to each client's specific situation, without sacrificing the flexibility, expertise and authority to quickly meet complex client needs. Our central product groups are designed to support a significantly larger client and AUM base, providing an opportunity for significant operating leverage as we open additional profit centers. We have sales and service specialists in our product groups, such as Retirement Services and Mortgage Services, who are able to build relationships within their area of expertise and provide high quality service that creates an opportunity for a broader relationship across our suite of products and services.
- *Expanding to New Markets.* We believe that our profit centers are profitable and stable businesses when mature. We also believe that our product group and support center teams have a high degree of operating leverage (i.e., we believe that increasing the number of profit centers would not require a proportionate increase in our product group or support center expenses). Therefore, a key strategy of ours is to add incremental profit centers and grow them to maturity. We continue to seek out talent as part of our strategy of building out existing markets and continue to be successful in hiring teams that help us accomplish this goal. The trends in the financial services industry that make our business model successful in our existing geographic markets also exist in other locations in the Western United States. Our analysis indicates that there are hundreds of markets and submarkets in the Western United States that could support our profit centers and fit our target demographics. As such, we intend to continue to explore new Western United States markets with favorable high net worth demographics and competitive landscapes.
- *Growing our Core Deposit Franchise.* The strength of our deposit franchise is derived from the long-standing relationships we have with our clients and the strong ties we have to the markets we serve. Our deposit footprint has provided, and we believe will continue to provide, primary support for our loan growth. A key part of our strategy is to continue to enhance our funding sources by continuing to build our private and commercial banking capabilities to keep building our base of attractively priced core deposits.

- *Attracting Talent.* Our team of seasoned associates has been, and will continue to be, an important driver of our organic growth by further developing relationships with current and potential clients. We have a record of hiring experienced associates to enhance our organic growth, and sourcing and hiring talent will continue to be a core focus for us. We believe that our client service model, financial strength, growth strategy and public company status will further enhance our ability to attract and retain this talent.
- *Developing New Products.* We seek to be the primary source of financial products and services for our clients. By continuing to expand our product offerings—either by internal product development or establishing third-party relationships—we work to meet expanding client needs while further diversifying our revenue streams. This includes our recent efforts to focus on our product management disciplines as well as upgrading our commercial banking capabilities, adding market expertise in certain business verticals.

Our Service Model and Products

We deliver a broad array of wealth management products and services through our profit centers using our proprietary ConnectView® approach, which looks holistically across a client's current and projected financial situation. We believe providing financial solutions in one area (such as estate, retirement planning or lending) often impacts other areas of our clients' wealth planning (such as risk or balance sheet management), which provides us opportunities to evaluate proposed solutions across multiple business lines and offer additional services to our clients.

We have designed our business around having each profit center staffed with seasoned management. Typically, each profit center team is led by a president, who is a senior investment advisor or banker with strong client relationships and sales and leadership skills. The local team includes deposit, loan, trust, wealth planning, and related professionals, creating a strong interdisciplinary sales and service team.

We provide a broad array of products and services through our boutique private trust bank offices, largely comprised of the products and services described below.

Lending

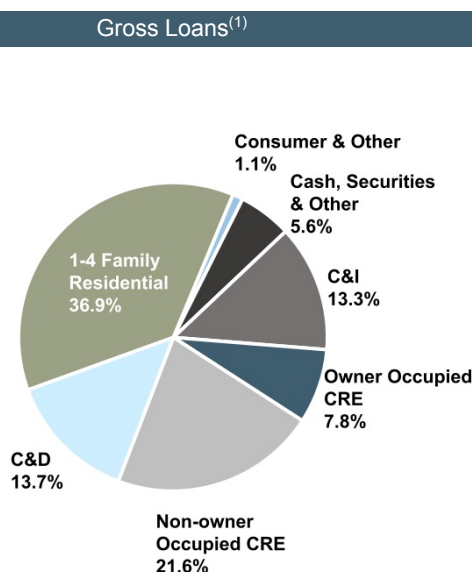
General. Through our relationship-oriented private bank lending approach, our strategy is to offer a broad range of customized consumer and commercial lending products for the personal investment and business needs of our clients. Our clients are typically well diversified and the purpose for their loan and liquidity needs often does not correlate to the collateral used to secure the loan.

Our commercial lending products include commercial loans, business term loans and lines of credit to a diversified mix of small and midsize businesses. We offer both owner occupied and non-owner occupied commercial real estate ("CRE") loans, as well as construction loans.

Our consumer lending products include residential first mortgage loans, originated loans for our own portfolio, as well as those for which we conduct mortgage banking activities whereby we originate and sell, servicing-released, whole loans in the secondary market. Our mortgage banking loan sales activities are primarily directed at originating single family mortgages, which generally conform to Fannie Mae and Freddie Mac guidelines and are delivered to the investor shortly after funding. Additionally, we offer installment loans and lines of credit, typically to facilitate investment opportunities for consumer clients whose financial characteristics support the request. We also provide clients loans collateralized by cash and marketable securities.

We employ experienced banking and business development teams who provide superior client service, value-add lending solutions and competitive pricing to market our lending products and services.

As of December 31, 2023, our loan portfolio contained a balanced and diverse mix of loans, as shown below:



⁽¹⁾ Gross loans excludes \$13.7 million in consumer and other loans accounted for under the fair value option.

Our loan portfolio includes commercial and industrial loans, residential real estate loans, commercial real estate loans, and other consumer loans. The principal risk associated with each category of loans we make is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions, the attributes of the borrower and the borrower's market or industry. We underwrite for strong cash flow, multiple sources of repayment, adequate collateral, borrower experience and backup guarantors. Attributes of the relevant business market or industry include the competitive environment, client and supplier availability, the threat of substitutes and barriers to entry and exit.

1-4 Family Residential. Our 1-4 family residential loan portfolio consists of loans and home equity lines of credit secured by 1-4 family residential properties. These loans typically enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. In addition, some borrowers secure a commercial purpose loan with 1-4 family residential properties. As of December 31, 2023, 1-4 family residential loans were \$928.0 million, or 36.9% of our total loan portfolio, consisting of \$122.2 million and \$805.8 million of fixed-rate and adjustable-rate loans, respectively. While we typically originate loans with adjustable rates and maturities up to 30 years, as of December 31, 2023, the average term on our 1-4 family portfolio was 20.1 years with an average remaining term of 18.1 years. Such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full either upon sale of the property pledged as security or upon refinancing the original loan.

Commercial loans secured by 1-4 family residential real estate are dependent on the strength of the local economy and local residential and commercial real estate markets. Borrower demand for adjustable-rate compared to fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans as compared to the interest-rates and loan fees for adjustable rate loans.

The loan fees, interest rates, and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions. The loans are secured by the real estate, and appraisals are obtained to support the loan amount at origination. Loans collateralized by 1-4 family residential real estate generally are originated in amounts of no more than 80% of appraised value. Generally, our loans conform to Fannie Mae and Freddie Mac underwriting guidelines and conform to internal policies for debt-to-income or free cash flow levels. We retain a valid lien

on real estate, obtain a title insurance policy that insures that the property is free from encumbrances and require hazard insurance.

Our focus for mortgage lending is to originate high-quality loans to drive growth in our mortgage loan portfolio. Our mortgage strategy includes attracting new loan clients with our mortgage loan products and services, which we believe will provide an opportunity for our profit centers to bring in well-qualified prospects, and to cross-sell other products and services to clients. We believe that cross-selling enables us to generate additional revenues, increase client retention, and provide products that benefit our clients. We have developed a scalable platform, including loan processing, underwriting and closings, for both secondary sales and origination of 1-4 family residential mortgages maintained in our portfolio and believe we have significant opportunities to grow this business.

Cash, Securities and Other. Our cash, securities and other loan portfolio consists of consumer and commercial purpose loans, which are primarily secured by securities managed and under custody with us, cash on deposit with us or life insurance policies. As of December 31, 2023, loans secured with cash, marketable securities and other were \$139.9 million, or 5.6% of our total loan portfolio. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment. PPP loans that are fully guaranteed by the SBA are classified within this line item.

Consumer and Other. Our consumer and other loan portfolio consists of unsecured consumer loans. Loans held for investment accounted for under the fair value option are also classified within this line item and had an unpaid principal balance of \$14.1 million as of December 31, 2023. Consumer and other loans were \$27.0 million, or 1.1% of our loan portfolio, excluding \$13.7 million in consumer and other loans accounted for under the fair value option. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment.

Commercial and Industrial. We originate commercial and industrial loans, including working capital lines of credit, permanent working capital term loans, business asset loans, acquisition, expansion and development loans, and other loan products, primarily in our target markets. These loans are underwritten on the basis of the borrower's ability to service the debt from income, with maturities tied to the underlying life of the collateral. We generally take a lien on all business assets, including, among other things, accounts receivable, inventory, equipment, available real estate, and generally obtain a personal guaranty of the principal(s). Our commercial and industrial loans generally have variable interest rates and terms that typically range from one to five years. Fixed-rate commercial and industrial loan maturities are generally short-term, with three to five-year maturities, including periodic interest rate resets. As of December 31, 2023, commercial and industrial loans were \$337.2 million, or 13.3% of our total loan portfolio. The average maturity on our commercial and industrial portfolio was 3.5 years with an average remaining term of 1.8 years. This portfolio primarily consists of term loans and lines of credit which are mostly dependent on the strength of the industries of the related borrowers and the success of their businesses.

Commercial Real Estate, Owner Occupied and Non-Owner Occupied. We originate commercial loans collateralized by real estate. These loans may be collateralized by owner occupied or non-owner occupied real estate, as well as multi-family residential real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. We require our commercial real estate loans to be secured by well-managed property with adequate margins and generally obtain a guaranty from responsible parties who have outside cash flows, experience and/or other assets. Our commercial real estate loans are generally secured by properties used for business purposes such as office buildings, industrial facilities and retail facilities. Loan amounts generally do not exceed 80% or 75% of the property's appraised value for owner occupied and non-owner occupied respectively. In addition, aggregate debt service ratios, including the guarantor's cash flow and the borrower's other projects, are required by policy to have a minimum annual cash flow to debt service ratio of 2.0x. We require independent appraisals or evaluations from a list of approved appraisers on all loans secured by commercial real estate. As of December 31, 2023, owner occupied commercial real estate loans were \$195.9 million, or 7.8% of our total loan portfolio, and non-owner occupied commercial real estate loans were \$543.7 million, or 21.6% of our total loan portfolio. These loans are primarily dependent on the strength of the industries of the related borrowers and the success of their businesses.

Construction and Development. We originate loans to finance the construction of residential and non-residential properties. Construction and development loans are generally collateralized by first liens on real estate as well as financial guarantees from the borrower and usually have floating interest rates. Our construction and development loans typically have maturities of up to two years depending on factors such as the type and size of the development and the financial strength of the borrower/guarantor, and are typically structured with an interest only construction period. These loans are underwritten to either mature at the completion of construction, or transition to a traditional amortizing commercial real estate facility with the terms and characteristics in line with other commercial real estate loans we hold in our portfolio. As of December 31, 2023, construction and development loans were \$345.5 million, or 13.7% of our total loan portfolio.

Concentrations. Most of our lending activity and credit exposure, including real estate collateral for many of our loans, are concentrated in Colorado, Arizona, Wyoming, Montana, and California, as approximately 83.2% of the loans in our loan portfolio as of December 31, 2023 were made to borrowers who live in or conduct business in those states. Our commercial real estate loans are generally secured by first liens on real property. The remaining commercial and industrial loans are typically secured by general business assets, accounts receivable, inventory and/or the corporate guaranty of the borrower and personal guaranty of its principals. The geographic concentration subjects the loan portfolio to the general economic conditions within Colorado, Arizona, Wyoming, Montana, and California. The risks created by such concentrations have been considered by management in the determination of the adequacy of the allowance for credit losses. As of December 31, 2023, management believes the allowance for credit losses is adequate to absorb losses in our loan portfolio.

Sound risk management practices and appropriate levels of capital are essential elements of the commercial real estate lending program. Concentrations of commercial real estate exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on commercial real estate concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor concentrations in commercial real estate in our loan portfolio.

Credit Policies and Procedures

General. Asset quality and robust underwriting are integral to our strategy and credit culture. We place a considerable emphasis on effective risk management and preserving sound credit underwriting standards as we grow our loan portfolio. Underwriting considerations include collateral, defined sources of repayment, strength of guarantor(s) and opportunities to broaden the relationship with the client. Our credit policy requires key risks be identified and measured, documented and mitigated, to the extent possible, to seek to ensure the soundness of our loan portfolio.

Loan Underwriting and Approval. Historically, we believe we have made sound, high quality loans while recognizing that lending money involves a degree of business risk. We have loan policies designed to assist us in managing this business risk. These policies provide a general framework for our loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated. Our board of directors delegates limited lending authority to individuals and internal loan committees. When the total relationship exceeds an individual's loan authority, a higher authority or credit committee approval is required. The objective of our approval process is to provide a disciplined, collaborative approach to larger credits while maintaining responsiveness to client needs. Loan decisions are documented as to the borrower's business, purpose of the loan, evaluation of the repayment source and the associated risks, evaluation of collateral, covenants and monitoring requirements, and the risk rating rationale.

Managing credit risk is an enterprise-wide process. Our strategy for credit risk management includes well-defined central credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes. Our processes emphasize early stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our bankers. Our Chief Credit Officer, together with our central underwriting, credit administration and loan operations teams, provides credit oversight. We periodically review all credit risk portfolios to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed to assist in the identification of problem assets and to confirm our internal risk rating of loans.

Our loan policies include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of collateral securing the loan and the borrower's income. Such loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate. In addition, our loan policies provide guidelines for personal guarantees; an environmental review; loans to employees; executive officers and directors; problem loan identification; maintenance of an adequate allowance for credit losses; and other matters relating to lending practices.

We believe that an important part of our assessment of client risk is the ongoing completion of periodic risk rating reviews. As part of these reviews, we seek to review the risk rating of each facility within a client relationship and may recommend an upgrade or downgrade to the risk rating. We categorize loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk on a quarterly basis. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and management believes the allowance for credit losses is adequate to absorb losses in our portfolio.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by state and federal regulation. The Bank is subject to a legal lending limit on loans to related borrowers based on the Bank's capital level. The dollar amounts of the Bank's lending limit increases or decreases as the Bank's capital increases or decreases. The Bank is able to sell participations in its larger loans to other financial institutions, which allows it to manage the risk involved in these loans and to meet the lending needs of its clients requiring extensions of credit in excess of these limits.

Deposits

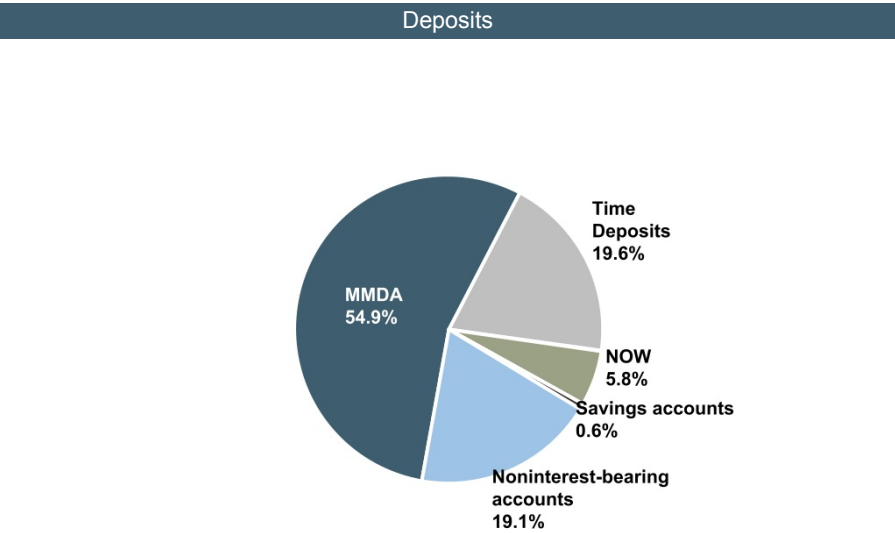
The strength of our deposit franchise is derived from the long-standing relationships we have with our clients and the strong ties we have to the markets we serve. Our deposit footprint has provided, and we believe will continue to provide, the primary support for our loan growth. A key part of our strategy is to continue to enhance our funding sources by continuing to build our private and commercial banking capabilities to keep building our base of attractively priced core deposits.

We provide demand deposits, interest-bearing transaction accounts, money market accounts, time and savings deposits, ICS®, certificates of deposit and CDARS® reciprocal products. We also offer a range of treasury management products including cash manager and commercial analysis accounts, electronic receivables management, remote deposit capture, cash vault services, merchant services and other cash management services. Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from depositors located in our geographic footprint, and we believe that we have attractive opportunities to capture additional deposits in our markets. In order to attract and retain deposits, we rely on providing quality service, offering a suite of retail and commercial products and services and introducing new products and services that meet our clients' needs as they evolve.

For liquidity purposes, the Bank occasionally uses brokered deposits. As of December 31, 2023 and 2022, we had brokered deposits of \$165.4 million and \$115.3 million, respectively.

We have experienced banking and business development teams who we believe provide superior client service, creative cash management solutions and competitive pricing to market our depository products and services. As of December 31, 2023, total deposits were \$2.53 billion, an increase of \$123.8 million, or 5.1%, compared to \$2.41 billion as of December 31, 2022.

As of December 31, 2023, our deposit portfolio contained a balanced and diverse mix of deposits, as shown below:



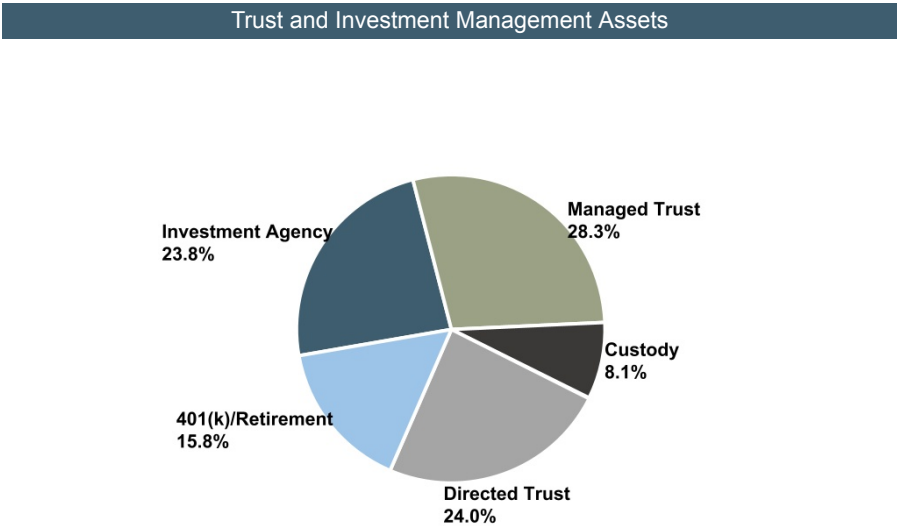
Trust and Investment Management, Advisory

We offer sophisticated wealth advisory and planning services including investment management, trusts and estate services, philanthropic services, insurance planning and retirement consulting. Our client relationships frequently include in-depth financial plans which are based on our proprietary ConnectView® approach, and sophisticated, institutional quality investment management that is driven by comprehensive investment policy statements and access to industry-leading money managers. These customized documents—wealth plans and investment policy statements—form the roadmap for how we serve each client and monitor our progress in achieving their goals.

We have experienced trust officers in several profit centers, plus expert trust and estate attorneys on our central product group team, to provide fiduciary services through our profit centers. These include traditional fiduciary, directed trusts, special needs trusts, and custody services. Most of our investment management business is conducted through the trust department in agency accounts where we are not serving as trustee.

We also have experienced portfolio managers and business development teams in our profit centers who provide high-touch, tailored solutions that we believe further exemplifies our superior client service. These local teams have personal and professional networks and relationships with centers of influence to market our wealth advisory products and services. As of December 31, 2023, total AUM was \$6.75 billion, an increase of \$646.0 million, or 10.6%, compared to \$6.11 billion as of December 31, 2022.

As of December 31, 2023, we provided fiduciary and advisory services on \$6.75 billion of trust and investment management assets, as shown below:



Our investment management platform combines a broad range of asset and sub asset classes meeting the needs of both taxable and tax-free private client accounts as well as trust investment services. We deliver most of our discretionary money management by allocating client portfolios across a centrally controlled platform of select third-party managers in each asset and sub asset class, including separately managed and comingled options, and with active and passive management strategies. We also have a limited number of proprietary products that we believe further differentiates us from many of our competitors.

We believe acting as an investment manager, and not just a manager of managers, has a number of critical benefits for our clients. These include the ability to have our money managers available to meet with clients and prospects, to tailor products and separately managed accounts for our clients, to better educate and inform our client-facing portfolio managers, and to develop new solutions as market conditions and client needs change. By combining internal research and a dedicated team of accredited specialized advisors like Chartered Financial Analysts and Certified Financial Planners with our pairing of proprietary and third-party investment options, we create unique solutions tailored to the specific needs of each of our clients.

Other Products

In addition to the traditional loan, deposit and trust and investment management products and services, our profit centers are supported by a central team of specialized product experts in our "product groups," which include experienced professionals in commercial banking, investment management, wealth planning, risk management/insurance, personal trust, retirement planning and tax-advantaged products, and mortgage lending. We believe that the sophistication of our product groups rivals the offerings and expertise typically provided by larger financial institutions. Our product groups are led and staffed with highly accredited and well known professionals, each with significant experience in their fields. Beyond traditional banking, trust and wealth management activities, at each profit center we provide other services including:

- *Mortgage Lending.* Although our primary objective is to originate loans for our own portfolio, we also conduct mortgage banking activities in which we originate and sell, servicing-released, whole loans in the secondary market. Typically, loans with a fixed interest rate of greater than 10 years are available-for-sale and sold on the secondary market. Our mortgage banking loan sales activities are primarily directed at originating single family mortgages that are priced and underwritten to conform to previously agreed criteria before loan funding and are delivered to the investor shortly after funding. The level of future loan originations, loan sales and loan repayments depends on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market. The amount of gain or loss on the sale of loans is primarily driven by market conditions and changes in interest rates, as well as our pricing and asset liability management strategies.
- *Treasury Management.* We offer a broad range of customized treasury management products and services for commercial accounts, including disbursement and payables management, liquidity management and online business banking services. Our profit center sales and service teams are supported by a central team of treasury management specialists and deposit operations professionals.
- *Risk Management/Insurance.* Through the wealth planning process, our profit center teams are supported by a central team of insurance planning experts, specializing in risk management services, estate tax law, trusts and tax planning. We offer customized solutions in the form of, among others, charitable giving tax strategies, deferred-compensation plans, irrevocable life insurance trusts, long-term care insurance, and executive key person insurance.
- *Retirement Services, including 401(k) Plan Consulting.* We have a team of retirement plan consultants who partner with businesses to sponsor retirement plans. We offer creative corporate retirement plan design and analysis solutions and fiduciary liability management, providing tools such as corporate retirement plans, and ERISA regulation compliance, education and expertise.

Our profit centers and product groups are also supported centrally by teams providing management services such as operations, risk management, credit administration, technology support, marketing, human capital and accounting/finance services, which we refer to as "support centers." Our associates in our support centers have significant experience in wealth management, investment advisory, and commercial banking, including areas such as lending, underwriting, credit administration, risk management, accounting/finance, operations and information technology. We have structured our teams, services and product offerings to use technology to efficiently provide our clients with a high-touch, solution-oriented experience that we believe is scalable and provides operating leverage for future growth.

To demonstrate how these three groups—profit centers, product groups and support centers—work together to deliver a highly competitive product offering through a team of local professionals, our investment management offering is an example:

- In each profit center, there are one or more portfolio managers that work as part of that local team's sales and service delivery. These portfolio managers are typically Certified Financial Planners, and occasionally Chartered Financial Analysts, with experience in wealth planning and portfolio construction. They meet with clients and develop an overall wealth management strategy, specific goals and objectives, an investment policy statement, and an implementation plan. They use our guided architecture, a diverse array of select third-party and proprietary investment products covering a broad range of asset classes as their source for portfolio construction options, asset allocation and products. Sales and marketing support is provided centrally but delivered locally.

- Our investment platform is controlled by our central investment research group, which has a strong research focus and includes many associates who have Chartered Financial Analyst designations, with oversight by our Chief Investment Officer and our Investment Policy Committee.
- Operational support for these profit center and product group teams is provided by our central trust and investment management support center team.

Investment Activities

The primary objectives of our Bank portfolio investment policy are to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements. As of December 31, 2023, the carrying value of our investment portfolio totaled \$74.1 million, with an average yield of 3.1%.

Our investment policy outlines investment type limitations, security mix parameters, authorization guidelines and risk management guidelines. The policy authorizes us to invest in a variety of investment securities, subject to various limitations. Our current investment portfolio consists of obligations of the U.S. Treasury and other U.S. government agencies, corporate or sponsored entities, including mortgage-backed securities, collateralized mortgage obligations, subordinated debt bonds, and mutual funds. We participate in the Mortgage Partnership Finance Program ("MPF") and are required to maintain an investment in Federal Home Loan Bank of Topeka ("FHLB") stock, for which the investment is based on the level of our FHLB credit obligations. Our board of directors has the overall responsibility for the investment portfolio, including approval of our investment policy. Our Asset and Liability Committee ("ALCO") and management are responsible for implementation of the investment policy and monitoring of our investment performance. Our ALCO and management review the status of our investment portfolio at least ten times per year.

Our Markets

Our strategic market area is defined by metropolitan areas in the Western United States having strong long-term economic growth prospects, a significant wealth demographic measured by growth in high net worth households, a dynamic commercial business landscape and the ability to sustain one or more of our profit centers. We target households with more than \$1.0 million in liquid net worth and their related businesses and philanthropic interests. We believe that the complex and diverse financial needs of this market segment presents an opportunity to serve a broad array of client needs efficiently and cost effectively.

Our current operating markets have a high concentration of our targeted client segment and are expected to experience high growth, providing opportunity for continued future organic growth through demographic and market share growth.

We seek to expand our presence in our existing markets as well as other Western markets with similar demographic profiles. With improved access to capital as a result of our initial public offering in 2018, we expect to proactively evaluate opportunities to accelerate our organic growth and acquire banks, investment management firms and related businesses, while also seeking to hire talented personnel. We believe consolidation in the financial services industry along with the industry's movement towards automated and impersonal client service further presents the Company with a unique and significant opportunity. Our business model differentiates us from the industry, which we expect will enable us to increase our market share in existing markets and, on a strategic and opportunistic basis, expand our geographic footprint into new markets in the Western United States that share similar characteristics to our current markets.

Enterprise Technology

We continue to make investments in our information technology systems as we adapt to the changing security, technology, online and mobile, and other platform delivery needs and wants of our clients. We believe that this investment is essential to our ability to offer new products and optimize overall client experience, provide opportunities for future growth and acquisitions, and provide a secure infrastructure that supports our operations. We leverage the experience of a third-party managed service provider for information technology services, to augment security, and to deliver the technical expertise around network architecture required to operate securely with optimal efficiency. The majority of our systems are hosted by third-party service providers. The scalability of this infrastructure supports our growth strategy. In addition, business resiliency testing and planning ensures the capability of critical vendors to fail over to fully-hot replicated systems that provide complete redundancy in the event of a disaster.

Enterprise Risk Management

We place significant emphasis on our holistic approach to integrated risk management that provides oversight, control, and discipline to support strategic initiative and business objectives and to promote a risk-aware culture. We utilize the COSO 2017 ERM Framework to govern the process of anticipating, identifying, assessing, managing, optimizing, and monitoring risks within the organization. Our Enterprise Risk Management ("ERM") Committee oversees our ERM program. This group contains key members of management including the Chief Executive Officer, the Chief Operating Officer, and the Chief Financial Officer. In order to carry out the ERM program, we have developed the following objectives to:

- Integrate ERM practices with our strategy setting process and performance management practices to realize benefits related to value;
- Improve the Company's ability to identify risks and establish appropriate responses to reduce costs and limit losses;
- Identify operational gaps to reduce performance variability;
- Include business resiliency in strategy setting;
- Identify interrelated risks within First Western and establish an integrated response; and
- Assess the positive and negative aspects of risk to address challenges and opportunities within our internal and external environment.

We routinely monitor and measure risk throughout the organization to optimize the allocation of resources, preserve capital, and to ensure the attainment and/or protection of strategic goals and business objectives.

Competition

The financial services industry is highly competitive and we compete in a number of areas, including commercial and consumer banking, residential mortgages, wealth advisory, investment management, trust, and insurance among others. We compete with other bank and nonbank institutions located within our market area, along with competitors situated regionally, nationally or with only an online presence. These include large banks and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, business leasing and finance companies and insurance agencies, as well as major retailers, all actively engaged in providing various types of loans and other financial services. We also face growing competition from online businesses with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms as well as automated retirement and investment services providers. Competition involves efforts to retain current clients, obtain new loan, deposit and advisory services clients, increase the scope and type of services offered, and offer competitive interest rates paid on deposits, charged on loans, or charged for advisory services. We believe our integrated and high-touch service offering, along with our sophisticated relationship-oriented approach sets us apart from our competitors.

Human Capital Overview

As of December 31, 2023, we had 310 associates. We strive to recruit and retain team-oriented, respectful, problem solvers. We serve our internal team with the same approach we serve our clients, with an adaptive, entrepreneurial spirit. We take advantage of new opportunities, and encourage our team to explore new processes, products, and services to improve First Western. Associates are our trusted partners both within their teams and with our clients as we build a partnership for generations to come.

We strive to be a high performing financial institution producing consistent, strong financial results, coming from a well-executed strategy. It is our belief that this can only be accomplished by a well-run organization of outstanding, motivated, engaged and supported associates. Internally, we call this a “People First” mind-set and over the last several years have focused on building upon the foundational elements of this strategy. Those elements include an internally developed manager training program designed to train our managers to be great bosses in support of a culture of learning, collaboration, growth and development. We provide meaningful work for our associates by connecting their role to the Company’s mission and vision as well as simplifying and streamlining repetitive tasks to make work more interesting and value added. We are building career paths, development opportunities and accountabilities into each role so that throughout the associates lifecycle there is opportunity to master skills and pursue professional and personal growth. People First is also about building connection and community with the Company. We believe the benefits of being part of our Company means you are appreciated and valued, you can build meaningful relationships, and have a sense of mutual accountability.

None of our associates are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our strong relationships with our associates are central to establishing the corporate culture we need to serve our clients, shareholders, and our communities well.

We are committed to implementing diverse, equitable and, inclusive (“DEI”) policies and practices across the Company. Our corporate values speak directly to the spirit of inclusion as well as the importance of embracing diversity and equitable practices. We believe in a corporate culture where all people are empowered to reach their full potential through autonomy, mastery, and purpose. The Company’s Board of Directors fosters this belief by ensuring that strategies are adopted that result in the Company understanding both associate performance and engagement at every level.

The Company has invested in developing the necessary formal infrastructure to ensure fair pay across job classes and our geographic footprint. It has also adopted and enforces codes of conduct that establish principles of integrity, respect, and excellence at all levels of the Company.

Learning and Development

We provide extensive training to our associates in an effort to ensure that our clients receive superior service and that our risks are well managed. Learning and development opportunities consist of leadership development programs, communication courses, and technical development training (to name a few) as part of our goal to provide associates meaningful work with career advancement and opportunity for growth and development. Our strategic commitment to learning and development ensures the Company’s leadership and management teams continue to grow at a pace consistent with our financial growth goals.

Compensation and Benefits

We offer a total rewards program to attract and retain team-oriented, respectful, problem solvers. Our compensation program includes competitive salary/hourly pay and incentive pay in the form of an annual bonus and stock awards to officers and certain members of the management team. We have significant insider ownership, and, in 2021, the Board approved stock ownership guidelines applicable to our executive officers and other key position holders to further align management and shareholder interests. In addition, the Company offers a 401(k) Plan with an employer matching contribution. Further, we offer a number of healthcare and insurance options, health savings accounts, paid time off, and paid family leave time for all associates.

Core Values and Culture

Developing and maintaining a strong, healthy culture is a key strategic focus as we continue to grow both organically and through acquisition. Our core values reflect our continued focus to maintain a highly-engaged team.

Problem solver – Being a Problem solver at First Western means that when we see a problem, we see opportunity. We pick it up and we address it, and if appropriate, work to create or improve the “FW Way” for that type of issue.

Team oriented – Team oriented at First Western means using our teammates to deliver the best possible results for our stakeholders. Our structure, with local teams and central experts, is designed to serve clients that have assets, liabilities, families, businesses, and long term goals that each require different types of expertise.

Respectful – For First Westerners, Respectful means valuing the unique knowledge and experiences each stakeholder brings to a discussion. We appreciate the different value that each of us brings to First Western and treasure that expertise.

Adaptive – First Westerners have an Adaptive, entrepreneurial spirit. When our world changes, we change to take advantage of new opportunities. We are always looking for ways to improve processes, products, and services.

Client focused – First Western's highly ethical DNA guides us to act in the client's interest while protecting the Bank. Our clients know that as their trusted partner, FW has the strength and sophistication to help them for generations.

Available Information

The Company files reports, proxy statements and other information with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Electronic copies of our SEC filings are available to the public at the SEC's website at <https://www.sec.gov>. You may also obtain copies of our annual, quarterly and special reports, proxy statements and certain other information filed by the Company with the SEC, as well as amendments thereto, free of charge from the Company's website, <https://myfw.gcs-web.com/investor-relations>. These documents are posted to our website after we have filed them with the SEC. Our corporate governance guidelines, including our code of business conduct and ethics applicable to all of our associates, officers and directors, as well as the charters of our audit committee, compensation committee and corporate governance and nominating committee are available at <https://myfw.gcs-web.com/investor-relations>. The foregoing information is also available in print to any shareholder who requests it from the Company. Except as explicitly provided, information furnished by the Company and information on, or accessible through, the SEC's or the Company's website is not incorporated into this Annual Report on Form 10-K or our other securities filings and is not a part of them.

Supervision and Regulation

The U.S. banking industry is highly regulated under federal and state law. Banking laws, regulations, and policies affect the operations of the Company and its subsidiaries. Investors should understand that the primary objective of the U.S. bank regulatory regime is the protection of depositors, the Deposit Insurance Fund ("DIF"), and the banking system as a whole, not the protection of the Company's shareholders.

As a bank holding company, we are subject to inspection, examination, supervision, and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Bank, which is our subsidiary, is a Colorado-chartered commercial bank and is not a member of the Federal Reserve System (a "state nonmember bank"). As such, the Bank is subject to regulation, supervision, and examination by both the Colorado Division of Banking (the "CDB") and the Federal Deposit Insurance Corporation ("FDIC"). In addition, we expect that any additional businesses that we may invest in or acquire will be regulated by various state and/or federal banking regulators.

Banking statutes and regulations are subject to continual review and revision by Congress, state legislatures and federal and state regulatory agencies. A change in such statutes or regulations, including changes in how they are interpreted or implemented, could have a material effect on our business. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance pursuant to such laws and regulations, which are binding on us and our subsidiaries.

Banking statutes, regulations and policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions, and make distributions or pay dividends on our equity securities. They may also require us to provide financial support to any bank that we control, maintain capital balances in excess of those desired by management, and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of the Bank or other depository institutions we control.

The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to us and our subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described.

Regulatory Capital

The Company and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve and the FDIC. The current risk-based capital standards applicable to the Company and the Bank are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision, or Basel Committee. The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III Rules") have been fully phased in. The Basel III Rules require banks and bank holding companies, including the Company and the Bank, to maintain minimum capital amounts and ratios. These ratios are common equity Tier 1 capital ("CET1"), Tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations).

The final rules of Basel III also established a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios. The minimum capital ratios inclusive of the capital conservation buffer are as follows: (i) a CET1 ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. Banks are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if their capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such activities.

The Basel III Capital Rules also attempt to improve the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that disallow the inclusion of certain instruments, such as trust preferred securities (other than grandfathered trust preferred securities), in Tier 1 capital going forward and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions. In addition, the Basel III Capital Rules require that most regulatory capital deductions be made from CET1 capital.

The Federal Reserve and the FDIC may also set higher capital requirements for individual institutions whose circumstances warrant it. For example, institutions experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well capitalized standards and future regulatory change could impose higher capital standards as a routine matter. The Company's regulatory capital ratios and those of the Bank are in excess of the levels established for "well capitalized" institutions under the rules.

The Basel III Capital Rules also set forth certain changes in the methods of calculating certain risk-weighted assets, which in turn affects the calculation of risk-based capital ratios. Under the Basel III Capital Rules, higher or more sensitive risk weights have been assigned to various categories of assets, including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on nonaccrual status, foreign exposures and certain corporate exposures. In addition, these rules include greater recognition of collateral and guarantees, and revised capital treatment for derivatives and repo-style transactions.

The federal bank regulators have modified certain aspects of the Basel III Capital Rules since the rules were initially published, and additional modifications may be made in the future. In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (commonly referred to as Basel IV). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. On September 9, 2022, the U.S. federal banking regulators announced their intent to revise regulatory capital requirements to align them with the regulatory capital standards that were finalized by the Basel Committee in December 2017, however a proposed rule has not yet been issued. In addition, the U.S. federal banking regulators stated that Community banking organizations would not be impacted by the proposal. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company or the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

In accordance with the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act"), discussed below, the federal banking agencies published final rules implementing the community bank leverage ratio in November 2019. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage capital ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed "qualifying community banking organizations" and are eligible to opt into the community bank leverage ratio framework. A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage capital ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III Capital Rules and, if applicable, is considered to have met the "well capitalized" ratio requirements for purposes of its primary federal regulators prompt corrective action rules, discussed below. The Company and the Bank have not made an election to use the community bank leverage ratio framework but may make such an election in the future if determined to be possible and advantageous.

Regulation of the Company

The Bank Holding Company Act of 1956, as amended ("BHC Act"), and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Permitted Activities. Generally, bank holding companies are prohibited under the BHC Act from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in any activity other than (i) banking or managing or controlling banks or (ii) an activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking. The Federal Reserve has the authority to require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries or affiliates when the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries.

Status as a Financial Holding Company. Under the BHC Act, a bank holding company may file an election with the Federal Reserve to be treated as a financial holding company and engage in an expanded list of financial activities. The election must be accompanied by a certification that all of the company's insured depository institution subsidiaries are "well capitalized" and "well managed." Additionally, the Community Reinvestment Act of 1977 ("CRA") rating of each subsidiary bank must be satisfactory or better. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in activities permissible only for a bank holding company that has elected to be treated as a financial holding company. The Company filed an election and became a financial holding company in 2006.

Sound Banking Practices. Bank holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe or unsound banking practices. For example, under certain circumstances the Federal Reserve's Regulation Y requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate a regulation. As another example, a holding company is prohibited from impairing its subsidiary bank's soundness by causing the bank to make funds available to non-banking subsidiaries or their clients if the Federal Reserve believes it not prudent to do so. The Federal Reserve has the power to assess civil money penalties for knowing or reckless violations if the activities leading to a violation caused a substantial loss to a depository institution. Potential penalties are as high as \$1.0 million for each day the activity continues.

Source of Strength. In accordance with the Dodd-Frank Act and long-standing Federal Reserve policy, the Company must act as a source of financial and managerial strength to the Bank. Under this policy, the Company must commit resources to support the Bank, including at times when the Company may not be in a financial position to provide it. As discussed below, the Company could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The BHC Act provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Regulatory agencies have promulgated regulations to increase the capital requirements for bank holding companies to a level that matches those of banking institutions.

Anti-Tying Restrictions. Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Acquisitions. The BHC Act, Section 18(c) of the Federal Deposit Insurance Act, as amended ("FDIA"), the Colorado Banking Code and other federal and state statutes regulate acquisitions of commercial banks and their holding companies. The BHC Act generally limits acquisitions by bank holding companies to commercial banks and companies engaged in activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (i) acquiring more than 5% of the voting stock of any bank or other bank holding company; (ii) acquiring all or substantially all of the assets of any bank or bank holding company; or (iii) merging or consolidating with any other bank holding company.

In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities generally consider, among other things, the competitive effect and public benefits of the transactions, the financial and managerial resources and future prospects of the combined organization (including the capital position of the combined organization), the applicant's performance record under the Community Reinvestment Act, (see the section captioned "Community Reinvestment Act" included below in this item), fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

The Company is also subject to the Change in Bank Control Act of 1978 ("Control Act") and related Federal Reserve regulations, which provide that any person who proposes to acquire at least 10% (but less than 25%) of any class of a bank holding company's voting securities is presumed to control the company (unless the company is not publicly held or some other shareholder owns a greater percentage of voting stock). Any person who would be presumed to acquire control or who proposes to acquire control of 25% or more of any class of a bank holding company's voting securities, or who proposes to acquire actual control, must provide the Federal Reserve with at least 60 days' prior written notice of the acquisition. The Federal Reserve may disapprove a proposed acquisition if: (i) it would result in adverse competitive effects; (ii) the financial condition of the acquiring person might jeopardize the target institution's financial stability or prejudice the interests of depositors; (iii) the competence, experience or integrity of any acquiring person indicates that the proposed acquisition would not be in the best interests of the depositors or the public; or (iv) the acquiring person fails to provide all of the information required by the Federal Reserve. Any proposed acquisition of the voting securities of a bank holding company that is subject to approval under the BHC Act is not subject to the Control Act notice requirements. Any company that proposes to acquire "control," as those terms are defined in the BHC Act and Federal Reserve regulations, of a bank holding company or to acquire 25% or more of any class of voting securities of a bank holding company would be required to seek the Federal Reserve's prior approval under the BHC Act to become a bank holding company.

Dividends. The Company's earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which we conduct business. These include limitations on the ability of the Bank to pay dividends to the Company and the Company's ability to pay dividends to its shareholders. It is the policy of the Federal Reserve that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. Consistent with such policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization's objectives and approaches for maintaining a strong capital position and achieving the objectives of the policy statement.

As a Colorado state-chartered bank, the Bank is subject to limitations under Colorado law on the payment of dividends. The Colorado Banking Code provides that a bank may declare dividends from retained earnings and other components of capital specifically approved by the Colorado State Banking Board so long as the declaration is made in compliance with rules established by the Colorado State Banking Board.

In addition, a state nonmember bank may not declare a dividend if paying the dividend would result in the bank being undercapitalized under FDIA, discussed above, and must comply with any discretionary distribution restrictions imposed on it under the federal banking agencies' capital buffer rules. The FDIC has stated that, in general, state nonmember banks can pay dividends in reasonable amounts only after the bank's earnings have first been applied to the elimination of losses and the establishment of necessary reserves and prudent capital levels. The FDIC may also direct state nonmember banks that are poorly rated or subject to written supervisory actions not to pay dividends in order to ensure adequate capital exists to support their risk profile.

In 2009, the Federal Reserve issued a supervisory letter providing greater clarity to its policy statement on the payment of dividends by bank holding companies. In this letter, the Federal Reserve stated that when a holding company's board of directors is deciding on the level of dividends to declare, it should consider, among other factors: (i) overall asset quality, potential need to increase reserves and write down assets, and concentrations of credit; (ii) potential for unanticipated losses and declines in asset values; (iii) implicit and explicit liquidity and credit commitments, including off-balance sheet and contingent liabilities; (iv) quality and level of current and prospective earnings, including earnings capacity under a number of plausible economic scenarios; (v) current and prospective cash flow and liquidity; (vi) ability to serve as an ongoing source of financial and managerial strength to depository institution subsidiaries insured by the FDIC, including the extent of double leverage and the condition of subsidiary depository institutions; (vii) other risks that affect the holding company's financial condition and are not fully captured in regulatory capital calculations; (viii) level, composition, and quality of capital; and (ix) ability to raise additional equity capital in prevailing market and economic conditions (the "Dividend Factors"). It is particularly important for a bank holding company's board of directors to ensure that the dividend level is prudent relative to the organization's financial position and is not based on overly optimistic earnings scenarios. In addition, a bank holding company's board of directors should strongly consider, after careful analysis of the Dividend Factors, reducing, deferring or eliminating dividends when the quantity and quality of the holding company's earnings have declined or the holding company is experiencing other financial problems, or when the macroeconomic outlook for the holding company's primary profit centers has deteriorated. The Federal Reserve further stated that, as a general matter, a bank holding company should eliminate, defer or significantly reduce its distributions if: (i) its net income is not sufficient to fully fund the dividends; (ii) its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the bank holding company is operating in an unsafe and unsound manner.

Additionally, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries with which it can prevent or remedy actions that represent unsafe or unsound practices, or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Stock Redemptions and Repurchases. It is an essential principle of safety and soundness that a banking organization's redemption and repurchases of regulatory capital instruments, including common stock, from investors be consistent with the organization's current and prospective capital needs. In assessing such needs, the board of directors and management of a bank holding company should consider the Dividend Factors discussed above under "Dividends." The risk-based capital rule directs bank holding companies to consult with the Federal Reserve before redeeming any equity or other capital instrument included in Tier 1 or Tier 2 capital prior to stated maturity, if such redemption could have a material effect on the level or composition of the organization's capital base. Bank holding companies that are experiencing financial weaknesses, or that are at significant risk of developing financial weaknesses, must consult with the appropriate Federal Reserve supervisory staff before redeeming or repurchasing common stock or other regulatory capital instruments for cash or other valuable consideration. Similarly, any bank holding company considering expansion, whether through acquisitions or through organic growth and new activities, generally also must consult with the appropriate Federal Reserve supervisory staff before redeeming or repurchasing common stock or other regulatory capital instruments for cash or other valuable consideration. In evaluating the appropriateness of a bank holding company's proposed redemption or repurchase of capital instruments, the Federal Reserve will consider the potential losses that the holding company may suffer from the prospective need to increase reserves and write down assets from continued asset deterioration and the holding company's ability to raise additional common stock and other Tier 1 capital to replace capital instruments that are redeemed or repurchased. A bank holding company must inform the Federal Reserve of a redemption or repurchase of common stock or perpetual preferred stock for cash or other value resulting in a net reduction of the bank holding company's outstanding amount of common stock or perpetual preferred stock below the amount of such capital instrument outstanding at the beginning of the quarter in which the redemption or repurchase occurs. In addition, a bank holding company must advise the Federal Reserve sufficiently in advance of such redemptions and repurchases to provide reasonable opportunity for supervisory review and possible objection should the Federal Reserve determine a transaction raises safety and soundness concerns.

Regulation Y requires that a bank holding company that is not well capitalized or well managed, or that is subject to any unresolved supervisory issues, provide prior notice to the Federal Reserve for any repurchase or redemption of its equity securities for cash or other value that would reduce by 10% or more the holding company's consolidated net worth aggregated over the preceding 12-month period.

Annual Reporting; Examinations. The Company is required to file an annual report with the Federal Reserve and to provide such additional information as the Federal Reserve may require. The Federal Reserve may examine a bank holding company and any of its subsidiaries, and charge the company for the cost of such an examination.

The Bank is examined from time to time by its primary federal banking regulator, the FDIC, and the CDB and is charged for the cost of such an examination. Depending on the results of a given examination, the FDIC and the CDB may revalue the Bank's assets and require that the Bank establish specific reserves to compensate for the difference between the value determined by the regulator and the book value of the assets. The Company is required to provide annual audited financial statements and other information to the FDIC as required under Part 363 of FDIC rules and regulations.

In July 2023, the federal banking regulators proposed revisions to the Basel III Capital Rules to implement the Basel IV standards and make other changes to the Basel III Capital Rules. The proposal introduces revised credit, equity, and operational risks, as well as credit valuation adjustment risk and market risk requirements, among other changes. However, the revised capital requirements of the proposed rule would not apply to the Company or the Bank because they have less than \$100 billion in total consolidated assets and trading assets and liabilities below the threshold for market risk requirements.

In August 2022, the Inflation Reduction Act of 2022 (the "IRA") was enacted. Among other things, the IRA imposes a new 1% excise tax on the fair market value of stock repurchased after December 31, 2022 by publicly traded U.S. corporations. With certain exceptions, the value of stock repurchased is determined net of stock issued in the year, including shares issued pursuant to compensatory arrangements.

Imposition of Liability for Undercapitalized Subsidiaries. The FDIA requires bank regulators to take "prompt corrective action" to resolve problems associated with insured depository institutions. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company "having control of" the undercapitalized institution "guarantees" the subsidiary's compliance with the capital restoration plan until it becomes "adequately capitalized." For purposes of this statute, the Company has control of the Bank. Under the FDIA, the aggregate liability of all companies controlling a particular institution is limited to the lesser of five percent of the depository institution's total assets at the time it became undercapitalized or the amount necessary to bring the institution into compliance with applicable capital standards. The FDIA grants greater powers to bank regulators in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed distributions, or might be required to consent to a merger or to divest the troubled institution or other affiliates.

State Law Restrictions. As a Colorado corporation, the Company is subject to certain limitations and restrictions under applicable Colorado corporate law. For example, state law restrictions in Colorado include limitations and restrictions relating to indemnification of directors; distributions and dividends to shareholders; transactions involving directors, officers or interested shareholders; maintenance of books, records, and minutes; and observance of certain corporate formalities.

Regulation of the Bank

Capital Adequacy. Under the Basel III Capital Rules, discussed above, the FDIC monitors the capital adequacy of the Bank by using a combination of risk-based guidelines and leverage ratios. The FDIC considers the Bank's capital levels when acting on various types of applications and when conducting supervisory activities related to the safety and soundness of the Bank and the banking system. Higher capital levels may be required if warranted by the circumstances or risk profiles of individual institutions, or if required by the banking regulators due to the economic conditions impacting our markets. For example, FDIC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

As of December 31, 2023 and 2022, the Bank exceeded all regulatory minimum capital requirements.

Prompt Corrective Regulatory Action. Under applicable federal statutes, the federal bank regulatory agencies are required to take "prompt corrective action" with respect to institutions that do not meet specified minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the FDIC's prompt corrective action regulations, an institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a CET1 risk-based capital ratio of 6.5% or greater and a leverage capital ratio of 5.0% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a CET1 risk-based capital ratio of 4.5% or greater and a leverage capital ratio of 4.0% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a CET1 risk-based capital ratio of less than 4.5% or a leverage capital ratio of less than 4.0%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a CET1 capital ratio of less than 3.0% or a leverage capital ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan to the FDIC. The federal bank regulatory agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

As of December 31, 2023 and 2022, the Bank qualified as "well capitalized" under the prompt corrective action rules.

Deposit Insurance Assessments. All of a depositor's accounts at an insured bank, including all noninterest-bearing transaction accounts, are insured by the FDIC up to \$250,000. FDIC-insured banks are required to pay deposit insurance premiums to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on current financial ratios and supervisory ratings of the institution's financial condition and operations. Assessments are based on an institution's average consolidated total assets less average tangible equity, subject to adjustments for certain types of institutions, including custodial banks.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order, or condition enacted or imposed by the institution's regulatory agency. If deposit insurance for a banking business that we invest in or acquire were to be terminated, that would have a material adverse effect on that banking business and potentially on the Company as a whole.

Depositor Preference. FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

In November 2023, the FDIC issued a final rule to implement a special assessment to recover losses to the DIF incurred as a result of recent bank failures and the FDIC's use of the systemic risk exception to cover certain deposits that were otherwise uninsured. The special assessment was based on estimated uninsured deposits as of December 31, 2022 (excluding the first \$5.0 billion) and will be assessed at a quarterly rate of 3.36 basis points, over eight quarterly assessment periods, beginning in the first quarter of 2024. As a result of the exclusion for the first \$5.0 billion in the final rule, we are not required to pay an assessment. Under the final rule, the estimated loss pursuant to the systemic risk determination will be periodically adjusted, and the FDIC has retained the ability to cease collection early, extend the special assessment collection period and impose a final shortfall special assessment on a one-time basis. The extent to which any such additional future assessments will impact our future deposit insurance expense is currently uncertain.

Consumer Financial Protection. The Bank is subject to a number of federal and state consumer protection laws that extensively govern its relationship with its clients. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Service Members Civil Relief Act and these laws' respective state law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive, and abusive practices, restrict the Bank's ability to raise interest rates and subject the Company and the Bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by clients, including actual damages, restitution, and attorneys' fees. Federal bank regulators, the U.S. Department of Justice, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the U.S. Department of Justice, the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions the Company may want to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Consumer Financial Protection Bureau ("CFPB") has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks. The CFPB is authorized to issue rules for both bank and non-bank companies that offer consumer financial products and services, subject to consultation with the prudential banking regulators. In general, however, banks with assets of \$10 billion or less, such as the Bank, will continue to be examined for consumer compliance by their primary federal bank regulator.

Much of the CFPB's rulemaking has focused on mortgage lending and servicing, including an important rule requiring lenders to ensure that prospective buyers have the ability to repay their mortgages. Other areas of current CFPB focus include consumer protections for prepaid cards, payday lending, debt collection, overdraft services and privacy notices. The CFPB has been particularly active in issuing rules and guidelines concerning residential mortgage lending and servicing, issuing numerous rules and guidance related to residential mortgages. Perhaps the most significant of these guidelines is the "Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act" portions of Regulation Z. Under the Dodd-Frank Act, creditors must make a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable "ability to repay" a residential mortgage according to its terms. There is a statutory presumption of compliance with this requirement for mortgages that meet the requirements to be deemed "qualified mortgages." The CFPB rule defines the key threshold terms "ability to repay" and "qualified mortgage."

The CFPB has actively issued enforcement actions against both large and small entities and to entities across the entire financial service industry. The CFPB has relied upon "unfair, deceptive, or abusive acts" prohibitions as its primary enforcement tool. However, the CFPB and Department of Justice ("DOJ") continue to be focused on fair lending in taking enforcement actions against banks with renewed emphasis on alleged "redlining" practices. Failure to comply with these laws and regulations could give rise to regulatory sanctions, client rescission rights, actions by state and local attorneys general and civil or criminal liability.

Brokered Deposit Restrictions. Well capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and is subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits.

Community Reinvestment Act. The CRA is intended to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The regulators examine banks and assign each bank a public CRA rating. The CRA then requires bank regulators to consider the bank's record in meeting the needs of its community when considering certain applications by a bank, including applications to establish a banking center or to conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a bank holding company's controlled banks when considering an application by the bank holding company to acquire a bank or to merge with another bank holding company.

When we apply for regulatory approval to make certain investments, the regulators will consider the CRA record of the target institution and our depository institution subsidiary. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.

Insider Credit Transactions. Banks are subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to certain executive officers, directors, principal shareholders, and any related interests of such persons (Regulation O). Extensions of credit to such persons must (a) be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with persons not covered by such restrictions, and (b) not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent, or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

In October 2023, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency ("OCC"), issued a joint final rule to modernize the CRA regulatory framework. The final rule is intended, among other things to adapt to changes in the banking industry, including internet and the expanded role of mobile and online banking, and to tailor performance standards to account for differences in bank size, and business models. The final rule introduces new tests under which the performance of banks with over \$2 billion in assets will be assessed. The new rule also includes data collection and reporting requirements, some of which are applicable only to banks with over \$10 billion in assets. Most provisions of the final rule will become effective on January 1, 2026, and the data reporting requirements will become effective on January 1, 2027.

Safety and Soundness Standards. Under the FDIC Improvement Act ("FDICIA"), each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings, and stock valuation. An institution which fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

Financial Privacy. In accordance with the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. These rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering. Under federal law, including the Bank Secrecy Act and Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), certain types of financial institutions, including insured depository institutions, must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing training program; and testing of the program by an independent audit function. Financial institutions are restricted from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence, client identification and recordkeeping, including in their dealings with non-U.S. financial institutions and non-U.S. clients. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for banking mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, foreign nationals, and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Department of the Treasury Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. The Bank is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences

Transactions with Affiliates

Transactions between depository institutions and their affiliates, including transactions between the Bank and the Company, are governed by Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve's Regulation W promulgated thereunder. Generally, Section 23A limits the extent to which a depository institution and its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the depository institution's capital stock and surplus and contains an aggregate limit on all such transactions with all affiliates of an amount equal to 20% of the depository institution's capital stock and surplus. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees, acceptances or letters of credit issued on behalf of, an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same, or at least as favorable to the depository institution and its subsidiaries, as those for similar transactions with non-affiliates.

The Volcker Rule

Section 619 of the Dodd-Frank Act, commonly known as the "Volcker Rule," generally prohibits certain banking entities from engaging in short-term proprietary trading of financial instruments and from owning, sponsoring or having certain relationships with hedge funds or private equity funds (collectively, "covered funds"). The Regulatory Relief Act, discussed below, includes a provision exempting banking organizations with \$10 billion or less in total consolidation assets, and total trading assets and trading liabilities that are 5% or less of total consolidated assets, from the Volcker Rule. Thus, the Company and the Bank are not currently subject to the Volcker Rule.

Concentration in Commercial Real Estate Lending ("CRE")

As a part of their regulatory oversight, the federal regulators have issued guidelines on sound risk management practices with respect to a financial institution's CRE lending activities. The guidelines identify certain concentration levels that, if exceeded, will expose the institution to additional supervisory analysis surrounding the institution's CRE concentration risk. The guidelines are designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. The Company's CRE concentrations are discussed in the "Risk Factors" section below.

Interstate Banking and Branching

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1999 (the "Riegle-Neal Act"), a bank holding company may acquire banks in states other than its home state, subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and to certain deposit market-share limitations. Bank holding companies must be well capitalized and well managed, not merely adequately capitalized and adequately managed, in order to acquire a bank located outside of the bank holding company's home state. The Riegle-Neal Act also authorizes banks to merge across state lines, thereby creating interstate branches.

Colorado state law provides that a Colorado-chartered bank can establish a branch anywhere in Colorado provided that the branch is approved in advance by the CDB. The branch must also be approved by the FDIC. The approval process considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. The Dodd-Frank Act permits a national or state bank, with the approval of its regulator, to open a *de novo* branch in any state if the law of the state in which the branch is proposed would permit the establishment of the branch if the bank was chartered in such state.

The Federal Reserve, the OCC and FDIC jointly issued a final rule in 1997 that adopted uniform regulations implementing Section 109 of the Riegle-Neal Act. Section 109 which prohibits any bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Congress enacted Section 109 to ensure that interstate branches would not take deposits from a community without the bank reasonably helping to meet the credit needs of that community.

Limitations on Incentive Compensation

In June 2016, several federal financial agencies (including the Federal Reserve and FDIC) re-proposed restrictions on incentive-based compensation pursuant to Section 956 of the Dodd-Frank Act for financial institutions with \$1 billion or more in total consolidated assets. For institutions with at least \$1 billion but less than \$50 billion in total consolidated assets, the proposal would impose principles-based restrictions that are broadly consistent with existing interagency guidance on incentive-based compensation. Such institutions would be prohibited from entering into incentive compensation arrangements that encourage inappropriate risks by the institution (i) by providing an executive officer, employee, director, principal shareholder, or individuals who are "significant risk takers" with excessive compensation, fees, or benefits, or (ii) that could lead to material financial loss to the institution. The comment period for these proposed regulations has closed, but a final rule has not been published. Depending upon the outcome of the rule making process, the application of this rule to us could require us to revise our compensation strategy, increase our administrative costs and adversely affect our ability to recruit and retain qualified associates.

Cybersecurity

The Federal Financial Institutions Examination Council ("FFIEC") requires financial institutions to design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. Further, a financial institution's management is expected to maintain sufficient business continuity management planning processes to ensure the rapid recovery, resumption, and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

Additionally, the FDIC's Information Technology Risk Examination (InTREx) Program, based on the Uniform Rating System for Information Technology (URSIT), includes core modules for Audit, Management, Development and Acquisition, and Support and Delivery component ratings. If we fail to remain compliant with changing components of this regulation, we could be subject to various regulatory sanctions, including financial penalties.

The FFIEC's examination procedures regarding overall business continuity management ("BCM") focus on enterprise-wide approaches that address technology, business operations, testing, and communication strategies critical to the continuity of the business. The BCM procedures describe principles and practices for information technology ("IT") and operations designed to achieve safety and soundness, consumer financial protection, and compliance with applicable laws, regulations, and rules. Continued testing, training, and program updates ensure appropriate response to cyber and non-cyber, human and non-human disaster events. While we are compliant with BCM measures, the scope and severity of cyber and non-cyber, human, and non-human disaster events is unpredictable.

The Federal Trade Commission's (FTC) Safeguard's Rule was updated effective January 2022. The safeguard provision of the FTC's Gramm-Leach Bliley Act (GLBA) requires the Bank to take steps to protect their clients' information. The law requires the Bank to create a written information security plan that outlines its strategy for protecting customer/client information. The Bank must have reasonable administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of client information. The security measures must be commensurate with its size, scope of activities, sensitivity of the information in question, and the risk of data loss. While we are compliant with the FTC Safeguard's Rule, unforeseen risks and threats could challenge the strategy for protecting such information and the controls in place.

Cloud Adoption

The U.S. Treasury Department Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) released a report on the current landscape of cloud adoption in December 2022. The report noted that financial institutions of all sizes are increasingly viewing cloud services as an important component of their technology program. The COVID-19 pandemic accelerated consumer demand for innovative offerings via digital channels, financial institution demand to accommodate remote work, and vendors favoring cloud-based offerings are all driving the trend in cloud adoption. Many larger financial institutions plan to adopt a hybrid model which includes both public and private cloud services and to have their own data centers.

Significant benefits such as redundancy, scalability, and security are supporting cloud adoption. Six main challenges were noted by the OCCIP, for greater adoption of cloud by financial institutions: i. Transparency in conducting due diligence on Cloud Service Providers (CSPs); ii. Gaps in expertise and tools as the growth of cloud service utilization outpaces the talent pool of technologists as well as the capability of financial institutions to validate rapid technological updates; iii. Exposure to potential operational incidents originating from CSPs; iv. Potential impact of market concentration in cloud service offerings on the financial services sector's ability to be resilient against a large system failure or data breach which could impact multiple financial institutions and their customers; v. The dynamics of smaller institutions being at a disadvantage in securing preferred contract terms given the current market concentration; and vi. The increasingly complex and diverse global landscape for cloud services providers and users to be compliant and to also be able to weather operational challenges with inconsistent regulatory frameworks.

In 2023, the Treasury Department conveyed its commitment to work with financial regulators, industry, and cloud service providers to drive increased collaboration and transparency by building trust and cooperation to promote safe and effective migration for financial institutions choosing to adopt cloud services. Despite the challenges noted by the Treasury Department, it intends to be guided by its Strategic Vision for Supporting the Resilience of the Financial Sector's Use of Cloud Services and will address issues that could impact operational resilience of the financial institution sector. The Company is in the process of adoption of a Zero Trust Network Architecture and related cloud security infrastructure to support its migration to the cloud. Despite extensive due diligence with our technology and security advisors and the known benefits of cloud adoption, unforeseen risks and threats in cyberspace continue to evolve to challenge our cybersecurity controls.

In 2023, the SEC issued a final rule that requires disclosure of material cybersecurity incidents, as well as cybersecurity risk management, strategy and governance. Under this rule, banking organizations that are SEC registrants must generally disclose information about a material cybersecurity incident within four business days of determining it is material with periodic updates as to the status of the incident in subsequent filings as necessary.

Anti-Money Laundering Act of 2020

On January 1, 2021, Congress enacted the National Defense Authorization Act (NDAA), which included significant reforms to the U.S. anti-money laundering (AML) regime. The NDAA includes the Anti-Money Laundering Act of 2020 (AML Act) and, within the AML Act, the Corporate Transparency Act (CTA). The AML Act seeks to strengthen, modernize, and streamline the existing AML regime by promoting innovation, regulatory reform, and industry engagement through forums, such as the Bank Secrecy Act Advisory Group (BSAAG) and FinCEN Exchange. The Act also calls for FinCEN to work closely with regulatory, national security, and law enforcement partners to identify risks and priorities and provide valuable feedback to the financial industry. The CTA establishes uniform beneficial ownership reporting requirements for corporations, limited liability companies, and other similar entities formed or registered to do business in the United States. Many provisions of the AML Act and the CTA require rulemaking or periodic reporting to Congress on implementation efforts, assessments, and findings. Some of the key requirements of the AML Act requires FinCEN to: (1) establish standards for the reporting of information on beneficial ownership, build an IT system to collect and secure the data, and create access protocols; (2) establish national anti-money laundering and countering the financing of terrorism priorities; (3) Enhancement of whistleblower provisions to provide for a robust whistleblower program and new anti-retaliation protections; (4) Review, and revise as appropriate, Currency Transaction Report (CTR) and Suspicious Activity Report (SAR) reporting requirements, and other existing Bank Secrecy Act (BSA) regulations and guidance; and (6) require law enforcement reporting to FinCEN on the use of BSA data, and establish procedures for additional feedback between FinCEN and financial institutions on the usefulness of SARs, and semi-annual publication of review of SAR activity and other BSA reports, including threat patterns, trends, and typologies.

Banks are not required to incorporate the AML/CFT Priorities into their risk based BSA compliance programs until the effective date of the final revised regulations. Nevertheless, in preparation for any new requirements when those final rules are published, the Bank is considering how it will incorporate the AML/CFT Priorities into its risk based BSA compliance program, by assessing the potential related risks associated with the products and services it offers the customers it serves, and the geographic areas in which it operates.

Changing Regulatory Structure and Future Legislation and Regulation

Congress may enact further legislation that affects the regulation of the financial services industry, and state legislatures may enact further legislation affecting the regulation of financial institutions chartered by or operating in these states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof, although enactment of the proposed legislation could impact the regulatory structure under which the Company operates and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to the Company's business strategy, and limit the Company's ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material effect on our business.

Monetary Policy and Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, can have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in United States government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall financial stability of the economy which in turn stimulates need for growth and distribution of bank loans, investments, and deposits, and their use may affect interest rates charged on loans or paid on deposits as well as overall risk for banks and in turn, bank holding companies.

The Federal Reserve's monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effects of these policies on the Bank's business and earnings cannot be predicted.

ITEM 1A. Risk Factors

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The material risks and uncertainties that management believes affect the Company are described below. Additional risks and uncertainties that management is not aware of, or that management currently deems immaterial, may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment. Some statements in the following risk factors constitute forward-looking statements. Please refer to "Cautionary Note Regarding Forward-Looking Statements" elsewhere in this Annual Report on Form 10-K.

Summary of Risk Factors

The following is a summary of the principal risks that we believe could adversely affect our business, financial condition or results of operations:

Risks Related to Our Business

- Geographic concentration in Colorado, Arizona, Wyoming, Montana, and California.
- The soundness of other financial institutions could adversely affect us.
- Negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.
- Changes in interest rates could reduce our net interest margins and net interest income.
- If we are unable to continue to originate residential real estate loans and sell them into the secondary market for a profit, our earnings could decrease.
- Our commercial loan portfolio involves risks specific to commercial borrowers.
- We may be subject to claims and litigation pertaining to our fiduciary responsibilities.
- We may be adversely affected by the soundness of certain securities brokerage firms.
- The investment management contracts we have with our clients are terminable without cause and on relatively short notice by our clients.
- Changes to the level or type of investment activity by our clients may reduce our fee revenue.
- The trust wealth management fees we receive may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease our revenues and net earnings.
- Our allowance for credit losses may not be adequate to cover actual losses.
- Increased credit risk, including as a result of deterioration in economic conditions, could require us to increase our allowance for credit losses and could have a material adverse effect on our results of operations and financial condition.
- Our business and operations may be adversely affected in numerous and complex ways by external business disruptors in the financial services industry.
- Liquidity risk could adversely affect our ability to fund operations and hurt our financial condition.
- We may not be able to maintain a strong core deposit base or other low-cost funding sources.
- We receive substantial deposits and assets under management as a result of referrals by professionals, such as attorneys, accountants, and doctors, and such referrals are dependent upon the continued positive interaction with and financial health of those referral sources.
- Our largest trust client accounts for 37.0% of our total assets under management.
- The success of our business depends on achieving our strategic objectives, including through acquisitions which may not increase our profitability and may adversely affect our future operating results.
- We face intense competition from other banks and financial institutions and other wealth and investment management firms that could hurt our business.
- We may not be successful in implementing our internal growth strategy or be able to manage the risks associated with our anticipated growth through opening new boutique private trust bank offices, which could have a material adverse effect on our business, financial condition and results of operations.
- Our goodwill or other intangible assets may become impaired.
- We are required to make significant estimates and assumptions in the preparation of our financial statements and our estimates and assumptions may not be accurate.

- Fraud, breaches of our information security, and cybersecurity attacks could adversely affect us.
- We rely on communications, information, operating and financial control systems technology and related services from third-party service providers and we may suffer an interruption in those systems.
- Our ability to attract and retain clients and key associates could be adversely affected if our reputation is harmed.
- We may incur significant losses due to ineffective risk management processes and strategies.
- New lines of business or new products and services may subject us to additional risks.
- We rely on customer and counterparty information, which subjects us to risks if that information is not accurate or is incomplete.
- A future pandemic, epidemic, or highly contagious disease could adversely impact our business and financial results.
- Economic and trade sanctions against targeted foreign countries and regimes could adversely affect us.

Risks Related to Our Regulatory Environment

- The financial services industry is highly regulated and our failure to comply with any current or future regulation may adversely affect us.
- Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions which we are, or may become, subject to as a result of such examinations may adversely affect us.
- We are subject to stringent capital requirements.
- The level of our commercial real estate loan portfolio may subject us to heightened regulatory scrutiny.
- We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.
- We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.
- Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.
- We can be subject to legal and regulatory proceedings, investigations and inquiries related to conduct risk.

Risks Related to Ownership of our Common Stock

- The trading volume in our common stock is less than other larger financial institutions.
- The obligations associated with being a public company require significant resources and management attention, which will increase our costs of operations and may divert focus from our business operations.
- If we fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and timely.
- Securities analysts may not initiate or continue coverage on us.
- Our management and board of directors have significant control over our business.
- We may issue new debt securities, which would be senior to our common stock and may cause the market price of our common stock to decline.
- Our common stock is subordinate to our existing and future indebtedness, and is effectively subordinated to all the indebtedness and other non-common equity claims against our subsidiaries.
- We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.
- We are dependent upon the Bank for cash flow, and the Bank's ability to make cash distributions is restricted.
- Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management.
- An investment in our common stock is not an insured deposit and is subject to risk of loss.
- The market price of our common stock may be subject to substantial fluctuations and significant declines.

The foregoing factors should not be construed as exhaustive. This summary of risk factors should be read in conjunction with the more detailed risk factors below.

Risks Related to Our Business

Our banking, trust and wealth advisory operations are geographically concentrated in Colorado, Arizona, Wyoming Montana, and California, leading to significant exposure to those markets.

Our business activities and credit exposure, including real estate collateral for many of our loans, are concentrated in Colorado, Arizona, Wyoming, Montana, and California. As of December 31, 2023, 83.2% of the loans in our loan portfolio were made to borrowers who live in or conduct business in those states. This geographic concentration imposes risks from lack of geographic diversification. Difficult economic conditions, including state and local government deficits, in Colorado, Arizona, Wyoming, Montana, California may affect our business, financial condition, results of operations and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects Colorado, Arizona, Wyoming, Montana, and California or existing or prospective borrowers or property values in such areas may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated. This includes a sustained downturn in the oil and gas market, which is important for the general economic health of Colorado in particular. A prolonged period of low oil prices could have a material adverse effect on our results of operations and financial condition.

The soundness of other financial institutions could adversely affect us.

The lack of soundness of other financial institutions or financial market utilities may adversely affect the Company. The Company's ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interdependent because of trading, clearing, counterparty or other relationships. Defaults by, or rumors or questions about, one or more financial institutions or financial market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and losses of client, creditor and counterparty confidence and could lead to losses or defaults by other financial institutions, or the Company.

Recent events relating to the failures of certain banking entities in March and April of 2023 have caused general uncertainty regarding the adequacy of liquidity of banks, in particular regional banks which in turn has generated significant market volatility among publicly traded bank holding companies. Although we are not directly impacted by these recent bank failures, the resulting speed and with which news, including social media outlets, led depositors to withdraw or attempt to withdraw funds from these and other financial institutions, as well as the volatile impact to stock prices, could have a material effect on the Company's operations.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2023, approximately \$1.92 billion, or 76.1%, of our total loans were loans with real estate as a primary or secondary component of collateral. The repayment of such loans is highly dependent on the ability of the borrowers to meet their loan repayment obligations to us, which can be adversely affected by economic downturns that can lead to (i) declines in the rents and, therefore, in the cash flows generated by those real properties on which the borrowers depend to fund their loan payments to us, (ii) decreases in the values of those real properties, which make it more difficult for the borrowers to sell those real properties for amounts sufficient to repay their loans in full, and (iii) job losses of residential home buyers, which makes it more difficult for these borrowers to fund their loan payments. As a result, our operating results are more vulnerable to adverse changes in the real estate market than other financial institutions with more diversified loan portfolios, and we could incur losses in the event of changes in economic conditions that disproportionately affect the real estate markets.

Real estate values in many of our markets have generally experienced periods of fluctuation over the last five years. The market value of real estate can fluctuate significantly in a short period of time. As a result, adverse developments affecting real estate values and the liquidity of real estate in our primary markets could increase the credit risk associated with our loan portfolio, and could result in losses that adversely affect credit quality, financial condition and results of operations. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses or our ability to sell these loans on the secondary securitization market. Such declines and losses would have a material adverse effect on our business, financial condition and results of operations. If real estate values decline, it is also more likely that we would be required to increase our allowance for credit losses, which would adversely affect our business, financial condition and results of operations. In addition, adverse weather events, including wildfires, flooding, and mudslides, can cause damages to the property pledged as collateral on loans, which could result in additional losses upon a foreclosure.

Changes in interest rates could reduce our net interest margins and net interest income.

Interest rates are key drivers of our net interest margin and subject to many factors beyond our control. Income and cash flows from our banking operations depend to a great extent on the difference or "spread" between the interest we earn on interest-earning assets, such as loans and investment securities, and the rates at which we pay interest on interest-bearing liabilities, such as deposits and borrowings. As interest rates change, net interest income is affected. Rapidly increasing interest rates in the future could result in interest expense increasing faster than interest income because of a divergence in financial instrument maturities or competitive pressures. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income. Also, changes in interest rates might also impact the values of equity and debt securities under management and administration, which may have a negative impact on fee income.

Interest rates are highly sensitive to many factors that are beyond our control, including (among others) general and regional and local economic conditions, the monetary policies of the Federal Reserve, bank regulatory requirements, competition from other banks and financial institutions and a change over time in the mix of our loans and investment securities, on the one hand, and on our deposits and other liabilities, on the other hand. Changes in monetary policy will, in particular, influence the origination and market value of and the yields we can realize on loans and investment securities, and the interest we pay on deposits. Additionally, sustained low or high levels of market interest rates could continue to impact our net interest margins and, therefore, our earnings.

Our net interest margins and earnings also could be adversely affected if we are unable to adjust our interest rates on loans and deposits on a timely basis in response to changes in economic conditions or monetary policies. For example, if the rates of interest we pay on deposits, borrowings and other interest-bearing liabilities increase faster than we are able to increase the rates of interest we charge on loans or the yields we realize on investments and other interest-earning assets, our net interest income and, therefore, our earnings will decrease. In particular, the rates of interest we charge on loans may be subject to longer fixed interest periods compared to the interest we must pay on deposits. On the other hand, increasing interest rates generally lead to increases in net interest income; however, such increases also may result in a reduction in loan originations, declines in loan prepayment rates and reductions in the ability of borrowers to repay their current loan obligations, which could result in increased loan defaults and charge-offs and could require increases to our allowance for credit losses, thereby offsetting either partially or totally the increases in net interest income resulting from the increase in interest rates. Additionally, we could be prevented from increasing the interest rates we charge on loans or from reducing the interest rates we offer on deposits due to "price" competition from other banks and financial institutions with which we compete. Conversely, in a declining interest rate environment, our earnings could be adversely affected if the interest rates we are able to charge on loans or other investments decline more quickly than those we pay on deposits and borrowings.

If we are unable to continue to originate residential real estate loans and sell them into the secondary market for a profit, our earnings could decrease.

We derive a portion of our non-interest income from the origination of residential real estate loans and the subsequent sale of such loans into the secondary market. If we are unable to continue to originate and sell residential real estate loans at historical or greater levels, our residential real estate loan volume would decrease, which could decrease our earnings. A rising interest rate environment, general economic conditions, market volatility, or other factors beyond our control could adversely affect our ability to originate residential real estate loans. The financial services industry is experiencing an increase in regulations and compliance requirements related to mortgage loan originations necessitating technology upgrades and other changes. If new regulations continue to increase and we are unable to make technology upgrades, our ability to originate mortgage loans will be reduced or eliminated. Additionally, we sell a large portion of our residential real estate loans to third-party investors, and rising interest rates could negatively affect our ability to generate suitable profits on the sale of such loans. If interest rates increase after we originate the loans, our ability to market those loans is impaired as the profitability on the loans decreases. These fluctuations can have an adverse effect on the revenue we generate from residential real estate loans and in certain instances, could result in a loss on the sale of the loans.

Further, for the mortgage loans we sell in the secondary market, the mortgage loan sales contracts contain indemnification clauses should the loans default, generally within the first 90 – 120 days, or if documentation is determined not to be in compliance with regulations. While the Company has had no historic losses as a result of these indemnities, we could be required to repurchase the mortgage loans or reimburse the purchaser of our loans for losses incurred. Both of these situations could have an adverse effect on the profitability of our mortgage lending activities and negatively impact our net income.

Our loan portfolio includes a significant number of commercial loans, which involve risks specific to commercial borrowers.

Our loan portfolio includes a significant amount of commercial real estate loans and commercial lines of credit. Our typical commercial borrower is a small or medium-sized privately owned Colorado business entity. Our commercial loans typically have greater credit risks than standard residential mortgage or consumer loans because commercial loans often have larger balances, and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve some additional risk because they generally are not fully repaid over the loan period and thus may require refinancing or a large payoff at maturity. If the general economy turns substantially downward, commercial borrowers may not be able to repay their loans, and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly. Also, when credit markets tighten due to adverse developments in specific markets or the general economy, opportunities for refinancing may become more expensive or unavailable, resulting in loan defaults. In some cases, collateral consists of personal guarantees. We could see increased losses as a result of insolvency of the guarantor particularly if the guarantor's financial condition is closely related to the general economic conditions of the industry of the guaranteed loan. If our primary market areas experience an economic slowdown, these loans represent higher risk and could result in material increase in our provision for loans charged off and could require us to significantly increase our allowance for credit losses, which could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

We may be subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our clients and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may be adversely affected by the soundness of certain securities brokerage firms.

We do not provide custodial services for our clients. Instead, client investment accounts are maintained under custodial arrangements with large, well established securities brokerage firms or bank institutions that provide custodial services (collectively, "brokerage firms"), either directly or through arrangements made by us with those firms. As a result, the performance of, or even rumors or questions about the integrity or performance of, any of those brokerage firms could adversely affect the confidence of our clients in the services provided by those firms or otherwise adversely impact their custodial holdings. Such an occurrence could negatively impact our ability to retain existing or attract new clients and, as a result, could have a material adverse effect on our business, financial condition, results of operations and prospects.

The investment management contracts we have with our clients are terminable without cause and on relatively short notice by our clients, which makes us vulnerable to short-term declines in the performance of the securities under our management.

Like most investment advisory and wealth management businesses, the investment advisory contracts we have with our clients are typically terminable by the client without cause upon less than 30 days' notice. As a result, even short-term declines in the performance of the securities we manage, which can result from factors outside our control, such as adverse changes in market or economic condition or the poor performance of some of the investments we have recommended to our clients, could lead some of our clients to move assets under our management to other asset classes such as broad index funds or treasury securities, or to investment advisors which have investment product offerings or investment strategies different than ours. Therefore, our operating results are heavily dependent on the financial performance of our investment portfolios and the investment strategies we employ in our investment advisory businesses and even short-term declines in the performance of the investment portfolios we manage for our clients, whatever the cause, could result in a decline in assets under management and a corresponding decline in investment management fees, which would adversely affect our results of operations.

Fee revenue represents a significant portion of our consolidated revenue and is subject to decline, among other things, in the event of a reduction in, or changes to, the level or type of investment activity by our clients.

A significant portion of our revenue results from fee-based services related to wealth advisory, private banking, personal trust, investment management, mortgage lending and institutional asset management services to derive revenue. This contrasts with many commercial banks that may rely more heavily on interest-based sources of revenue, such as loans. For the year ended December 31, 2023, non-interest income represented approximately 26.5% of our total income before non-interest expense. The level of these fees is influenced by several factors, including the mix and volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody) and the volume of portfolio transactions, and the types of products and services used by our clients.

In addition, our clients include institutional investors, such as mutual funds, collective investment funds, hedge funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers. Economic, market or other factors that reduce the level or rates of savings in or with those institutions, either through reductions in financial asset valuations or through changes in investor preferences, could materially reduce our fee revenue or have a material adverse effect on our consolidated results of operations. These clients also, by their nature, are often able to exert considerable market influence, and this, combined with strong competitive forces in the markets for our services, has resulted in, and may continue to result in, significant pressure to reduce the fees we charge for our services in both our asset servicing and asset management business lines.

The trust wealth management fees we receive may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease our revenues and net earnings.

We derive a significant amount of our revenues primarily from investment management fees based on assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, in either relative or absolute terms, market and economic conditions, including changes in oil and gas prices, and competition from investment management companies. Financial markets are affected by many factors, all of which are beyond our control, including general economic conditions, including changes in oil and gas prices; securities market conditions; the level and volatility of interest rates and equity prices; competitive conditions; liquidity of global markets; international and regional political conditions; regulatory and legislative developments; monetary and fiscal policy; investor sentiment; availability and cost of capital; technological changes and events; outcome of legal proceedings; changes in currency values; inflation; credit ratings; and the size, volume and timing of transactions. A decline in the fair value of the assets under management caused by a decline in general economic conditions would decrease our wealth management fee income.

Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management clients. Poor investment performance could reduce our revenues and impair our growth in the following ways:

- Existing clients may withdraw funds from our wealth management business in favor of better performing products;
- Asset-based management fees could decline from a decrease in assets under management;
- Our ability to attract funds from existing and new clients might diminish; and
- Our portfolio managers may depart to join a competitor or otherwise.

Even when market conditions are generally favorable, our investment performance may be adversely affected by the investment style of our asset managers and the particular investments that they make. To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our wealth management business will likely be reduced and our ability to attract new clients will likely be impaired. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings.

Our allowance for credit losses may not be adequate to cover actual losses.

In accordance with regulatory requirements and GAAP, we maintain an allowance for credit losses to provide for incurred loan and lease losses and a reserve for unfunded loan commitments. Our allowance for credit losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for credit losses is based on prior experience and an evaluation of the risks inherent in our then-current portfolio. The amount of future losses may also vary depending on changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal and state regulators, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe our allowance for credit losses is appropriate for the risk identified in our loan and lease portfolio, we may need to increase the allowance for credit losses, such increases may not be sufficient to address losses, and regulators may require us to increase this allowance even further. Any of these occurrences could have a material adverse effect on our business, financial condition, results of operations and prospects.

Increased credit risk, including as a result of deterioration in economic conditions, could require us to increase our allowance for credit losses and could have a material adverse effect on our results of operations and financial condition.

The credit performance of our loan portfolios significantly affects our financial results and condition. If the current economic environment were to deteriorate, more of our customers may have difficulty in repaying their loans or other obligations which could result in a higher level of credit losses and provision for credit losses. We reserve for credit losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of lifetime expected credit losses inherent in our various loan and other portfolios carried at amortized cost as well as off-balance sheet credit exposures such as undrawn commitments to lend. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might increase the allowance because of changing economic conditions, including falling home prices and higher unemployment, lower U.S. Gross Domestic Product ("GDP") estimates, or other factors. For example, changes in borrower behavior or the regulatory environment also could influence recognition of credit losses in the portfolio and our allowance for credit losses. While we believe that our allowance for credit losses was appropriate at December 31, 2023, there is no assurance that it will be sufficient to cover future credit losses. In the event of a deterioration in economic conditions, we may be required to increase our allowance in future periods, which would reduce our earnings.

Our business and operations may be adversely affected in numerous and complex ways by external business disruptors in the financial services industry.

The financial services industry is undergoing rapid change, as technology enables non-traditional new entrants to compete in certain segments of the banking market, in some cases with reduced regulation. New entrants may use new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden or faster processes to challenge traditional banks. We may experience operational challenges in connection with the adoption of or failure to adopt, new technology, such as artificial intelligence, which could result in unintended consequences or expenses as a result of the technology's limitations, our failure to use new technology effectively or at all, not fully realizing the anticipated benefits from such new technology, or the cost to implement or remedy any challenges associated with the adoption of new technology in a timely manner.

Liquidity risk could adversely affect our ability to fund operations and hurt our financial condition.

Liquidity is essential to our banking business, as we use cash to make loans and purchase investment securities and other interest-earning assets and to fund deposit withdrawals that occur in the ordinary course of our business. Our principal sources of liquidity include earnings, deposits, repayment by clients of loans we have made to them, and the proceeds from sales by us of our equity securities or from borrowings that we may obtain. Potential alternative sources of liquidity include the sale of loans, the acquisition of national market non-core deposits, the issuance of additional collateralized borrowings such as FHLB advances, access to the Federal Reserve discount window and the issuance of additional equity securities. If our ability to obtain funds from these sources becomes limited or the costs of those funds increase, whether due to factors that affect us specifically, including our financial performance, or due to factors that affect the financial services industry in general, including weakening economic conditions or negative views and expectations about the prospects, safety, soundness or security of the financial services industry as a whole, then our ability to fund our operations, maintain our financial condition and grow our banking and investment advisory and trust businesses would be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to maintain a strong core deposit base or other low-cost funding sources.

We depend on checking and savings deposit account balances and other forms of client deposits as our primary source of funding for our lending activities. Our business depends on our ability to maintain and grow a strong deposit base, including our ability to retain our largest trust clients, many of whom are also depositors, which we may not be able to do. A deterioration in economic conditions or the loss of confidence in financial institutions may result in deposit outflows, increase our cost of funding and limit our access to some of our customary sources of liquidity, including, but not limited to, inter-bank borrowings and borrowings from the Federal Reserve and FHLB. In addition, account and deposit balances may decrease when clients perceive alternative investments, such as the stock market or real estate, as providing a better risk/return tradeoff. Furthermore, the portion of our deposit portfolio that is comprised of large uninsured deposits may be more likely to be withdrawn rapidly under adverse economic conditions. If our clients, including our trust clients, move money out of bank deposits, into investments or to other financial institutions, we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. We also have increased risks from losses of bank deposit clients due to the large deposits we hold from certain clients. For example, as of December 31, 2023, 23.9% of our total deposits consisted of our 10 largest depositors. Loss of any one of these deposit clients would have an outsized impact on our results of operations. Additionally, any such loss of funds could result in lower loan originations, which could materially negatively impact our growth strategy.

We receive substantial deposits and assets under management as a result of referrals by professionals, such as attorneys, accountants, and doctors, and such referrals are dependent upon the continued positive interaction with and financial health of those referral sources.

Many of our deposit clients and clients of our private trust bank offices are individuals involved in professional vocations, such as lawyers, accountants, and doctors. These clients are a significant source of referrals for new clients in both the deposit and wealth management areas. If we fail to adequately serve these professional clients with our deposit services, lending, and wealth management products, this source of referrals may diminish, which could have a negative impact on our results. Further, if the economy in the geographic areas that we serve is negatively impacted, the amount of deposits and services that these professional individuals will utilize and the amount of referrals that they will make may decrease, which may have a material and adverse impact on our business, financial condition or results of operations.

Our largest trust client accounts for 37.0% of our total assets under management.

As of December 31, 2023, our largest trust client accounted for, in the aggregate, 37.0% of our total assets under management and 3.4% of our non-interest income. As a result, a material decrease in the volume of those trust assets by that client could materially reduce our assets under management, which would adversely affect our non-interest income and, therefore, our results of operations.

The success of our business depends on achieving our strategic objectives, including through acquisitions which may not increase our profitability and may adversely affect our future operating results.

Since we commenced our banking business in 2004, we have grown our banking franchise and now have eighteen locations in Colorado, Arizona, Wyoming, Montana, and California including a centralized operations center in downtown Denver. We plan to continue to grow our banking business both organically and through acquisitions of other banks and financial service providers, which may include entry into new markets. However, the implementation of our growth strategy poses a number of risks for us, including that:

- Any newly established offices may not generate revenues in amounts sufficient to cover the start-up costs of those offices, which would reduce our earnings;
- Acquisitions we might consummate in the future may prove not to be accretive to or may reduce our earnings if we do not realize anticipated cost savings, or if we incur unanticipated costs in integrating the acquired businesses into our operations or if a substantial number of the clients of any of the acquired businesses move their business to our competitors;
- Such expansion efforts will divert management time and effort from our existing banking operations, which could adversely affect our future financial performance; and

- Additional capital which we may need to support our growth or the issuance of shares in any acquisitions will be dilutive of the investments that our existing shareholders have in the shares of our common stock that they own and in their respective percentage ownership interests they have in the Company.

We face intense competition from other banks and financial institutions and other wealth and investment management firms that could hurt our business.

We conduct our business operations in markets where the banking business is highly competitive and is dominated by large multi-state and in-state banks with operations and offices covering wide geographic areas. We also compete with other financial service businesses, including investment advisory and wealth management firms, mutual fund companies, financial technology companies, and securities brokerage and investment banking firms that offer competitive banking and financial products and services as well as products and services that we do not offer. Larger banks and many of those other financial service organizations have greater financial and marketing resources than we do that enable them to conduct extensive advertising campaigns and to shift resources to regions or activities of greater potential profitability. They also have substantially more capital and higher lending limits than we do, which enable them to attract larger clients and offer financial products and services that we are unable to offer, putting us at a disadvantage in competing with them for loans and deposits and investment management clients. If we are unable to compete effectively with those banking or other financial services businesses, we could find it more difficult to attract new and retain existing clients and our net interest margins, net interest income and investment management fees could decline, which would materially adversely affect our business, results of operations and prospects, and could cause us to incur losses in the future.

In addition, our ability to successfully attract and retain investment advisory and wealth management clients is dependent on our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful in retaining existing and attracting new investment management clients, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be successful in implementing our internal growth strategy or be able to manage the risks associated with our anticipated growth through opening new boutique private trust bank offices, which could have a material adverse effect on our business, financial condition and results of operations.

Our business strategy includes pursuing organic and internal growth and evaluating strategic opportunities to grow through opening new boutique private trust bank offices. We believe that banking location expansion has been meaningful to our growth since inception. We intend to pursue an organic growth strategy in addition to our acquisition strategy, the success of which is dependent on our ability to generate an increasing level of loans, deposits and assets under management at acceptable risk levels without incurring corresponding increases in non-interest expense. Opening new offices carries with it certain potential risks, including significant startup costs and anticipated initial operating losses; an inability to gain regulatory approval; an inability to secure the services of qualified senior management to operate the new offices and successfully integrate and promote our corporate culture; poor market reception for our new offices established in markets where we do not have a preexisting reputation; challenges posed by local economic conditions; challenges associated with securing attractive locations at a reasonable cost; and the additional strain on management resources and internal systems and controls. Further, we may not be successful in our organic growth strategies generally due to, among other factors, delays in introducing and implementing new products and services and other impediments resulting from regulatory oversight, lack of qualified personnel at existing locations. In addition, the success of our internal growth strategy will depend on maintaining sufficient regulatory capital levels and on favorable economic conditions in our primary market areas. Failure to adequately manage the risks associated with our anticipated growth, including growth through creating new boutique private trust bank offices, could have a material adverse effect on our business and results of operations.

We may be required to recognize a significant charge to earnings if our goodwill or other intangible assets become impaired, which could have a material adverse effect on our financial condition and results of operations.

Goodwill and purchased intangible assets with indefinite lives are not amortized but are reviewed for impairment annually and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Our annual goodwill impairment assessment date for the Company's reporting units is October 31. Goodwill impairment testing includes an assessment of qualitative factors to determine whether certain circumstances or events exist that lead to a determination that the fair value of goodwill is less than the carrying value. This qualitative assessment includes various factors that could affect the reporting unit's fair value as well as mitigating events or conditions. One such factor that could impact the assessment are the conditions within the markets that trade the Company's stock. The assessment of each reporting unit compares the aggregate fair value to its carrying value, along with several valuation assumptions and methods in order to determine if any impairment was triggered as of the measurement date. If the qualitative assessment indicates that it is more likely than not that our goodwill is impaired, the Company performs a quantitative assessment to determine whether and what amount of goodwill is impaired. The quantitative assessment requires comparison of the fair value of the individual reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not impaired and no further analysis is necessary. If the carrying value of the reporting unit exceeds the fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Notwithstanding the foregoing, the results of impairment testing on our intangible assets will have no impact on our tangible book value or regulatory capital levels. There is no guarantee that we may not be forced to recognize impairment charges in the future as operating and economic conditions change or as part of strategic divestitures. The recognition of a significant charge to earnings in our consolidated financial statements resulting from any impairment of our goodwill or other intangible assets could have a material adverse effect on our financial condition and results of operations.

We are required to make significant estimates and assumptions in the preparation of our financial statements and our estimates and assumptions may not be accurate.

The preparation of our consolidated financial statements in conformity with GAAP requires our management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting periods. Critical estimates are made by management in determining, among other things, the allowance for credit losses, amounts of impairment of assets, fair values, intangibles, and valuation of income taxes. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely affected. Additionally, the adoption of CECL methodology for determining our allowance for credit losses in 2023 has increased the complexity, and associated risk, of the analysis and processes relying on management judgment.

The occurrence of fraudulent activity, breaches of our information security, and cybersecurity attacks could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, liquidity and financial condition, as well as cause legal or reputational harm.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us, our clients, or third parties with whom we interact and that may result in financial losses or increased costs to us or our clients, disclosure or misuse of confidential information belonging to us or personal or confidential information belonging to our clients, misappropriation of assets, litigation, or damage to our reputation. Our industry has seen increases in electronic fraudulent activity, hacking, security breaches, sophisticated social engineering and cyber-attacks within the financial services industry, including in the commercial banking sector, as cyber-criminals have been targeting commercial bank and brokerage accounts on an increasing basis.

Our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact or on whom we rely. Our business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our clients and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks. All of these factors increase our risks related to cyber-threats and electronic disruptions.

In addition to well-known risks related to fraudulent activity, which take many forms, such as check "kiting" or fraud, wire fraud, and other dishonest acts, cybersecurity and privacy considerations could impact the Company's business. In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services and systems to fraudulently induce associates, clients, and other third parties to disclose information or unwittingly provide access to systems or data. The risk of such attacks to the Company includes attempted breaches not only of our own products, services, and systems, but also those of clients, contractors, business partners, vendors, and other third parties.

The Company's products, services, and systems may be used in critical Company, client, or third-party operations, or involve the storage, processing, and transmission of sensitive data, including valuable intellectual property, other proprietary or confidential data, regulated data, and personal information of associates, clients, and others. Successful breaches, associate malfeasance, or human or technological error could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of Company, client, or other third party data or systems; theft of sensitive, regulated, or confidential data including personal information and intellectual property; the loss of access to critical data or systems through ransomware, destructive attacks, or other means; and business delays, service or system disruptions, or denials of service. In the event of such actions, the Company, its clients, and other third parties could be exposed to potential liability, litigation, and regulatory or other government action, as well as the loss of existing or potential customers, damage to brand and reputation, and other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. The Company also experiences and responds to cybersecurity threats.

Although we have not experienced a material cybersecurity event to date, there is no assurance that there will not be a cybersecurity attack resulting in material adverse effect in the future. As the Company's business and the cybersecurity landscape evolve, the Company may also find it necessary to make significant further investments to protect data and infrastructure, such as cloud technology, which may have further risks. In addition, the fast-paced, evolving, pervasive, and sophisticated nature of certain cyber threats and vulnerabilities, as well as the scale and complexity of the business and infrastructure, make it possible that certain threats or vulnerabilities will be undetected or unmitigated in time to prevent an attack on the Company and its clients. Cybersecurity risk to the Company and its clients will also depend on factors such as actions, practices, and investments of clients, contractors, business partners, vendors, and other third parties. Cyber-attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems, or other critical infrastructure could result in interruptions or delays to Company, client, or other third party operations or services, financial loss, injury to persons or property, potential liability, and damage to brand and reputation. Although the Company takes significant steps to mitigate cybersecurity risk across a range of functions, such measures can never eliminate the risk entirely or provide absolute security.

We rely on communications, information, operating and financial control systems technology and related services from third-party service providers and we may suffer an interruption in those systems.

We also face indirect technology, cybersecurity and operational risks relating to the third parties with whom we do business or upon whom we rely to facilitate or enable our business activities. In addition to clients, the third parties with whom we interact and upon whom we rely include financial counterparties; financial intermediaries such as clearing agents, exchanges and clearing houses; vendors; regulators; providers of critical infrastructure such as internet access and electrical power; and other parties for whom we process transactions. Each of these third parties faces the risk of cyber-attack, information breach or loss, or technology failure. Any such cyber-attack, information breach or loss, or technology failure of a third party could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses. Additionally, interruptions in service and security breaches could damage our reputation, lead existing clients to terminate their business relationships with us, make it more difficult for us to attract new clients and subject us to additional regulatory scrutiny and possibly financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our ability to attract and retain clients and key associates could be adversely affected if our reputation is harmed.

Our ability to attract and retain clients and key associates could be adversely affected if our reputation is harmed. Any actual or perceived failure to address various issues could cause reputational harm, including a failure to address any of the following types of issues: legal and regulatory requirements; the proper maintenance or protection of the privacy of client and employee financial or other personal information; record keeping deficiencies or errors; money-laundering; and potential conflicts of interest or ethical issues. Moreover, any failure to appropriately address any issues of this nature could give rise to additional regulatory restrictions, and legal risks which could lead to costly litigation or subject us to enforcement actions, fines, or penalties and cause us to incur related costs and expenses. In addition, our banking, investment advisory and wealth management businesses are dependent on the integrity of our banking personnel and our investment advisory and wealth managers. Lapses in integrity could cause reputational harm to our businesses that could lead to the loss of existing clients and make it more difficult for us to attract new clients and, therefore, could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may incur significant losses due to ineffective risk management processes and strategies.

We seek to monitor and control our risk exposures through a comprehensive risk and control framework encompassing a variety of separate but complementary financial, credit, transactional, operational, cyber, and regulatory systems, and internal control and management testing and review processes. However, those systems and review processes and the judgments that accompany their application may not be effective and, as a result, we may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes, particularly in the event of the kinds of dislocations in market conditions experienced in recent years, which highlight the limitations inherent in using historical data to manage risk. If those systems and review processes prove to be ineffective in identifying and managing risks, or testing scenarios reveal real-life failures of technology, we could be subjected to increased regulatory scrutiny and regulatory restrictions could be imposed on our business, including on our potential future business lines, as a result of which our business and operating results could be adversely affected.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts. We may invest significant time and resources in developing and marketing new lines of business or new products and services. Initial timetables for the introduction and development of new lines of business or new products or services may not be achieved and price and profitability targets may not prove feasible or may be dependent on identifying and hiring a qualified person to lead the division. In addition, existing management personnel may not have the experience or capacity to provide effective oversight of new lines of business or new products and services.

External factors, such as compliance with regulations, competitive alternatives, cybersecurity and cyber trends, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service and result in consumer harm. Furthermore, any new line of business or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations, financial condition and prospects.

We rely on customer and counterparty information, which subjects us to risks if that information is not accurate or is incomplete.

When deciding whether to extend credit or enter into other transactions with clients or counterparties, we may rely on information provided by or on behalf of those clients and counterparties, including audited financial statements and other financial information. We may also rely on representations made by clients and counterparties that the information they provide is accurate and complete. We conduct appropriate due diligence on such customer information and, where practical and economical, we engage valuation and other experts or sources of information to assist with assessing collateral and other customer risks. Our financial results could be adversely affected if the financial statements, collateral value or other financial information provided by clients or counterparties are incorrect.

The risk of another pandemic could adversely impact our business and financial results.

- ***Credit Risk.*** Our risks of timely loan repayment and the value of collateral supporting the loans are affected by the strength of our borrower's financial condition and business. The effects of a pandemic on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending, trust, wealth management and depository services, and the financial condition and credit risk of our clients. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from or, in some cases, our business decisions may result in, a delay in our taking certain remediation actions, such as foreclosure. In addition, we have unfunded commitments to extend credit to clients, which are generally not drawn upon. During a challenging economic environment, such as an ongoing pandemic, our clients are more dependent on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity.
- ***Strategic Risk.*** Our success may be affected by a variety of external factors that may affect the price or marketability of our products and services, including disruptions in the capital markets, changes in interest rates that may increase our funding costs, reduced demand for our financial products due to economic conditions and the various response of governmental and nongovernmental authorities. The future effects of a pandemic on economic activity could negatively affect the future banking products we provide including the ability to sell mortgage loan that we originate with the intent to sell.
- ***Operational Risk.*** Current and future restrictions on our workforce's access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and profit center activity that largely depend on people, technology, and the use of complex systems and models to manage our business, including access to information technology systems and models as well as information, applications, payment systems and other services provided by third parties. In response to a pandemic, we may modify our business practices and, from time to time, our employees may work remotely from their homes to have our operations uninterrupted as much as possible. Further, technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices, the continuation of these work-from-home measures introduces additional operational risk, especially including increased cybersecurity risk. These cyber risks include greater phishing, malware, and other cybersecurity attacks, vulnerability to disruptions of our information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, great risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations and the operations of any impacted clients.

Moreover, we rely on many third parties in our business operations, including appraisers of real property collateral, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools and providers of electronic payment and settlement systems, and local and federal government agencies, offices, and courthouses. In light of the changing measures responding to the pandemic, many of these entities have limited the availability and access of their services. For example, loan origination could be delayed due to the limited availability of real estate appraisers for the collateral. Loan closings could be delayed related to reductions in available staff in recording offices or the closing of courthouses in certain counties, which slows the process for title work, mortgage and UCC filings in those counties. If the third party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may negatively affect our operations.

- **Interest Rate Risk.** Our net interest income, lending activities, deposits, hedging activities, and profitability could be negatively affected by volatility in interest rates caused by inflation, recession and other economic impacts stemming from a pandemic. Throughout 2023, the Federal Reserve increased the federal funds rate four times by a total of 100 basis points from the beginning of the year rate of 4.50% to the ending rate of 5.50% at December 31, 2023. The large and frequent rate increases have increased our funding costs and negatively affected market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short-term to maturity, which in turn could have a material adverse effect on our net income, operating results, or financial condition.
- **Trust and Investment Management Risk.** Recent market volatility has adversely impacted the value of our assets under management. We derive a significant amount of our revenues primarily from investment management fees based on assets under management. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings. A sustained decline in the value of the assets that we manage or otherwise administer or service for others, could have an adverse effect on related fee income and demand for our services.

Economic and trade sanctions against targeted foreign countries and regimes could adversely affect us.

The U.S. Treasury Department's Office of Foreign Assets Control administers economic and trade sanctions against targeted foreign countries and regimes. These sanctions take many different forms and, based on their severity, can impact the global economy and could have an adverse effect on our business, financial condition, or results of operations.

Risks Related to Our Regulatory Environment

The financial services industry is highly regulated, and legislative or regulatory actions taken now or in the future may have a significant adverse effect on our operations.

The financial services industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily to protect clients, depositors, the FDIC deposit insurance fund, and the banking system as a whole, but is not designed to protect our shareholders. We are subject to the regulation and supervision of the Federal Reserve, the FDIC and the CDB. The banking laws, regulations and policies applicable to us govern matters ranging from the maintenance of adequate capital, safety and soundness, mergers and changes in control to the general business operations conducted by us, including permissible types, amounts and terms of loans and investments, the amount of reserves held against deposits, restrictions on dividends, imposition of specific accounting requirements, establishment of new offices and the maximum interest rate that may be charged on loans.

We are subject to changes in federal and state banking statutes, regulations and governmental policies, or the interpretation or implementation of them, and are subject to changes and increased complexity in regulatory requirements as governments and regulators continue reforms intended to strengthen the stability of the financial system and protect key markets and participants. Any changes in any federal or state banking statute, regulation or governmental policy, including changes which occurred in 2023 and may occur in 2024 and beyond during the current and future administration, could affect us in substantial and unpredictable ways, including ways that may adversely affect our business, results of operations, financial condition or prospects. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. In addition, federal and state banking regulators have broad authority to supervise our banking business and that of our subsidiaries, including the authority to prohibit activities that represent unsafe or unsound banking practices or constitute violations of statute, rule, regulation, or administrative order. Failure to comply with any such laws, regulations or regulatory policies could result in sanctions by regulatory agencies, restrictions on our business activities, civil money penalties or damage to our reputation, all of which could adversely affect our business, results of operations, financial condition or prospects.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions which we are, or may become, subject to as a result of such examinations may adversely affect us.

The Federal Reserve, the FDIC, SEC, and the CDB may conduct examinations of our business, including for compliance with applicable laws and regulations. As a result of an examination, regulatory agencies may determine that the financial condition, capital resources, asset quality, asset concentrations, earnings prospects, management, liquidity, sensitivity to market risk, or other aspects of any of our operations are unsatisfactory, or that we or our management are in violation of any law, regulation or guideline in effect from time to time. Regulatory agencies may take a number of different remedial actions, including the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to change the composition of our concentrations in portfolio or balance sheet assets, to assess civil monetary penalties against officers or directors, to remove officers and directors and, if such conditions cannot be corrected or there is an imminent risk of loss to depositors, the FDIC may terminate our deposit insurance. A regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are subject to stringent capital requirements.

Banking institutions are required to hold more capital as a percentage of assets than most industries. Holding high amounts of capital compresses our earnings and constrains growth. In addition, the failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect client and investor confidence, our costs of funds and FDIC insurance costs and our ability to make acquisitions and result in a material adverse effect on our business, financial condition, results of operations and growth prospects.

The level of our commercial real estate loan portfolio may subject us to heightened regulatory scrutiny.

The FDIC and the Federal Reserve have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that is actively involved in commercial real estate lending should perform a risk assessment to identify potential concentrations in commercial real estate lending. A financial institution may have such a concentration if, among other factors: (i) total outstanding loans for construction, land development, and other land represent 100% or more of total risk-based capital ("CRE 1 Concentration"); or (ii) total outstanding loans for construction, land development and other land and loans secured by multifamily and non-owner occupied non-farm, non-residential properties (excluding loans secured by owner-occupied properties) represent 300% or more of total risk-based capital ("CRE 2 Concentration") and the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36-month period. In such an instance, management should employ heightened risk management practices, including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. As of December 31, 2023, our CRE 1 Concentration level was 127.5% and our CRE 2 Concentration level was 206.1%. We may, at some point, be considered to have a concentration in the future, or our risk management practices may be found to be deficient, which could result in increased reserves and capital costs as well as potential regulatory enforcement action.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the CFPB and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Any such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, Title III of the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of any financial institutions that we may acquire in the future are deemed deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the GLB Act which, among other things: (i) imposes certain limitations on our ability to share non-public personal information about our clients with non-affiliated third parties; (ii) requires that we provide certain disclosures to clients about our information collection, sharing and security practices and afford clients the right to "opt out" of any information sharing by us with non-affiliated third parties (with certain exceptions); and (iii) requires we develop, implement and maintain a written comprehensive information security program containing safeguards appropriate based on our size and complexity, the nature and scope of our activities, and the sensitivity of client information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states and foreign countries have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States and other countries are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting client or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

We can be subject to legal and regulatory proceedings, investigations and inquiries related to conduct risk.

Such legal and regulatory activities could result in significant penalties and other negative impacts on our businesses and results of operations. At any given time, we can be involved in defending legal and regulatory proceedings and are subject to numerous governmental and regulatory examinations, investigations and other inquiries. The frequency with which such proceedings, investigations and inquiries are initiated have increased over the last few years, and the global judicial, regulatory and political environment generally remains hostile to financial institutions. For example, the U.S. Department of Justice ("DOJ"), conditions the granting of cooperation credit in civil and criminal investigations of corporate wrongdoing on the company involved having provided to investigators all relevant facts relating to the individuals responsible for the alleged misconduct. The complexity of the federal and state regulatory and enforcement regimes in the U.S., means that a single event or issue may give rise to a large number of overlapping investigations and regulatory proceedings, either by multiple federal and state agencies in the U.S. or by multiple regulators and other governmental entities in different jurisdictions. Moreover, U.S. authorities have been increasingly focused on "conduct risk," a term that is used to describe the risks associated with behavior by employees and agents, including third-party vendors, that could harm clients, consumers, investors or the markets, such as failures to safeguard consumers' and investors' personal information, failures to identify and manage conflicts of interest and improperly creating, selling and marketing products and services. In addition to increasing compliance risks, this focus on conduct risk could lead to more regulatory or other enforcement proceedings and litigation, including for practices which historically were acceptable but are now receiving greater scrutiny. Further, while we take numerous steps to prevent and detect conduct by employees and agents that could potentially harm clients, investors or the markets, such behavior may not always be deterred or prevented. Banking regulators have also focused on the overall culture of financial services firms. In addition to regulatory restrictions or structural changes that could result from perceived deficiencies in our culture, such focus could also lead to additional regulatory proceedings.

Risks Related to Ownership of our Common Stock

The trading volume in our common stock is less than other larger financial institutions.

Although our common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause the price of our common stock to decline.

The obligations associated with being a public company require significant resources and management attention, which increases our costs of operations and may divert focus from our business operations.

As a public company, we face increased legal, accounting, administrative and other costs and expenses that we did not incur as a private company, particularly after we no longer qualify as an emerging growth company.

We expect to incur substantial costs related to operating as a public company, and these costs may be higher now that we no longer qualify as an emerging growth company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which requires that we file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Act, the PCAOB and the Nasdaq Global Select Market, each of which imposes additional reporting and other obligations on public companies. As a public company, compliance with these reporting requirements and other SEC and the Nasdaq Global Select Market rules makes certain operating activities more time-consuming, and has caused us to incur significant new legal, accounting, insurance and other expenses. Furthermore, the need to establish the corporate infrastructure demanded of a public company may divert management's attention from implementing our operating strategy, which could prevent us from successfully implementing our strategic initiatives and improving our results of operations. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements. We anticipate that these costs will materially increase our general and administrative expenses and such increases will reduce our profitability.

If we fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and timely.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on that system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. As a public company, we are required to make annual assessments of the effectiveness of our internal control over financial reporting. In addition, we ceased to be an emerging growth company under the JOBS Act in 2023. Beginning in 2023, our independent registered public accounting firm was required to report on the effectiveness of our internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting. We have implemented measures designed to address historical internal control significant deficiencies and will continue to implement measures designed to improve our internal control over financial reporting and disclosure controls and procedures.

We will continue to periodically test and update, as necessary, our internal control systems, including our financial reporting controls. In addition, we hired additional accounting personnel as part of our transition from a private company to a public company. Our actions, however, may not be sufficient to result in an effective internal control environment and any future failure to maintain effective internal control over financial reporting could impair the reliability of our financial statements, which in turn could harm our business, impair investor confidence in the accuracy and completeness of our financial reports, impair our access to the capital markets, cause the price of our common stock to decline and subject us to increased regulatory scrutiny and/or penalties, and higher risk of shareholder litigation.

Securities analysts may not initiate or continue coverage on us.

The trading market for our common stock depends, in part, on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover us. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline. If we are covered by securities analysts and are the subject of an unfavorable report, the price of our common stock may decline.

Our management and board of directors have significant control over our business.

As of December 31, 2023, our directors and executive officers beneficially owned an aggregate of 1,713,839 shares, or approximately 17.8% of our shares of common stock. Consequently, our management and board of directors may be able to significantly affect our affairs and policies, including the outcome of the election of directors and the potential outcome of other matters submitted to a vote of our shareholders, such as mergers, the sale of substantially all of our assets and other extraordinary corporate matters. This influence may also have the effect of delaying or preventing changes of control or changes in management, or limiting the ability of our other shareholders to approve transactions that they may deem to be in the best interests of our Company. The interests of these insiders could conflict with the interests of our other shareholders, including you.

We may issue new debt securities, which would be senior to our common stock and may cause the market price of our common stock to decline.

We have issued \$18.0 million aggregate principal amount of subordinated notes due 2030, \$15.0 million due 2031 and \$20.0 million due 2032. In the future, we may increase our capital resources by making offerings of debt or equity securities, which may include senior or additional subordinated notes, series of preferred shares or common shares. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Preferred shares and debt, if issued, have a preference on liquidating distributions or a preference on dividend or interest payments that could limit our ability to make a distribution to the holders of our common stock. Future issuances and sales of parity preferred stock, or the perception that such issuances and sales could occur, may also cause prevailing market prices for the series of preferred stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us. Further issuances of our common stock could be dilutive to holders of our common stock.

Our common stock is subordinate to our existing and future indebtedness, and is effectively subordinated to all the indebtedness and other non-common equity claims against our subsidiaries.

Shares of our common stock represent equity interests in the Company and do not constitute indebtedness. Accordingly, the shares of our common stock rank junior to all of our indebtedness and to other non-equity claims on the Company with respect to assets available to satisfy such claims. Additionally, dividends to holders of the Company's common stock are subject to the prior dividend and liquidation rights of any preferred stock we may issue.

The Company's right to participate in any distribution of assets of any of its subsidiaries upon the subsidiary's liquidation or otherwise, and thus the ability of the Company's common shareholders to benefit indirectly from such distribution, will be subject to the prior claims of creditors of that subsidiary. As a result, holders of the Company's common stock will be effectively subordinated to all existing and future liabilities and obligations of its subsidiaries, including claims of depositors.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Our articles of incorporation authorize us to issue up to 10 million shares of one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our common stock at a premium over the market price and materially adversely affect the market price and the voting and other rights of the holders of our common stock.

We are dependent upon the Bank for cash flow, and the Bank's ability to make cash distributions is restricted.

Our primary tangible asset is the stock of the Bank. As such, we depend upon the Bank for cash distributions (through dividends on the Bank's common stock) that we use to pay our operating expenses, satisfy our obligations (including our preferred dividends, subordinated debentures, notes, and our other debt obligations) and to pay dividends on our common stock. Federal statutes, regulations and policies restrict the Bank's ability to make cash distributions to us. These statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. In addition, there are certain restrictions imposed by federal banking laws, regulations and authorities on the payment of dividends by us and by the Bank. If the Bank is unable to pay dividends to us, we will not be able to satisfy our obligations or pay dividends on our common stock. Our dividend policy may change without notice, and our future ability to pay dividends is subject to restrictions.

We are a separate and distinct legal entity from the Bank. We receive substantially all of our revenue from dividends paid to us by the Bank, which we use as the principal source of funds to pay our expenses and to pay dividends to our shareholders, if any. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay us. If the Bank does not receive regulatory approval or does not maintain a level of capital sufficient to permit it to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition or results of operations could be materially and adversely impacted.

As a bank holding company, we are subject to regulation by the Federal Reserve. The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the Federal Reserve prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to our capital structure, including interest on the subordinated debentures. If required payments on our subordinated debentures are not made or are deferred, or dividends on any preferred stock we may issue are not paid, we will be prohibited from paying dividends on our common stock.

Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management.

Our articles of incorporation and our bylaws may have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control or a replacement of our incumbent board of directors or management. Our governing documents include provisions that:

- Empower our board of directors, without shareholder approval, to issue our preferred stock, the terms of which, including voting power, are to be set by our board of directors;
- Provide that directors may only be removed from office for cause;
- Eliminate cumulative voting in elections of directors;
- Permit our board of directors to alter, amend or repeal our amended and restated bylaws or to adopt new bylaws;
- Prohibit shareholder action by less than unanimous written consent, thereby requiring virtually all actions to be taken at a meeting of the shareholders;
- Require shareholders that wish to bring business before annual or special meetings of shareholders, or to nominate candidates for election as directors at our annual meeting of shareholders, to provide timely notice of their intent in writing; and
- Enable our board of directors to increase, between annual meetings, the number of persons serving as directors and to fill the vacancies created as a result of the increase by a majority vote of the directors present at a meeting of directors.

Banking laws also impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or its holding company. These laws include the BHC Act and the Change in Bank Control Act, or the CBCA. These laws could delay or prevent an acquisition.

Furthermore, our bylaws provide that the state or federal courts located in Denver County, Colorado, the county in which the city of Denver is located, will be the exclusive forum for: (i) any actual or purported derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty by any of our directors or officers; (iii) any action asserting a claim against us or our directors or officers arising pursuant to the Colorado Business Corporations Act, our articles of incorporation, or our bylaws; or (iv) any action asserting a claim against us or our officers or directors that is governed by the internal affairs doctrine. By becoming a shareholder of our Company, you will be deemed to have notice of and have consented to the provisions of our bylaws related to choice of forum. The choice of forum provision in our bylaws may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us. Alternatively, if a court were to find the choice of forum provision contained in our bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business, operating results and financial condition.

An investment in our common stock is not an insured deposit and is subject to risk of loss.

Our common stock is not a savings accounts, deposits or other obligations of any of our bank or nonbank subsidiaries and will not be insured or guaranteed by the FDIC or any other government agency. Your investment in our common stock is subject to investment risk, and you must be capable of affording the loss of your entire investment.

The market price of our common stock may be subject to substantial fluctuations and significant declines, which may make it difficult for you to sell your shares at the volume, prices and times desired.

Actual or anticipated issuances or sales of substantial amounts of our common stock could cause the market price of our common stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future

also would, and equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuance.

In addition, we may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments and pursuant to compensation and incentive plans. If any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued in connection with an acquisition or under a compensation or incentive plan), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock and could impair our ability to raise capital through future sales of our securities.

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may affect the market price and trading volume of our common stock, including, without limitation:

- Actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- Changes in economic or business conditions;
- The effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- Publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- Operating and stock price performance of companies that investors deemed comparable to us;
- Additional or anticipated sales of our common stock or other securities by us or our existing shareholders;
- Additions or departures of key personnel;
- Prevailing market conditions, including increased general market volatility associated with recent fears of pandemics;
- Perceptions in the marketplace regarding our competitors or us;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- Other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- Other news, announcements or disclosures (whether by us or others) related to us, our competitors, our primary markets or the financial services industry. The stock market and, in particular, the market for financial institution stocks have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 1C: CYBERSECURITY

Cybersecurity Risk Management and Strategy

The Company maintains an information security program (the “Program”) to identify, assess, and manage material risks to its business, operations, and assets related to cybersecurity threats. The Company leverages recognized security frameworks and guidelines, such as the National Institute of Standards and Technology Framework Cybersecurity Framework and Federal Financial Institution Examination Counsel (“FFIEC”) guidelines, to organize, assess, and improve our Program. Key components of the Program include, among other things:

- Risk-based cybersecurity controls: As part of the Program, the Company maintains numerous administrative, technical, and physical controls that are calibrated based on risk and designed to protect the confidentiality, integrity, and availability of our information systems and data stored thereon.
- Cybersecurity incident response plan and testing: The Company has incident response plans that establish a structured approach for the Company’s response to cybersecurity incidents. To improve preparedness for a cybersecurity incident, we conduct tabletop exercises at least annually. These exercises are conducted by internal team members and in some instances with assistance from third-party experts.
- Training and education: We include cybersecurity training as part of our annual employee training program. Additional cybersecurity and privacy education and awareness are periodically provided to employees utilizing various delivery methods such as phishing campaigns, training sessions, and informational articles.
- Third-party service provider risk management: The Company’s third-party risk management program applies a risk-based approach to the assessment, onboarding, and ongoing due diligence of key third-party service providers, including the assessment and mitigation of cybersecurity-related risks.
- Engagement of third-party assessors and consultants: We periodically engage third-party experts and consultants to conduct assessments and tests of our security controls, such as penetration tests and framework assessments. The Company also engages a third-party managed detection and response service provider to monitor Company systems for cybersecurity threats.

We also consider cybersecurity-related risks, along with other top risks for the Company, as part of our overall enterprise risk management (“ERM”) process. Cybersecurity risks are included in the risk universe that the ERM function evaluates, with input from information security subject matter experts at the Company, to assess top risks to the enterprise. The ERM process provides input into our strategic planning process, such as development of action plans to address and mitigate identified risks. In the last fiscal year, we have not identified risks from known cybersecurity threats, including as a result of previously identified cybersecurity incidents, that have materially affected the Company, including our operations, or financial condition, but we cannot provide assurance that they will not be materially affected in the future by such risks or any future material cybersecurity incidents. For more information on our cybersecurity related risks, see Item 1A Risk Factors.

Governance

The Company’s information security officer (“ISO”) leads the Company’s overall cybersecurity function and currently reports to our Chief Operations Officer. The Company’s current ISO has formal education in information technology and extensive work experience gained from over 10+ years in various technology leadership roles. Our executive leadership team is actively engaged in the oversight and strategic direction of our Program and meets with the ISO to review and discuss the Company’s Program, including emerging cybersecurity risks, threats, and industry trends.

Our Board of Directors (the “Board”) considers cybersecurity risk as part of its risk management oversight function and has delegated to the Audit Committee oversight of cybersecurity risks. The Audit Committee receives updates from the ISO and other Company management on cybersecurity matters at least annually. The Audit Committee reports findings and recommendations, as appropriate, to the full Board of Directors for consideration. The Audit Committee also receives information about cybersecurity risks as part of the Company’s ERM program and reporting. In addition, any cybersecurity incident assessed as being, or potentially becoming, material is escalated for further assessment and then reported to designated members of our senior management and, if necessary, the Audit Committee.

ITEM 2: PROPERTIES

Our corporate headquarters is located at 1900 16th Street, Suite 1200, Denver, Colorado 80202. Including our corporate headquarters, the Bank operates eighteen profit centers, which consists of fourteen boutique private trust bank offices with two locations in Arizona, eight locations in Colorado, three locations in Wyoming and one location in Bozeman, Montana; three loan production offices with one location in Ft. Collins, Colorado, one location in Greenwood Village, Colorado and one location in Phoenix, Arizona; and one trust office with one location in Century City, California. We own our locations in Jackson Hole, Pinedale, and Rock Springs, while all remaining locations are leased. We believe that our facilities are suitable and adequate to meet our present needs. The chart below describes our locations, which we believe are strategically located in affluent and high-growth markets in eighteen locations (listed below) across Colorado, Arizona, Wyoming, Montana, and California:

Colorado	Arizona	Wyoming	Montana	California
Downtown Denver ⁽¹⁾	Phoenix	Jackson Hole	Bozeman	Century City ⁽³⁾
Aspen	Phoenix ⁽²⁾	Pinedale		
Boulder	Scottsdale	Rock Springs		
Cherry Creek				
Denver Tech Center / Cherry Hills				
Ft. Collins ⁽²⁾				
Greenwood Village ⁽²⁾				
Northern Colorado				
Vail Valley				
Broomfield				

⁽¹⁾ Headquarters and co-location of profit center, product groups and support centers

⁽²⁾ Loan production office

⁽³⁾ Trust office

ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceedings. From time to time, we are subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract, and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition, or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention, and may materially and adversely affect our reputation, even if resolved in our favor.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Shares of our common stock, no par value, are traded on the NASDAQ Global Select Market under the symbol "MYFW".

Holders of Record

As of March 12, 2024, there were approximately 126 holders of record of our common stock.

Dividend Policy

We have not declared or paid any dividends on our common stock and we do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. Instead, we anticipate that all of our earnings in the foreseeable future will be retained to support our operations and finance the growth and development of our business or be used for stock buybacks. Any future determination to pay dividends on our common stock will be made by our board of directors and will depend upon our results of operations, financial condition, capital requirements, general economic conditions, regulatory and contractual restrictions, our business strategy, our ability to service any equity or debt obligations senior to our common stock and other factors that our board of directors deems relevant. We are not obligated to pay dividends on our common stock and are subject to restrictions on paying dividends on our common stock.

As a bank holding company, our ability to pay dividends is affected by the policies and enforcement powers of the Federal Reserve. See "Supervision and Regulation—Regulation of the Company—Dividends." In addition, because we are a holding company, we are dependent upon the payment of dividends by the Bank to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. See "Supervision and Regulation—Regulation of the Bank—Dividends." The present and future dividend policy of the Bank is subject to the discretion of the board of directors. The Bank is not obligated to pay us dividends.

As a Colorado corporation, we are subject to certain restrictions on distributions under the Colorado Business Corporation Act. Generally, a Colorado corporation may not make a distribution to its shareholders if, after giving the distribution effect: (i) the corporation would not be able to pay its debts as they become due in the usual course of business, or (ii) the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

Securities Authorized for Issuance under Equity Compensation Plans

The information concerning the ownership of shares of our common stock by certain beneficial owners and management required by this item is incorporated herein by reference from our definitive proxy statement for our 2023 Annual Meeting of Shareholders, a copy of which will be filed with the SEC no later than 120 days after the end of our fiscal year.

The following table sets forth information as of December 31, 2023, regarding our equity compensation plans that provide for the award of equity securities or the grant of options to purchase equity securities of the Company to employees and directors of First Western and its subsidiaries:

Plan Category	(A)	(B)	(C)
	Number of securities to be issued upon exercise of outstanding options or vesting of outstanding restricted stock grants	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by shareholders	664,876	\$ 23.79	350,145
Equity compensation plans not approved by shareholders	—	—	—
Total	664,876		350,145

Issuer Purchases of Equity Securities

	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
October 1, 2023 through October 31, 2023	—	\$ —	—	—
November 1, 2023 through November 30, 2023	4,747	16.40	—	—
December 1, 2023 through December 31, 2023	—	—	—	—

⁽¹⁾ These shares relate to the net settlement by employees related to vested, restricted stock awards and do not impact the shares available for repurchase. Net settlements represent instances where employees elect to satisfy their income tax liability related to the vesting of restricted stock through the surrender of a proportionate number of the vested shares to the Company.

ITEM 6: [Reserved]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. See "Cautionary Statement Regarding Forward-Looking Statements." Also, see the risk factors and other cautionary statements described under the heading "Item 1A – Risk Factors" included in Item 1A of this Annual Report on Form 10-K. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Company Overview

We are a financial holding company founded in 2002 and headquartered in Denver, Colorado. We provide a fully integrated suite of wealth management services to our clients including banking, trust, and investment management products and services. Our mission is to be the best private bank for the Western wealth management client. We target entrepreneurs, professionals, and high-net worth individuals, typically with \$1.0 million-plus in liquid net worth, and their related philanthropic and business organizations, which we refer to as the "Western wealth management client." We believe that the Western wealth management client shares our entrepreneurial spirit and values our sophisticated, high-touch wealth management services that are tailored to meet their specific needs. We partner with our clients to solve their unique financial needs through our expert integrated services provided in a team approach.

We offer our services through a branded network of boutique private trust bank offices, which we believe are strategically located in affluent and high-growth markets in locations across Colorado, Arizona, Wyoming, Montana, and California. Our profit centers, which are comprised of private bankers, lenders, wealth planners and portfolio managers, under the leadership of and/or president, are also supported centrally by teams providing management services such as operations, risk management, credit administration, marketing, technology support, human capital, and accounting/finance services, which we refer to as support centers.

From 2004, when we opened our first profit center, until December 31, 2023, we have expanded our footprint into fourteen full service profit centers, three loan production offices, and one trust office located across five states. As of and for the year ended December 31, 2023, we had \$2.98 billion in total assets, \$82.7 million in total revenues and provided fiduciary and advisory services on \$6.75 billion of assets under management ("AUM").

Recent Industry Developments

During March and April of 2023, the banking industry experienced significant disruption and volatility with the failure of multiple banks creating industry wide concerns related to liquidity, deposit outflows, unrealized securities losses, and eroding consumer confidence in the banking industry. Despite the market wide impact to bank stock prices, we believe the Bank remains stable with strong fundamentals including uninsured deposits lower than our peer average, at \$852.8 million, or 33.7% of total deposits as of December 31, 2023. The Company has a low amount of held-to-maturity securities, which represent 2.5% of Total assets, and carries unrecognized losses amounting to 3.1% of Total shareholders' equity as of December 31, 2023. We have limited exposure to commercial real estate ("CRE") non-owner occupied office space which has been impacted by the shift to hybrid work environments. Our client base is well diversified with no single industry concentration.

Primary Factors Used to Evaluate the Results of Operations

As a financial institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the comparative levels and trends of the line items in our Consolidated Balance Sheets and Statements of Income as well as various financial ratios that are commonly used in our industry. The primary factors we use to evaluate our results of operations include net interest income, non-interest income and non-interest expense.

Net Interest Income

Net interest income represents interest income less interest expense. We generate interest income on interest-earning assets, primarily loans and investment securities. We incur interest expense on interest-bearing liabilities, primarily interest-bearing deposits and borrowings. To evaluate net interest income, we measure and monitor: (i) yields on loans, investment securities, and other interest-earning assets; (ii) the costs of deposits and other funding sources; (iii) the rates incurred on borrowings and other interest-bearing liabilities; and (iv) the regulatory risk weighting associated with the assets. Interest income is primarily impacted by loan growth and loan repayments, along with changes in interest rates on the loans. Interest expense is primarily impacted by changes in deposit balances, changes in interest rates on deposits, along with the volume and type of interest-bearing liabilities. Net interest income is primarily impacted by changes in market interest rates, the slope of the yield curve, and interest we earn on interest-earning assets or pay on interest-bearing liabilities.

Non-Interest Income

Non-interest income primarily consists of the following:

- *Trust and investment management fees*—fees and other sources of income charged to clients for managing their trust and investment assets, providing financial planning consulting services, 401(k) and retirement advisory consulting services, and other wealth management services. Trust and investment management fees are primarily impacted by rates charged and increases and decreases in AUM. AUM is primarily impacted by opening and closing of client advisory and trust accounts, contributions and withdrawals, and the fluctuation in market values.
- *Net gain on mortgage loans*—gain on originating and selling mortgages and origination fees, less commissions to loan originators, document review, and other costs specific to originating and selling the loan. The market adjustments for interest rate lock commitments ("IRLC"), mortgage derivatives, and gains and losses incurred on the mandatory trading of loans are also included in this line item. Net gain on mortgage loans is primarily impacted by the amount of loans sold, the type of loans sold, and market conditions.
- *Net gain on loans accounted for under the fair value option*—unrealized gains or losses on the fair value adjustments to held for investment loans on which the Bank has elected the fair value option of accounting. This also includes realized gains or losses on charge-offs and recoveries.
- *Bank fees*—income generated through bank-related service charges such as: electronic transfer fees, treasury management fees, bill pay fees, servicing fees for Main Street Lending Program ("MSLP"), loan prepayment penalty fees, loan interest rate swap fees, and other banking fees. Banking fees are primarily impacted by the level of business activities and cash movement activities of our clients.
- *Risk management and insurance fees*—commissions earned on insurance policies we have placed for clients through our client risk management team who incorporate insurance services, primarily life insurance, to support our clients' wealth planning needs. Our insurance revenues are primarily impacted by the type and volume of policies placed for our clients.
- *Income on company-owned life insurance*—income earned on the growth of the cash surrender value of life insurance policies we hold on certain key associates. The income on the increase in the cash surrender value is non-taxable income.

Non-Interest Expense

Non-interest expense is comprised primarily of the following:

- *Salaries and employee benefits*—all forms of compensation-related expenses including salary, incentive compensation, payroll-related taxes, stock-based compensation, benefit plans, health insurance, 401(k) plan match costs, and other benefit-related expenses. Salaries and employee benefit costs are primarily impacted by changes in headcount and fluctuations in benefits costs.

- *Occupancy and equipment*—costs related to building and land maintenance, leasing our office space, depreciation charges for the buildings, building improvements, furniture, fixtures and equipment, amortization of leasehold improvements, utilities, and other occupancy-related expenses. Occupancy and equipment costs are primarily impacted by the number of locations we occupy.
- *Professional services*—costs related to legal, accounting, tax, consulting, personnel recruiting, insurance and other outsourcing arrangements. Professional services costs are primarily impacted by corporate activities requiring specialized services. FDIC insurance expense is also included in this line and represents the assessments that we pay to the FDIC for deposit insurance.
- *Technology and information systems*—costs related to software and information technology services to support office activities and internal networks. Technology and information system costs are primarily impacted by the number of locations we occupy, the number of associates we have, and the level of service we require from our third-party technology vendors.
- *Data processing*—costs related to processing fees paid to our third-party data processing system providers relating to our core private trust banking platform. Data processing costs are primarily impacted by the number of loan, deposit and trust accounts we have and the level of transactions processed for our clients.
- *Marketing*—costs related to promoting our business through advertising, promotions, charitable events, sponsorships, donations, and other marketing-related expenses. Marketing costs are primarily impacted by the levels of advertising programs and other marketing activities and events held throughout the year.
- *Amortization of other intangible assets*—primarily represents the amortization of intangible assets including client lists, core deposit intangibles, and other similar items recognized in connection with acquisitions.
- *Other*—includes costs related to operational expenses associated with office supplies, postage, travel expenses, meals and entertainment, dues and memberships, costs to maintain or prepare other real estate owned ("OREO") for sale, director compensation and travel, and other general corporate expenses that do not fit within one of the specific non-interest expense lines described above. Other operational expenses are generally impacted by our business activities and needs.

Operating Segments

The Company's reportable segments consist of Wealth Management and Mortgage. We measure the overall profitability of operating segments based on income before income tax. We believe this is a more useful measurement as our wealth management products and services are fully integrated with our private trust bank. We allocate costs to our segments, which consist primarily of compensation and overhead expense directly attributable to the products and services within the Wealth Management and Mortgage segments. We measure the profitability of each segment based on a post-allocation basis, as we believe it better approximates the operating cash flows generated by our reportable operating segments. A description of each segment is provided in Note 18 – Segment Reporting of the accompanying Notes to the Consolidated Financial Statements.

Primary Factors Used to Evaluate our Balance Sheet

The primary factors we use to evaluate our balance sheet include asset and liability levels, asset quality, capital, liquidity, and potential profit production from assets.

We manage our asset levels to ensure our lending initiatives are efficiently and profitably supported and to ensure we have the necessary liquidity and capital to meet the required regulatory capital ratios. Funding needs are evaluated and forecasted by communicating with clients, reviewing loan maturity and draw expectations, and projecting new loan opportunities.

We manage the diversification and quality of our assets based upon factors that include the level, distribution, severity and trend of problem assets such as those determined to be classified, delinquent, non-accrual, non-performing or restructured; the adequacy of our allowance for credit losses; the diversification and quality of loan and investment portfolios; the extent of counterparty risks, credit risk concentrations, and other factors.

We manage our liquidity based upon factors that include the level and quality of capital and our overall financial condition, the trend and volume of problem assets, our balance sheet risk exposure, the level of deposits as a percentage of total loans, the amount of non-deposit funding used to fund assets, the availability of unused funding sources and off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold, and other factors.

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The Company has adopted the Basel III regulatory capital framework. As of December 31, 2023, the Bank's capital ratios exceeded the current well capitalized regulatory requirements established under Basel III.

Results of Operations

Overview

The year ended December 31, 2023 compared with the year ended December 31, 2022. For the year ended December 31, 2023, we reported net income available to common shareholders of \$5.2 million, compared to net income available to common shareholders for December 31, 2022 of \$21.7 million, a \$16.5 million, or 75.9% decrease. For the year ended December 31, 2023, our income before income tax was \$7.1 million a \$21.8 million, or 75.5%, decrease from December 31, 2022. The decrease was primarily driven by a \$19.5 million decrease in net interest income, after provision for credit losses and a \$5.7 million decrease in non-interest income, partially offset by a \$3.5 million decrease in non-interest expense. The decrease in net interest income, after provision for credit losses, was primarily due to higher rates on deposits and borrowings resulting from increased market rates, an increase in the provision of credit losses due to \$8.8 million of charge-offs, offset partially by an increase in interest and fees on loans resulting from loan growth and higher loan yields. The decrease in non-interest income was due to a \$1.8 million decrease in net gain on mortgage loans driven by a slowdown in new lock volume associated with the rising interest rate environment, \$1.2 million of impairment to the carrying value of a contingent consideration asset, and a \$1.1 million increase in losses on loans accounted for under the fair value option recorded during the year ended December 31, 2023. The decrease in non-interest expense was primarily driven by lower salaries and benefits related to staffing reductions to better align with current revenue.

Net Interest Income

The year ended December 31, 2023 compared with the year ended December 31, 2022. For the year ended December 31, 2023, compared to the year ended December 31, 2022, net interest income, before the provision for credit losses, decreased \$12.8 million, or 15.3%, to \$71.1 million. This decrease was driven by a \$300.3 million increase in average interest bearing deposit balances and a 269 bps increase in average rates paid on interest bearing deposits partially offset by a \$340.5 million increase in average loans outstanding and a 102 bps increase in the average yield on loans. For the year ended December 31, 2023, our net interest margin was 2.62% and our net interest spread was 1.71%. For the year ended December 31, 2022, our net interest margin was 3.36% and our net interest spread was 3.02%.

The increase in average loans outstanding for the year ended December 31, 2023 compared to the same periods in 2022 was due to an increase in construction and development, non-owner occupied CRE, and residential mortgage offset by a decrease in cash, securities, and other, consumer and other, commercial and industrial, and owner occupied CRE. The growth in our construction and development portfolio was driven primarily by draws on existing commitments, partially offset by payoffs. Average loan yield was 5.43% for the year ended December 31, 2023, compared to 4.42% for the year ended December 31, 2022. The increase in loan yield during the period was primarily driven by an increase in yields on the variable rate portfolio and an increase in yields on new loan production due to the rising interest rate environment.

Interest income on our investment securities portfolio increased as a result of higher average investment balances and higher average yield for the year ended December 31, 2023 compared to the same period in 2022. Our average investment securities balance during the year ended December 31, 2023 was \$79.2 million, an increase of \$5.0 million from the year ended December 31, 2022.

Interest expense on deposits increased during the year ended December 31, 2023 compared to the same period in 2022. Average rates on interest bearing deposits increased 269 basis points, consistent with the higher interest rate environment, while the growth in interest-bearing deposits was primarily driven by new and expanded deposit relationships and a shift in clients moving out of non-interest bearing products into higher yielding products.

The following table presents an analysis of net interest income and net interest margin for the periods presented, using daily average balances for each major category of interest-earning assets and interest-bearing liabilities, the interest earned or paid, and the average rate earned or paid on those assets or liabilities:

(Dollars in thousands)	For the Year Ended December 31,					
	2023			2022		
	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate
Assets						
Interest-earning assets:						
Interest-bearing deposits in other financial institutions	\$ 117,562	\$ 5,711	4.86 %	\$ 248,577	\$ 2,235	0.90 %
Federal funds sold	—	—	—	652	10	1.53
Investment securities ⁽²⁾	79,150	2,463	3.11	74,104	2,053	2.77
Correspondent bank stock	8,285	620	7.48	5,033	381	7.57
Loans ⁽³⁾	2,479,175	134,708	5.43	2,138,712	94,448	4.42
Mortgage loans held for sale ⁽⁴⁾	11,499	721	6.27	15,639	722	4.62
Loans held at fair value	18,478	1,335	7.22	15,541	1,347	8.67
Interest-earning assets ⁽⁵⁾	2,714,149	145,558	5.36	2,498,258	101,196	4.05
Allowance for credit losses	(21,468)			(14,678)		
Noninterest-earning assets	125,401			122,663		
Total assets	\$ 2,818,082			\$ 2,606,243		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 1,854,017	65,460	3.53	\$ 1,553,758	13,012	0.84
FHLB and Federal Reserve borrowings	132,667	6,065	4.57	96,963	2,649	2.73
Subordinated notes	52,216	2,928	5.61	34,104	1,609	4.72
Total interest-bearing liabilities	2,038,900	74,453	3.65	1,684,825	17,270	1.03
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	510,506			670,299		
Other liabilities	24,913			21,119		
Total noninterest-bearing liabilities	535,419			691,418		
Total shareholders' equity	243,763			230,000		
Total liabilities and shareholders' equity	\$ 2,818,082			\$ 2,606,243		
Net interest rate spread ⁽⁶⁾			1.71			3.02
Net interest income ⁽⁷⁾		\$ 71,105			\$ 83,926	
Net interest margin ⁽⁸⁾			2.62			3.36

⁽¹⁾ Average balance represents daily averages, unless otherwise noted.

⁽²⁾ Represents monthly averages.

⁽³⁾ Non-performing loans are included in the respective average loan balances. Income, if any, on such loans is recognized on a cash basis.

⁽⁴⁾ Mortgage loans held for sale are included in the interest-earning assets above, with interest income recognized in the Interest and dividend income on loans, including fees line in the Consolidated Statements of Income. These balances are included in the margin calculations in these tables.

⁽⁵⁾ Tax-equivalent yield adjustments are immaterial.

⁽⁶⁾ Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

⁽⁷⁾ Net interest income is the difference between income earned on interest-earning assets and expense paid on interest-bearing liabilities.

⁽⁸⁾ Net interest margin is equal to net interest income divided by average interest-earning assets.

The following table presents the dollar amount of changes in interest income and interest expense for the periods presented, for each component of interest-earning assets and interest-bearing liabilities, and distinguishes between changes attributable to volume and interest rates. Changes attributable to both rate and volume that cannot be separated have been allocated to volume:

(Dollars in thousands)	Year Ended December 31, 2023 Compared to 2022		
	Increase (Decrease) Due to Change in:		Total Increase (Decrease)
	Volume	Rate	
Interest-earning assets:			
Interest-bearing deposits in other financial institutions	\$ (6,365)	\$ 9,841	\$ 3,476
Federal funds sold	(10)	—	(10)
Investment securities	157	253	410
Correspondent bank stock	243	(4)	239
Loans	18,499	21,761	40,260
Mortgage loans held for sale	(260)	259	(1)
Loans held at fair value	212	(224)	(12)
Total increase in interest income	\$ 12,476	\$ 31,886	\$ 44,362
Interest-bearing liabilities:			
Interest-bearing deposits	10,601	41,847	52,448
FHLB and Federal Reserve borrowings	1,632	1,784	3,416
Subordinated notes	1,016	303	1,319
Total increase in interest expense	\$ 13,249	\$ 43,934	\$ 57,183
Increase in net interest income	\$ (773)	\$ (12,048)	\$ (12,821)

Provision for Credit Losses

We have a dedicated problem loan resolution team comprised of associates from our credit, senior leadership, risk, and accounting teams that meets frequently to ensure that watch list and problem credits are identified early and actively managed. We work to identify potential losses in a timely manner and proactively manage the problem credits to minimize losses. For the years ended December 31, 2023 and 2022, we recorded \$10.4 million and \$3.7 million, respectively, of provision for credit losses. The provision recorded for the year ended December 31, 2023 includes \$8.8 million of charge-offs, a \$3.8 million allowance recorded on non-performing loans, as well as general provisioning consistent with our net growth of the originated loan portfolio, partially offset by a \$1.7 million provision release related to off-balance sheet commitments, as well as changes in our portfolio mix and reduced model loss rates used in our quantitative model, largely driven by the economic outlook scenario assuming a soft landing as compared to a more severe and deep recession previously forecasted.

The Company has increased loan level reviews and portfolio monitoring to address the changing environment. Management believes the financial strength of the Bank's clientele and the diversity of the portfolio continues to mitigate the credit risk within the portfolio.

Non-Interest Income

The year ended December 31, 2023 compared with the year ended December 31, 2022. For the year ended December 31, 2023 compared to the year ended December 31, 2022, non-interest income decreased \$5.7 million, or 20.7%, to \$21.9 million. The decrease in non-interest income was primarily due as a result of a \$1.8 million decrease in Net gain on mortgage loans driven by a slowdown in new lock volume on held for sale loans associated with the rising interest rate environment, \$1.2 million of impairment to the carrying value of a contingent consideration asset recorded during the second quarter of 2023, and a \$1.1 million increase in net losses on loans accounted for under the fair value option.

The following table presents the significant categories of our non-interest income during the periods presented:

(Dollars in thousands)	Year Ended December 31,		Change	
	2023	2022	\$	%
Non-interest income:				
Trust and investment management fees	\$ 18,788	\$ 18,943	\$ (155)	(0.8)%
Net gain on mortgage loans	2,826	4,584	(1,758)	(38.4)
Net loss on loans held for sale	(178)	(12)	(166)	*
Bank fees	2,022	2,660	(638)	(24.0)
Risk management and insurance fees	919	1,231	(312)	(25.3)
Income on company-owned life insurance	378	349	29	8.3
Net gain on equity interests	—	7	(7)	(100.0)
Net loss on loans accounted for under the fair value option	(2,010)	(891)	(1,119)	*
Unrealized (loss)/gain recognized on equity securities	(22)	342	(364)	*
Other	(775)	477	(1,252)	*
Total non-interest income	\$ 21,948	\$ 27,690	\$ (5,742)	(20.7)

* Represents percentages that are not meaningful due to being insignificant or exceeding 100%

Trust and investment management fees— For the year ended December 31, 2023 compared to the same period in 2022, our trust and investment management fees decreased by \$0.2 million, or 0.8%, to \$18.8 million. The decrease was primarily attributable to account attrition within one profit center, partially offset by an increase in our fee structure.

Net gain on mortgage loans— For the year ended December 31, 2023 compared to the same period in 2022, our net gain on mortgage loans decreased by \$1.8 million, or 38.4%, to \$2.8 million. The decrease in net gain on mortgage loans was primarily driven by a slowdown in new lock volume on held for sale loans associated with the rising interest rate environment.

Net loss on loans held for sale— During the year ended December 31, 2023, the Company transferred \$39.2 million of non-relationship loans held for investment to loans held for sale. Upon transfer of the loans, the Company recorded a net loss on loans held for sale of \$0.2 million, primarily attributable to the slight decline in fair value as a result of the rising interest rates on comparable loans in the market.

Bank fees— For the year ended December 31, 2023 compared to the same period in 2022, our bank fees decreased by \$0.6 million or 24.0%. The decrease was primarily driven by decreased treasury management fees as a result of rising interest rates driving higher earnings credit on commercial operating balances, partially offset by higher loan fees as a result of prepayment and swap derivative activity.

Risk management and insurance fees— For the year ended December 31, 2023 compared to the same period in 2022, our risk management and insurance fees decreased by \$0.3 million, or 25.3%, to \$0.9 million.

Net loss on loans accounted for under the fair value option— The Company elected the fair value option on certain loans purchased in 2022. For the year ended December 31, 2023 compared to the same period in 2022, loans accounted for under the fair value option had an additional \$1.1 million in net losses recorded. The increase was primarily attributable to net charge-offs during the period and, partially offset by improvement in fair value.

Unrealized (loss)/gain on Equity Securities— For the year ended December 31, 2023 compared to the same period in 2022, our unrealized gains on equity securities decreased by \$0.4 million to an immaterial unrealized loss position as of December 31, 2023. The decrease was primarily driven by fair value adjustments on equity warrants.

Other— For the year ended December 31, 2023 compared to the same period in 2022, our other income decreased by \$1.3 million. The decrease was primarily attributable to \$1.2 million of impairment to the carrying value of a contingent consideration asset recorded during the second quarter of 2023, related to the sale of First Western Capital Management in 2020. The value was established using asset growth assumptions provided by the buyer, which had not materialized.

Non-Interest Expense

The year ended December 31, 2023 compared with the year ended December 31, 2022. The decrease in non-interest expense of 4.4% to \$75.6 million for the year ended December 31, 2023, was primarily driven by lower Salaries and employee benefits related to staffing reductions to better align with current revenue and lower Technology and information system costs.

The following presents the significant categories of our non-interest expense for the periods presented:

(Dollars in thousands)	Year Ended December 31,		Change	
	2023	2022	\$	%
Non-interest expense:				
Salaries and employee benefits	\$ 45,202	\$ 48,248	\$ (3,046)	(6.3)%
Occupancy and equipment	7,597	7,520	77	1.0
Professional services	7,638	7,896	(258)	(3.3)
Technology and information systems	3,497	4,462	(965)	(21.6)
Data processing	4,539	4,285	254	5.9
Marketing	1,540	1,888	(348)	(18.4)
Amortization of other intangible assets	250	308	(58)	(18.8)
Net gain on assets held for sale	—	(4)	4	(100.0)
Net gain on sale of other real estate owned	—	(44)	44	(100.0)
Other	5,374	4,547	827	18.2
Total non-interest expense	<u>\$ 75,637</u>	<u>\$ 79,106</u>	<u>\$ (3,469)</u>	<u>(4.4)</u>

Salaries and employee benefits—The decrease in salaries and employee benefits of \$3.0 million, or 6.3%, was primarily related to lower wages and employee benefits related to staffing reductions to better align with current revenue, partially offset by lower deferred compensation due to fewer loan originations.

Occupancy and equipment— The increase in occupancy and equipment of \$0.1 million, or 1.0%, was primarily driven by an increase in leasehold improvement depreciation, partially offset by decreases in lease expense and variable lease costs.

Professional Services—The decrease in professional services of \$0.3 million, or 3.3%, was driven by lower consulting and other professional fees, as the same period a year ago had additional expenses related to the acquisition of Teton and corporate activity to support the growth of the Company. The decrease was partially offset by higher FDIC insurance costs due to the increase in the assessment rate and growth in the balance sheet.

Technology and information systems— The decrease in technology and information systems of \$1.0 million, or 21.6%, was primarily driven by reduced software costs related to the trust and investment management system enhancement completed in 2022 and lower infrastructure costs due to the Company bringing certain outsourced information technology support in-house.

Marketing— The decrease in marketing of \$0.3 million, or 18.4%, was primarily driven by lower advertising costs as well as reduced client onboarding costs related to the Teton acquisition compared to the same period last year.

Other— The increase in other of \$0.8 million, or 18.2%, was driven by increased subscription costs related to system and process improvements, and increased fees related to reciprocal deposit balance growth.

Income Tax

During the year ended December 31, 2023, the Company recorded an income tax provision of \$1.8 million, reflecting an effective tax rate 26.0%. During the year ended December 31, 2022, the Company recorded an income tax provision of \$7.1 million, reflecting an effective tax rate of 24.7%.

Segment Reporting

We have two reportable operating segments: Wealth Management and Mortgage. Our Wealth Management segment consists of operations relating to the Company's fully integrated wealth management products and services. Services provided include deposit, loan, insurance, and trust and investment management advisory products and services for which fee revenue is recognized. Our Mortgage segment consists of operations relating to the Company's residential mortgage service offerings. Services provided by our mortgage segment include soliciting, originating, and selling mortgage loans into the secondary market. Mortgage products are financial in nature for which origination fees are recognized net of origination expenses, upon the funding of the mortgage loans. Mortgage loans held for sale are accounted for under the fair value option with changes in fair value reported through earnings at inception when loans are locked to the borrower and until the loan is sold to third parties, at which time additional gains or losses on the sale are recorded. Mortgage loans originated and held for investment purposes are recorded in the Wealth Management segment, as this segment provides ongoing services to our clients.

The following presents key metrics related to our segments during the periods presented:

	Year Ended December 31, 2023		
	Wealth Management	Mortgage	Consolidated
<i>(Dollars in thousands)</i>			
Income ⁽¹⁾	\$ 79,082	\$ 3,616	\$ 82,698
Income before taxes	9,591	(2,530)	7,061
Profit margin	12.1 %	(70.0)%	8.5 %

	Year Ended December 31, 2022		
	Wealth Management	Mortgage	Consolidated
<i>(Dollars in thousands)</i>			
Income ⁽¹⁾	\$ 102,282	\$ 5,652	\$ 107,934
Income before taxes	31,268	(2,440)	28,828
Profit margin	30.6 %	(43.2)%	26.7 %

⁽¹⁾ Net interest income after provision plus non-interest income.

The following presents selected financial metrics of each segment as of and for the periods presented:

Wealth Management

(Dollars in thousands)	As of and for the Year Ended December 31,		\$ Change	% Change
	2023	2022		
Total interest and dividend income	\$ 144,837	\$ 100,474	\$ 44,363	44.2 %
Total interest expense	74,453	17,270	57,183	*
Provision for credit losses	10,355	3,682	6,673	*
Net interest income, after provision for credit losses ⁽¹⁾	60,029	79,522	(19,493)	(24.5)
Non-interest income	19,053	22,760	(3,707)	(16.3)
Total income before non-interest expense	79,082	102,282	(23,200)	(22.7)
Depreciation and amortization expense	2,370	2,193	177	8.1
All other non-interest expense	67,121	68,821	(1,700)	(2.5)
Income before income taxes	\$ 9,591	\$ 31,268	\$ (21,677)	(69.3)
Goodwill	\$ 30,400	\$ 30,400	\$ —	—
Total assets	2,966,612	2,856,708	109,904	3.8

⁽¹⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

(*)Represents percentages that are not meaningful due to being insignificant or exceeding 100%.

The Wealth Management segment reported income before income tax of \$9.6 million for the year ended December 31, 2023, compared to \$31.3 million, for the same period in 2022. The majority of our assets and liabilities are on the Wealth Management segment balance sheet and the decrease in income before taxes is primarily attributable to a decrease in net interest income, after provision for credit losses. The decrease in net interest income, after provision for credit loss was primarily driven by an increase in average interest-bearing deposits and rates, partially offset by an increase in interest income. The provision for credit losses for the year ended December 31, 2023 increased \$6.7 million to \$10.4 million compared to \$3.7 million for the same period in 2022, primarily due an increase in an allowance on individually analyzed loans. As of December 31, 2023, the Company had an allowance of \$3.8 million on non-performing loans.

Mortgage

(Dollars in thousands)	As of and for the Year Ended December 31,		\$ Change	% Change
	2023	2022		
Total interest and dividend income	\$ 721	\$ 722	\$ (1)	(0.1)%
Total interest expense	—	—	—	—
Provision for credit losses	—	—	—	—
Net interest income, after provision for credit losses ⁽¹⁾	721	722	(1)	(0.1)
Non-interest income	2,895	4,930	(2,035)	(41.3)
Total income before non-interest expense	3,616	5,652	(2,036)	(36.0)
Depreciation and amortization expense	33	42	(9)	(21.4)
All other non-interest expense	6,113	8,050	(1,937)	(24.1)
Loss before income tax	\$ (2,530)	\$ (2,440)	\$ (90)	3.7
Total assets	\$ 8,850	\$ 10,040	\$ (1,190)	(11.9)

⁽¹⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

The Mortgage segment reported a loss before income tax of \$2.5 million for the year ended December 31, 2023, compared to a loss before income tax of \$2.4 million for the same period in 2022. The overall decrease in non-interest income was primarily driven by a slowdown in new lock volume on held for sale loans associated with rising interest rates, which continue to impact loan demand. The decrease in non-interest expense was driven by a reduction in headcount to better align the operations functions with the slowdown in volume.

Financial Condition

The following table presents our condensed Consolidated Balance Sheets as of the dates noted:

(Dollars in thousands)	December 31,		\$ Change	% Change
	2023	2022		
Balance Sheet Data:				
Cash and cash equivalents	\$ 254,442	\$ 196,512	\$ 57,930	29.5 %
Held-to-maturity securities, at amortized cost, net of allowance for credit losses of \$71 and \$0 (fair value of \$66,617 and \$74,718), respectively	74,102	81,056	(6,954)	(8.6)
Loans (includes \$13,726 and \$23,321 measured at fair value, respectively)	2,530,915	2,469,413	61,502	2.5
Allowance for credit losses ⁽¹⁾	(23,931)	(17,183)	(6,748)	39.3
Loans, net of allowance	2,506,984	2,452,230	54,754	2.2
Loans held for sale at fair value	—	1,965	(1,965)	(100.0)
Mortgage loans held for sale, at fair value	7,254	8,839	(1,585)	(17.9)
Goodwill and other intangible assets, net	31,854	32,104	(250)	(0.8)
Company-owned life insurance	16,530	16,152	378	2.3
Other assets	84,296	77,890	6,406	8.2
Total assets	\$ 2,975,462	\$ 2,866,748	\$ 108,714	3.8
Deposits	\$ 2,529,039	\$ 2,405,229	\$ 123,810	5.1
Borrowings	178,051	199,018	(20,967)	(10.5)
Other liabilities	25,634	21,637	3,997	18.5
Total liabilities	2,732,724	2,625,884	106,840	4.1
Total shareholders' equity	242,738	240,864	1,874	0.8
Total liabilities and shareholders' equity	\$ 2,975,462	\$ 2,866,748	\$ 108,714	3.8

⁽¹⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

Cash and cash equivalents increased by \$57.9 million, or 29.5%, to \$254.4 million as of December 31, 2023 compared to December 31, 2022. The increase in liquidity was driven primarily by deposit growth, offset partially by loan growth.

Investments decreased by \$7.0 million, or 8.6%, to \$74.1 million as of December 31, 2023 compared to December 31, 2022. The decrease is due to held-to-maturity securities payments received throughout 2023.

Loans, net of allowance increased by \$54.8 million, or 2.2%, to \$2.51 billion as of December 31, 2023 compared to December 31, 2022. The increase was driven by net portfolio growth, primarily in the construction and development, non-owner occupied commercial real estate, and residential mortgage portfolios. The growth in our construction and development portfolio was driven primarily by draws on existing commitments, partially offset by payoffs.

Mortgage loans held for sale decreased \$1.6 million, or 17.9%, to \$7.3 million as of December 31, 2023 compared to December 31, 2022. The decrease was driven by a reduction in loan origination volume primarily driven by a slowdown in new lock volume associated with the rising interest rate environment.

Goodwill and other intangible assets, net decreased by \$0.3 million, or 0.8%, to \$31.9 million as of December 31, 2023 compared to December 31, 2022. The decrease was driven by amortization on intangible assets.

Other assets increased by \$6.4 million, or 8.2%, to \$84.3 million as of December 31, 2023 compared to December 31, 2022. The increase was primarily driven by an increase in tax receivable of \$3.7 million related to estimated tax payments made during the year, the addition of hedge swap collateral of \$0.8 million and swap derivative assets of \$0.8 million, and contributions to the Company's low-income housing tax credit ("LIHTC") investments of \$1.1 million and bank technology fund investments of \$0.8 million, partially offset by a decrease of \$1.5 million of a contingent consideration asset, primarily driven by the \$1.2 million impairment to the carrying value of the contingent consideration asset recorded during the second quarter of 2023.

Deposits increased \$123.8 million, or 5.1%, to \$2.53 billion as of December 31, 2023 compared to December 31, 2022. The increase was primarily attributable to new and expanded deposit relationships.

Money market deposit accounts increased \$50.1 million, or 3.7%, to \$1.39 billion as of December 31, 2023 compared to December 31, 2022. Time deposit accounts increased \$272.4 million, or 121.5%, to \$496.5 million as of December 31, 2023. Negotiable order of withdrawal ("NOW") accounts decreased \$87.3 million, or 37.2%, to \$147.5 million compared to December 31, 2022. The decrease in NOW accounts was primarily attributable to a mix shift from lower yielding deposit products into higher yielding products as clients seek higher rates for excess liquidity.

Borrowings decreased \$21.0 million, or 10.5%, to \$178.1 million as of December 31, 2023 compared to December 31, 2022. The decrease is primarily driven by a decline in FHLB borrowing reliance as a result of increased deposits.

Total shareholders' equity increased \$1.9 million, or 0.8%, to \$242.7 million as of December 31, 2023. The increase is primarily due to Net income for the year and a \$2.4 million increase in Additional paid-in capital driven by stock-based compensation expense, partially offset by a \$5.3 million net reduction to Retained earnings as a result of the adoption of ASU 2016-13 for Current Expected Credit Losses ("CECL").

Assets Under Management

(Dollars in millions)	Year Ended	
	December 31,	
	2023	2022
Managed Trust Balance as of Beginning of Period	\$ 1,802	\$ 2,204
New relationships	10	41
Closed relationships	(11)	(24)
Contributions	51	12
Withdrawals	(277)	(292)
Market change, net	338	(139)
Ending Balance	\$ 1,913	\$ 1,802
Yield*	0.18 %	0.19 %
Directed Trust Balance as of Beginning of Period	\$ 1,285	\$ 1,309
New relationships	—	7
Closed relationships	(5)	(4)
Contributions	214	122
Withdrawals	(40)	(22)
Market change, net	168	(127)
Ending Balance	\$ 1,622	\$ 1,285
Yield*	0.07 %	0.90 %
Investment Agency Balance as of Beginning of Period	\$ 1,618	\$ 2,063
New relationships	56	61
Closed relationships	(82)	(61)
Contributions	78	120
Withdrawals	(240)	(294)
Market change, net	177	(271)
Ending Balance	\$ 1,607	\$ 1,618
Yield*	0.77 %	0.77 %
Custody Balance as of Beginning of Period	\$ 493	\$ 633
New relationships	9	16
Closed relationships	(20)	(1)
Contributions	90	80
Withdrawals	(109)	(192)
Market change, net	82	(43)
Ending Balance	\$ 545	\$ 493
Yield*	0.04 %	0.04 %
401(k)/Retirement Balance as of Beginning of Period	\$ 909	\$ 1,143
New relationships	3	14
Closed relationships	(4)	(45)
Contributions	124	112
Withdrawals	(101)	(96)
Market change, net	135	(219)
Ending Balance⁽¹⁾	\$ 1,066	\$ 909
Yield*	0.15 %	0.18 %
Total Assets Under Management as of Beginning of Period	\$ 6,107	\$ 7,352
New relationships	78	139
Closed relationships	(122)	(135)
Contributions	557	446
Withdrawals	(767)	(896)
Market change, net	900	(799)
Total Assets Under Management	\$ 6,753	\$ 6,107
Yield*	0.28 %	0.31 %

* Trust and investment management fees divided by period-end balance.

⁽¹⁾ AUM reported for the current period are one quarter in arrears.

Assets under management increased \$646.0 million, or 10.6%, to \$6.75 billion for the year ended December 31, 2023. The increase was primarily attributable to improving market conditions year-over-year resulting in an increase in the value of assets under management balances.

Investment securities

Investments we intend to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are recorded at fair value using current market information from a pricing service, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax. The carrying values of our investment securities classified as available-for-sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity.

Investments for which we have the intent and ability to hold to their maturity are classified as held-to-maturity securities and are recorded at amortized cost. Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.

The Company reassessed classification of investment securities and, effective April 1, 2022, elected to transfer all securities, fair valued at \$58.7 million, from available-for-sale to held-to-maturity. The related unrealized loss of \$2.3 million included in other comprehensive income on April 1, 2022 remained in other comprehensive income and is being amortized out over the remaining term of the securities. No gain or loss was recorded at the time of transfer. As of December 31, 2023, all of our investment securities were classified as held-to-maturity.

The following tables present the amortized cost and estimated fair value of our investment securities as of the dates noted:

(Dollars in thousands)	December 31, 2023				
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses ⁽¹⁾
Investment securities held-to-maturity:					
U.S. Treasury debt	\$ 253	\$ —	\$ (11)	\$ 242	\$ —
Corporate bonds	23,687	—	(3,020)	20,667	(71)
Government National Mortgage Association ("GNMA") mortgage-backed securities – residential	34,579	—	(3,410)	31,169	—
Federal National Mortgage Association ("FNMA") mortgage-backed securities – residential	6,035	—	(509)	5,526	—
Government collateralized mortgage obligations ("GMO") and mortgage-backed securities ("MBS") – commercial	5,836	9	(377)	5,468	—
Corporate collateralized mortgage obligations ("CMO") and mortgage-backed securities ("MBS")	3,783	—	(238)	3,545	—
Total securities held-to-maturity	<u>\$ 74,173</u>	<u>\$ 9</u>	<u>\$ (7,565)</u>	<u>\$ 66,617</u>	<u>\$ (71)</u>

⁽¹⁾ Refer to Note 1 – Organization and Summary of Significant Accounting Policies for further information on our credit loss methodology.

(Dollars in thousands)	December 31, 2022			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Investment securities held-to-maturity:				
U.S. Treasury debt	\$ 243	\$ —	\$ (9)	\$ 234
Corporate bonds	23,819	—	(2,453)	21,366
GNMA mortgage-backed securities – residential	39,426	—	(2,800)	36,626
FNMA mortgage-backed securities – residential	6,708	—	(506)	6,202
GMO and MBS – commercial	6,786	13	(403)	6,396
CMO and MBS	4,074	—	(180)	3,894
Total securities held-to-maturity	<u>\$ 81,056</u>	<u>\$ 13</u>	<u>\$ (6,351)</u>	<u>\$ 74,718</u>

The following presents the book value of our contractual maturities and weighted average yield for our investment securities as of the dates presented. Contractual maturities may differ from expected maturities because issuers can have the right to call or prepay obligations without penalties. Our investments are taxable securities. The weighted average yield for each range of maturities was calculated using the yield on each security within that range weighted by the amortized cost of each security as of December 31, 2023. Weighted average yields are not presented on a taxable equivalent basis.

	Maturity as of December 31, 2023							
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
<i>(Dollars in thousands)</i>								
Held-to-maturity:								
U.S. Treasury debt	\$ 253	* %	\$ —	— %	\$ —	— %	\$ —	— %
Corporate bonds	—	—	4,078	0.30	19,395	1.23	214	0.01
GNMA mortgage-backed securities – residential	—	—	66	*	—	—	34,513	1.14
FNMA mortgage-backed securities – residential	—	—	—	—	1,116	0.02	4,919	0.13
Government CMO and MBS – commercial	—	—	178	0.01	1,579	0.07	4,079	0.13
Corporate CMO and MBS	—	—	—	—	415	0.03	3,368	0.18
Total held-to-maturity	\$ 253	— %	\$ 4,322	0.31 %	\$ 22,505	1.35 %	\$ 47,093	1.59 %

	Maturity as of December 31, 2022							
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
<i>(Dollars in thousands)</i>								
Held-to-maturity								
U.S. Treasury debt	\$ —	— %	\$ 243	* %	\$ —	— %	\$ —	— %
Corporate bonds	—	—	1,991	0.11	21,548	1.20	280	0.01
GNMA mortgage-backed securities – residential	—	—	103	*	—	—	39,323	1.22
FNMA mortgage-backed securities – residential	—	—	—	—	1,334	0.02	5,374	0.12
Government CMO and MBS – commercial	—	—	47	*	1,200	0.04	5,539	0.14
Corporate CMO and MBS	—	—	—	—	26	*	4,048	0.19
Total held-to-maturity	\$ —	— %	\$ 2,384	0.11 %	\$ 24,108	1.26 %	\$ 54,564	1.68 %

* Represents percentages that are not meaningful due to being insignificant or exceeding 100%

As of December 31, 2023 and December 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Allowance for Credit Losses for HTM Securities

On January 1, 2023, the Company adopted the new CECL standard, ASU 2016-13, using the modified retrospective method for all financial assets measured at amortized cost. Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The majority of our held-to-maturity investment portfolio consists of securities issued by U.S. government entities and agencies and we consider the risk of credit loss to be zero and, therefore, we do not record an ACL. The Company's non-government backed securities include private label CMO and MBS as well as bank subordinated debt. Accrued interest receivable on held-to-maturity debt securities totaled \$0.4 million at December 31, 2023 and is excluded from the estimate of credit losses. The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity by major security type for the year ended December 31, 2023:

December 31, 2023	Corporate Bonds	Corporate CMO ⁽¹⁾
Allowance for credit losses:		
Beginning balance	\$ —	\$ —
Impact of ASU 2016-13 adoption ⁽²⁾	71	—
Provision for credit losses	—	—
Securities charged-off (recoveries)	—	—
Total ending allowance balance	\$ 71	\$ —

⁽¹⁾ Management reviewed the collectability of corporate CMO and MBS securities taking into consideration such factors as the asset quality of the corporate bond issuers and credit support and delinquencies associated with the corporate CMO and MBS.

⁽²⁾ Refer to Note 1 – Organization and Summary of Significant Accounting Policies for further information on our credit loss methodology.

Loan Portfolio

Our primary source of interest income is derived through interest earned on loans to high net worth individuals and their related commercial interests. Our senior lending and credit team consists of seasoned, experienced personnel and we believe that our officers are well versed in the types of lending in which we are engaged. Underwriting policies and decisions are managed centrally and the approval process is tiered based on loan size, making the process consistent, efficient, and effective. The management team and credit culture demands prudent, practical, and conservative approaches to all credit requests in compliance with the loan policy guidelines to ensure strong credit underwriting practices.

In addition to originating loans for our own portfolio, we conduct mortgage banking activities in which we originate and sell, servicing-released, whole loans in the secondary market. Our mortgage banking loan sales activities are primarily directed at originating single family mortgages that are priced and underwritten to conform to previously agreed-upon criteria before loan funding and are delivered to the investor shortly after funding. The level of future loan originations, loan sales and loan repayments depends on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market. The amount of gain or loss on the sale of loans is primarily driven by market conditions and changes in interest rates, as well as our pricing and asset liability management strategies. As of December 31, 2023 and December 31, 2022, we had mortgage loans held for sale of \$7.3 million and \$8.8 million, respectively, in residential mortgage loans we originated.

Beginning in the first quarter of 2022, the Company entered into whole loan purchase agreements to acquire third party originated and serviced unsecured consumer loans to hold for investment and elected the fair value option to account for these loans. As of December 31, 2023, the Company has \$13.7 million in loans accounted for under the fair value option with an unpaid principal balance of \$14.1 million. As of December 31, 2022, the Company had \$23.3 million in loans accounted for under the fair value option with an unpaid principal balance \$23.4 million. See Note 16 – Fair Value in the Notes to Consolidated Financial Statements.

As of December 31, 2023, the Company has \$4.2 million in PPP loans outstanding with \$0.1 million in remaining fees to be recognized. The remaining fees represent the net amount of the fees from the SBA for participation in the PPP less the loan origination costs on these loans. The current amortization of this income is being recognized over a five-year period from the time of origination, however, if a loan receives full forgiveness from the SBA or if the borrower repays the loan, the remaining income will be recognized upon payoff.

The following presents our loan portfolio by type of loan as of the dates noted:

(Dollars in thousands)	As of December 31,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Cash, Securities, and Other ⁽¹⁾	\$ 139,947	5.6 %	\$ 165,559	6.7 %
Consumer and Other	27,028	1.1	26,070	1.0
Construction and Development	345,516	13.7	285,627	11.7
1-4 Family Residential	927,965	36.9	899,722	36.8
Non-Owner Occupied CRE	543,692	21.6	493,134	20.2
Owner Occupied CRE	195,861	7.8	214,189	8.8
Commercial and Industrial	337,180	13.3	361,791	14.8
Total loans held for investment at amortized cost	\$ 2,517,189	100.0 %	\$ 2,446,092	100.0 %
Loans accounted for under the fair value option ⁽²⁾	13,726		23,321	
Total loans held for investment	\$ 2,530,915		\$ 2,469,413	
Mortgage loans held for sale, at fair value ⁽³⁾	\$ 7,254		\$ 8,839	
Loans held for sale, at fair value	—		1,965	

⁽¹⁾ Includes PPP loans of \$4.2 million and \$6.9 million as of December 31, 2023 and 2022, respectively.

⁽²⁾ Includes \$14.1 million and \$23.4 million of unpaid principal balance of loans held for investment accounted for under the fair value option loans as of December 31, 2023 and 2022, respectively.

⁽³⁾ Includes \$7.1 million and \$8.8 million of unpaid principal balance of mortgage loans held for sale as of December 31, 2023 and 2022, respectively.

- *Cash, Securities and Other*—consists of consumer and commercial purpose loans that are primarily secured by securities managed and under custody with us, cash on deposit with us or life insurance policies. In addition, loans in this portfolio are collateralized with other sources of collateral. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment. PPP loans that are fully guaranteed by the SBA are classified within this line item and had balances of \$4.2 million and \$6.9 million as of December 31, 2023 and 2022, respectively.
- *Consumer and Other*—consists of unsecured consumer loans. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment. Loans held for investment accounted for under the fair value option are also classified within this line item and had an unpaid principal balance of \$14.1 million and \$23.4 million as of December 31, 2023 and December 31, 2022, respectively.
- *Construction and Development*—consists of loans to finance the construction of residential and non-residential properties. These loans are dependent on the strength of the industries of the related borrowers and the risks consistent with construction projects.
- *1-4 Family Residential*—consists of loans and home equity lines of credit secured by 1-4 family residential properties. These loans typically enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. In addition, some borrowers secure a commercial purpose loan with owner occupied or non-owner occupied 1-4 family residential properties. Loans in this segment are dependent on the industries tied to these loans as well as the national and local economies, and local residential and commercial real estate markets.
- *Commercial Real Estate, Owner Occupied and Non-Owner Occupied*—consists of commercial loans collateralized by real estate. These loans may be collateralized by owner occupied or non-owner occupied real estate, as well as multi-family residential real estate. These loans are dependent on the strength of the industries of the related borrowers and the success of their businesses.

- *Commercial and Industrial*—consists of commercial and industrial loans, including working capital lines of credit, permanent working capital term loans, business asset loans, acquisition, expansion and development loans, and other loan products, primarily in our target markets. This portfolio primarily consists of term loans and lines of credit which are dependent on the strength of the industries of the related borrowers and the success of their businesses. MSLP loans of \$5.1 million and \$5.9 million as of December 31, 2023 and 2022, respectively, are included in this category.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range, excluding deferred fees, and unamortized premiums/(unaccreted discounts), as of the dates noted, are summarized in the following tables:

As of December 31, 2023					
(Dollars in thousands)	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities, and Other	\$ 70,558 ⁽¹⁾	\$ 67,101 ⁽¹⁾	\$ 1,611	\$ 677	\$ 139,947
Consumer and Other	18,425	6,175	1,206	1,222	27,028
Construction and Development	106,993	180,210	51,253	7,060	345,516
1-4 Family Residential	43,275	172,349	34,053	678,288	927,965
Non-Owner Occupied CRE	34,328	334,516	161,669	13,179	543,692
Owner Occupied CRE	13,491	93,844	79,610	8,916	195,861
Commercial and Industrial	120,061	187,240	29,879	—	337,180
Total loans	\$ 407,131	\$ 1,041,435	\$ 359,281	\$ 709,342	\$ 2,517,189
Loans accounted for under the fair value option	105	13,163	458	—	13,726
Total loans	\$ 407,236	\$ 1,054,598	\$ 359,739	\$ 709,342	\$ 2,530,915
Amounts with fixed rates	141,485	699,578	235,132	23,903	1,100,098
Amounts with floating rates	265,751	355,020	124,607	685,439	1,430,817
Total loans	\$ 407,236	\$ 1,054,598	\$ 359,739	\$ 709,342	\$ 2,530,915

⁽¹⁾ Includes PPP loans.

As of December 31, 2022					
(Dollars in thousands)	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities, and Other	\$ 58,461 ⁽¹⁾	\$ 104,848 ⁽¹⁾	\$ 1,565	\$ 685	\$ 165,559
Consumer and Other	16,955	6,570	1,495	1,050	26,070
Construction and Development	71,046	199,632	14,694	255	285,627
1-4 Family Residential	25,862	179,207	34,205	660,448	899,722
Non-Owner Occupied CRE	34,341	258,327	185,297	15,169	493,134
Owner Occupied CRE	6,427	81,499	114,734	11,529	214,189
Commercial and Industrial	94,513	218,043	49,235	—	361,791
Total loans	\$ 307,605	\$ 1,048,126	\$ 401,225	\$ 689,136	\$ 2,446,092
Loans accounted for under the fair value option	17	22,563	741	—	23,321
Total loans	\$ 307,622	\$ 1,070,689	\$ 401,966	\$ 689,136	\$ 2,469,413
Amounts with fixed rates	126,298	505,084	202,062	86,872	920,316
Amounts with floating rates	181,324	565,605	199,904	602,264	1,549,097
Total loans	\$ 307,622	\$ 1,070,689	\$ 401,966	\$ 689,136	\$ 2,469,413

⁽¹⁾ Includes PPP loans.

Loan Modifications

On January 1, 2023 the Company adopted ASU 2022-02, which introduces new reporting requirements for modifications of loans to borrowers experiencing financial difficulty. GAAP requires that certain types of modifications of loans in response to a borrower's financial difficulty be reported and include the following; (i) principal forgiveness, (ii) interest rate reduction, (iii) other than insignificant payment delay, (iv) term extension, or (v) any combination of the foregoing. ASU 2022-02 eliminates the recognition measurement guidance for troubled debt restructured ("TDR") loans, and instead requires an entity to evaluate whether a modification represents a new loan or a continuation of an existing loan in accordance with ASC Topic 310-20, Receivables - Nonrefundable Fees and Other Costs. If a modification results in a new loan under the guidance, the Company will recognize any unearned deferred net revenue and measure the ACL on the loan on a collective basis rather than individually analyzed.

As a result of the COVID-19 pandemic, a loan modification program was designed and implemented to assist our clients experiencing financial stress resulting from the economic impacts caused by the global pandemic. The Company offered loan extensions, temporary payment moratoriums, and financial covenant waivers for commercial and consumer borrowers impacted by the pandemic who had a pass risk rating and had not been delinquent over 30 days on payments in the last two years.

In 2021, the deferral period ended for all non-acquired loans previously modified and payments resumed under the original terms. As of December 31, 2023, the Company's loan portfolio included 41 non-acquired loans which were previously modified under the loan modification program, totaling \$71.3 million. Through the Teton acquisition, the Company acquired loans which were previously modified and are still in their deferral period. As of December 31, 2023, there were 14 of these loans, totaling \$2.9 million.

All loans modified in response to COVID-19 are classified as performing and pass rated as of December 31, 2023. Non-acquired COVID modified loans are included in the allowance for credit losses. Management has increased our loan level reviews and portfolio monitoring to address the changing environment. Management believes the diversity of the loan portfolio is prudent and remains consistent with the credit culture and goals of the Bank.

Interest accrued during the modification term on modified loans is deferred to the end of the loan term. Interest receivable is excluded from the estimate of credit losses.

The following table presents the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023, disaggregated by class of financing receivable and type of concession granted during the period. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable

<i>(Dollars in thousands)</i>	Principal forgiveness	Interest rate reduction	Term extension	Combination: term extension and principal forgiveness	Combination: term extension and interest rate reduction	Total class of financing receivable
Commercial and Industrial	\$ —	\$ —	\$ 2,123	\$ 183	\$ —	0.7 %
Total	\$ —	\$ —	\$ 2,123	\$ 183	\$ —	

The following table presents the financial effect by type of modification made to borrowers experiencing financial difficulty for the period ended December 31, 2023:

<i>(Dollars in thousands)</i>	Principal forgiveness	Interest rate reduction	Term extension
Commercial and Industrial	Reduced the amortized cost basis of the loan by \$185 thousand	—	Added a weighted-average 2.8 years to the life of the loan, which reduced monthly payment amounts for the borrower
Commercial and Industrial	—	—	Six months of interest payments were deferred to the maturity of the loan. Principal payment of \$988 thousand was deferred 0.6 years
Commercial and Industrial	—	—	Added a weighted-average 0.5 years to the life of the loan

Non-Performing Assets

Non-performing assets include non-accrual loans and OREO. The accrual of interest on loans is discontinued at the time the loan becomes 90 or more days delinquent unless the loan is well secured and in the process of collection or renewal due to maturity. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off if collection of interest or principal is considered doubtful.

OREO represents assets acquired through, or in lieu of, foreclosure. The amounts reported as OREO are supported by recent appraisals, with the appraised values adjusted, where applicable, for expected transaction fees likely to be incurred upon sale of the property. We incur recurring expenses relating to OREO in the form of maintenance, taxes, insurance and legal fees, among others, until the OREO parcel is disposed. While disposition efforts with respect to our OREO are generally ongoing, if these properties are appraised at lower-than-expected values or if we are unable to sell the properties at the prices for which we expect to be able to sell them, we may incur additional losses. During the year ended December 31, 2022, we recorded \$0.4 million of OREO as a result of obtaining physical possession of a foreclosed property as partial consideration for amounts owed on a collateral dependent loan. We sold the property during the year ended December 31, 2022, resulting in an immaterial gain. As of December 31, 2023 and December 31, 2022, we did not own any OREO properties.

The amount of lost interest for non-accrual loans was \$6.4 million and \$0.2 million for each of the years ended December 31, 2023 and 2022, respectively. The Company recorded \$8.8 million and \$0.2 million of charge-offs, net of recoveries, during the year ended December 31, 2023 and December 31, 2022, respectively.

We had amortized cost of \$50.8 million and \$12.1 million in non-performing assets as of December 31, 2023 and December 31, 2022, respectively. The increase in non-performing assets is primarily related to the addition of \$42.2 million in loans, under one relationship, during the third quarter of 2023.

The following presents the amortized cost basis of non-performing loans as of the dates indicated:

(Dollars in thousands)	As of December 31,	
	2023	2022
Non-accrual loans by category		
Cash, Securities, and Other	\$ 1,704	\$ 4
Consumer and Other	7,504	5
Construction and Development	2,719	201
1-4 Family Residential	3,016	—
Owner Occupied CRE	3,980	1,165
Commercial and Industrial	31,893	10,762
Total non-accrual loans	50,816	12,137
Total non-performing assets	\$ 50,816	\$ 12,137
Non-accrual loans to total loans ⁽¹⁾	2.02 %	0.50 %
Non-performing assets to total assets	1.71 %	0.43 %
Allowance for credit losses to non-accrual loans ⁽²⁾	47.09 %	139.14 %
Accruing loans 90 or more days past due	\$ 285	\$ 25

⁽¹⁾ Excludes mortgage loans held for sale of \$7.3 million and \$8.8 million as of December 31, 2023 and 2022, respectively. Excludes \$14.1 million and \$23.4 million of unpaid principal balance of loans held for investment accounted for under the fair value option as of December 31, 2023 and 2022, respectively.

⁽²⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

Credit Quality Indicators

We categorize loans into risk categories based on relevant information about the ability of the borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans by credit risk on a quarterly basis, which are segregated into the following definitions for risk ratings:

Special Mention—Loans categorized as special mention have a potential weakness or borrowing relationships that require more than the usual amount of management attention. Adverse industry conditions, deteriorating financial conditions, declining trends, management problems, documentation deficiencies, or other similar weaknesses may be evident. Ability to meet current payment schedules may be questionable, even though interest and principal are still being paid as agreed. The asset has potential weaknesses that may result in deteriorating repayment prospects if left uncorrected. Loans in this risk grade are not considered adversely classified.

Substandard—Substandard loans are considered "classified" and are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans in this category may be placed on non-accrual status and may individually be evaluated.

Doubtful—Loans graded doubtful are considered "classified" and 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 known facts, conditions, and values, highly questionable and improbable. However, the amount or certainty of eventual loss is not known because of specific pending factors.

Loans accounted for under the fair value option are not rated.

Loans not meeting any of the three criteria above are considered to be pass-rated loans.

As of December 31, 2023 and December 31, 2022, non-performing loans of \$50.8 million and \$12.1 million, respectively, were included in the substandard category in the table below. The following presents the amortized cost basis of loans by credit quality indicator, by class of financing receivable, as of the dates noted:

As of December 31, 2023						
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Cash, Securities, and Other ⁽¹⁾	\$ 138,243	\$ —	\$ 1,704	\$ —	\$ —	\$ 139,947
Consumer and Other ⁽²⁾	19,528	—	7,500	—	13,726	40,754
Construction and Development	328,454	14,343	2,719	—	—	345,516
1-4 Family Residential	924,949	—	3,016	—	—	927,965
Non-Owner Occupied CRE	538,693	4,999	—	—	—	543,692
Owner Occupied CRE	191,881	—	3,980	—	—	195,861
Commercial and Industrial	302,276	649	34,255	—	—	337,180
Total	\$ 2,444,024	\$ 19,991	\$ 53,174	\$ —	\$ 13,726	\$ 2,530,915

As of December 31, 2022						
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Cash, Securities and Other ⁽¹⁾	\$ 165,555	\$ —	\$ 4	\$ —	\$ —	\$ 165,559
Consumer and Other ⁽²⁾	26,065	—	5	—	23,321	49,391
Construction and Development	285,426	—	201	—	—	285,627
1-4 Family Residential	899,722	—	—	—	—	899,722
Non-Owner Occupied CRE	493,134	—	—	—	—	493,134
Owner Occupied CRE	213,024	—	1,165	—	—	214,189
Commercial and Industrial	348,844	2,185	10,762	—	—	361,791
Total	\$ 2,431,770	\$ 2,185	\$ 12,137	\$ —	\$ 23,321	\$ 2,469,413

⁽¹⁾ Includes PPP loans of \$4.2 million and \$6.9 million as of December 31, 2023 and 2022, respectively.

⁽²⁾ Includes \$13.7 million and \$23.3 million of loans held for investment accounted for under fair value option as of December 31, 2023 and 2022, respectively.

Allowance for Credit Losses on Loans

On January 1, 2023, the Company adopted the new CECL standard, ASU 2016-13, using the modified retrospective method for all financial assets measured at amortized cost. Reporting periods beginning after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Beginning January 1, 2023, the allowance for credit losses for loans is measured on the loan's amortized cost basis, excluding interest receivable. Interest receivable excluded at December 31, 2023 and December 31, 2022 was \$10.8 million and \$9.8 million, respectively.

The allowance for credit losses ("ACL") is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The ACL excludes loans held for sale and loans accounted for under the fair value option. The Company elected to not measure an ACL for accrued interest receivables, as we write off applicable accrued interest receivable balances in a timely manner when a loan is placed on non-accrual status, in which any accrued but uncollected interest is reversed from current income. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management estimates the allowance balance using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Actual Company and regional peer historical credit loss experience provides the basis for the estimation of expected credit losses. The Company identified and grouped portfolio segments based on risk characteristics and underlying collateral. The call code for each financial asset type was assessed and, where appropriate, expanded for certain call codes into separate segments based on risk characteristics.

CECL requires an allowance for credit losses on all portfolio loans including purchased loans without credit deterioration. As of December 31, 2023, the Company held \$208.2 million in acquired loans with \$2.0 million in allowance for credit losses as well as \$3.9 million in unamortized discounts.

ACL for pooled loans are estimated using a discounted cash flow ("DCF") methodology using the amortized cost basis (excluding interest) for all loans modeled within a performing pool of loans. The DCF analysis pairs loan-level term information, for example, maturity date, payment amount, interest rate, with top-down pool assumptions such as default rates, prepayment speeds, to produce individual expected cash flows for every instrument in the segment. The results are then aggregated to produce segment level results and reserve requirements for each segment.

The quantitative DCF model also incorporates forward-looking macroeconomic information over a reasonable and supportable period of four quarters. Subsequent to the four quarter period, the Company reverts to its historical loss rate and historical prepayment and curtailment speeds on a straight-line basis over a four quarter reversion period.

The Company applies qualitative factors to capture losses that are expected but may not be adequately reflected in the quantitative model described above. Qualitative adjustments are made based on management's assessment of the risks that may lead to a future credit loss or differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, changes in environmental and economic conditions, or other relevant factors.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pooled loan evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

ACL - held-to-maturity securities: Held-to maturity securities are carried at amortized cost when management has the positive intent and ability to hold them to maturity. The majority of our held-to-maturity investment portfolio consists of securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. With respect to these securities, we consider the risk of credit loss to be zero and, therefore, we do not record an ACL for these securities. The Company's non-government backed securities include private label CMO and MBS and bank subordinated debt. Private label refers to private institutions such as brokerage firms, banks, and home builders, that also securitize mortgages.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: Corporate bonds and Corporate CMO.

ACL - off-balance sheet credit exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments. The loss rates used are calculated using the same assumptions as the associated funded balance.

The ACL represents Management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectibility over the loans' contractual terms, adjusted for expected prepayments when appropriate. Our quantitative discounted cash flow models use economic forecasts including; housing price index ("HPI"), gross domestic product ("GDP"), and national unemployment. The HPI, GDP, and unemployment twelve month forecasts used in our model as of December 31, 2023 is based on a slightly improved macro-economic forecast assuming a soft landing as compared to assumptions previously used as of January 1, 2023 projecting the likelihood of a deeper recession. As a result, we forecasted decreased probability of default rates and loss given default rates which in turn reduced our model loss rates, partially offset by loan growth and changes in our segment mix, resulting in a \$0.5 million release of provision on pooled loans for the year ended December 31, 2023. The allowance on credit losses on non-performing loans was \$3.8 million as of December 31, 2023.

The following presents summary information regarding our allowance for credit losses for the periods presented:

(Dollars in thousands)	Year Ended December 31,	
	2023	2022
Average loans outstanding ⁽¹⁾⁽²⁾	\$ 2,479,175	\$ 2,138,712
Total loans outstanding at end of period ⁽³⁾	\$ 2,517,189	\$ 2,446,092
Allowance for credit losses at beginning of period	\$ 17,183	\$ 13,732
Impact of adopting ASU 2016-13	3,470	
Provision for credit losses ⁽⁴⁾	12,077	3,682
Charge-offs:		
Cash, Securities, and Other	—	(1)
Consumer and Other	(101)	(262)
Construction and Development	—	—
1-4 Family Residential	—	—
Non-Owner Occupied CRE	—	—
Owner Occupied CRE	—	—
Commercial and Industrial	(8,737)	(71)
Total charge-offs	(8,838)	(334)
Recoveries:		
Cash, Securities, and Other	—	—
Consumer and Other	22	103
Construction and Development	—	—
1-4 Family Residential	13	—
Non-Owner Occupied CRE	—	—
Owner Occupied CRE	—	—
Commercial and Industrial	4	—
Total recoveries	39	103
Net (charge-offs) recoveries	(8,799)	(231)
Allowance for credit losses at end of period	\$ 23,931	\$ 17,183
Allowance for credit losses to total loans ⁽⁴⁾	0.95 %	0.70 %
Net charge-offs to average loans	0.35	—

⁽¹⁾ Average balances are average daily balances.

⁽²⁾ Excludes average outstanding balances of mortgage loans held for sale of \$11.5 million and \$15.6 million for the years ended December 31, 2023 and 2022, respectively. Excludes average outstanding balances of loans held for investment accounted for under the fair value option of \$18.5 million and \$15.5 million for the years ended December 31, 2023 and 2022, respectively.

⁽³⁾ Excludes mortgage loans held for sale of \$7.3 million and \$8.8 million as of December 31, 2023 and 2022, respectively. Includes \$4.0 million and \$7.1 million in bank originated PPP loans as of December 31, 2023 and 2022, respectively, and \$0.3 million and \$0.7 million of acquired PPP loans as of December 31, 2023 and 2022, respectively. Excludes \$14.1 million and \$23.4 million of unpaid principal balance of loans held for investment accounted for under the fair value option as of December 31, 2023 and 2022, respectively.

⁽⁴⁾ Allowance for credit loss amounts for periods prior to the ASU 2016-13 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

The following represents the allocation of the allowance for credit losses among loan categories and other summary information. The allocation for credit losses by category should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions. The allocation of a portion of the allowance for credit losses to one category of loans does not preclude its availability to absorb losses in other categories.

(Dollars in thousands)	As of December 31,			
	2023		2022	
	Amount	% ⁽²⁾	Amount ⁽¹⁾	% ⁽²⁾
Cash, Securities and Other	\$ 961	5.6 %	\$ 1,198	6.7 %
Consumer and Other	124	1.1	191	1.0
Construction and Development	7,945	13.7	2,025	11.7
1-4 Family Residential	4,370	36.9	6,309	36.8
Non-Owner Occupied CRE	2,325	21.6	3,490	20.2
Owner Occupied CRE	1,034	7.8	1,510	8.8
Commercial and Industrial	7,172	13.3	2,460	14.8
Total allowance for credit losses	\$ 23,931	100.0 %	\$ 17,183	100.0 %

⁽¹⁾ Allowance for credit loss amounts for periods prior to the ASU 2016-13 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

⁽²⁾ Represents the percentage of loans to total loans in the respective category.

Allowance for credit losses - off-balance sheet credit exposure

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments. The loss rates used are calculated using the same assumptions as the associated funded balance. Refer above for changes in the factors that influenced the current estimate of ACL and reasons for the changes. The following table presents the changes in the ACL on unfunded loan commitments:

	December 31, 2023	
	Amount	%
Beginning balance	\$ 419	19.2 %
Impact of adopting ASU 2016-13	3,481	159.8
(Release) provision for credit losses	(1,722)	(79.1)
Ending balance	\$ 2,178	100.0 %

Deferred Tax Assets, Net

Deferred tax assets, net of our valuation allowance, represent the differences in timing of when items are recognized for GAAP purposes and when they are recognized for tax purposes, as well as our net operating losses. Our deferred tax assets, net, are valued based on the amounts that are expected to be recovered in the future utilizing the tax rates in effect at the time recognized. Our deferred tax assets, net for the year ended December 31, 2023, increased \$0.5 million from December 31, 2022.

Deposits

Our deposit products include money market accounts, demand deposit accounts, time-deposit accounts (typically certificates of deposit), NOW accounts (interest checking accounts), and saving accounts. Our accounts are federally insured by the FDIC up to the legal maximum amount.

Total deposits increased by \$123.8 million, or 5.1%, to \$2.53 billion as of December 31, 2023 from December 31, 2022. The increase was driven primarily by new and expanded relationships. Total average deposits for the year ended December 31, 2023 were \$2.36 billion, an increase of \$140.5 million, or 6.3%, compared to \$2.22 billion as of December 31, 2022.

The following table presents the average balances and average rates paid on deposits during the periods presented:

(Dollars in thousands)	For the Year Ended December 31,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
Deposits				
Money market deposit accounts	\$ 1,296,139	3.86 %	\$ 1,060,258	1.00 %
NOW accounts	177,522	0.38	297,134	0.18
Uninsured time deposits	63,813	3.68	52,457	1.26
Other time deposits	297,286	4.16	112,967	1.12
Total time deposits	361,099	4.08	165,424	1.16
Savings accounts	19,257	0.06	30,942	0.04
Total interest-bearing deposits	1,854,017	3.53	1,553,758	0.84
Noninterest-bearing accounts	510,506		670,299	
Total deposits	\$ 2,364,523	2.77 %	\$ 2,224,057	0.59 %

Average noninterest-bearing deposits to average total deposits was 21.6% and 30.1% for the years ended December 31, 2023 and 2022, respectively.

Our average cost of funds was 2.92% and 0.73% during the years ended December 31, 2023 and 2022, respectively. The increase in cost of funds was primarily driven by increased rates on interest-bearing deposit accounts and borrowings due to the rising rate environment, a highly competitive deposit market, and an increase in short-term borrowings which provided additional liquidity for funding the growth in the balance sheet.

Total money market accounts as of December 31, 2023 were \$1.39 billion, an increase of \$50.1 million, or 3.7%, compared to \$1.34 billion as of December 31, 2022. NOW accounts decreased \$87.3 million, or 37.2%, to \$147.5 million compared to December 31, 2022.

Total time deposits as of December 31, 2023 were \$496.5 million, an increase of \$272.4 million, or 121.5%, compared to December 31, 2022.

The following table presents the amount of certificates of deposit by time remaining until maturity as of December 31, 2023:

(Dollars in thousands)	Three Months or Less	Three to Six Months	Six to 12 Months	After 12 Months	Total
Uninsured Time Deposits	\$ 37,774	\$ 26,227	\$ 26,085	\$ 3,770	\$ 93,856
Other	133,218	107,907	83,402	78,069	402,596
Total	\$ 170,992	\$ 134,134	\$ 109,487	\$ 81,839	\$ 496,452

Borrowings

We have short-term and long-term borrowing sources available to supplement deposits and meet our liquidity needs. As of December 31, 2023 and December 31, 2022, borrowings totaled \$178.1 million and \$199.0 million, respectively. On January 1, 2022, the Company redeemed subordinated notes due December 31, 2026 in the amount of \$6.6 million, which were redeemable on or after January 1, 2022. On December 5, 2022, the Company completed the issuance and sale of subordinated notes totaling \$20.0 million in aggregate principal amount. The issuance included \$0.5 million of issuance costs resulting in a net balance of \$19.5 million as of December 31, 2022.

On March 12, 2023 the Federal Reserve Board announced it would make additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of depositors made available through the creation of a new Bank Term Funding Program ("BTFP"). The BTFP is meant to be an additional resource of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress. As of December 31, 2023, the Company has pledged a par value of \$44.3 million in securities under the BTFP and borrowed \$31.0 million with a maturity date of March 27, 2024. The rate for the borrowings is based on the one year overnight swap rate plus 10 basis points but no lower than the interest rate on reserve balances in effect on the day the loan is made and is fixed over the term of the advance based on the date of the advance.

The decrease in other borrowings is primarily attributed to a decline in FHLB borrowing reliance as a result of increased deposits. Additionally, attributable to the paydown of loans in the Paycheck Protection Program Loan Facility ("PPPLF") from the Federal Reserve with a year end balance of \$3.5 million. Borrowing from the PPPLF facility is expected to trend in the same direction as the PPP loan balances. The following table presents balances of each of the borrowing facilities as of the dates noted:

(Dollars in thousands)	December 31,	
	2023	2022
Borrowings		
FHLB borrowings	\$ 91,175	\$ 141,498
Federal Reserve borrowings	34,536	5,388
Subordinated notes	52,340	52,132
Total	\$ 178,051	\$ 199,018

FHLB

We have a blanket pledge and security agreement with FHLB that requires certain loans and securities to be pledged as collateral for any outstanding borrowings under the agreement. The collateral pledged as of December 31, 2023 and December 31, 2022 amounted to \$1.31 billion and \$1.26 billion, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow an additional \$656.6 million as of December 31, 2023.

(Dollars in thousands)	As of and for the Year Ended December 31,	
	2023	
Short-term borrowings		
Maximum outstanding at any month-end during the period	\$	343,100
Balance outstanding at end of period		91,175
Average outstanding during the period		102,184
Average interest rate during the period		5.08 %
Average interest rate at the end of the period		5.58

The Bank has borrowing capacity associated with two unsecured federal funds lines of credit up to \$10 million and \$19 million. As of December 31, 2023 and 2022, there were no amounts outstanding on any of the federal funds lines.

Our borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies. As of December 31, 2023 and December 31, 2022, the Company was in compliance with the covenant requirements.

Derivatives

Cash Flow Hedges: On March 21, 2023, the Company executed an interest rate swap with a notional amount that was designated as a cash flow hedge of certain Federal Home Loan Bank borrowings. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The swap hedges the benchmark index (SOFR) with a receive float/pay fixed swap for the period March 21, 2023 through April 1, 2026. The notional amount of the interest rate swap as of December 31, 2023 was \$50.0 million.

Derivatives Not Designated as Hedges: During the year ended December 31, 2023, the Company entered into interest rate swaps to offset interest rate exposure with its commercial and residential variable rate loan clients. Clients with variable rate loans may choose to enter into an interest rate swap to hedge the interest rate risk on the loan and effectively pay a fixed rate payment. The Company will simultaneously enter into an interest rate swap on the same underlying loan and notional amount to hedge risk on the fixed rate loan. The notional amount of interest rate swaps with its loan customers as of December 31, 2023 was \$30.3 million. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

Liquidity and Capital Resources

Liquidity resources primarily include interest-bearing and noninterest-bearing deposits which primarily contribute to our ability to raise funds to support asset growth, acquisitions, and meet deposit withdrawals and other payment obligations. Access to purchased funds primarily include the ability to borrow from FHLB, other correspondent banks and the use of brokered deposits.

The following table presents, during the periods shown, the composition of our funding sources and the average assets in which those funds are invested as a percentage of average total assets for the periods presented.

	Average Percentage for the Year Ended December 31,	
	2023	2022
Sources of Funds:		
Deposits:		
Noninterest-bearing	18.12 %	25.72 %
Interest-bearing	65.79	59.62
FHLB and Federal Reserve borrowings	4.71	3.72
Subordinated notes	1.85	1.31
Other liabilities	0.88	0.81
Shareholders' equity	8.65	8.82
Total	100.00 %	100.00 %
Uses of Funds:		
Total loans	87.21 %	81.49 %
Investment securities	2.81	2.84
Correspondent bank stock	0.29	0.19
Mortgage loans held for sale	0.41	0.60
Loans held at fair value	0.66	0.60
Interest-bearing deposits in other financial institutions	4.17	9.54
Federal funds sold	—	0.03
Noninterest-earning assets	4.45	4.71
Total	100.00 %	100.00 %
Average noninterest-bearing deposits to total average deposits	21.59 %	30.14 %
Average loans to total average deposits	104.85	96.16
Average interest-bearing deposits to total average deposits	78.41	69.86

Our primary source of funds is interest-bearing and noninterest-bearing deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future.

Capital Resources

Total shareholders' equity increased \$1.9 million, or 0.8%, to \$242.7 million as of December 31, 2023 compared to December 31, 2022. The increase is primarily due to net income.

On January 6, 2022, the Company filed a Form S-3 Registration Statement with the SEC providing that the Company may offer and sell from time to time, separately or together, in multiple series or in one or more offerings, any combination of common stock, preferred stock, debt securities, warrants, depository shares and units, up to a maximum aggregate offer price of \$100 million.

We are subject to various regulatory capital adequacy requirements at a consolidated level and the bank level. These requirements are administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Under capital adequacy guidelines and, additionally for banks, the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

Capital levels are viewed as important indicators of an institution's financial soundness by banking regulators. Generally, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. As of December 31, 2023 and December 31, 2022, our holding company and Bank were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized," for purposes of the prompt corrective action regulations. As we continue to grow our operations and maintain capital requirements, our regulatory capital levels may decrease depending on our level of earnings. We continue to monitor growth and control our capital activities in order to remain in compliance with all applicable regulatory capital standards.

The following table presents our regulatory capital ratios for the dates noted:

<i>(Dollars in thousands)</i>	December 31, 2023		December 31, 2022	
	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets				
Bank	\$ 244,390	10.54 %	\$ 234,738	10.29 %
Consolidated	218,150	9.40	212,229	9.28
CET1 to risk-weighted assets				
Bank	244,390	10.54	234,738	10.29
Consolidated	218,150	9.40	212,229	9.28
Total capital to risk-weighted assets				
Bank	265,391	11.45	252,398	11.06
Consolidated	292,151	12.59	282,889	12.37
Tier 1 capital to average assets				
Bank	244,390	8.71	234,738	8.65
Consolidated	218,150	7.77	212,229	7.81

Contractual Obligations and Off-Balance Sheet Arrangements

We enter into credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our clients. These financial instruments include 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. Commitments may expire without being utilized. Our exposure to credit loss is represented by the contractual amount of these commitments, although material losses are not anticipated. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

The following presents future contractual obligations to make future payments for the periods presented:

<i>(Dollars in thousands)</i>	As of December 31, 2023				
	1 Year or Less	More than 1 Year but Less than 3 Years	More than 3 Years but Less than 5 Years	5 Years or More	Total
FHLB and Federal Reserve	\$ 122,172	\$ —	\$ 3,539	\$ —	\$ 125,711
Subordinated notes	—	—	—	52,340 ⁽¹⁾	52,340
Time deposits	414,613	44,670	37,169	—	496,452
Minimum lease payments	3,506	4,165	2,429	1,436	11,536
Total	\$ 540,291	\$ 48,835	\$ 43,137	\$ 53,776	\$ 686,039

⁽¹⁾ Reflects contractual maturity dates of March 31, 2030, December 1, 2030, September 1, 2031, and December 15, 2032.

The following presents financial instruments whose contract amounts represent credit risk, as of the periods presented:

(Dollars in thousands)	December 31,		December 31,	
	2023		2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 86,398	\$ 540,255	\$ 211,285	\$ 601,202
Standby letters of credit	13,922	12,094	8,571	16,737
Commitments to make loans to sell	18,917	—	13,553	—
Commitments to make loans	5,275	7,115	20,895	81,663

We may enter into contracts for services in the conduct of ordinary business operations, which may require payment for services to be provided in the future and may contain penalty clauses for early termination of the contracts. We do not believe these off-balance sheet arrangements have or are reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. However, there can be no assurance that such arrangements will not have an effect on future operations.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and judgments that affect reported amounts of assets, liabilities, income, and expenses. We base estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Estimates are evaluated on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

We have identified our Allowance for Credit Losses ("ACL"), Goodwill, and Fair Value Measurement as being critical because our policies require management to use significant judgement and use subjective and complex measurements about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

Our accounting policies and procedures, including those identified as being critical, are described in further detail in Note 1 – Organization and Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements.

ACL: Our ACL policies govern the processes and procedures used to estimate potential for credit losses in our loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

ACL - loans: The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. We perform periodic and systematic detailed reviews of our loan portfolio to assess overall collectability. The level of the ACL on loans reflects our estimate of the losses expected in the loan portfolio over the assets' contractual term. As of December 31, 2023, the ACL had an ending balance of \$23.9 million compared to the prior year ending balance of \$17.2 million, which is prior to the adoption of ASU 2016-13.

The ACL is an estimate that is subject to uncertainty due to the various assumptions and judgments used in the estimation process. The estimate is based on our quantitative discounted cash flow models using economic forecasts including; HPI, GDP, and national unemployment. Potential changes in any one economic variable may or may not affect the overall allowance because a variety of economic variables and inputs are considered in estimating the allowance, and changes in those variables and inputs may not occur at the same rate, may not be consistent across product types and may have offsetting impacts to other changing variables and inputs.

Additionally, our ACL model adjusts for qualitative factors in addition to historical information and our economic forecast. Management considered factors that are likely to cause estimated credit losses and differ from historical loss experience. The factors management reviews include acquired loan underwriting, residential mortgage debt-to-income, macroeconomic factors, concentration of our loan portfolio, negative probability of default, classified loan trends, non-core loans, loan to value ratios, and CRE exposure.

See Note 4 – Loans and the Allowance For Credit Losses for further details of the factors considered by us in estimating the necessary level of the ACL for loans.

Goodwill: Goodwill represents the excess of purchase price over the fair value of net identifiable tangible and intangible assets acquired in business combinations. We have acquired other identifiable intangible assets, primarily consisting of customer relationships, non-competition agreements, and recorded goodwill through its acquisition of financial services companies.

We are required to assess our goodwill for impairment on an annual basis, or more frequently if deemed necessary. We have selected October 31 as the date to perform our annual impairment test. The test is performed at the reporting unit level by applying a fair value-based test using discounted estimated future net cash flows. Impairment exists when the carrying amount of the goodwill exceeds estimated fair values. The estimate is considered to have a low level of uncertainty unless a triggering event occurs. Events that may trigger goodwill impairment include deterioration in economic conditions, increased competitive environment, negative trends in overall financial performance, legal or regulatory proceedings, loss of key personnel, and change in strategy or sustained decreases in share value.

We performed a quantitative goodwill impairment test as of October 31, 2023 with the assistance of an independent third-party firm specializing in goodwill impairment valuations for financial institutions. The quantitative impairment testing involves management judgment, using widely accepted valuation techniques, such as the market approach (earnings multiples and/or transaction multiples) and the income approach (discounted cash flow ("DCF") method). In applying these methodologies, the Company utilizes several factors, including actual operating results, future business plans, economic projections and market data. The Company provided a five year forecast for the analysis based on the historical growth we have experienced, in addition, we provided a stressed scenario which forecasted growth using assumptions similar to the economic environment in 2023. Both scenarios produced an estimated fair value that exceeded the carrying value of goodwill. After the company recorded the impact of a loan related subsequent event, Management updated the Goodwill impairment analysis as of December 31, 2023.

Significant negative industry or economic trends, including declines in the market price of our stock, reduced estimates of future cash flows or business disruptions could result in impairments to goodwill in the future, which would result in recording an impairment loss. Any resulting impairment loss could have a material impact on our financial condition and results of operation. Management will continue evaluating the economic conditions at future reporting periods for triggering events.

Goodwill totaled \$30.4 million as of December 31, 2023 and 2022. As of December 31, 2023 and 2022, there has not been any impairment of goodwill identified or recorded. See Note 6 – Goodwill and Other Intangible Assets for further information on Goodwill.

Fair Value Measurements: 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. The amount of management judgement and uncertainty involved when determining the fair value of a financial instrument is dependent on the availability of quoted market prices or other observable inputs. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates. Items measured at fair value are classified as Level 1, Level 2, or Level 3 of the fair value hierarchy dependent on the amount of information available.

Financial assets and liabilities that we record at fair value on a reoccurring basis include equity securities, equity warrants, financial guarantee asset and liability, derivatives, mortgage related derivatives, loans held for investment accounted for under fair value, mortgage loans held for sale, and loans held for sale.

As of December 31, 2023, \$23.8 million or 0.80% of our total assets and \$1.1 million or 0.04%, of our total liabilities were recorded at fair value on a recurring basis. As of December 31, 2022, \$36.1 million or 1.26% of our total assets and none of our total liabilities were recorded at fair value on a recurring basis.

Additionally, other assets and liabilities may be recorded at fair value on a nonrecurring basis including Other Real Estate Owned ("OREO") or Collateral Dependent Loans. These typically result in Level 3 classification of the inputs for determining fair value. See Note 16 – Fair Value for further details on the estimates and assumptions used and assets and liabilities valued at fair measurements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity and Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in lending, investing and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. We do not have any market risk sensitive instruments entered into for trading purposes.

Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited within established guidelines of acceptable levels of risk-taking.

The board of directors monitors interest rate risk by analyzing the potential impact on the net economic value of equity and net interest income from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. We manage our balance sheet in part to maintain the potential impact on economic value of equity and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed at least quarterly by the board of directors. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the change in economic value of equity in the event of hypothetical changes in interest rates. If potential changes to net economic value of equity and net interest income resulting from hypothetical interest rate changes are not within the limits established by our board of directors, the board of directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

The following presents the sensitivity in net interest income and fair value of equity as of the dates indicated, using a parallel ramp scenario.

Change in Interest Rates (Basis Points)	As of December 31, 2023		As of December 31, 2022	
	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
200	(5.19)%	(11.03)%	(2.26)%	(9.99)%
100	(2.82)	(5.90)	(1.13)	(5.09)
Base	—	—	—	—
-100	2.38	3.16	1.08	2.07
-200	8.27	(5.27)	4.33	(4.27)

The model simulations as of December 31, 2023 imply that our balance sheet is more liability sensitive compared to our balance sheet as of December 31, 2022.

Although the simulation model is useful in identifying potential exposure to interest rate changes, actual results for net interest income and economic value of equity may differ. There are a variety of factors that can impact the outcomes such as timing and magnitude of interest rate changes, asset and liability mix, pre-payment speeds, deposit beta assumptions, and decay rates that differ from our projections. Additionally, the results do not account for actions implemented to manage our interest rate risk exposure.

Impact of Inflation

Our consolidated financial statements and related notes included within this Form 10-K have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Our assets and liabilities are substantially monetary in nature. Therefore, changes in interest rates can significantly impact our performance beyond the general effects of inflation. Interest rates do not necessarily move in the same direction or magnitude as prices of general goods and services, while other operating expenses can be correlated with the impact of general levels of inflation.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and accompanying notes, including the Report of Independent Registered Public Accounting Firm, are set forth on pages F-1 to F-61 of this Annual Report on Form 10-K.

Audited Financial Statements

Description	Page Number
Reports of Independent Registered Public Accounting Firm (PCAOB ID: 173)	F-1
Consolidated Balance Sheets as of December 31, 2023 and 2022	F-4
Consolidated Statements of Income for the Years Ended December 31, 2023 and 2022	F-5
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2023 and 2022	F-6
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2023 and 2022	F-7
Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and 2022	F-8
Notes to Consolidated Financial Statements	F-10

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors
First Western Financial, Inc.
Denver, Colorado

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Western Financial, Inc. (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2024 expressed an unqualified opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for allowance for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses ("ACL") on Loans – Modeling Techniques and Qualitative Adjustments

As disclosed in Notes 1 and 4 and the explanatory paragraph above, on January 1, 2023, the Company adopted ASC 326 which replaced the probable incurred loss methodology with a current expected credit loss ("CECL") methodology. As of January 1, 2023, the Company recorded a reduction in retained earnings, net of tax of \$5.3 million as a cumulative-effect adjustment using a modified retrospective approach. The cumulative effect adjustment for the ACL on loans was \$3.5

million. As of December 31, 2023, the Company's ACL on loans was \$23.9 million and provision for credit losses on loans was \$12.1 million for the year then ended.

The Company primarily uses a discounted cash flow ("DCF") methodology using the amortized cost method (excluding interest) to calculate the ACL on loans, which the Company has applied to identified loan segments with similar risk characteristics. The methodology incorporates loan-level information with pool-level assumptions to produce individual expected cash flows for each loan within a segment. The forecasted pool-level assumptions are impacted by a mix of macroeconomic factors not limited to, but including gross domestic product, national unemployment rates, and housing price indices. The modeling technique selected requires management to use significant judgment and use subjective and complex measurements about matters that are inherently uncertain. Changes in the assumptions used in the estimate may not occur at the same rate, may not be consistent in across product types, and may have offsetting impacts to other changing variables and inputs, which could have a material effect on the Company's financial results.

The Company also utilizes qualitative adjustments to account for credit losses that are not inherently considered in the quantitative analyses. These adjustments are subjectively selected by management and are based on factors that are likely to cause estimated credit losses that differ from historical loss experience.

The audit procedures performed over the modeling techniques used to develop the ACL model and qualitative adjustments have been identified as a critical audit matter due to the high degree of auditor judgment and significant audit effort including the use of internal credit and valuation specialists in evaluating the model due to its complexity.

Our audit procedures to address this critical audit matter primarily included the following:

- Tested the operating effectiveness of controls over the modeling techniques and qualitative adjustments used in the estimate for ACL on loans as of both adoption date of January 1, 2023 and as of December 31, 2023, including:
 - The Company's ACL committee's oversight and approval of management's application of accounting policies, selection and implementation of modeling techniques, and evaluation of qualitative adjustments determined by management.
 - The Company's ACL committee's review and approval of the qualitative adjustments used, and the relevance and reliability of the data used therein.
 - Management's controls over the completeness and accuracy of the data and reasonableness of such data utilized in the determination of ACL on loans.
 - Management's controls over third-party model validation and testing of model performance including the conceptual soundness and viability of the modeling techniques selected.
- Substantively tested management's application of the selected modeling techniques and qualitative adjustments used in the estimate for ACL on loans as of both adoption date of January 1, 2023 and as of December 31, 2023, including:
 - Evaluated the appropriateness of the accounting policies, modeling techniques employed, including but not limited to evaluating their conceptual soundness and evaluated the reasonableness of significant assumptions and judgments used the evaluation of ACL on loans.
 - Evaluated the reasonableness of management's assumptions and judgments used in the determination of the qualitative adjustments.
 - Evaluated the reliability and relevancy of data used as a basis for the qualitative adjustments.
 - Tested the completeness and accuracy of the data utilized in management's ACL methodology to derive the ACL on loans.
 - Utilized internal valuation services as specialists to assist in evaluating the model performance, including conceptual soundness and viability of the modeling techniques deployed in the Company's ACL model.

/s/ Crowe LLP

We have served as the Company's auditor since 2013.

Denver, Colorado
March 15, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors
First Western Financial, Inc.
Denver, Colorado

Opinion on Internal Control over Financial Reporting

We have audited First Western Financial Inc.'s (the "Company") internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements") and our report dated March 15, 2024 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe LLP

Denver, Colorado
March 15, 2024

FIRST WESTERN FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	December 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 7,284	\$ 4,926
Interest-bearing deposits in other financial institutions	247,158	191,586
Total cash and cash equivalents	254,442	196,512
Held-to-maturity securities, at amortized cost, net of allowance for credit losses of \$71 and \$0 (fair value of \$66,617 and \$74,718), respectively	74,102	81,056
Correspondent bank stock, at cost	7,155	7,110
Mortgage loans held for sale, at fair value	7,254	8,839
Loans held for sale, at fair value	—	1,965
Loans (includes \$13,726 and \$23,321 measured at fair value, respectively)	2,530,915	2,469,413
Allowance for credit losses ⁽¹⁾	(23,931)	(17,183)
Loans, net	2,506,984	2,452,230
Premises and equipment, net	25,256	25,118
Accrued interest receivable	11,428	10,445
Accounts receivable	5,095	4,873
Other receivables	4,467	1,973
Goodwill and other intangible assets, net	31,854	32,104
Deferred tax assets, net	6,407	6,914
Company-owned life insurance	16,530	16,152
Other assets	24,488	21,457
Total assets	\$ 2,975,462	\$ 2,866,748
Liabilities		
Deposits:		
Noninterest-bearing	\$ 482,579	\$ 583,092
Interest-bearing	2,046,460	1,822,137
Total deposits	2,529,039	2,405,229
Borrowings:		
Federal Home Loan Bank and Federal Reserve borrowings	125,711	146,886
Subordinated notes	52,340	52,132
Accrued interest payable	3,793	1,125
Other liabilities	21,841	20,512
Total liabilities	2,732,724	2,625,884
Shareholders' Equity		
Preferred stock - no par value; 10,000,000 shares authorized; 0 issued and outstanding	—	—
Common stock - no par value; 90,000,000 shares authorized; 9,581,183 and 9,495,440 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	—	—
Additional paid-in capital	192,894	190,494
Retained earnings	51,042	51,887
Accumulated other comprehensive loss	(1,198)	(1,517)
Total shareholders' equity	242,738	240,864
Total liabilities and shareholders' equity	\$ 2,975,462	\$ 2,866,748

⁽¹⁾ Allowance for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

See accompanying notes to consolidated financial statements.

FIRST WESTERN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Years Ended December 31,	
	2023	2022
Interest and dividend income:		
Loans, including fees	\$ 135,429	\$ 95,170
Loans accounted for under the fair value option	1,335	1,347
Investment securities	2,463	2,053
Interest-bearing deposits in other financial institutions	5,711	2,245
Dividends, restricted stock	620	381
Total interest and dividend income	145,558	101,196
Interest expense:		
Deposits	65,460	13,012
Other borrowed funds	8,993	4,258
Total interest expense	74,453	17,270
Net interest income	71,105	83,926
Less: Provision for credit losses ⁽¹⁾	10,355	3,682
Net interest income, after provision for credit losses	60,750	80,244
Non-interest income:		
Trust and investment management fees	18,788	18,943
Net gain on mortgage loans	2,826	4,584
Net loss on loans held for sale	(178)	(12)
Bank fees	2,022	2,660
Risk management and insurance fees	919	1,231
Income on company-owned life insurance	378	349
Net gain on equity interests	—	7
Net loss on loans accounted for under the fair value option	(2,010)	(891)
Unrealized (loss)/gain recognized on equity securities	(22)	342
Other	(775)	477
Total non-interest income	21,948	27,690
Total income before non-interest expense	82,698	107,934
Non-interest expense:		
Salaries and employee benefits	45,202	48,248
Occupancy and equipment	7,597	7,520
Professional services	7,638	7,896
Technology and information systems	3,497	4,462
Data processing	4,539	4,285
Marketing	1,540	1,888
Amortization of other intangible assets	250	308
Net gain on assets held for sale	—	(4)
Net gain on sale of other real estate owned	—	(44)
Other	5,374	4,547
Total non-interest expense	75,637	79,106
Income before income taxes	7,061	28,828
Income tax expense	1,836	7,130
Net income available to common shareholders	\$ 5,225	\$ 21,698
Earnings per common share:		
Basic	0.55	2.29
Diluted	0.54	2.23

⁽¹⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

See accompanying notes to consolidated financial statements.

FIRST WESTERN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,	
	2023	2022
Net income	\$ 5,225	\$ 21,698
Other comprehensive (loss)/income:		
Unrealized losses on available-for-sale securities	—	(2,591)
Income tax effect	—	638
Amortization of net unrealized loss for the reclassification of available-for-sale securities transferred to held-to-maturity included in interest income	354	283
Income tax effect	(93)	(70)
Unrealized gain on cash flow hedge	77	—
Income tax effect	(19)	—
Total other comprehensive income/(loss)	319	(1,740)
Comprehensive income	<u>\$ 5,544</u>	<u>\$ 19,958</u>

See accompanying notes to consolidated financial statements.

FIRST WESTERN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share amounts)

	Shares Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, January 1, 2022	9,419,271	\$ 188,629	\$ 30,189	\$ 223	\$ 219,041
Net income	—	—	21,698	—	21,698
Other comprehensive loss, net of tax and reclassifications	—	—	—	(1,740)	(1,740)
Settlement of share awards	67,860	(876)	—	—	(876)
Options exercised	8,309	179	—	—	179
Stock-based compensation	—	2,562	—	—	2,562
Balance, December 31, 2022	9,495,440	\$ 190,494	\$ 51,887	\$ (1,517)	\$ 240,864
Cumulative change in accounting principle ⁽¹⁾	—	—	(5,319)	—	(5,319)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	9,495,440	190,494	46,568	(1,517)	235,545
Net income	—	—	5,225	—	5,225
Other comprehensive income, net of tax and reclassifications	—	—	—	319	319
Dissolution of RSI entity	—	751	(751)	—	—
Settlement of share awards	73,483	(439)	—	—	(439)
Options exercised	12,260	245	—	—	245
Stock-based compensation	—	1,843	—	—	1,843
Balance, December 31, 2023	9,581,183	\$ 192,894	\$ 51,042	\$ (1,198)	\$ 242,738

⁽¹⁾ Refer to Note 1 – Organization and Summary of Significant Accounting Policies for further information

See accompanying notes to consolidated financial statements.

FIRST WESTERN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 5,225	\$ 21,698
Adjustments to reconcile net income to net cash used in operating activities:		
Net amortization of investment securities	(14)	130
Stock dividends received on correspondent bank stock	(620)	(381)
Provision for credit losses ⁽¹⁾	10,355	3,682
Loss on loans held for sale	178	12
Net gain on mortgage loans	(2,826)	(4,584)
Origination of mortgage loans held for sale	(276,045)	(439,682)
Proceeds from mortgage loans	280,462	466,988
Loss/(Gain) on disposal of fixed assets	8	(21)
Depreciation and amortization	2,377	2,012
Net amortization of purchase accounting adjustments	457	55
Deferred income tax expense	2,057	557
Increase in cash surrender value of company-owned life insurance	(378)	(349)
Stock-based compensation	1,843	2,562
Gain on assets held for sale	—	(4)
Gain on sale of other real estate owned	—	(44)
Change in fair value of equity securities	22	(342)
Change in fair value of loans accounted for under the fair value option	2,010	891
Net changes in operating assets and liabilities:		
Change in accounts receivable	(307)	426
Change in accrued interest receivable and other assets	(4,513)	(3,647)
Change in accrued interest payable and other liabilities	1,589	(1,681)
Net cash provided by operating activities	21,880	48,278
Cash flows from investing activities		
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	—	3,218
Purchases	—	(9,000)
Activity in held-to-maturity securities:		
Maturities, prepayments, and calls	7,243	9,040
Purchases	—	(31,189)
Purchases of correspondent bank stock	(40,819)	(13,999)
Redemption of correspondent bank stock	41,394	9,854
Contributions to low-income housing tax credit investments	(1,140)	(214)
Loan and note receivable originations and principal collections, net	(110,151)	(487,973)
Purchases of premises and equipment	(2,347)	(2,967)
Proceeds from loans held for sale previously classified as loans held for investment	40,602	—
Purchase of loans	(1,173)	(36,115)
Proceeds from sale of assets held for sale	—	125
Proceeds from sale of other real estate owned	—	422
Net cash used in investing activities	(66,391)	(558,798)
Cash flows from financing activities		
Net change in deposits	123,810	199,555
Payments to Federal Home Loan Bank borrowings	(1,572,743)	(545,920)
Proceeds from Federal Home Loan Bank borrowings	1,482,419	677,418
Payments to Federal Reserve borrowings	(292,511)	(23,241)
Proceeds from Federal Reserve borrowings	361,660	—
Payments on subordinated notes	—	(6,575)
Proceeds from subordinated notes, net of issuance costs	—	19,509
Proceeds from the exercise of stock options	245	179
Settlement of restricted stock	(439)	(876)
Net cash provided by financing activities	102,441	320,049
Net change in cash and cash equivalents	57,930	(190,471)
Cash and cash equivalents, beginning of year	196,512	386,983
Cash and cash equivalents, end of period	\$ 254,442	\$ 196,512

FIRST WESTERN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)
(in thousands)

Supplemental cash flow information:			
Interest paid on deposits and borrowed funds	\$	71,785	\$ 16,500
Income tax payment		2,907	5,242
Cash paid for lease liabilities		3,163	3,354
Supplemental noncash disclosures:			
Transfer of loans held for investment to loans held for sale		39,221	1,985
Adoption of ASU 2016-13, net of tax		5,319	—
Dissolution of RSI entity		751	—
Change in unrealized (loss)/gain on available-for-sale securities		—	(2,591)
Lease right-of-use-asset obtained in exchange for lease liabilities		2,992	801
Transfer of securities from available-for-sale to held-to-maturity		—	58,727
Transfer from loans to other real estate owned		—	378

⁽¹⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

See accompanying notes to consolidated financial statements.

FIRST WESTERN FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation: The consolidated financial statements include the accounts of First Western Financial, Inc. ("FWFI"), incorporated in Colorado on July 18, 2002, and its direct and indirect wholly-owned subsidiaries listed below (collectively referred to as the "Company," "we," "us," or "our").

FWFI is a bank holding company with financial holding company status registered with the Board of Governors of the Federal Reserve System. FWFI wholly owns the following subsidiary: First Western Trust Bank (the "Bank"). The Bank wholly owns First Western Merger Corporation ("Merger Corp."), which is therefore indirectly wholly-owned by FWFI. RRI, LLC ("RRI"), which was wholly owned by the Bank, was dissolved on February 3, 2023. Ryder, Stilwell Inc. ("RSI"), which was wholly owned by FWFI, was dissolved on March 21, 2023.

The Company provides a fully-integrated suite of wealth management services including private banking, personal trust, investment management, mortgage loans, and institutional asset management services to individual and corporate clients principally in Colorado (metro Denver, Aspen, Boulder, Fort Collins and Vail Valley), Arizona (Phoenix and Scottsdale), California (Century City), Montana (Bozeman), and Wyoming (Jackson Hole, Pinedale, and Rock Springs). The Company's revenues are generated from its full range of product offerings as noted above, but principally from net interest income (the interest income earned on the Bank's assets net of funding costs), fee-based wealth advisory, investment management, asset management and personal trust services, and net gains earned on mortgage loans.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for financial information, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), and where applicable, reporting practices prescribed for the banking and investment advisory industries.

Consolidation: The Company's policy is to consolidate all majority-owned subsidiaries in which it has a controlling financial interest and variable-interest entities where the Company is deemed to be the primary beneficiary. All material intercompany accounts and transactions have been eliminated in consolidation.

Business Combinations and Divestitures: Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total consideration transferred in connection with the acquisition is allocated to the tangible and intangible assets acquired, liabilities assumed, and any non-controlling interest in the acquired entity based on fair values. Goodwill acquired in connection with business combinations represents the excess of consideration transferred over the net tangible and identifiable intangible assets acquired. Certain assumptions and estimates are used in evaluating the fair value of assets acquired and liabilities assumed. These estimates may be affected by factors such as changing market conditions or changes in government regulations.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ. Information available which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, and changes in the financial condition of borrowers. Material estimates that are particularly susceptible to significant change include: the determination of the allowance for credit losses, the evaluation of goodwill impairment, and the fair value of financial instruments.

Concentration of Credit Risk: Most of the Company's lending activity is to clients located in and around metro Denver, Aspen, Fort Collins, Boulder, and Vail, Colorado; Phoenix and Scottsdale, Arizona; Bozeman, Montana; and Jackson, Pinedale, and Rock Springs, Wyoming. The Company does not believe it has significant concentrations in any one industry or customer. As of December 31, 2023 and December 31, 2022, 76.1% and 77.9%, respectively, of the Company's loan portfolio was secured by real estate collateral. Declines in real estate values in the primary markets the Company operates in could negatively impact the Company.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, deposits at other financial institutions with original maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Investment Securities: Investments we intend to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are recorded at fair value using current market information from a pricing service, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax. The carrying values of our investment securities classified as available-for-sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity.

Investments for which we have the intent and ability to hold to their maturity are classified as held-to-maturity securities and are recorded at amortized cost. Securities held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts using the level-yield method over the remaining period until maturity.

Equity mutual funds are recorded at fair value within the Other assets line of the Consolidated Balance Sheets with changes recorded in the Unrealized gain/(loss) recognized on equity securities line of the Consolidated Statements of Income.

The Company invests in projects to create affordable housing. These investments are classified as Other assets on the Consolidated Balance Sheets. Investments in affordable housing projects that qualify for low-income housing tax credits ("LIHTC") are accounted for using the proportional amortization method. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other benefits received and recognized as a component of applicable income tax expense in the Consolidated Statements of Income.

Net purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Prior to the adoption of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326) ("ASU 2016-13"), credit declines in the fair value of available-for-sale securities and held-to-maturity securities below their cost that are deemed to be other-than-temporary are recorded in earnings as realized losses in Non-interest income.

Held-to maturity securities are carried at amortized cost when management has the positive intent and ability to hold them to maturity. The majority of our held-to-maturity investment portfolio consists of securities issues by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. With respect to these securities, we consider the risk of credit loss to be zero and, therefore, we have elected the practical expedient to not record an ACL for these securities. The Company's non-government backed securities include private label CMO and MBS and bank subordinated debt. Private label refers to private institutions such as brokerage firms, banks, and home builders, that also securitize mortgages.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: Corporate bonds and Corporate CMO and MBS. Management reviewed the collectability of corporate CMO and MBS securities taking into consideration such factors as the asset quality of the corporate bond issuers and credit support and delinquencies associated with the corporate CMO and MBS.

Correspondent Bank Stock: Correspondent bank stock includes stock in the Federal Home Loan Bank of Topeka ("FHLB"), Federal Reserve Bank ("FRB"), and Bankers' Bank of the West ("BBW"), which are considered restricted securities because the Company may be required to hold the stock in order to maintain the correspondent banking relationship with these institutions. No ready market exists for the FHLB and FRB stock and therefore, no quoted market values exist. For financial reporting purposes, the FHLB and FRB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. The BBW stock is carried at fair value. No impairment was recorded as of December 31, 2023 and 2022. Both cash and stock dividends are reported as income when received.

Mortgage Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at fair value. Net unrealized losses, if any, are recorded and charged to earnings. Servicing rights are released when the associated mortgage loans are sold. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans the Company has the intent and ability to hold for the foreseeable future, until maturity, or until payoff are reported at their outstanding unpaid principal balances, adjusted for charge-offs and recoveries, net of deferred costs (fees) and unamortized premiums/(unaccrued discounts), and the allowance for credit losses. Interest income is accrued on unpaid principal balances. Fees received at origination, net of certain direct origination costs for providing loan commitments and letters of credit that result in loans, are deferred and amortized to interest income over the life of the related loan or until payoff, at which time the remaining unamortized fee is recorded as interest income. Fees, net of certain direct origination costs on commitments and letters of credit, are amortized to interest income over the commitment period.

The Company assigns a Credit Risk Rating ("CRR") to each loan in the portfolio. The Company's risk grading system is consistent with the grades used by regulatory agencies. The CRR is assessed whenever new information impacting the loan is received and factors impacting the CRR are not always related to financial metrics, including; industry, economy, management, competition and business model changes. The Company's risk ratings are summarized into the following categories; pass, special mention, substandard, and doubtful. See Note 4 - Loans and the Allowance for Credit Losses for definitions of these risk ratings. The following summarizes our loan portfolio by type of loan and the associated risks.

- *Cash, Securities and Other*—consists of consumer and commercial purpose loans that are primarily secured by securities managed and under custody with us, cash on deposit with us or life insurance policies. In addition, loans in this portfolio are collateralized with other sources of collateral. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment. PPP loans that are fully guaranteed by the SBA are classified within this line item and had balances of \$4.2 million and \$6.9 million as of December 31, 2023 and 2022, respectively.
- *Consumer and Other*—consists of unsecured consumer loans. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment. Loans held for investment accounted for under the fair value option are also classified within this line item and had an unpaid principal balance of \$14.1 million and \$23.4 million as of December 31, 2023 and December 31, 2022, respectively.
- *Construction and Development*—consists of loans to finance the construction of residential and non-residential properties. These loans are dependent on the strength of the industries of the related borrowers and the risks consistent with construction projects.
- *1-4 Family Residential*—consists of loans and home equity lines of credit secured by 1-4 family residential properties. These loans typically enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. In addition, some borrowers secure a commercial purpose loan with owner occupied or non-owner occupied 1-4 family residential properties. Loans in this segment are dependent on the industries tied to these loans as well as the national and local economies, and local residential and commercial real estate markets.
- *Commercial Real Estate, Owner Occupied and Non-Owner Occupied*—consists of commercial loans collateralized by real estate. These loans may be collateralized by owner occupied or non-owner occupied real estate, as well as multi-family residential real estate. These loans are dependent on the strength of the industries of the related borrowers and the success of their businesses.
- *Commercial and Industrial*—consists of commercial and industrial loans, including working capital lines of credit, permanent working capital term loans, business asset loans, acquisition, expansion and development loans, and other loan products, primarily in our target markets. This portfolio primarily consists of term loans and lines of credit which are dependent on the strength of the industries of the related borrowers and the success of their businesses. MSLP loans of \$5.1 million and \$5.9 million as of December 31, 2023 and 2022, respectively, are included in this category.

Past Due Loans: The accrual of interest on loans is discontinued at the time the loan becomes 90 days delinquent unless the loan is well secured and in the process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off if collection of interest or principal is considered doubtful.

Interest accrued but not collected is charged off against interest income at the time a loan is placed on non-accrual status. The interest collected on non-accrual loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans can be returned to accrual status when there is a sustained period of repayment performance (usually six-months or longer) and the collectability of future payments is reasonably assured.

COVID-19 Loan Modifications: As a result of the COVID-19 pandemic, a loan modification program was designed and implemented to assist our clients experiencing financial stress resulting from the economic impacts caused by the global pandemic. The Company offered loan extensions, temporary payment moratoriums, and financial covenant waivers for commercial and consumer borrowers impacted by the pandemic who have a pass risk rating and have not been delinquent over 30 days on payments in the prior two years, primarily for a period of 180 days or less.

Allowance for Credit Losses ("ACL"), subsequent to adoption of ASU 2016-13: On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments—Credit Losses (Topic 326) ("ASU 2016-13"). ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model.

ACL - loans: The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The ACL excludes loans held for sale and loans accounted for under the fair value option. The Company elected to not measure an ACL for accrued interest receivables, as we write off applicable accrued interest receivable balances in a timely manner when a loan is placed on non-accrual status, in which any accrued but uncollected interest is reversed from current income. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management estimates the allowance balance using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Actual Company and regional peer historical credit loss experience provides the basis for the estimation of expected credit losses. The Company identified and grouped portfolio segments based on risk characteristics and underlying collateral. The call code for each financial asset type was assessed and, expanded for certain call codes into separate segments based on risk characteristics.

The ACL for pooled loans are estimated using a discounted cash flow ("DCF") methodology using the amortized cost basis (excluding interest) for all loans modeled within a performing pool of loans. The DCF analysis pairs loan-level term information, for example, maturity date, payment amount, interest rate, with top-down pool assumptions such as default rates, prepayment speeds, to produce individual expected cash flows for every instrument in the segment. The results are then aggregated to produce segment level results and reserve requirements for each segment based on similar risk characteristics.

The quantitative DCF model also incorporates forward-looking macroeconomic information over a reasonable and supportable period of four quarters. Subsequent to the four quarter period, the Company reverts to its historical loss rate and historical prepayment and curtailment speeds on a straight-line basis over a four quarter reversion period. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications. Annually the Company performs a rate study which updates the prepayment and curtailment rates used in the DCF model.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pooled loan evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Qualitative adjustments to historical loss data are made based on management's assessment of the risks that may lead to a future credit loss or differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, changes in environmental and economic conditions, or other relevant factors.

ACL - off-balance sheet credit exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures is adjusted through the Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments. The loss rates used are calculated using the same assumptions as the associated funded balance.

Allowance for Loan Losses, prior to the adoption of ASU-2016-13: The Company's allowance for loan losses is an estimate of the probable incurred credit losses and is comprised of (i) the allowance for loan losses and (ii) the reserve for unfunded commitments. The reserve for unfunded commitments is included in Other liabilities in the accompanying Consolidated Balance Sheets and the loan balances in the accompanying Consolidated Balance Sheets are reported net of the allowance for loan losses. The allowance for loan losses is established through a provision for credit losses, which is a noncash charge to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is comprised of specific credit loss reserves and general credit loss reserves. The impairment of a specific loan is measured based either on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, or (ii) the fair value of the underlying collateral, less costs to sell, if the repayment is expected to be provided predominantly by the sale of the underlying collateral. Specific impairments are measured on a loan-by-loan basis if risk characteristics are unique to an individual borrower. The general credit loss reserve covers non-impaired loans and is established by evaluating the incurred loss on homogenous pools of loans, not specifically reviewed for impairment as noted above, that have common risk characteristics. The general credit loss reserve is based on historical loss experiences adjusted for nine qualitative factors on all loans in the portfolio not considered impaired. Certain factors are applied to each pool and certain factors are applied to all non-individually reviewed loans.

The reserve for unfunded commitments represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include commercial and standby letters of credit, unused lines of credit, and unfunded loan commitments expected to be funded, unless the obligation is unconditionally cancellable by the Company.

The process used to determine the reserve for unfunded commitments is consistent with the process for determining the allowance for credit losses, adjusted for estimated funding probabilities. Changes to the level of the reserve for unfunded commitments are recognized through the provision for credit losses for off-balance sheet credit exposures, included in the non-interest other expense line of the Consolidated Statements of Income.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are carried at cost, net of accumulated depreciation, with the exception of artwork and land, which are carried at cost. The Company owns land and three buildings located in Wyoming. The buildings are depreciated over their useful life, ranging from 25 to 50 years. Leasehold improvements are depreciated using the straight-line method and recognized over the shorter of the lease term or estimated useful lives of the assets, ranging from 7 to 15 years. Furniture/equipment and software are depreciated using the straight-line method and recognized over the estimated useful lives of the assets, ranging from 3 to 7 years.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over the fair value of net identifiable tangible and intangible assets acquired in business combinations. The Company has acquired other identifiable intangible assets, primarily consisting of customer relationships, non-competition agreements, and recorded goodwill through its acquisition of financial services companies. Goodwill and other indefinite-lived intangible assets are not amortized, but are tested for impairment at the reporting unit level at least annually by applying a fair value-based test using discounted estimated future net cash flows. The Company has selected October 31 as the date to perform its annual impairment tests. Impairment exists when the carrying amount of the goodwill and other intangible assets exceeds their estimated fair values. Impairment losses, if any, are recognized as a charge to non-interest expense and an adjustment to the carrying value of the goodwill or other intangible assets. Subsequent reversals of impairment charges are prohibited. Goodwill is the only intangible asset with an indefinite life on the Company's Consolidated Balance Sheets. Other definite-lived intangible assets, including customer relationship intangibles, are amortized on an accelerated basis over periods representing the estimated remaining lives of the assets of one to ten years and are evaluated for impairment when events or changes in circumstances indicate the carrying values of such assets may not be recoverable. After the company recorded the impact of a loan related subsequent event, Management updated the Goodwill impairment analysis as of December 31, 2023. As of December 31, 2023, the Company believes the carrying value of its goodwill not to be impaired and other intangible assets to be recoverable.

Accounts Receivable: Accounts receivable primarily represents the billed but unpaid fees from trust and investment advisory services owed by clients, which are typically calculated as a percentage of average invested balances. The majority of the Company's investment advisory clients are billed quarterly in arrears based on the daily average balance in the client's trust or investment accounts for that quarter.

Other Receivables: Other accounts receivables represents miscellaneous receivables that are not presented separately in the Consolidated Balance Sheets.

Leases: Leases represent 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 leases certain identified assets from third parties. Leases in which the Company is determined to be the lessee are primarily operating leases. Leases in which the Company is determined to be the lessor are considered operating leases and consist of the partial lease of Company owned buildings. Operating leases are included in the Other assets and Other liabilities line items of the Consolidated Balance Sheets and lease expense for lease payments is recognized on a straight-line basis over the lease term. Right-of-use ("ROU") assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. An ROU asset represents the right to use the underlying asset for the lease term and also includes any direct costs and payments made prior to lease commencement and excludes lease incentives. When an implicit rate is not available, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of the lease payments. A lease term may include an option to extend or terminate the lease when it is reasonably certain the option will be exercised. Short-term leases of 12 months or less are excluded from accounting guidance; as a result, the lease payments are recognized on a straight-line basis over the lease term and the leases are not reflected on the Company's Consolidated Balance Sheets. Renewal and termination options are considered when determining short-term leases. Leases are accounted for on an individual lease level. Rent holidays and rent escalations are recognized on a straight-line basis to lease expense over the lease term. The landlord/tenant incentives are recorded as a reduction to the right of use asset and depreciated on a straight line basis over the remaining lease term once the assets are placed in service.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less selling costs, at the date of foreclosure, establishing a new cost basis in the asset. Physical possession of residential real estate property collateralizing a residential mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management, with any subsequent declines in value recorded as a charge to expense through an impairment recorded directly against the other real estate owned assets. Changes in the valuation allowance are recorded as provision for losses on other real estate owned. Revenue and expenses from operations related to other real estate owned are included in the Provision on other real estate owned line of the Consolidated Statements of Income.

Company-Owned Life Insurance: The Company has purchased life insurance policies on certain current and former officers and key employees. Company-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 adjusted for other charges or other amounts due that are probable at settlement.

Derivatives: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness of a hedge. These three types are as follows:

- **Fair Value Hedge:** a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment. For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change.
- **Cash Flow Hedge:** a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transactions affect earnings.
- **Stand-alone derivative:** an instrument with no hedging designation. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement in the same line as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitments is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All of the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

Mortgage Banking Derivatives: Commitments to fund mortgage loans, interest rate lock commitments ("IRLC") and forward sale commitments ("FSC"), to be sold in the secondary market for the future delivery of these loans are accounted for as free standing derivatives. The fair value of the IRLC is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. The Company sells mortgage loans to third party investors at the best execution available which includes best efforts, mandatory, and bulk bids. Loans committed under mandatory or bulk bid are considered FSC and qualify as financial derivatives. Fair values of these mortgage derivatives are estimated based on the change in the loan pricing from the date of the commitment to the period end date for any unsettled commitments. Changes in the fair values of these derivatives are included in the Net gain on mortgage loans line of the Consolidated Statements of Income.

In order to manage the interest rate risk on our uncommitted IRLC and mortgage loans held for sale pipeline, the Company enters into mortgage derivative financial instruments called To Be Announced ("TBA"), which we refer to as forward commitments. TBA agreements are forward contracts to purchase mortgage backed securities ("MBS") that will be issued by a US Government Sponsored Enterprise. The Bank purchases or sells these derivatives to offset the changes in value of our mortgage loans held for sale and IRLC adjusted pipeline where we have exposure to interest rate volatility. Changes in the fair values of these derivatives are included in the Net gain on mortgage loans line of the Consolidated Statements of Income.

Stock-Based Compensation: The Company has stock-based compensation plans that provide for the granting of stock options, restricted stock awards, restricted stock units and performance stock units to associates and non-associate directors who perform services for the Company. The Company estimates the fair value of its stock option awards on the date of grant using the Black-Scholes option-pricing model. The Company determines the fair value of the restricted and performance stock units as well as restricted stock awards based on the estimated market value of the underlying shares at the date of grant.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's policy is to recognize forfeitures as they occur.

Income Taxes: Income tax expense is the total of the current year income tax due and the change in the deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company recognizes tax benefits from uncertain tax positions when it is more-likely-than-not, based on the technical merits of the position, the tax position will be sustained upon examination, including the resolution of any appeals or litigation. Tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that has a greater than fifty percent likelihood of being realized upon resolution.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments have historically been minimal and immaterial to financial results. The Company classifies interest and penalties, if any, as a component of income tax expense.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, net of taxes, which subsequent to being transferred to held-to-maturity securities, are amortized with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. Other comprehensive income also includes unrealized gains and losses on cash flow hedges, net of taxes, which are also recognized as a separate component of equity.

Earnings per Common Share: Earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during each period. See Note 12 – Earnings Per Common Share for the common share equivalents that have been included and excluded from the calculation of earnings per common share.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as unused lines of credit, commitments to make loans and commercial and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss 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 are such matters that will have a material effect on the consolidated financial statements.

Deposits: Deposit products include money market accounts, demand deposit accounts, time-deposit accounts (typically certificates of deposit), NOW accounts (interest checking accounts), and savings accounts. Our accounts are federally insured by the FDIC up to the legal maximum amount.

Deposit Concentrations: Total deposits have some concentration through third party networks or sources. As of December 31, 2023 \$1.00 billion or 39.6% of Total deposits were made up of reciprocal deposits and \$165.4 million or 6.5% were sourced through deposit brokers. As of December 31, 2023, 23.9% of our total deposits consisted of our 10 largest depositors.

Borrowings: Short-term and long-term borrowing sources utilized to supplement deposits and meet liquidity needs. A blanket pledge and security agreement is in place with FHLB that requires certain loans and securities to be pledged as collateral for any outstanding borrowings under the agreement. Our borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies.

Bank Term Funding Program: On March 12, 2023, in response to two large bank failures, the Federal Reserve Board announced it would make additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of depositors. The additional funding has been made available through the creation of a new

Bank Term Funding Program ("BTFP"), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets valued at par as collateral. The BTFP is meant to be an additional resource of liquidity against high-quality securities, eliminating an institutions need to quickly sell those securities in times of stress. See Note 9 – Borrowings for details on the Company's borrowings.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16 – Fair Value. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments: Operating segments are components of a Company where the chief operating decision maker regularly reviews separate financial information to evaluate performance and decide how to allocate resources. Management has determined that the Company's reportable segments consist of Wealth Management and Mortgage. The Company measures the overall profitability of operating segments based on income before income tax. See Note 18 – Segment Reporting for further discussion.

Revenue Recognition: In accordance with the Financial Accounting Standards Board ("FASB"), Revenue Contracts with Customers ("Topic 606"), trust and investment management fees are earned by providing trust and investment services to customers. The Company's performance obligation under these contracts is satisfied over time as the services are provided. Fees are recognized monthly based on the average monthly value of the assets under management and the corresponding fee rate based on the terms of the contract. No performance based incentive fees were earned with respect to investment management contracts for the years ended December 31, 2023 and 2022. Receivables are recorded on the Consolidated Balance Sheets in the Accounts receivable line item. Income related to trust and investment management fees, bank fees, and risk management and insurance fees on the Consolidated Statements of Income for the years ended December 31, 2023 and 2022 are considered in scope of Topic 606.

Transition of LIBOR to an Alternative Reference Rate: In July 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that after 2022 it will no longer persuade or compel banks to submit rates for the calculation of LIBOR. In response, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee and on February 27, 2023 the Federal Reserve Board adopted a final rule establishing the Secured Overnight Financing Rate ("SOFR") as the replacement rate index for LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities.

On December 21, 2022, the FASB issued Accounting Standards Update (ASU) 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. On June 30, 2023, LIBOR ceased to be a representative index rate. ASU 2022-06 extends the period of time financial statement preparers can utilize the reference rate reform relief guidance through December 31, 2024.

Certain of the Company's assets and liabilities are indexed to LIBOR, with exposure extending beyond December 31, 2023. In general, the transition away from LIBOR may result in increased market risk, credit risk, operational risk and business risk for the Company. The Company developed a LIBOR transition plan, which addressed governance, risk management, legal, operational, systems, fallback language, and other aspects of planning. The company no longer originates LIBOR indexed loans and has transitioned existing LIBOR loans to SOFR. As of December 31, 2023, all loans indexed to LIBOR have been converted to the new index. Consumer indexed loans are being managed in accordance with Interagency Guidance.

Reclassifications: Certain items in prior year financial statements were reclassified to conform to the current presentation. Such reclassifications had no impact on net income available to common shareholders or total shareholders' equity.

Recently adopted accounting pronouncements: The following reflect recent accounting pronouncements that have been adopted by the Company during the Company's fiscal year ended December 31, 2023.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (Topic 326); Troubled Debt Restructurings ("TDR") and Vintage Disclosures. This ASU was effective for the Company on January 1, 2023. The amendments eliminate the TDR recognition and measurement guidance and instead require an entity to evaluate whether the modification represents a new loan or a continuation of an existing loan (consistent with accounting for other modifications). The amendments also enhance existing disclosure requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. The Company adopted ASU 2022-02 on January 1, 2023. Refer to Note 4 – Loans and the Allowance for Credit Losses for additional information on the required disclosures.

On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments—Credit Losses (Topic 326 - Measurement of Credit Losses on Financial Instruments, as amended) ("ASU 2016-13"). ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") methodology. The CECL methodology is applicable to the measurement of credit losses on the financial assets measured at amortized cost, including loan receivables, available for sale debt securities, and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

The Company adopted ASU 2016-13 on January 1, 2023 using the modified retrospective method with no adjustments to prior period comparative financial statements for all financial assets measured at amortized cost and off-balance sheet credit exposure as well as held to maturity securities. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption. Upon adoption the Company recorded a decrease to retained earnings of \$5.3 million, net of tax. The total transition adjustment prior to the tax impact included \$3.5 million related to allowance for credit losses on loans, \$3.5 million related to off-balance sheet commitments, and \$0.1 million related to held-to-maturity securities. Results for reporting periods beginning on or after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The following table illustrates the day one adoption impact of ASU 2016-13:

<i>(dollars in thousands)</i>	Balance at January 1, 2023 (before adjustment)	Cumulative effect adjustment amount	Balance January 1, 2023 (after adjustment)
Assets			
Allowance for credit losses: loans	\$ (17,183)	\$ (3,470)	\$ (20,653)
Allowance for credit losses: held-to-maturity securities	—	(71)	(71)
Deferred tax assets, net	6,914	1,703	8,617
Liabilities			
Allowance for credit losses on off-balance sheet exposures	419	3,481	3,900
Shareholders' equity			
Retained earnings, net of tax	51,887	(5,319)	46,568

Recently issued accounting pronouncements, not yet adopted: The following reflects recently issued accounting pronouncements and the impact thereof to the Company.

On August 23, 2023 the FASB issued ASU 2023-05 Business Combinations - Joint Venture Formations (Subtopic 805-60) Recognition and Initial Measurement. This ASU applies to the formation of entities that meet the definition of a joint venture (or a corporate joint venture) as defined in the FASB Accounting Standards Codification Master Glossary. While joint ventures are defined in the Master Glossary, there has been no specific guidance in the Codification that applies to the formation accounting by a joint venture in its separate financial statements. The amendments in the ASU require that a joint venture apply a new basis of accounting upon formation. As a result, a newly formed joint venture, upon formation, would initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). The Company does not presently have any joint ventures that would be impacted but will evaluate as needed.

On March 29, 2023 the FASB issued ASU 2023-02 Investments in Tax Structures which changes the accounting methodology to allow proportional amortization method to be expanded beyond investments in low income tax housing tax credits ("LIHTC") structures. This guidance is effective January 1, 2024 and currently the Company does not have any investments that would be impacted but will evaluate as other investments are considered as early adoption is permitted.

On November 27, 2023, the FASB issued ASU 2023-07 Segment Reporting - Improvements to Reportable Segment Disclosures, which provides additional transparency into a company's reportable segments' significant expenses on an interim and annual basis. This guidance is effective for companies with fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Companies must adopt the changes to the segment reporting guidance on a retrospective basis. Early adoption is permitted. The Company expects to adopt this standard beginning with its first quarter ending March 31, 2024. The Company is currently evaluating these new disclosure requirements and does not expect the adoption to have a material impact.

On December 14, 2023, the FASB issued ASU 2023-09 Income Taxes - Improvements to Income Tax Disclosures, which enhances a company's income tax disclosures to include additional information related to rate reconciliations and income taxes paid. This guidance is effective for companies with fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company expects to adopt this standard beginning January 1, 2025. The Company is currently evaluating these new disclosure requirements and does not expect the adoption to have a material impact.

NOTE 2 – INVESTMENT SECURITIES

The following presents the amortized cost, fair value, and allowance for credit losses of securities held-to-maturity and the corresponding amounts of gross unrecognized gains and losses as of the date noted (dollars in thousands):

December 31, 2023	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses ⁽¹⁾
Investment securities held-to-maturity:					
U.S. Treasury debt	\$ 253	\$ —	\$ (11)	\$ 242	\$ —
Corporate bonds	23,687	—	(3,020)	20,667	(71)
GNMA mortgage-backed securities – residential	34,579	—	(3,410)	31,169	—
FNMA mortgage-backed securities – residential	6,035	—	(509)	5,526	—
Government CMO and MBS - commercial	5,836	9	(377)	5,468	—
Corporate CMO and MBS ⁽²⁾	3,783	—	(238)	3,545	—
Total securities held-to-maturity	<u>\$ 74,173</u>	<u>\$ 9</u>	<u>\$ (7,565)</u>	<u>\$ 66,617</u>	<u>\$ (71)</u>

⁽¹⁾ Refer to Note 1 – Organization and Summary of Significant Accounting Policies for further information on our credit loss methodology.

⁽²⁾ Management reviewed the collectability of corporate CMO and MBS securities taking into consideration such factors as the asset quality of the corporate bond issuers and credit support and delinquencies associated with the corporate CMO and MBS.

December 31, 2022	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Investment securities held-to-maturity:				
U.S. Treasury debt	\$ 243	\$ —	\$ (9)	\$ 234
Corporate bonds	23,819	—	(2,453)	21,366
GNMA mortgage-backed securities – residential	39,426	—	(2,800)	36,626
FNMA mortgage-backed securities – residential	6,708	—	(506)	6,202
Government CMO and MBS - commercial	6,786	13	(403)	6,396
Corporate CMO and MBS	4,074	—	(180)	3,894
Total securities held-to-maturity	<u>\$ 81,056</u>	<u>\$ 13</u>	<u>\$ (6,351)</u>	<u>\$ 74,718</u>

Net amortization of premiums and discounts related to mortgage securities during each of the years ended December 31, 2023 and 2022 totaled an immaterial amount and \$0.1 million, respectively, and is included in Net interest income in the Consolidated Statements of Income.

The following presents securities with unrecognized losses aggregated by major security type and length of time in a continuous unrecognized loss position as of the date noted (dollars in thousands, before tax):

December 31, 2022	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Investment securities held-to-maturity:						
U.S. Treasury debt	\$ —	\$ —	\$ 234	\$ (9)	\$ 234	\$ (9)
Corporate bonds	20,911	(2,436)	455	(17)	21,366	(2,453)
GNMA mortgage-backed securities – residential	22,371	(1,051)	14,255	(1,749)	36,626	(2,800)
FNMA mortgage-backed securities – residential	6,202	(506)	—	—	6,202	(506)
Government CMO and MBS - commercial	5,591	(403)	—	—	5,591	(403)
Corporate CMO and MBS	3,499	(147)	395	(33)	3,894	(180)
Total	<u>\$ 58,574</u>	<u>\$ (4,543)</u>	<u>\$ 15,339</u>	<u>\$ (1,808)</u>	<u>\$ 73,913</u>	<u>\$ (6,351)</u>

The Company reassessed classification of investment securities and, effective April 1, 2022, elected to transfer all securities, fair valued at \$58.7 million, from available-for-sale to held-to-maturity. The related unrealized loss of \$2.3 million included in other comprehensive income on April 1, 2022 remained in other comprehensive income and is being amortized out with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. No gain or loss was recorded at the time of transfer.

As of December 31, 2023, the amortized cost and estimated fair value of held-to-maturity securities have contractual maturity dates shown in the table below (dollars in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

December 31, 2023	Amortized Cost	Fair Value
Due within one year	\$ 253	\$ 242
Due between one year and five years	4,078	3,844
Due between five years and ten years	19,395	16,630
Due after ten years	214	193
Securities (CMO and MBS)	50,233	45,708
Total	<u>\$ 74,173</u>	<u>\$ 66,617</u>

During year ended December 31, 2022, the Company committed \$6.0 million in total to two bank technology funds. During the year ended December 31, 2023, the Company made \$0.8 million in contributions to both partnerships and received a \$0.1 million return on investment. During the year ended December 31, 2022, the Company made \$1.3 million in contributions to both partnerships and received a \$0.1 million return on investment. As of December 31, 2023, the Company held a balance of \$2.0 million which is included in Other assets in the accompanying Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$4.0 million in future contributions.

In 2014, the Company began investing in a small business investment company ("SBIC") fund administered by the Small Business Administration. The Company made \$0.2 million in contributions to the SBIC fund during the year ended December 31, 2023. During the year ended December 31, 2022, the Company did not make any contributions to the SBIC fund and received a \$0.1 million return of capital. As of December 31, 2023 and 2022, the Company held a balance of \$2.2 million and \$2.0 million, respectively, in the SBIC fund, which is included in Other assets in the accompanying Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$0.8 million in future SBIC investments.

As of December 31, 2023, securities with market values totaling \$45.1 million were pledged to secure various public deposits and credit facilities of the Company, including \$39.3 million pledged under the BTFP program (refer to Note 1 – Organization and Summary of Significant Accounting Policies for more information on the BTFP program). As of December 31, 2022, securities with carrying values of \$22.6 million were pledged to secure various public deposits and credit facilities of the Company.

As of December 31, 2023, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity. As of December 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. Government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

The Company did not sell any securities during the years ended December 31, 2023 or 2022.

Allowance for Credit Losses for HTM Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The majority of our held-to-maturity investment portfolio consists of securities issued by U.S. government entities and agencies and we consider the risk of credit loss to be zero and, therefore, we do not record an ACL. The Company's non-government backed securities include private label CMO and MBS and bank subordinated debt. The Company's non-government backed securities are paying within the agreed upon terms and there are no securities on non-accrual status. Accrued interest receivable on held-to-maturity debt securities totaled \$0.4 million at December 31, 2023 and is excluded from the estimate of credit losses. Refer to Note 1 – Organization and Summary of Significant Accounting Policies for additional information on the Company's methodology on estimating credit losses. The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity by major security type for the year ended December 31, 2023:

December 31, 2023	Corporate Bonds	Corporate CMO ⁽¹⁾
Allowance for credit losses:		
Beginning balance	\$ —	\$ —
Impact of ASU 2016-13 adoption ⁽²⁾	71	—
Provision for credit losses	—	—
Securities charged-off (recoveries)	—	—
Total ending allowance balance	\$ 71	\$ —

⁽¹⁾ Management reviewed the collectability of corporate CMO and MBS securities taking into consideration such factors as the asset quality of the corporate bond issuers and credit support and delinquencies associated with the corporate CMO and MBS.

⁽²⁾ Refer to Note 1 – Organization and Summary of Significant Accounting Policies for further information on our credit loss methodology

The Company monitors the credit quality of held-to-maturity securities on a quarterly basis. As of December 31, 2023, there were no held-to-maturity securities past due or on non-accrual.

NOTE 3 – CORRESPONDENT BANK STOCK

The following table presents the Company’s investments in correspondent bank stock, as of the dates noted:

(Dollars in thousands)	December 31,	
	2023	2022
FHLB	\$ 7,123	\$ 7,078
BBW	32	32
Total	<u>\$ 7,155</u>	<u>\$ 7,110</u>

NOTE 4 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

The following table presents a summary of the Company’s loans at amortized cost as of the dates noted:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Cash, Securities and Other	\$ 139,947	\$ 165,559
Consumer and Other	27,028	26,070
Construction and Development	345,516	285,627
1-4 Family Residential	927,965	899,722
Non-Owner Occupied CRE	543,692	493,134
Owner Occupied CRE	195,861	214,189
Commercial and Industrial	337,180	361,791
Total	2,517,189	2,446,092
Allowance for credit losses ⁽¹⁾	(23,931)	(17,183)
Total, net	2,493,258	2,428,909
Loans accounted for under the fair value option ⁽²⁾	13,726	23,321
Loans, net	<u>\$ 2,506,984</u>	<u>\$ 2,452,230</u>

⁽¹⁾ Allowance for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

⁽²⁾ Includes \$14.1 million and \$23.4 million of unpaid principal balance of loans held for investment measured at fair value as of December 31, 2023 and December 31, 2022 respectively. Includes fair value adjustments on loans held for investment accounted for under the fair value option. See Note 16 – Fair Value.

As of December 31, 2023 and 2022, total loans held for investment included \$208.2 million and \$230.4 million, respectively, of performing loans purchased through mergers or acquisitions.

As of December 31, 2023 the Cash, Securities, and Other portion of the loan portfolio included \$4.2 million of SBA Paycheck Protection Program (“PPP”) loans, or 3.0% of the total category. As of December 31, 2022, the Cash, Securities, and Other portion of the loan portfolio included \$6.9 million of PPP loans, or 4.2% of the total category.

As of December 31, 2023, the Company’s Commercial and Industrial loans included three Main Street Lending Program (“MSLP”) loans with the net carrying amount of \$5.1 million, or 1.5% of the total category. Two of these loans are risk rated Substandard with one of those on non-accrual after a modification was completed during the fourth quarter of 2023. The remaining MSLP loan is risk rated Pass. As of December 31, 2022, the Company’s Commercial and Industrial loans included five MSLP loans with the net carrying amount of \$5.9 million, or 1.6% of the total category.

Loan Modifications

On January 1, 2023 the Company adopted ASU 2022-02, which introduces new reporting requirements for modifications of loans to borrowers experiencing financial difficulty. GAAP requires that certain types of modifications of loans in response to a borrower's financial difficulty be reported and include the following; (i) principal forgiveness, (ii) interest rate reduction, (iii) other than insignificant payment delay, (iv) term extension, or (v) any combination of the foregoing. ASU 2022-02 eliminates the recognition measurement guidance for troubled debt restructured ("TDR") loans, and instead requires an entity to evaluate whether a modification represents a new loan or a continuation of an existing loan in accordance with ASC Topic 310-20, Receivables - Nonrefundable Fees and Other Costs. If a modification results in a new loan under the guidance, the Company will recognize any unearned deferred net revenue and measure the ACL on the loan on a collective basis rather than individually analyzed.

As a result of the COVID-19 pandemic, a loan modification program was designed and implemented to assist our clients experiencing financial stress resulting from the economic impacts caused by the global pandemic. The Company offered loan extensions, temporary payment moratoriums, and financial covenant waivers for commercial and consumer borrowers impacted by the pandemic who have a pass risk rating and have not been delinquent over 30 days on payments in the last 2 years prior to the loan modification.

In 2021, the deferral period ended for all non-acquired loans previously modified and payments have resumed under the original terms. As of December 31, 2023, the Company's loan portfolio included 41 non-acquired loans which were previously modified under the loan modification program, totaling \$71.3 million. Through the Teton Acquisition, the Company acquired loans which were previously modified and are still in their deferral period. As of December 31, 2023, there were 14 of these loans, totaling \$2.9 million.

All loans modified in response to COVID-19 are classified as performing and pass rated as of December 31, 2023. These loans are included in the allowance for credit loss general reserve in accordance with ASU 2016-13. Management continues to focus on loan level reviews and portfolio monitoring to address the changing environment. Management believes the diversity of the loan portfolio is prudent and remains consistent with the credit culture and goals of the Bank.

Interest accrued during the modification term on modified loans is deferred to the end of the loan term. Accrued interest receivable is excluded from the estimate of credit losses.

The following presents, by class, an aging analysis of the amortized cost basis in loans past due as of the date noted (dollars in thousands):

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Loans Past Due	Current	Total Amortized Cost	Loans Accounted for Under the Fair Value Option ⁽¹⁾	Total Loans
Cash, Securities and Other	\$ —	\$ 76	\$ 1,704	\$ 1,780	\$ 138,167	\$ 139,947	\$ —	\$ 139,947
Consumer and Other	676	11	7,504	8,191	18,837	27,028	13,726	40,754
Construction and Development	—	1,500	—	1,500	344,016	345,516	—	345,516
1-4 Family Residential	1,093	—	2,722	3,815	924,150	927,965	—	927,965
Non-Owner Occupied CRE	—	—	—	—	543,692	543,692	—	543,692
Owner Occupied CRE	—	—	3,980	3,980	191,881	195,861	—	195,861
Commercial and Industrial	19,305	1,085	29,180	49,570	287,610	337,180	—	337,180
Total	<u>\$ 21,074</u>	<u>\$ 2,672</u>	<u>\$ 45,090</u>	<u>\$ 68,836</u>	<u>\$ 2,448,353</u>	<u>\$ 2,517,189</u>	<u>\$ 13,726</u>	<u>\$ 2,530,915</u>

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Loans Past Due	Current	Total Amortized Cost	Loans Accounted for Under the Fair Value Option ⁽¹⁾	Total Loans
Cash, Securities and Other	\$ 1,735	\$ 539	\$ 4	\$ 2,278	\$ 163,281	\$ 165,559	\$ —	\$ 165,559
Consumer and Other	657	5	5	667	25,403	26,070	23,321	49,391
Construction and Development	—	—	201	201	285,426	285,627	—	285,627
1-4 Family Residential	1,752	—	5	1,757	897,965	899,722	—	899,722
Non-Owner Occupied CRE	1,071	—	—	1,071	492,063	493,134	—	493,134
Owner Occupied CRE	1,165	—	—	1,165	213,024	214,189	—	214,189
Commercial and Industrial	4,858	10,648	1,319	16,825	344,966	361,791	—	361,791
Total	<u>\$ 11,238</u>	<u>\$ 11,192</u>	<u>\$ 1,534</u>	<u>\$ 23,964</u>	<u>\$ 2,422,128</u>	<u>\$ 2,446,092</u>	<u>\$ 23,321</u>	<u>\$ 2,469,413</u>

⁽¹⁾ Refer to Note 16 – Fair Value for additional information on the measurement of loans accounted for under the fair value option.

As of December 31, 2023, the Company had one loan, totaling \$0.3 million, in the 1-4 Family Residential portfolio that was more than 90 days delinquent and accruing interest. As of December 31, 2022, the Company had one loan, totaling an immaterial amount, in the Commercial and Industrial portfolio that was more than 90 days delinquent and accruing interest.

The following table presents the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted during the year ended December 31, 2023. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

(Dollars in thousands)	Principal forgiveness	Interest rate reduction	Term extension	Combination: term extension and principal forgiveness	Combination: term extension and interest rate reduction	Total class of financing receivable
Commercial and Industrial	\$ —	\$ —	\$ 2,123	\$ 183	\$ —	0.7 %
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,123</u>	<u>\$ 183</u>	<u>\$ —</u>	

The following table presents the financial effect by type of modification made to borrowers experiencing financial difficulty for the period ended December 31, 2023:

	Principal forgiveness	Interest rate reduction	Term extension
Commercial and Industrial	Reduced the amortized cost basis of the loan by \$185 thousand	—	Added a weighted-average 2.8 years to the life of the loan, which reduced monthly payment amounts for the borrower
Commercial and Industrial	—	—	Six months of interest payments were deferred to the maturity of the loan. Principal payment of \$988 thousand was deferred 0.6 years
Commercial and Industrial	—	—	Added a weighted-average 0.5 years to the life of the loan

For all loans that have been modified during the period, the borrowers continue to pay as agreed.

Non-Accrual Loans

The accrual of interest on loans is discontinued at the time the loan becomes 90 days or more delinquent unless the loan is well secured and in the process of collection or renewal due to maturity. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off if collection of interest or principal is considered doubtful. The following presents the amortized cost basis of loans on non-accrual status and loans past due over 89 days still accruing by class as of the date noted (dollars in thousands).

(dollars in thousands)	December 31, 2023		
	Non-accrual loans with no ACL	Total non-accrual loans ⁽¹⁾	Loans past due over 89 days still accruing
Cash, Securities, and Other	\$ 1,704	\$ 1,704	\$ —
Consumer and Other	4	7,504	—
Construction and Development	2,719	2,719	—
1-4 Family Residential	578	3,016	285
Owner Occupied CRE	—	3,980	—
Commercial and Industrial	2,355	31,893	—
Total	\$ 7,360	\$ 50,816	\$ 285

⁽¹⁾ As of December 31, 2023, the Company had an allowance of \$3.8 million on non-performing loans.

The following presents the recorded investment in non-accrual loans by class as of the date noted (dollars in thousands):

	December 31, 2022
Cash, Securities and Other	\$ 4
Consumer and Other	146
Construction and Development	201
Owner Occupied CRE	1,165
Commercial and Industrial	10,833
Total	\$ 12,349

The following presents impaired loans by portfolio and related valuation allowance as of the periods presented (in thousands):

	December 31, 2022		
	Total Recorded Investment	Unpaid Contractual Principal Balance	Allowance for Loan Losses
Impaired loans with no related valuation allowance:			
Cash, Securities, and Other	\$ 4	\$ 4	\$
Construction and Development	201	201	
1-4 Family Residential	—	—	
Owner Occupied CRE	1,165	1,165	
Commercial and Industrial	10,833	10,833	
Total	<u>\$ 12,203</u>	<u>\$ 12,203</u>	<u>\$</u>
Total impaired loans:			
Cash, Securities, and Other	\$ 4	\$ 4	\$
Consumer and Other	—	—	
Construction and Development	201	201	
Commercial and Industrial	10,833	10,833	
1-4 Family Residential	—	—	
Owner Occupied CRE	1,165	1,165	
Total	<u>\$ 12,203</u>	<u>\$ 12,203</u>	<u>\$</u>

The Company recognized \$0.2 million of interest income on non-accrual loans during the year ended December 31, 2023. The Company recognized an immaterial amount of interest income on non-accrual loans during the year ended December 31, 2022.

Non-accrual loans, excluding loans held for investment measured at fair value, are classified as collateral dependent loans and are individually evaluated. The following presents the amortized cost basis of collateral-dependent loans, which are individually evaluated to determine expected credit losses, by class of loans as of the date noted (dollars in thousands):

	As of December 31, 2023			
	Collateral Dependent Loans			Total
	Secured by Real Estate	Secured by Cash and Securities	Secured by Other	
<i>(dollars in thousands)</i>				
Cash, Securities, and Other	\$ —	\$ 1,704	\$ —	\$ 1,704
Consumer and Other	—	—	7,500	7,500
Construction and Development	2,719	—	—	2,719
1-4 Family Residential	3,016	—	—	3,016
Owner Occupied CRE	3,980	—	—	3,980
Commercial and Industrial	—	—	31,893	31,893
Total	<u>\$ 9,715</u>	<u>\$ 1,704</u>	<u>\$ 39,393</u>	<u>\$ 50,812</u>

Charge-offs

The Company recorded \$8.8 million and \$0.2 million of charge-offs, net of recoveries, during the year ended December 31, 2023 and December 31, 2022, respectively.

Allowance for Credit Losses

Beginning January 1, 2023, the allowance for credit losses for loans is measured on the loan's amortized cost basis, excluding interest receivable. Interest receivable excluded at December 31, 2023 and December 31, 2022 was \$10.8 million and \$9.8 million, respectively, presented in Accrued interest receivable on the Consolidated Balance Sheets. Refer to Note 1 – Organization and Summary of Significant Accounting Policies for additional information related to the Company's methodology on estimated credit losses.

The Allowance for credit losses on loans ("ACL") represents Management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectibility over the loans' contractual terms, adjusted for expected prepayments when appropriate. Our quantitative discounted cash flow models use economic forecasts including: housing price index ("HPI"), gross domestic product ("GDP"), and national unemployment. The HPI, GDP, and unemployment twelve month forecasts used in our model as of December 31, 2023 is based on a slightly improved macro-economic forecast assuming a soft landing as compared to assumptions previously used as of January 1, 2023 projecting the likelihood of a deeper recession. As a result, we forecasted decreased probability of default rates and loss given default rates which in turn reduced our model loss rates, partially offset by loan growth and changes in our segment mix, resulting in a \$0.5 million release of provision on pooled loans for the year ended December 31, 2023. The allowance on credit losses on non-performing loans was \$3.8 million as of December 31, 2023.

Allocation of a portion of the allowance for credit losses to one category of loans does not preclude its availability to absorb losses in other categories. The following table presents the gross loan activity in the allowance for credit losses by portfolio segment during the periods presented (dollars in thousands):

	Cash, Securities and Other	Consumer and Other	Construction and Development	1-4 Family Residential	Non-Owner Occupied CRE	Owner Occupied CRE	Commercial and Industrial	Total
Changes in allowance for credit losses for the year ended December 31, 2023:								
Beginning balance, prior to the adoption of ASU 2016-13	\$ 1,198	\$ 191	\$ 2,025	\$ 6,309	\$ 3,490	\$ 1,510	\$ 2,460	\$ 17,183
Impact of adopting ASU 2016-13	193	106	4,681	(2,808)	(689)	(104)	2,091	3,470
Provision (release) for credit losses	(430)	(94)	1,239	856	(476)	(372)	11,354	12,077
Charge-offs	—	(101)	—	—	—	—	(8,737)	(8,838)
Recoveries	—	22	—	13	—	—	4	39
Ending balance	<u>\$ 961</u>	<u>\$ 124</u>	<u>\$ 7,945</u>	<u>\$ 4,370</u>	<u>\$ 2,325</u>	<u>\$ 1,034</u>	<u>\$ 7,172</u>	<u>\$ 23,931</u>

	Cash, Securities and Other	Consumer and Other	Construction and Development	1-4 Family Residential	Non-Owner Occupied CRE	Owner Occupied CRE	Commercial and Industrial	Total
Changes in allowance for loan losses for the year ended December 31, 2022⁽¹⁾:								
Beginning balance	\$ 1,598	\$ 266	\$ 1,092	\$ 3,553	\$ 2,952	\$ 1,292	\$ 2,979	\$ 13,732
(Recovery of)/provision for loan losses	(399)	84	933	2,756	538	218	(448)	3,682
Charge-offs	(1)	(262)	—	—	—	—	(71)	(334)
Recoveries	—	103	—	—	—	—	—	103
Ending balance	<u>\$ 1,198</u>	<u>\$ 191</u>	<u>\$ 2,025</u>	<u>\$ 6,309</u>	<u>\$ 3,490</u>	<u>\$ 1,510</u>	<u>\$ 2,460</u>	<u>\$ 17,183</u>
Allowance for loan losses as of December 31, 2022 allocated to loans evaluated for impairment⁽¹⁾:								
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively	1,198	191	2,025	6,309	3,490	1,510	2,460	17,183
Ending balance	<u>\$ 1,198</u>	<u>\$ 191</u>	<u>\$ 2,025</u>	<u>\$ 6,309</u>	<u>\$ 3,490</u>	<u>\$ 1,510</u>	<u>\$ 2,460</u>	<u>\$ 17,183</u>
Loans as of December 31, 2022, evaluated for impairment⁽¹⁾:								
Individually	\$ 4	\$ —	\$ 201	\$ —	\$ —	\$ 1,165	\$ 10,833	\$ 12,203
Collectively	165,666	26,539	288,296	898,154	496,776	214,891	350,195	2,440,517
Measured at fair value	—	23,415	—	—	—	—	—	23,415
Ending balance	<u>\$ 165,670</u>	<u>\$— 49,954</u>	<u>\$— 288,497</u>	<u>\$— 898,154</u>	<u>\$— 496,776</u>	<u>\$— 216,056</u>	<u>\$— 361,028</u>	<u>\$— 2,476,135</u>

⁽¹⁾ The allowance for credit losses for periods prior to the ASU 2016-13 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP which presented loan balances gross rather than amortized cost.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans by credit risk on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention—Loans classified as special mention have a potential weakness or borrowing relationships that require more than the usual amount of management attention. Adverse industry conditions, deteriorating financial conditions, declining trends, management problems, documentation deficiencies or other similar weaknesses may be evident. Ability to meet current payment schedules may be questionable, even though interest and principal are still being paid as agreed. The asset has potential weaknesses that may result in deteriorating repayment prospects if left uncorrected. Loans in this risk grade are not considered adversely classified.

Substandard—Substandard loans are considered "classified" and are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loans in this category may be placed on non-accrual status and may individually be evaluated.

Doubtful—Loans graded Doubtful are considered "classified" and 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 known facts, conditions and values, highly questionable and improbable. However, the amount of certainty of eventual loss is not known because of specific pending factors.

Loans accounted for under the fair value option are not rated.

The following table presents the amortized cost basis of loans by credit quality indicator, by class of financing receivable, and year of origination for term loans as of December 31, 2023. For revolving lines of credit that converted to term loans, if the conversion involved a credit decision, such loans are included in the origination year in which the credit decision was made. If revolving lines of credit converted to term loans without a credit decision, such lines of credit are included in the "Revolving lines of credit converted to term" column in the following table.

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
December 31, 2023	2023	2022	2021	2020	2019	Prior		
Cash, Securities, and Other								
Pass	\$ 8,091	\$ 17,878	\$ 17,181	\$ 5,966	\$ 6,337	\$ 13,188	\$ 69,602	\$ 138,243
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	1,704	1,704
Doubtful	—	—	—	—	—	—	—	—
Not rated	—	—	—	—	—	—	—	—
Total Cash, Securities, and Other	\$ 8,091	\$ 17,878	\$ 17,181	\$ 5,966	\$ 6,337	\$ 13,188	\$ 71,306	\$ 139,947
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer and Other								
Pass	\$ 614	\$ 2,013	\$ 647	\$ 633	\$ 797	\$ 24	\$ 14,800	\$ 19,528
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	7,500	7,500
Doubtful	—	—	—	—	—	—	—	—
Not rated(1)	—	10,469	2,544	614	99	—	—	13,726
Total Consumer and Other	\$ 614	\$ 12,482	\$ 3,191	\$ 1,247	\$ 896	\$ 24	\$ 22,300	\$ 40,754
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ 8	\$ 91	\$ 2	\$ —	\$ 101
Construction and Development								

Pass	\$	32,509	\$	231,103	\$	42,796	\$	21,615	\$	—	\$	—	\$	431	\$	328,454
Special mention		—		14,343		—		—		—		—		—		14,343
Substandard		2,719		—		—		—		—		—		—		2,719
Doubtful		—		—		—		—		—		—		—		—
Not rated		—		—		—		—		—		—		—		—
Total Construction and Development	\$	35,228	\$	245,446	\$	42,796	\$	21,615	\$	—	\$	—	\$	431	\$	345,516
Current year-to-date gross write-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
1-4 Family Residential																
Pass	\$	97,901	\$	373,525	\$	143,694	\$	108,815	\$	37,756	\$	31,452	\$	131,806	\$	924,949
Special mention		—		—		—		—		—		—		—		—
Substandard		578		2,438		—		—		—		—		—		3,016
Doubtful		—		—		—		—		—		—		—		—
Not rated		—		—		—		—		—		—		—		—
Total 1-4 Family Residential	\$	98,479	\$	375,963	\$	143,694	\$	108,815	\$	37,756	\$	31,452	\$	131,806	\$	927,965
Current year-to-date gross write-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Non-Owner Occupied CRE																
Pass	\$	42,799	\$	197,122	\$	125,726	\$	75,026	\$	24,411	\$	53,056	\$	20,553	\$	538,693
Special mention		—		—		—		4,999		—		—		—		4,999
Substandard		—		—		—		—		—		—		—		—
Doubtful		—		—		—		—		—		—		—		—
Not rated		—		—		—		—		—		—		—		—
Total Non-Owner Occupied CRE	\$	42,799	\$	197,122	\$	125,726	\$	80,025	\$	24,411	\$	53,056	\$	20,553	\$	543,692
Current year-to-date gross write-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Owner Occupied CRE																
Pass	\$	3,229	\$	46,751	\$	44,805	\$	37,957	\$	5,555	\$	51,259	\$	2,325	\$	191,881
Special mention		—		—		—		—		—		—		—		—
Substandard		—		—		3,980		—		—		—		—		3,980
Doubtful		—		—		—		—		—		—		—		—
Not rated		—		—		—		—		—		—		—		—
Total Owner Occupied CRE	\$	3,229	\$	46,751	\$	48,785	\$	37,957	\$	5,555	\$	51,259	\$	2,325	\$	195,861
Current year-to-date gross write-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Commercial and Industrial																
Pass	\$	38,497	\$	59,612	\$	15,430	\$	13,457	\$	6,430	\$	16,068	\$	152,782	\$	302,276
Special mention		—		—		—		—		—		—		649		649
Substandard		1,618		—		29,355		1,674		—		920		688		34,255
Doubtful		—		—		—		—		—		—		—		—
Not rated		—		—		—		—		—		—		—		—
Total Commercial and Industrial	\$	40,115	\$	59,612	\$	44,785	\$	15,131	\$	6,430	\$	16,988	\$	154,119	\$	337,180
Current year-to-date gross write-offs	\$	—	\$	8,737	\$	—	\$	—	\$	—	\$	—	\$	—	\$	8,737
Total pass	\$	223,640	\$	928,004	\$	390,279	\$	263,469	\$	81,286	\$	165,047	\$	392,299	\$	2,444,024
Total special mention		—		14,343		—		4,999		—		—		649		19,991
Total substandard		4,915		2,438		33,335		1,674		—		920		9,892		53,174
Total doubtful		—		—		—		—		—		—		—		—
Total not rated		—		10,469		2,544		614		99		—		—		13,726
Total	\$	228,555	\$	955,254	\$	426,158	\$	270,756	\$	81,385	\$	165,967	\$	402,840	\$	2,530,915

⁽¹⁾Includes loans held for investment measured at fair value as of December 31, 2023. Includes fair value adjustments on loans held for investment

accounted for under the fair value option.

The following presents, by class and by credit quality indicator, the recorded investment in the Company's loans as of the date noted (dollars in thousands):

December 31, 2022	Pass	Special Mention	Substandard	Not Rated	Total
Cash, Securities, and Other	\$ 165,555	\$ —	\$ 4	\$ —	\$ 165,559
Consumer and Other ⁽²⁾	26,065	—	5	23,321	49,391
Construction and Development	285,426	—	201	—	285,627
1-4 Family Residential	899,722	—	—	—	899,722
Non-Owner Occupied CRE	493,134	—	—	—	493,134
Owner Occupied CRE	213,024	—	1,165	—	214,189
Commercial and Industrial	348,844	2,185	10,762	—	361,791
Total	\$ 2,431,770	\$ 2,185	\$ 12,137	\$ 23,321	\$ 2,469,413

⁽¹⁾ Includes loans held for investment measured at fair value as of December 31, 2022. Includes fair value adjustments on loans held for investment accounted for under the fair value option.

In accordance with ASC 855, Subsequent Events, the Company has determined that there was a subsequent event that provided additional evidence about conditions that existed at the date of the balance sheet. The effects of the subsequent event have been fully recognized in this Form 10-K.

NOTE 5 – PREMISES AND EQUIPMENT, NET

The following presents a summary of the cost and accumulated depreciation of premises and equipment as of the dates noted:

(Dollars in thousands)	December 31,	
	2023	2022
Building and building improvements	\$ 12,190	\$ 12,190
Leasehold improvements, including artwork	14,336	12,879
Land	4,980	4,980
Equipment and software	6,619	5,815
Gross premise and equipment	38,125	35,864
Less: accumulated depreciation	(12,869)	(10,746)
Premises and equipment, net	\$ 25,256	\$ 25,118

During the year ended December 31, 2023 and 2022, the Company retired an immaterial amount of equipment and software for an immaterial loss.

Depreciation expense for premises and equipment for the years ended December 31, 2023 and 2022 totaled \$2.2 million and \$1.8 million, respectively.

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following presents changes in the carrying amount of goodwill as of the dates noted:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Beginning balance	\$ 30,400	\$ 30,588
Acquisition activity	—	(188)
Ending balance	\$ 30,400	\$ 30,400

The Company initially recorded \$6.4 million of goodwill as a result of the Teton Acquisition on December 31, 2021. In the first quarter of 2022, goodwill was adjusted by \$(0.2) million as a result of the measurement period adjustments.

The goodwill impairment analysis includes the determination of the carrying value of the reporting unit, including the existing goodwill, and estimating the fair value of the reporting unit. If the fair value is less than its carrying amount, goodwill impairment is recognized equal to the difference between the fair value and its carrying amount, not to exceed its carrying amount.

Goodwill is tested annually for impairment on October 31 or earlier upon the occurrence of certain events. A significant amount of judgement is involved in determining if an indicator of goodwill impairment occurred. Such indicators may include, among others; a significant decline in expected future cash flows; a sustained significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition. The impact to bank stocks triggered by the closure of two well-known regional banks caused a significant decline in bank stock prices in March of 2023, including our stock price. As a result, the Company performed a quantitative goodwill impairment test as of October 31, 2023 with the assistance of an independent third-party firm specializing in goodwill impairment valuations for financial institutions. The quantitative impairment testing involves management judgment, using widely accepted valuation techniques, such as the market approach (earnings multiples and/or transaction multiples) and the income approach (discounted cash flow ("DCF") method). In applying these methodologies, the Company utilizes several factors, including actual operating results, future business plans, economic projections and market data. The Company provided a five year forecast for the analysis based on the historical growth we have experienced, in addition, we provided a stressed scenario which forecasted growth using assumptions similar to the economic environment in 2023. Both scenarios produced an estimated fair value that exceeded the carrying value of goodwill. After the company recorded the impact of a loan related subsequent event, Management updated the Goodwill impairment analysis as of December 31, 2023.

As of December 31, 2023, there has not been any impairment of goodwill identified or recorded. Goodwill totaled \$30.4 million as of December 31, 2023 and 2022.

The following presents the Company's intangible assets and related accumulated amortization as of the dates noted:

<i>(Dollars in thousands)</i>	December 31,	
	2023	2022
Other intangibles	\$ 5,926	\$ 5,926
Less: accumulated amortization on other intangibles	(4,472)	(4,222)
Other intangible assets, net	\$ 1,454	\$ 1,704

Amortization expense on definite-lived customer relationship and non-compete intangible assets was \$0.3 million for the years ended December 31, 2023 and 2022. The following presents the expected amortization expense on definite-lived intangible assets existing as of December 31, 2023 (dollars in thousands):

Year	Expense
2024	\$ 226
2025	206
2026	193
2027	183
2028	175
Thereafter	471
Total	\$ 1,454

NOTE 7 – LEASES

Leases in which the Company is determined to be the lessee are primarily operating leases comprised of real estate property and office space for our corporate headquarters and profit centers with terms that extend to 2032. In accordance with ASC 842, operating leases are required to be recognized as a right-of-use asset with a corresponding lease liability.

The Company elected to not include short-term leases with initial terms of twelve months or less, on the Consolidated Balance Sheets. The following table presents the classification of the right-of-use assets and corresponding liabilities within the Consolidated Balance Sheets, as of the dates noted (dollars in thousands):

		December 31, 2023	December 31, 2022
Lease Right-of-Use Assets	Classification		
Operating lease right-of-use assets	Other assets	\$ 8,929	\$ 8,602
Lease Liabilities	Classification		
Operating lease liabilities	Other liabilities	\$ 10,900	\$ 11,163

The Company's operating lease agreements typically include an option to renew the lease at the Company's discretion. To the extent the Company is reasonably certain it will exercise the renewal option at the inception of the lease, the Company will include the extended term in the calculation of the right-of-use asset and lease liability. ASC 842 requires the use of the rate implicit in the lease when it is readily determinable. As this rate is typically not readily determinable, at the inception of the lease, the Company uses its collateralized incremental borrowing rate over a similar term. The amount of the right-of-use asset and lease liability are impacted by the discount rate used to calculate the present value of the minimum lease payments over the term of the lease.

	December 31, 2023	December 31, 2022
Weighted-Average Remaining Lease Term		
Operating leases	4.67 years	4.85 years
Weighted-Average Discount Rate		
Operating leases	2.78%	2.63%

The Company's operating leases contain fixed and variable lease components and it has elected to account for all classes of underlying assets as a single lease component. Variable lease costs primarily represent common area maintenance and parking. The Company recognized lease costs in Occupancy and equipment expense in the accompanying Consolidated Statements of Income. The following table represents the Company's net lease costs during the periods presented (dollars in thousands):

	Year Ended December 31,	
	2023	2022
Lease Costs		
Operating lease cost	\$ 2,964	\$ 3,151
Variable lease cost	1,953	2,104
Lease costs, net	\$ 4,917	\$ 5,255

The following table presents a maturity analysis of the Company's operating lease liabilities on an annual basis for each of the next five years and total amounts thereafter (dollars in thousands):

Year Ending December 31,	Operating Leases
2024	\$ 3,506
2025	2,740
2026	1,425
2027	1,366
2028	1,063
Thereafter	1,436
Total future minimum lease payments	11,536
Less: imputed interest	(636)
Present value of net future minimum lease payments	\$ 10,900

Leases in which the Company is determined to be the lessor are considered operating leases and consist of the partial lease of Company owned buildings. In accordance with ASC 842, these leases have been accounted for as operating leases. During the year ended December 31, 2023 and 2022, the Company recognized \$0.3 million of lease income.

The following table presents a maturity analysis of the Company's lease payments to be received on an annual basis for each of the next five years and total amounts thereafter (dollars in thousands):

Year Ending December 31,	Undiscounted Operating Lease Income
2024	\$ 290
2025	67
2026	20
2027	4
2028	—
Thereafter	—
Total undiscounted operating lease income	\$ 381

NOTE 8 – DEPOSITS

The following table presents the Company's interest-bearing deposits as of the dates noted:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Money market deposit accounts	\$ 1,386,149	\$ 1,336,092
Time deposits	496,452	224,090
Negotiable order of withdrawal accounts	147,488	234,778
Savings accounts	16,371	27,177
Total interest-bearing deposits	\$ 2,046,460	\$ 1,822,137
Estimated aggregate time deposits of \$250 or greater	\$ 91,038	\$ 77,972

Overdraft balances classified as loans totaled \$0.1 million and \$0.2 million as of December 31, 2023 and 2022, respectively.

The following table presents the scheduled maturities of all time deposits for the next five years ending December 31 (dollars in thousands):

Year Ending December 31,	Time Deposits
2024	\$ 414,613
2025	43,764
2026	906
2027	2,436
2028	34,733
Total	<u>\$ 496,452</u>

NOTE 9 – BORROWINGS

The Bank has executed a blanket pledge and security agreement with the FHLB that requires certain loans and securities be pledged as collateral for any outstanding borrowings under the agreement. The collateral pledged as of December 31, 2023 and December 31, 2022 amounted to \$1.31 billion and \$1.26 billion, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow an additional \$656.6 million as of December 31, 2023. Each advance is payable at its maturity date.

On March 12, 2023, the FRB announced it would make additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of depositors made available through the creation of a new Bank Term Funding Program ("BTFP"). The BTFP is meant to be an additional resource of liquidity against high-quality securities, eliminating an institutions need to quickly sell those securities in times of stress. As of December 31, 2023, the Company has pledged a par value of \$44.3 million in securities under the BTFP and borrowed \$31.0 million with a maturity date of March 27, 2024. The rate for the borrowings is based on the one year overnight swap rate plus 10 basis points but no lower than the interest rate on reserve balances in effect on the day the loan is made and is fixed over the term of the advance based on the date of the advance.

The Company had the following required maturities on FHLB and FRB borrowings as of the dates noted (dollars in thousands):

Maturity Date	Rate %	December 31, 2023	December 31, 2022
May 5, 2023	0.76 %	\$ —	\$ 10,000
January 1, 2024 ⁽¹⁾	5.55	41,175	131,498
March 27, 2024	4.78	30,997	—
March 29, 2024	5.60	50,000	—
Total		<u>\$ 122,172</u>	<u>\$ 141,498</u>

⁽¹⁾ The borrowing has a one day, automatic daily renewal maturity date, subject to FHLB discretion not to renew.

To bolster the effectiveness of the SBA's PPP, the Federal Reserve is supplying liquidity to participating financial institutions through term financing collateralized by PPP loans to small businesses. The Paycheck Protection Program Liquidity Facility ("PPPLF") extends credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value and bearing interest at 35 bps. The terms of the loans are directly tied to the underlying PPP loans, which were originated at 2 or 5 years. For the years ended December 31, 2023 and 2022, the Company had outstanding \$3.5 million and \$5.4 million, respectively, under the PPPLF program which is included in the FHLB and Federal Reserve borrowings line of the Consolidated Balance Sheets.

The Bank has borrowing capacity associated with two unsecured federal funds lines of credit up to \$10.0 million and \$19.0 million. As of December 31, 2023 and 2022, there were no amounts outstanding on any of the federal funds lines.

On January 1, 2022, the Company redeemed the subordinated notes due December 31, 2026 in the amount of \$6.6 million, which were redeemable on or after January 1, 2022. The redemption price was equal to 100% of the principal amount being redeemed, plus accrued and unpaid interest up to, but excluding the date of redemption.

The following presents the Company's subordinated notes included in the Subordinated notes line of the Consolidated Balance Sheets as of the periods noted (dollars in thousands):

Issuance Date	Stated Rate	Interest Paid	Maturity	Carrying Value	Initial Debt Issuance Costs	Remaining Net Balance ⁽¹⁾
March 2020	5.125% per annum until 3/31/2025, then alternative rate plus 450 basis points until maturity	Quarterly	3/31/2030	\$ 8,000	\$ 120	\$ 7,970
November 2020	4.25% per annum until 12/1/2025, then SOFR plus 402 basis points until maturity	Semi-annual (Quarterly beginning 12/01/25)	12/1/2030	10,000	162	9,908
August 2021	3.25% per annum until 9/1/2026, then SOFR plus 258 basis points until maturity	Semi-annual (Quarterly beginning 09/01/26)	9/1/2031	15,000	242	14,853
December 2022	7.00% per annum until 12/15/2027, then SOFR plus 328 basis points until maturity	Semi-annual (Quarterly beginning 12/15/27)	12/15/2032	20,000	506	19,609

⁽¹⁾ Remaining net balance includes amortization of debt issuance costs.

For the years ended December 31, 2023 and 2022, the Company recorded \$2.7 million and \$1.4 million, respectively, of interest expense related to the collective subordinated notes. The subordinated notes are included in Tier 2 capital under current regulatory guidelines and interpretations, subject to limitations.

The Company's borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies. See Note 22 – Regulatory Capital Matters for additional information. As of December 31, 2023 and 2022, the Company was in compliance with the covenant requirements.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Company is party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include 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. Commitments may expire without being utilized. The Company's exposure to credit loss is represented by the contractual amount of these commitments, although material losses are not anticipated. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following table presents the Company's financial instruments whose contract amounts represent credit risk, as of the dates noted:

(Dollars in thousands)	December 31, 2023		December 31, 2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 86,398	\$ 540,255	\$ 211,285	\$ 601,202
Standby letters of credit	13,922	12,094	8,571	16,737
Commitments to make loans to sell	18,917	—	13,553	—
Commitments to make loans	5,275	7,115	20,895	81,663

Unused lines of credit are agreements to lend to a client 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. Several of the commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the client.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client's obligation to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. The Company holds collateral supporting those commitments if deemed necessary.

Commitments to make loans to sell are agreements to lend to a client which would then be sold to an investor in the secondary market for which the interest rate has been locked with the client, provided there is no violation of any condition within the contract with either party. Commitments to make loans to sell have fixed interest rates. Since commitments may expire without being extended, total commitment amounts may not necessarily represent cash requirements.

Commitments to make loans are agreements to lend to a client, provided there is no violation of any condition within the contract. Commitments to make loans generally have fixed expiration dates or other termination clauses. Since commitments may expire without being extended, total commitment amounts may not necessarily represent cash requirements.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

To estimate the ACL on unfunded loan commitments, the Company determines the probability of funding based on historical utilization statistics for unfunded loan commitments. Loss rates are calculated using the same assumptions as the associated funded balance. Refer to Note 4 – Loans and the Allowance for Credit Losses for changes in the factors that influenced the current estimate of ACL and reasons for the changes. The following table presents the changes in the ACL on unfunded loan commitments:

	December 31, 2023
Beginning balance	\$ 419
Impact of adopting ASU 2016-13	3,481
(Release) provision for credit losses	(1,722)
Ending balance	\$ 2,178

Litigation, Claims and Settlements

The Company is, from time to time, involved in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, based on advice from legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company's consolidated financial statements.

NOTE 11 – SHAREHOLDERS' EQUITY

Common Stock

The Company's common stock has no par value and each holder of common stock is entitled to one vote for each share (though certain voting restrictions may exist on non-vested restricted stock) held.

On January 6, 2022, the Company filed a Form S-3 Registration Statement with the SEC providing that the Company may offer and sell from time to time, separately or together, in multiple series or in one or more offering, any combination of common stock, preferred stock, debt securities, warrants, depository shares and units, up to a maximum aggregate offer price of \$100 million. During the year ended December 31, 2023, the Company sold no shares of common stock.

Restricted Stock Awards

In 2017, the Company issued 105,264 shares of common stock ("Restricted Stock Awards") with a value of \$3.0 million to the sole member of EMC Holdings, LLC ("EMC"), subject to forfeiture based on his continued employment with the Company. Half of the Restricted Stock Awards (\$1.5 million or 52,632 shares) vested ratably over five years. These awards fully vested during the year ended December 31, 2022. The remaining \$1.5 million, or 52,632 shares, were eligible to be earned based on performance of the mortgage division of the Company.

As of December 31, 2023, all restricted stock awards were fully vested and no unrecognized compensation expense remained. During the year ended December 31, 2022, the Company recognized compensation expense of \$0.2 million for the Restricted Stock Awards. During the year ended December 31, 2022, 10,527 shares of the restricted stock awards vested. As of December 31, 2022, all restricted stock awards were fully vested and no unrecognized compensation expense remains.

Stock-Based Compensation Plans

The 2008 Stock Incentive Plan ("the 2008 Plan") was frozen in connection with the adoption of First Western Financial, Inc. 2016 Omnibus Incentive Plan ("the 2016 Plan") and no new awards may be granted under the 2008 Plan. Remaining shares not issued under the 2008 Plan poured into the 2016 Plan. As of December 31, 2023, there were a total of 350,145 shares available for issuance under the 2016 Plan. If the Awards outstanding under the 2008 Plan or the 2016 Plan are forfeited, cancelled or terminated with no consideration paid to the Company, those amounts will increase the number of shares eligible to be granted under the 2016 Plan.

Stock Options

The Company did not grant any stock options during the years ended December 31, 2023 and 2022.

During the years ended December 31, 2023 and 2022, the Company recognized no stock based compensation expense associated with stock options. As of December 31, 2023, the Company has no unrecognized stock-based compensation expense related to stock options.

The following table presents activity for nonqualified stock options for the year ended December 31, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	184,165	\$ 22.76		
Exercised	(12,260)	20.00		
Forfeited or expired	(40,969)	20.31		
Outstanding as of December 31, 2023	130,936	23.79	1.5	(1)
Options fully vested/exercisable as of December 31, 2023	130,936	23.79	1.5	(1)

⁽¹⁾ Nonqualified stock options outstanding at the end of the period and those fully vested/exercisable had immaterial aggregate intrinsic values.

As of December 31, 2023 and December 31, 2022, there were 130,936 and 184,165 options, respectively, that were exercisable. Exercise prices are between \$20.00 and \$27.00 per share, and the options are exercisable for a period of ten years from the original grant date and expire on various dates between 2024 and 2026.

Restricted Stock Units

Pursuant to the 2016 Plan, the Company can grant associates and non-associate directors long-term cash and stock-based compensation. Historically, the Company has granted certain associates restricted stock units which are earned over time or based on various performance measures and convert to common stock upon vesting, which are summarized here and expanded further below.

The following table presents the activity for the Time Vesting Units, the Financial Performance Units and the Market Performance Units during the year ended December 31, 2023:

	Time Vesting Units	Financial Performance Units	Market Performance Units
Outstanding as of December 31, 2022	285,995	235,512	—
Granted	77,871	102,188	—
Vested	(85,448)	(11,575)	—
Forfeited	(35,894)	(34,709)	—
Outstanding as of December 31, 2023	242,524	291,416	—

During the year ended December 31, 2023, the Company issued 71,895 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 25,128 shares, with a combined market value at the dates of settlement of \$0.4 million, were withheld to cover employee withholding taxes and were subsequently added back to the Company's pool of shares available for issuance. During the year ended December 31, 2022, the Company issued 67,860 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 28,158 shares, with a combined market value at the dates of settlement of \$0.9 million, were withheld to cover employee withholding taxes and were subsequently added back to the Company's pool of shares available for issuance.

Time Vesting Units

Time Vesting Units are granted to full-time associates and board members at the date approved by the Company's board of directors. The Company granted 77,871 Time Vesting Units with a five-year service period during the year ended December 31, 2023, that vest in equal installments of 20% on the anniversary of the grant date, assuming continuous employment through the scheduled vesting dates. During the years ended December 31, 2023 and 2022, the Company recognized compensation expense of \$1.6 million and \$1.7 million, respectively, for the Time Vesting Units. As of December 31, 2023, there was \$4.6 million of unrecognized compensation expense related to the Time Vesting Units, which is expected to be recognized over a weighted-average period of 3.3 years.

Financial Performance Units

Financial Performance Units are granted to certain key associates and are earned based on the Company achieving various financial performance metrics. If the Company achieves the financial metrics, which include various thresholds from 0% up to 150%, then the Financial Performance Units will have a subsequent vesting period.

The following table presents the Company's existing Financial Performance Units as of December 31, 2023 (dollars in thousands, except share amounts):

Grant Period	Threshold Accrual	Maximum Issuable Shares at Current Threshold	Unrecognized Compensation Expense	Weighted-Average Life ⁽¹⁾	Financial Metric End Date	Vesting Requirement End Date
May 1, 2019 through April 30, 2020	150 %	59,449	\$ —	0.0 years	December 31, 2021	December 31, 2023
May 1, 2020 through December 31, 2020, excluding November 18, 2020	150 %	67,905	183	1.0 year	December 31, 2022	December 31, 2023
On November 18, 2020	114 %	23,150	74	1.9 years	December 31, 2022	50% November 18, 2023 and 2025
May 3, 2021 through August 11, 2021	74 %	24,504	270	2.0 years	December 31, 2023	December 31, 2025
May 2, 2022 through November 2, 2022, excluding August 4, 2022 ⁽²⁾	— %	—	—	3.0 years	December 31, 2024	December 31, 2026
On August 4, 2022 ⁽³⁾	33 %	9,090	170	3.0 years	December 31, 2024	December 31, 2026
On May 1, 2023 ⁽²⁾	— %	—	—	4.0 years	December 31, 2025	December 31, 2027

⁽¹⁾ Represents the expected unrecognized stock-based compensation expense recognition period.

⁽²⁾ As the performance threshold is not expected to be met in future performance periods, there is no related unrecognized compensation as of December 31, 2023.

⁽³⁾ Performance threshold was not met for the year ended December 31, 2023. The 100% threshold is expected to be met for the year ended December 31, 2024.

The following table presents the Company's Financial Performance Units activity for the years noted December 31 (dollars in thousands):

Grant Period	Units Granted		Compensation Expense Recognized	
	2023	2022	2023	2022
May 1, 2019 through April 30, 2020 ⁽¹⁾	22,577	—	\$ 68	\$ 122
May 1, 2020 through December 31, 2020, excluding November 18, 2020 ⁽¹⁾	24,230	—	136	168
On November 18, 2020	2,942	—	147	41
May 3, 2021 through August 11, 2021 ⁽²⁾	—	—	(135)	273
May 2, 2022 through November 2, 2022, excluding August 4, 2022 ⁽²⁾	322	65,425	—	—
On August 4, 2022 ⁽³⁾	—	27,272	33	47
On May 1, 2023 ⁽⁴⁾	52,117	—	—	—

⁽¹⁾ Granted shares represent the final performance period payout percentage above the 100% threshold initially granted.

⁽²⁾ Performance threshold was not met for the years ended December 31, 2023 and December 31, 2022 and, therefore, no compensation expense was recognized for the years ended December 31, 2023 and December 31, 2022.

⁽³⁾ Performance threshold was not met for the years ended December 31, 2023 and December 31, 2022. The 100% threshold is expected to be met for the year ended December 31, 2024.

⁽⁴⁾ Performance threshold was not met for the year ended December 31, 2023, therefore, no compensation expense was recognized for the year ended December 31, 2023.

Market Performance Units

Market Performance Units were granted to certain key associates and are earned based on growth in the value of the Company's common stock, and were dependent on the Company completing an initial public offering of stock during a defined period of time. On July 23, 2018, the Company completed its initial public offering and the Market Performance Units performance condition was met. Subsequent to the performance condition there was also a market condition as a vesting requirement for the Market Performance Units. If the Company's common stock was trading at or above certain prices, over a performance period which ended on June 30, 2020, the Market Performance Units would have been determined to be earned and vest following the completion of a subsequent service period, which ended on June 30, 2022. The Company's common stock did not trade at or above the required prices over the performance period and as a result, no Market Performance Units were eligible to be earned.

As of the end of the subsequent service period, or June 30, 2022, the Company had no remaining unrecognized compensation expense related to the Market Performance Units.

NOTE 12 – EARNINGS PER COMMON SHARE

The following table presents the calculation of basic and diluted earnings per common share for the periods indicated:

<i>(Dollars in thousands, except share and per share amounts)</i>	Year Ended December 31,	
	2023	2022
Earnings per common share - Basic		
Numerator:		
Net income available for common shareholders	\$ 5,225	\$ 21,698
Denominator:		
Basic weighted average shares	9,541,050	9,461,349
Earnings per common share - basic	\$ 0.55	\$ 2.29
Earnings per common share - Diluted		
Numerator:		
Net income available for common shareholders	\$ 5,225	\$ 21,698
Denominator:		
Basic weighted average shares	9,541,050	9,461,349
Diluted effect of common stock equivalents:		
Stock options	4,006	42,944
Time Vesting Units	67,740	117,774
Financial Performance Units	113,114	88,143
Market Performance Units	—	3,413
Total diluted effect of common stock equivalents	184,860	252,274
Diluted weighted average shares	9,725,910	9,713,623
Earnings per common share - diluted	\$ 0.54	\$ 2.23

Diluted earnings per share was computed without consideration to potentially dilutive instruments as their inclusion would have been anti-dilutive.

The following table presents potentially dilutive securities excluded from the diluted earnings per share calculation during the periods presented:

	Year Ended December 31,	
	2023	2022
Stock options	133,464	—
Time Vesting Units	120,653	86,145
Financial Performance Units	6,818	23,553
Total potentially dilutive securities	260,935	109,698

NOTE 13 – INCOME TAXES

The following table presents the components of the Company's income tax expense as of December 31 (dollars in thousands):

	2023	2022
Current:		
Federal	\$ 60	\$ 5,637
State and local	(281)	936
Total current tax (benefit)/expense	(221)	6,573
Deferred:		
Federal	1,844	536
State and local	213	(55)
Valuation allowance	—	76
Total deferred tax expense	2,057	557
Income tax expense	\$ 1,836	\$ 7,130

The following is a reconciliation of income taxes reflected on the Consolidated Statements of Income for the years ended December 31, 2023 and 2022, with income tax expense computed by applying the United States federal income tax rate of 21% to income before income taxes (dollars in thousands):

	2023	2022
Income tax expense computed at 21% statutory rate	\$ 1,483	\$ 6,054
Differences:		
Permanent differences	(106)	101
State taxes, net of federal expense	224	1,005
LIHTC investment tax credit	(441)	(404)
LIHTC investment proportional amortization	484	378
Valuation allowance	—	76
Other, net	192	(80)
Income tax expense	\$ 1,836	\$ 7,130

The following table presents the principal components of the Company's deferred tax items as of December 31 (dollars in thousands):

	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 472	\$ 472
Allowance for credit losses ⁽¹⁾	6,194	4,165
Acquired loans fair market value adjustments	607	826
Loans accounted for under the fair value option	216	146
Deferred Rent - Liability	2,579	2,706
Stock-based compensation	1,423	1,705
Other intangible assets	186	254
Unrealized losses on securities	383	495
Accrued bonuses	376	—
Loan fees	74	459
Accrued expenses	77	—
Other	184	1,574
Total deferred tax assets	12,771	12,802
Deferred tax liabilities:		
Goodwill	(1,263)	(1,087)
Depreciation	(2,311)	(1,864)
Deferred Rent - Asset	(2,113)	(2,085)
Acquired loans fair market value adjustments	(196)	(215)
FHLB Redemption	(33)	(189)
Total deferred tax liabilities	(5,916)	(5,440)
Net operating loss valuation allowance	(448)	(448)
Net deferred tax asset	\$ 6,407	\$ 6,914

⁽¹⁾ Provision for credit loss amounts for periods prior to the ASC 326 adoption date of January 1, 2023 are reported in accordance with previously applicable GAAP.

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the total deferred tax assets. The net operating loss ("NOL") carryforwards expire in tax years 2028 through 2032. As of December 31, 2023 and December 31, 2022, the Company had \$5.5 million of California NOLs available for utilization. As of December 31, 2023, \$5.2 million is recorded as a valuation allowance, resulting in a tax effected valuation allowance of \$0.4 million. The Company identified no other material uncertain tax positions for which it is reasonably possible the total amount of unrecognized tax benefits will significantly increase or decrease within 12 months.

The Company and its subsidiaries file tax returns for the United States and for multiple states and localities. The United States federal income tax returns of the Company are eligible to be examined for the years 2020 and forward and for the years 2019 and forward for major state taxing jurisdictions. There are no federal or state tax examinations currently in progress.

NOTE 14 – EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) Plan, which is a defined contribution plan, in which substantially all associates are eligible to participate in and associates may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Company may elect to make matching contributions as defined by the plan. For the years ended December 31, 2023 and 2022, the Company expensed matching contributions to the plan totaling \$0.8 million and \$1.0 million, respectively. For the years ended December 31, 2023 and 2022, the Company incurred \$0.1 million of administrative fees attributable to the plan.

NOTE 15 – RELATED-PARTY TRANSACTIONS

The Bank extends credit to certain covered parties including Company directors, executive officers, and their affiliates. As of December 31, 2023 and December 31, 2022, there were no delinquent or non-performing loans to any executive officer or director of the Company. These covered parties, along with principal owners, management, immediate family of management or principal owners, a parent company and its subsidiaries, trusts for the benefit of employees, and other parties, may be considered related parties. The following table presents a summary of related-party loan activity as of the dates noted (dollars in thousands):

	December 31, 2023	December 31, 2022
Balance, beginning of year	\$ 16,859	\$ 12,833
Funded loans	13,427	15,079
Payments collected	(5,212)	(11,053)
Changes in related parties	284	—
Balance, end of period	<u>\$ 25,358</u>	<u>\$ 16,859</u>

Deposits from related parties held by the Bank as of December 31, 2023 and December 31, 2022 totaled \$16.3 million and \$36.9 million, respectively.

The Company leases office spaces from entities controlled by one of the Company's board members. During each of the years ended December 31, 2023 and 2022, the Company incurred \$0.2 million of expense related to these leases.

The Company earned trust and investment management fees of \$0.1 million from related parties during each of the years ended December 31, 2023 and 2022. Assets under management for those related parties totaled \$111.6 million and \$123.5 million as of December 31, 2023 and 2022, respectively.

NOTE 16 – FAIR VALUE

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.

Recurring Fair Value

Equity Securities: Fair value of equity securities represents the market value of mutual funds based on quoted market prices (Level 1) and the value of stock held in other companies, which is based on recent market transactions or quoted rates that are not actively traded (Level 2).

Equity Warrants: Fair value of equity warrants of private companies are priced using a Black-Scholes option pricing model to estimate the fair value by using strike prices, option expiration dates, risk-free interest rates, and option volatility assumptions (Level 3).

Guarantee Asset and Liability: The guarantee asset represents the fair value of the consideration received in exchange for the credit enhancement fee. The guarantee liability represents a financial guarantee to cover the second layer of any losses on loans sold to FHLB under the MPF 125 loan sales agreement. The guarantee liability value on day one is equivalent to the guarantee asset fair value, which is the consideration for the credit enhancement fee paid over the life of the loans. The liability is then carried at amortized cost. Significant inputs in the valuation analysis for the asset are Level 3, due to the nature of this asset and the lack of market quotes. The fair value of the guarantee asset is determined using a discounted cash flow model, for which significant unobservable inputs include assumed future prepayment rates (“CPR”) and market discount rate (Level 3). An increase in prepayment rates or discount rate would generally reduce the estimated fair value of the guarantee asset.

Derivatives: Derivatives include our swap derivatives, which are comprised of cash flow hedges and derivatives not designated as hedges. The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Mortgage Related Derivatives: Mortgage related derivatives include our IRLC, FSC, and the forward commitments on our loans held for sale pipeline. The fair value estimate of our IRLC is based on valuation models using market data from secondary market loan sales and direct contacts with third party investors as of the measurement date and pull through assumptions (Level 3). The FSC fair value estimate reflects the potential pair off fee associated with mandatory trades and is estimated by using a market differential and pair off penalty assessed by the investor (Level 3). The fair value estimate of the forward commitments is based on market prices of similar securities to the underlying MBS (Level 2).

Loans Held at Fair Value: The fair value of loans held for investment are typically determined based on discounted cash flow analysis using market-based interest rate spreads. Discounted cash flow analysis are adjusted, as appropriate, to reflect current market conditions and borrower specific credit risk. Due to the nature of the valuation inputs, loans held for investment are classified within Level 3 of the valuation hierarchy.

Mortgage Loans Held for Sale: The fair value of mortgage loans held for sale is estimated based upon quotes from third party investors for similar assets resulting in a Level 2 classification.

Loans Held for Sale: The fair value of loans held for sale is determined using actual quoted commitments from third party investors resulting in a Level 1 classification.

The following tables present assets and liabilities measured on a recurring basis as of the dates noted (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
December 31, 2023				
Financial Assets				
Mortgage loans held for sale	\$ —	\$ 7,254	\$ —	\$ 7,254
Loans held at fair value	\$ —	\$ —	\$ 13,726	\$ 13,726
Equity securities	\$ 636	\$ 122	\$ —	\$ 758
Guarantee asset	\$ —	\$ —	\$ 189	\$ 189
IRLC, net	\$ —	\$ —	\$ 345	\$ 345
Equity warrants	\$ —	\$ —	\$ 795	\$ 795
Swap derivative asset	\$ —	\$ 763	\$ —	\$ 763
Financial Liabilities				
Forward commitments and FSC	\$ —	\$ 351	\$ —	\$ 351
Swap derivative liabilities	\$ —	\$ 740	\$ —	\$ 740
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
December 31, 2022				
Financial Assets				
Mortgage loans held for sale	\$ —	\$ 8,839	\$ —	\$ 8,839
Loans held for sale	\$ 1,965	\$ —	\$ —	\$ 1,965
Loans held at fair value	\$ —	\$ —	\$ 23,321	\$ 23,321
Forward commitments and FSC	\$ —	\$ 46	\$ —	\$ 46
Equity securities	\$ 627	\$ 122	\$ —	\$ 749
Guarantee asset	\$ —	\$ —	\$ 143	\$ 143
IRLC, net	\$ —	\$ —	\$ 229	\$ 229
Equity warrants	\$ —	\$ —	\$ 825	\$ 825

There were no transfers between levels during the year ended December 31, 2023 or 2022. On April 1, 2022, the Company elected to transfer all securities classified as available-for-sale to held-to-maturity and are now carried at amortized cost. See Note 2 – Investment Securities for more information.

As of December 31, 2023, and December 31, 2022, equity securities, equity warrants, IRLC, and guarantee assets have been recorded at fair value within the Other assets line item in the Consolidated Balance Sheets. All changes are recorded in Non-interest income in the Consolidated Statements of Income.

Fair Value Option

The Company has elected to account for certain purchased whole loans held for investment under the fair value option in order to align the accounting presentation with the Company's viewpoint of the economics of the loans. Interest income on loans held for investment accounted for under the fair value option is recognized within Interest and dividend income in the accompanying Consolidated Statements of Income. Not electing fair value generally results in a larger discount being recorded on the date of the loan purchase. The discount is subsequently accreted into interest income over the underlying loan's remaining term using the effective interest method. Additionally, management has elected the fair value option for mortgage loans originated and held for sale and loans held for sale.

As of December 31, 2022, the Company reclassified \$2.0 million of loans held for investment to loans held for sale. The transfer occurred at the point in time the Company decided to sell the loan and received a commitment from third party investors to purchase the loan. During the year ended December 31, 2023, the Company reclassified \$39.2 million of loans held for investment to loans held for sale. The transfers occurred at the point in time the Company decided to sell the loans and received a commitment from third party investors to purchase the loans. As of December 31, 2023, a total of \$40.8 million reclassified loans held for sale have been sold. As of December 31, 2023, there were no loans reclassified from held for investment to held for sale.

There were no loans accounted for under the fair value option that were 90 days or more past due and still accruing interest as of December 31, 2023 or December 31, 2022. As of December 31, 2023, there were 98 loans, totaling \$0.2 million accounted for under the fair value option that were on nonaccrual. As of December 31, 2022, there were 145 loans, totaling \$0.1 million accounted for under the fair value option that were on nonaccrual. During the year ended December 31, 2023, the Company recorded net charge-offs of \$1.7 million on loans accounted for under the fair value option to Net loss on loans accounted for under the fair value option on the Consolidated Statements of Income. During the year ended December 31, 2022, the Company recorded an immaterial amount of charge-offs on loans accounted for under the fair value option.

The following tables provide more information about the fair value carrying amount and unpaid principal outstanding of loans accounted for under the fair value option as of the dates noted:

December 31, 2023									
(Dollars in thousands)	Total Loans			Non Accruals			90 Days or More Past Due		
	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Mortgage loans held for sale	\$ 7,254	\$ 7,106	\$ 148	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans held for investment, fair value option	13,726	14,129	(403)	210	220	(10)	210	220	(10)
	<u>\$ 20,980</u>	<u>\$ 21,235</u>	<u>\$ (255)</u>	<u>\$ 210</u>	<u>\$ 220</u>	<u>\$ (10)</u>	<u>\$ 210</u>	<u>\$ 220</u>	<u>\$ (10)</u>

December 31, 2022									
(Dollars in thousands)	Total Loans			Non Accruals			90 Days or More Past Due		
	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Mortgage loans held for sale	\$ 8,839	\$ 8,750	\$ 89	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans held for sale	1,965	1,984	(19)	—	—	—	—	—	—
Loans held for investment, fair value option	23,321	23,415	(94)	139	140	(1)	139	140	(1)
	<u>\$ 34,125</u>	<u>\$ 34,149</u>	<u>\$ (24)</u>	<u>\$ 139</u>	<u>\$ 140</u>	<u>\$ (1)</u>	<u>\$ 139</u>	<u>\$ 140</u>	<u>\$ (1)</u>

The following table presents the changes in fair value of loans accounted for under the fair value option as of the dates noted (dollars in thousands):

Changes in Fair Value	Year Ended	
	December 31,	
	2023	2022
Mortgage loans held for sale	\$ 59	\$ (673)
Loans held for sale	(20)	(20)
Loans held for investment	(309)	(94)
	<u>\$ (270)</u>	<u>\$ (787)</u>

The following summarizes the activity pertaining to loans accounted for under the fair value option as of the dates noted (dollars in thousands):

Mortgage loans held for sale	Year Ended	
	December 31,	
	2023	2022
Balance at beginning of period	\$ 8,839	\$ 30,620
Loans originated	276,045	439,682
Fair value changes	59	(673)
Sales	(277,683)	(460,514)
Settlements	(6)	(276)
Balance at end of period	<u>\$ 7,254</u>	<u>\$ 8,839</u>

Loans held for sale	Year Ended	
	December 31,	
	2023	2022
Balance at beginning of period	\$ 1,965	\$ —
Loans transferred from held for investment	39,221	1,985
Fair value changes	(20)	(20)
Sales	(40,761)	—
Settlements	(405)	—
Balance at end of period	<u>\$ —</u>	<u>\$ 1,965</u>

Loans held for investment, fair value option	Year Ended	
	December 31,	
	2023	2022
Balance at beginning of period	\$ 23,321	\$ —
Loans acquired	1,173	35,616
Fair value changes	(309)	(94)
Net charge-offs	(1,700)	—
Settlements	(8,759)	(12,201)
Balance at end of period	<u>\$ 13,726</u>	<u>\$ 23,321</u>

Nonrecurring Fair Value

Other Real Estate Owned ("OREO"): Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. They are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than on an annual basis. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. Such adjustments can be significant and typically result in Level 3 classifications of the inputs for determining fair value. OREO is evaluated annually for additional impairment and adjusted accordingly.

Collateral Dependent Loans: The fair value of collateral dependent loans individually analyzed and not included in the pooled loan analysis under the ACL is generally based on recent appraisals and the value of any credit enhancements associated with the loan. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and typically result in Level 3 classifications of the inputs for determining fair value. Collateral dependent loans are evaluated monthly and adjusted accordingly if needed.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the Company reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

The following table presents assets measured at fair value on a nonrecurring basis as of the dates noted (dollars in thousands):

December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
Collateral dependent loans				
Consumer and Other	\$ —	\$ —	\$ 7,500	\$ 7,500
1-4 Family Residential	—	—	2,438	2,438
Commercial and Industrial	—	—	25,738	25,738
Owner Occupied CRE	—	—	3,980	3,980
Total	\$ —	\$ —	\$ 39,656	\$ 39,656

The credit enhancement - guarantee asset value approach was utilized for estimating the fair value of non-recurring assets. There were no assets measured on a nonrecurring basis for the year ended December 31, 2022.

During the year ended December 31, 2022, the Company recorded \$0.4 million of OREO as a result of obtaining physical possession of a foreclosed property as partial consideration for amounts owed on a collateral dependent loan. The Company sold the property during the year ended December 31, 2022, resulting in an immaterial gain. As of December 31, 2023 and December 31, 2022, the Company did not own any OREO properties.

As of December 31, 2023, total collateral dependent loans measured using fair value had amortized cost of \$43.5 million and were classified as Level 3. Collateral dependent loans accounted for \$3.8 million of the allowance on non-performing loans as of December 31, 2023 and no specific reserves as of December 31, 2022. The Company recorded \$8.8 million of charge-offs during the year ended December 31, 2023 and no charge-offs during the year ended December 31, 2022.

Level 3 Analysis

The following presents a reconciliation for Level 3 instruments measured at fair value on a recurring basis as of the dates noted (dollars in thousands):

Year Ended December 31, 2023	Corporate Bonds	Loans Held at Fair Value	FSC	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ —	\$ 23,321	\$ —	\$ 143	\$ 229	\$ 825
Acquisitions	—	1,173	—	—	1,997	—
Originations	—	—	—	32	(3,272)	—
Gains (losses) in net income, net	—	(309)	—	38	1,391	(30)
Transfer to held-to-maturity	—	—	—	—	—	—
Net charge-offs	—	(1,700)	—	—	—	—
Settlements	—	(8,759)	—	(24)	—	—
Ending balance	<u>\$ —</u>	<u>\$ 13,726</u>	<u>\$ —</u>	<u>\$ 189</u>	<u>\$ 345</u>	<u>\$ 795</u>

Year Ended December 31, 2022	Corporate Bonds	Loans Held at Fair Value	FSC	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ 2,113	\$ —	\$ (9)	\$ 237	\$ 1,473	\$ 160
Acquisitions	4,000	35,616	9	—	3,213	344
Originations	—	—	—	1	(5,048)	—
Gains (losses) in net income, net	—	(94)	—	(75)	591	321
Unrealized gains, net	102	—	—	—	—	—
Transfer to held-to-maturity	(6,215)	—	—	—	—	—
Other settlements	—	(12,201)	—	(20)	—	—
Ending balance	<u>\$ —</u>	<u>\$ 23,321</u>	<u>\$ —</u>	<u>\$ 143</u>	<u>\$ 229</u>	<u>\$ 825</u>

The following presents quantitative information about Level 3 assets measured on a recurring and nonrecurring basis as of the dates noted:

Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2023				
(Dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Recurring fair value				
Loans held for investment at fair value	\$ 13,726	Discounted cash flow	Discount rate	7% to 8% (8%)
Guarantee asset	189	Discounted cash flow	Discount rate Prepayment rate	5% (5%) 5% (5%)
IRLC, net	345	Best execution model	Pull through	48% to 100% (86%)
Equity Warrants	795	Black-Scholes option pricing model	Volatility Risk-free interest rate Remaining life	20.1% to 23.0% (22.4%) 4.62% (4.62%) 2.00 to 2.03 years

Nonrecurring fair value				
Collateral dependent loans:				
Consumer and Other	\$ 7,500	Credit enhancement - guarantee asset value	Market rate adjustments	46% (8%)
1-4 Family Residential	2,438	Credit enhancement - guarantee asset value	Market rate adjustments	46% (8%)
Commercial and Industrial	24,792	Credit enhancement - guarantee asset value	Market rate adjustments	46% (8%)
Commercial and Industrial	148	Sales comparison, Market approach - guideline transaction method	Loss given default	14% to 62% (20%)
Commercial and Industrial	799	Credit enhancement - guarantee asset value	Market rate adjustments	21% (11%)
Owner Occupied CRE	3,980	Credit enhancement - guarantee asset value	Market rate adjustments	46% (8%)

Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2022				
(Dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Recurring fair value				
Loans held for investment at fair value	\$ 23,321	Discounted cash flow	Discount rate	4% to 18% (8%)
Guarantee asset	143	Discounted cash flow	Discount rate Prepayment rate	5% (5%) 4% (4%)
IRLC, net	229	Best execution model	Pull through	73% to 100% (91%)
Equity warrants	825	Black-Scholes option pricing model	Volatility Risk-free interest rate Remaining life	32.7% to 88.9% (34.8%) 4.04% to 4.14% (4.05%) 0 to 4 years

Estimated Fair Value of Other Financial Instruments

The following presents carrying amounts and estimated fair values for financial instruments not carried at fair value as of the dates noted (dollars in thousands):

December 31, 2023	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 254,442	\$ 254,442	\$ —	\$ —
Held-to-maturity securities, net of ACL	74,102	243	58,229	8,144
Loans, net ⁽¹⁾	2,493,258	—	—	2,395,468
Accrued interest receivable	11,428	11,428	—	—
Liabilities:				
Term deposits ⁽²⁾	496,452	414,613	—	82,564
Non-term deposits	2,032,587	2,032,587	—	—
Borrowings:				
FHLB borrowings – fixed rate	41,175	—	41,372	—
FHLB borrowings – floating rate	50,000	—	49,986	—
Federal Reserve borrowings – fixed rate	34,536	3,539	30,936	—
Subordinated notes – fixed-to-floating rate	52,340	—	—	48,228
Accrued interest payable	3,793	3,793	—	—

December 31, 2022	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 196,512	\$ 196,512	\$ —	\$ —
Held-to-maturity securities	81,056	234	67,433	7,051
Loans, net ⁽¹⁾	2,428,909	—	—	2,356,085
Accrued interest receivable	10,445	10,445	—	—
Liabilities:				
Term deposits ⁽²⁾	224,090	181,036	—	43,586
Non-term deposits	2,181,139	2,181,139	—	—
Borrowings:				
FHLB borrowings – fixed rate	141,498	—	141,867	—
Federal Reserve borrowings – fixed rate	5,388	5,388	—	—
Subordinated notes – fixed-to-floating rate	52,132	—	—	60,384
Accrued interest payable	1,125	1,125	—	—

⁽¹⁾ Excludes loans accounted for under the fair value option of \$13.7 million and \$23.3 million as of December 31, 2023 and December 31, 2022, respectively, as these are carried at fair value.

⁽²⁾ Term deposits due within one year totaling \$414.6 million and \$181.0 million as of December 31, 2023 and December 31, 2022, respectively, are classified under Level 1 fair value measurement.

The fair value estimates presented and discussed above are based on pertinent information available to management as of the dates specified. The estimated fair value amounts are based on the exit price notion set forth by ASU 2016-01. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since the balance sheet dates. Therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The methods and assumptions, not previously presented, used to estimate fair values are described as follows.

Cash and Cash Equivalents and Restricted Cash: The carrying amounts of cash and cash equivalents and restricted cash approximate fair values as maturities are less than 90 days and balances are generally in accounts bearing current market interest rates.

Held-to-maturity securities: The fair values for held-to-maturity investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities is not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Loans, net: The fair values for all fixed-rate and variable-rate performing loans were estimated using the income approach and by discounting the projected cash flows of such loans. Principal and interest cash flows were projected based on the contractual terms of the loans, including maturity, contractual amortization and adjustments for prepayments and expected losses, where appropriate. A discount rate was developed based on the relative risk of the cash flows, considering the loan type, maturity and a required return on capital.

Accrued Interest Receivable and Payable: The carrying amounts of accrued interest approximate fair value due to their short-term nature.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting dates. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Fixed Rate Borrowings: Borrowings with fixed rates are valued using inputs such as discounted cash flows and current interest rates for similar instruments and borrowers with similar credit ratings.

Fixed-to-Floating Rate Borrowings: Borrowings with fixed-to-floating rates are valued using inputs such as discounted cash flows and current interest rates for similar instruments and assume the Company will redeem the instrument prior to the first interest rate reset date.

NOTE 17 – DERIVATIVES

During the first quarter of 2023, the Company entered into interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Cash Flow Hedges: On March 21, 2023, the Company executed an interest rate swap with a notional amount that was designated as a cash flow hedge of certain Federal Home Loan Bank borrowings. The swap hedges the benchmark index (SOFR) with a receive float/pay fixed swap for the period March 21, 2023 through April 1, 2026. The notional amount of the interest rate swap as of December 31, 2023 was \$50.0 million. As of December 31, 2023, this hedge was determined to be effective, and the Company expects the hedge to remain effective during the remaining terms of the swap.

Derivatives Not Designated as Hedges: During the year ended December 31, 2023, the Company entered into interest rate swaps to offset interest rate exposure with its commercial and residential variable rate loan clients. Clients with variable rate loans may choose to enter into an interest rate swap to hedge the interest rate risk on the loan and effectively pay a fixed rate payment. The Company will simultaneously enter into an interest rate swap on the same underlying loan and notional amount to hedge risk on the fixed rate loan. The notional amount of interest rate swaps with its loan customers as of December 31, 2023 was \$30.3 million. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

The Company presents derivative position gross on the balance sheet. The following table reflects the fair value of derivatives recorded on the Consolidated Balance Sheets as of December 31, 2023:

(Dollars in thousands)	December 31, 2023	
	Notional Amount	Fair Value
Included in other assets:		
Derivatives designated as hedges:		
Interest rate swaps - cash flow hedge	\$ 50,000	\$ 77
Derivatives not designated as hedging instruments:		
Interest rate swaps related to customer loans	30,325	686
Total included in other assets		\$ 763
Included in other liabilities:		
Derivatives designated as hedges:		
Interest rate swaps - cash flow hedge	\$ —	\$ —
Derivatives not designated as hedging instruments:		
Interest rate swaps related to customer loans	30,325	740
Total included in other liabilities		\$ 740

The effect of cash flow hedge accounting on accumulated other comprehensive income for the year ended December 31, 2023 is as follows (dollars in thousands):

Year Ended December 31, 2023	Unrealized Gain (Loss) Recorded in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
Interest rate contracts	\$ (58)	\$ —	\$ —

For the year ended December 31, 2023, the Company recorded \$0.5 million of interest income related to the swap to Other borrowed funds interest expense on the Consolidated Statements of Income.

The effect of derivatives not designated as hedging instruments recorded in Other non-interest income on the Consolidated Statements of Income for the year ended December 31, 2023 was \$0.1 million.

NOTE 18 – SEGMENT REPORTING

The Company's reportable segments consist of Wealth Management and Mortgage. The chief operating decision maker ("CODM") is the Chief Executive Officer. The measure of profit or loss used by the CODM to identify and measure the Company's reportable segments is income before income tax.

The Wealth Management segment consists of operations relative to the Company's fully integrated wealth management products and services. Services provided include deposit, loan, insurance, and trust and investment management advisory products and services.

The Mortgage segment consists of operations relative to the Company's residential mortgage service offerings. Mortgage products and services are financial in nature for which premiums are recognized, net of expenses, upon the sale of mortgage loans to third parties.

The following presents the financial information for each segment that is specifically identifiable or based on allocations using internal methods for the years ended December 31, 2023 and 2022 (dollars in thousands):

As of and for the year ended December 31, 2023	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest and dividend income	\$ 144,837	\$ 721	\$ 145,558
Total interest expense	74,453	—	74,453
Provision for credit losses	10,355	—	10,355
Net interest income, after provision for credit losses	60,029	721	60,750
Non-interest income	19,053	2,895	21,948
Total income before non-interest expense	79,082	3,616	82,698
Depreciation and amortization expense	2,370	33	2,403
All other non-interest expense	67,121	6,113	73,234
Income before income taxes	\$ 9,591	\$ (2,530)	\$ 7,061
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	2,966,612	8,850	2,975,462

As of and for the year ended December 31, 2022	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest and dividend income	\$ 100,474	\$ 722	\$ 101,196
Total interest expense	17,270	—	17,270
Provision for loan losses	3,682	—	3,682
Net interest income, after provision for loan losses	79,522	722	80,244
Non-interest income	22,760	4,930	27,690
Total income before non-interest expense	102,282	5,652	107,934
Depreciation and amortization expense	2,193	42	2,235
All other non-interest expense	68,821	8,050	76,871
Income before income taxes	\$ 31,268	\$ (2,440)	\$ 28,828
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	2,856,708	10,040	2,866,748

NOTE 19 – LOW-INCOME HOUSING TAX CREDIT INVESTMENTS

On December 19, 2019, the Company invested in a low-income housing tax credit ("LIHTC") investment. On June 26, 2023, the Company entered into two additional LIHTC investments for \$3.0 million per investment. As of December 31, 2023, total unfunded commitments related to LIHTC investments totaled \$4.9 million. As of December 31, 2022, there were no unfunded commitments related to LIHTC investments. As of December 31, 2023 and December 31, 2022, the total balance of all LIHTC investments was \$3.1 million and \$2.4 million, respectively. These balances are reflected in the Other assets line item of the Consolidated Balance Sheets.

The Company uses the proportional amortization method to account for this investment. Amortization expense is included within the Income tax expense line item of the Consolidated Statements of Income. During the years ended December 31, 2023 and 2022, the Company recognized amortization expense of \$0.5 million and \$0.4 million, respectively.

Additionally, during the years ended December 31, 2023 and 2022, the Company recognized \$0.4 million of tax credits and other benefits from the LIHTC investment. During the years ending December 31, 2023 and 2022, the Company did not incur any impairment losses.

NOTE 20 – CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The following presents condensed financial statements pertaining only to FWHI (dollars in thousands). Investments in subsidiaries are stated using the equity method of accounting.

	December 31,	December 31,
	2023	2022
Condensed Balance Sheets		
Assets		
Cash and cash equivalents	\$ 20,983	\$ 26,372
Investment in subsidiaries	268,966	263,362
Loans, net	—	—
Other assets	5,530	3,723
Total assets	\$ 295,479	\$ 293,457
Liabilities		
Subordinated notes	\$ 52,340	\$ 52,132
Other liabilities	401	461
Total liabilities	52,741	52,593
Shareholders' Equity		
Total shareholders' equity	242,738	240,864
Total liabilities and shareholders' equity	\$ 295,479	\$ 293,457

	Year Ended December 31,	
	2023	2022
Condensed Statements of Income		
Income		
Interest income	\$ —	\$ 46
Non-interest (loss)/income	(1,280)	7
Total (loss)/income	(1,280)	53
Expense		
Interest expense	2,928	1,609
Non-interest expense	328	272
Total expense	3,256	1,881
Loss before income tax and equity in undistributed income of subsidiaries	(4,536)	(1,828)
Income tax benefit	999	412
Loss before equity in undistributed income of subsidiaries	(3,537)	(1,416)
Equity in undistributed income to subsidiaries	8,762	23,114
Net income	\$ 5,225	\$ 21,698

Condensed Statements of Cash Flows	Year Ended December 31,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 5,225	\$ 21,698
Adjustments:		
Depreciation and amortization	225	167
Deferred income tax expense	(3,856)	941
Undistributed equity in subsidiaries	(8,762)	(23,114)
Change in other assets	2,050	235
Change in other liabilities	(77)	115
Net cash provided by/(used in) operating activities	(5,195)	42
Cash flows from investing activities		
Investment in subsidiaries	—	(6,009)
Loan and note receivable originations and principal collections	—	1,978
Net cash used in investing activities	—	(4,031)
Cash flows from financing activities		
Proceeds from subordinated notes, net of issuance costs	—	19,509
Payment on subordinated notes	—	(6,575)
Settlement of restricted stock	(439)	(876)
Proceeds from the exercise of stock options	245	179
Net cash provided by/(used in) financing activities	(194)	12,237
Net change in cash and cash equivalents	(5,389)	8,248
Cash and cash equivalents, beginning of year	26,372	18,124
Cash and cash equivalents, end of year	\$ 20,983	\$ 26,372
Supplemental cash flow information:		
Interest paid on borrowed funds	\$ 2,928	\$ 1,609
Supplemental noncash disclosures:		
Stock-based compensation	\$ 1,843	\$ 2,562

NOTE 21 – OTHER NON-INTEREST EXPENSE

Other non-interest expense as shown in the Consolidated Statements of Income is detailed in the following schedule to the extent the components exceed one percent of total interest income and other income (dollars in thousands):

Other non-interest expense	Year Ended December 31,	
	2023	2022
Corporate development and related	\$ 2,685	\$ 2,440
Loan and deposit related	2,124	1,420
Other	565	687
Total other non-interest expense	\$ 5,374	\$ 4,547

NOTE 22 – REGULATORY CAPITAL MATTERS

First Western and the Bank are subject to various regulatory capital adequacy requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and, additionally for banks, the regulatory framework for prompt corrective action, First Western and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

First Western and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") has been fully phased in. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. During the years ended December 31, 2023, First Western made no capital injections into the Bank and made \$6.0 million of capital injections into the Bank during the year ended December 31, 2022. Management believes as of December 31, 2023, First Western and the Bank meet all capital adequacy requirements to which they are subject to.

Prompt corrective action regulations for First Western and the Bank provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The standard ratios established by First Western and the Bank's primary regulators to measure capital require First Western and the Bank to maintain minimum amounts and ratios, set forth in the following table. These ratios are common equity Tier 1 capital ("CET1"), Tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined).

The actual capital ratios of First Western and the Bank, along with the applicable regulatory capital requirements as of December 31, 2023, were calculated in accordance with the requirements of Basel III. The final rules of Basel III also established a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios. The minimum capital ratios inclusive of the capital conservation buffer are as follows: (i) a CET1 ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. Banks are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if their capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such activities.

As of December 31, 2023, the most recent filings with the FDIC categorized First Western and the Bank as well capitalized under the regulatory guidelines. To be categorized as well capitalized, an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the following table. Management believes there are no conditions or events since December 31, 2023 that have changed the categorization of First Western and the Bank as well capitalized. Management believes First Western and the Bank met all capital adequacy requirements to which they are subject to as of December 31, 2023 and December 31, 2022.

The following presents the actual and required capital amounts and ratios as of the dates noted (dollars in thousands):

December 31, 2023	Actual		Required for Capital Adequacy Purposes ⁽¹⁾		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets						
Bank	\$ 244,390	10.54 %	\$ 139,126	6.0 %	\$ 185,502	8.0 %
Consolidated	218,150	9.40	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	244,390	10.54	104,345	4.5	150,720	6.5
Consolidated	218,150	9.40	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	265,391	11.45	185,502	8.0	231,877	10.0
Consolidated	292,151	12.59	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	244,390	8.71	112,244	4.0	140,306	5.0
Consolidated	218,150	7.77	N/A	N/A	N/A	N/A

December 31, 2022	Actual		Required for Capital Adequacy Purposes ⁽¹⁾		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets						
Bank	\$ 234,738	10.29 %	\$ 136,928	6.0 %	\$ 182,571	8.0 %
Consolidated	212,229	9.28	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	234,738	10.29	102,696	4.5	148,339	6.5
Consolidated	212,229	9.28	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	252,398	11.06	182,571	8.0	228,213	10.0
Consolidated	282,889	12.37	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	234,738	8.65	108,506	4.0	135,633	5.0
Consolidated	212,229	7.81	N/A	N/A	N/A	N/A

⁽¹⁾ Does not include capital conservation buffer.

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of December 31, 2023, \$102.2 million of retained earnings is available to pay dividends from the Bank. As of December 31, 2023 and December 31, 2022 no dividends were declared and paid by the Bank.

NOTE 23 - SUBSEQUENT EVENTS

None.

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

Evaluation of Internal Control over Financial Reporting

Report on Management's Assessment of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined under Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2023, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2023.

Crowe LLP, an independent registered public accounting firm, has audited the consolidated financial statements of the Company and issued an audit report on the Company's internal control over financial reporting as of December 31, 2023. This report entitled "Report of Independent Registered Public Accounting Firm" appears in Part II, Item 8 of this Annual Report on Form 10-K.

Disclosure Controls and Procedures

The Company's management, including our Chairman, Chief Executive Officer and Chief Financial Officer and Treasurer, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as of the end of the period covered by this report. Based on such evaluation, our Chairman, Chief Executive Officer, and President of First Western Financial Inc. and Chief Financial Officer and Treasurer have concluded that, as of the end of the period covered by the Annual Report on Form 10-K, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to the Company's management, including our Chairman, Chief Executive Officer, and President of First Western Financial Inc. and Chief Financial Officer and Treasurer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Beginning January 1, 2023, the Company adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The Company implemented changes to the policies, processes, and controls over the estimation of the allowance for credit losses to support the adoption of ASU 2016-13. While many controls in operation under this new standard mirror controls under prior GAAP, there were some new controls implemented. Except as related to the adoption of ASU 2016-13, there were no changes in the Company's internal control over financial reporting during the year ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The information required by this item is hereby incorporated by reference from our Definitive Proxy Statement relating to the 2024 Annual Meeting of Shareholders, or the 2024 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2023.

Our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer and other executive officers. The full text of our Code of Business Conduct and Ethics is posted on the investor relations page of our website which is located <https://myfw.gcs-web.com/investor-relations>. We will post any amendments to our Code of Business Conduct and Ethics, or waivers of its requirements, on our website.

Item 11: Executive Compensation

The information required by this item is hereby incorporated by reference from the 2024 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2023.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is hereby incorporated by reference from the 2024 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2023.

Information relating to securities authorized for issuance under our equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5 – Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities."

Item 13: Certain Relationships and Related Transactions, and Director Independence

The information required by this item is hereby incorporated by reference from the 2024 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2023.

Item 14: Principal Accounting Fees and Services

The information required by this item is hereby incorporated by reference from the 2024 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2023.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- | | |
|-----|---|
| (a) | <p>(1) Financial Statements
See Index to Consolidated Financial Statements on page 91</p> <p>(2) Financial Statement Schedules
All financial statement schedules are omitted because they are either not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto included in Part II, Item 8.</p> |
| (b) | <p>(3) Exhibits</p> |

The exhibits are filed as part of this report and exhibits incorporated by reference to other documents are as follows:

Exhibit No.	Description
3.1	<u>Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the SEC on July 3, 2018, File No. 333-225719)</u>
3.2	<u>Amended and Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the SEC on July 3, 2018, File No. 333-225719)</u>
4.1	<u>Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)</u>
4.2	Certain instruments defining the rights of holders of long-term debt securities of the registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.
4.3	<u>Form of 5.125% Fixed-to-Floating Rate Subordinated Note (incorporated by reference as Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 17, 2020, File No. 001-38595)</u>
4.4	<u>Form of 4.25% Fixed-to-Floating Rate Subordinated Note (incorporated by reference as Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on November 25, 2020, File No. 001-38595)</u>
4.5	<u>Form of 3.25% Fixed-to-Floating Rate Subordinated Note due 2031 (incorporated by reference to Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on August 31, 2021, File No. 001-38595)</u>
4.6	<u>Form of 7.00% Fixed-to-Floating rate Subordinated Note due 2032 (incorporated by reference to Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 6, 2022, File No. 001-38595)</u>
4.7*	<u>Description of Registrant's Securities</u>
10.1†	<u>First Western Financial, Inc. 2008 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)</u>

10.2†	First Western Financial, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
10.3†	Amendment to 2016 Omnibus Incentive Plan dated April 26, 2023 (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.4†	Employment Agreement, dated January 1, 2017, between Scott Wylie and First Western Financial, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
10.5†	Amended and Restated Employment Agreement dated April 26, 2023 by and between First Western Financial, Inc. and Scott C. Wylie (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.6†	Second Amended and Restated Employment Agreement dated April 26, 2023 by and between First Financial, Inc. and Julie Courkamp (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.7†	Employment Agreement, dated June 22, 2023, by and between First Western Financial Inc. and Matthew C. Cassell (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the SEC on June 27, 2023, File No. 001-38595)
10.8†	Amended and Restated Employment Agreement dated April 26, 2023 by and between First Western Financial, Inc. and John Sawyer (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.9†	Employment Agreement, dated February 14, 2024, by and between First Western Financial, Inc. and David R. Weber
10.10†	Form of Indemnification Agreement between First Western Financial, Inc. and its directors and certain officers (incorporated by reference to Exhibit 10.7 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
10.11	Form of Subordinated Note Purchase Agreement, dated March 17, 2020, by and among First Western Financial, Inc. and several purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 17, 2020, File No. 001-38595)
10.12	Form of Subordinated Note Purchase Agreement, dated November 25, 2020, by and among First Western Financial, Inc. and the several purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on November 25, 2020, File No. 001-38595)
10.13	Form of Subordinated Note Purchase Agreement, dated August 31, 2021, by and among First Western Financial, Inc. and the Purchaser named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on August 31, 2021, File No. 001-38595)
10.14	Form of Subordinated Note Purchase Agreement, dated December 5, 2022, by and among First Western Financial, Inc. and the Purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 6, 2022, File No. 001-38595)

21.1*	Subsidiaries of First Western Financial, Inc.
23.1*	Consent of Crowe LLP
24.1*	Powers of attorney (included on signature page to the Annual Report on Form 10-K)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97.1*	Clawback Policy
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

† Indicates a management contract or compensatory plan.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

First Western Financial, Inc.

March 15, 2024

Date

By: /s/ Scott C. Wylie

Scott C. Wylie
Chairman, Chief Executive Officer, and President of First Western
Financial, Inc.

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Scott C. Wylie, David R. Weber, and Jessica J. Montgomery, with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full and several powers of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully as to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Scott C. Wylie</u> Scott C. Wylie	Chairman, Chief Executive Officer, and President of First Western Financial, Inc. (principal executive officer)	March 15, 2024
<u>/s/ David R. Weber</u> David R. Weber	Chief Financial Officer and Treasurer (principal financial officer)	March 15, 2024
<u>/s/ Jesica J. Montgomery</u> Jesica J. Montgomery	Principal Accounting Officer	March 15, 2024
<u>/s/ Julie A. Courkamp</u> Julie A. Courkamp	Director, Chief Operating Officer, and President of First Western Trust Bank	March 15, 2024
<u>/s/ Julie A. Caponi</u> Julie A. Caponi	Director	March 15, 2024
<u>/s/ David R. Duncan</u> David R. Duncan	Director	March 15, 2024
<u>/s/ Thomas A. Gart</u> Thomas A. Gart	Director	March 15, 2024
<u>/s/ Patrick H. Hamill</u> Patrick H. Hamill	Director	March 15, 2024
<u>/s/ Scott C. Mitchell</u> Scott C. Mitchell	Director	March 15, 2024
<u>/s/ Luke A. Latimer</u> Luke A. Latimer	Director	March 15, 2024
<u>/s/ Eric D. Sipf</u> Eric D. Sipf	Director	March 15, 2024
<u>/s/ Mark L. Smith</u> Mark L. Smith	Director	March 15, 2024
<u>/s/ Joseph C. Zimlich</u> Joseph C. Zimlich	Director	March 15, 2024

DESCRIPTION OF REGISTRANT'S SECURITIES

As of December 31, 2023, First Western Financial, Inc. (the "Company," "we," or "our") had one class of securities, our common stock, no par value ("common stock"), registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

DESCRIPTION OF COMMON STOCK

General

We are incorporated in the State of Colorado. The rights of our shareholders are generally governed by Colorado law and our Amended and Restated Articles of Incorporation ("articles of incorporation") and our Amended and Restated Bylaws, as amended ("bylaws"). The terms of our capital stock are therefore subject to Colorado law, including the Colorado Business Corporation Act, and the common and constitutional law of Colorado.

The following description of our common stock is a summary and is subject to, and is qualified in its entirety by reference to, the provisions of our articles of incorporation and our bylaws. For more detailed information about the rights of our common stock, you should refer to our articles of incorporation and bylaws and the applicable provisions of Colorado law, including the Colorado Business Corporation Act, for additional information.

Authorized Capital Stock

The total number of shares of capital stock that we are authorized to issue by our articles of incorporation is 100,000,000 shares, which consists of 90,000,000 shares of common stock, without par value, and 10,000,000 shares of preferred stock, without par value. All outstanding shares of our common stock are fully paid and non-assessable.

Voting Rights

Each holder of our common stock is entitled to one vote for each share held of record on all matters on which shareholders generally are entitled to vote, except as otherwise required by law. Rights of common stock to vote on certain matters may be subject to the rights and preferences of the holders of any outstanding shares of any preferred stock that we may issue. Our articles of incorporation expressly prohibits cumulative voting.

No Preemptive or Similar Rights

Our common stock has no preemptive or conversion rights and is not entitled to the benefits of any redemption or sinking fund provision.

Dividend Rights

Subject to certain regulatory restrictions and to the rights of holders of our preferred stock and any other class or series of stock having a preference as to dividends over the common shares then outstanding, dividends may be paid on the shares of common stock out of assets legally available for dividends, but only at such times and in such amounts as our board of directors shall determine and declare.

Liquidation Rights

Subject to applicable law, upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, all shares of our common stock would be entitled to share, ratably in proportion to the number of shares held by them, in all of our remaining assets available for distribution to our shareholders after payment of creditors and subject to any prior distribution rights related to our preferred stock and any other class or series of stock having a preference over the common shares then outstanding.

Certain Provisions of Our Articles of Incorporation and Bylaws

Advance Notice for Shareholder Proposals and Director Nominations

Our bylaws contain provisions requiring that advance notice be delivered to the Company of any business to be brought by a shareholder before an annual meeting of shareholders and provide for certain procedures to be followed by shareholders in nominating candidates for election as directors. Generally, the advance notice provisions require that shareholder proposals and director nominations be provided to us between 90 and 120 days prior to the first anniversary of the preceding year's annual meeting in order to be properly brought before a shareholders meeting. The notice must set forth specific information regarding the shareholder submitting the proposal or nomination and the proposal or director nominee, as described in our bylaws, and must otherwise comply with the terms of our bylaws. These requirements are in addition to those set forth in the regulations adopted by the SEC under the Exchange Act.

Special Meetings of Shareholders

Our bylaws provide that special meetings of the shareholders may be called for any purpose by the president or by the board of directors. The president shall call a special meeting of the shareholders if the Company receives one or more written demands for the meeting, stating the purpose or purposes for which it is to be held, signed and dated by holders of shares representing at least ten percent (10%) of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

Potential Anti-Takeover Effect

Our articles of incorporation and our bylaws contain certain provisions that may have the effect of deterring or discouraging, among other things, a non-negotiated tender or exchange offer for our common stock, a proxy contest for control of the Company, the assumption of control of the Company by a holder of a large block of our common stock and the removal of our directors or management. These provisions:

- empower our board of directors, without shareholder approval, to issue our preferred stock, the terms of which, including voting power, are set by our board of directors;
- provide that directors may only be removed from office for cause by a majority shareholder vote;
- eliminate cumulative voting in elections of directors;
- permit our board of directors to alter, amend or repeal our bylaws or to adopt new bylaws;
- require the request of holders of at least 10.0% of the outstanding shares of our capital stock entitled to vote at a meeting to call a special shareholders' meeting;
- prohibit shareholder action by less than unanimous written consent, thereby requiring virtually all shareholder actions to be taken at a meeting of the shareholders;
- require any shareholder derivative suit or shareholder claim against an officer or director of breach of fiduciary duty or violation of the Colorado Business Corporation Act, articles of incorporation, or bylaws to be brought in Denver County in the State of Colorado;
- require shareholders that wish to bring business before our annual meeting of shareholders or nominate candidates for election as directors at our annual meeting of shareholders to provide timely notice of their intent in writing; and
- enable our board of directors to increase the number of persons serving as directors and to fill vacancies created as a result of the increase by a majority vote of the directors present at a meeting of directors.

Our bylaws may have the effect of precluding a contest for the election of directors or the consideration of shareholder proposals if the established procedures for advance notice are not followed, or of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its proposal without regard to whether consideration of the nominees or proposals might be harmful or beneficial to us and our shareholders.

Exclusive Forum for Adjudication of Disputes

Our bylaws provide that the state courts located in Denver County, Colorado, the county in which our headquarters in Denver lie, shall be the sole and exclusive forum for certain shareholder litigation matters, unless we consent in writing to the selection of an alternative forum. Although we believe this provision benefits us by providing increased consistency in the application of Colorado law in the types of lawsuits to which it applies and in limiting our litigation costs, the provision may have the effect of discouraging lawsuits against our directors and officers and may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us. However, it is possible that a court could rule that this provision is unenforceable or inapplicable to a particular dispute.

Stock Exchange Listing

Our common stock is traded on the Nasdaq Stock Market LLC under the symbol "MYFW."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Pacific Stock Transfer, Co.
6725 Via Austi Pkwy., Suite 300, Las Vegas, NV 89119.

First Western Financial, Inc. Subsidiaries

Entity Name	State of Incorporation
First Western Trust Bank	Colorado, U.S.A

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements No. 333-262033 on Form S-3 and No. 333- 227402 on Form S-8 of First Western Financial, Inc. of our report, dated March 15, 2024, relating to the financial statements and our report dated the same date related to the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K of First Western Financial, Inc. for the year ended December 31, 2023.

/s/Crowe LLP

Denver, Colorado

March 15, 2024

CERTIFICATION

I, Scott C. Wylie, certify that:

1. I have reviewed this annual report on Form 10-K of First Western Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2024

/s/ Scott C. Wylie

Scott C. Wylie

Chairman, Chief Executive Officer, and President of First Western Financial, Inc.
(Principal Executive Officer)

CERTIFICATION

I, David R. Weber, certify that:

1. I have reviewed this annual report on Form 10-K of First Western Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2024

/s/ David R. Weber

David R. Weber
 Chief Financial Officer and Treasurer
 (Principal Financial Officer)

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of First Western Financial, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott C. Wylie, Chairman, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

FIRST WESTERN FINANCIAL, INC.

Dated: March 15, 2024

/s/ Scott C. Wylie

Scott C. Wylie

Chairman, Chief Executive Officer, and President of First Western Financial, Inc.

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of First Western Financial, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David R. Weber, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

FIRST WESTERN FINANCIAL, INC.

Dated: March 15, 2024

/s/ David R. Weber

David R. Weber

Chief Financial Officer and Treasurer

FIRST WESTERN FINANCIAL, INC.**Clawback Policy**

This policy is applicable to First Western Financial, Inc., its bank and nonbank subsidiaries, and any later formed successors, assigns, subsidiaries and affiliates (collectively, “First Western” or the “Company”). This policy shall be administered by the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of First Western Financial, Inc.

Consistent with good corporate governance principles, the Company believes that it is in the best interests of the Company to adopt and maintain a policy that provides for the clawback of a Covered Officer’s (defined below) incentive-based compensation in the event that there has been a material misstatement of the Company’s financial statements (the “Restatement Clawback Policy”), or such Covered Officer has committed an act of Improper Conduct (as defined below) (the “Misconduct Clawback Policy,” and collectively with the Restatement Clawback Policy, the “Clawback Policy”), in each case, as provided below. The Restatement Clawback Policy is intended to be compliant with Section 10D of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the applicable rules of The Nasdaq Stock Market LLC (“Nasdaq”) (collectively, the “Restatement Clawback Rules”) and shall be interpreted consistent therewith. The Clawback Policy will apply to any individual who is or was an executive officer of the Company subject to Section 16 of the Exchange Act, as determined by the Committee. Each individual covered by this Clawback Policy is a “Covered Officer.”

I. Restatement Clawback Policy

A. General. In the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with a financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a “Financial Restatement”), and a Covered Officer received Excess Incentive-Based Compensation (as defined below) during the three completed fiscal years (or such longer period as provided in the Restatement Clawback Rules on account of a change in the Company’s fiscal years) immediately preceding the date on which the Company is required to prepare a Financial Restatement (the “Look-Back Period”), the Company shall recover from such Covered Officer the amount of the Covered Officer’s Excess Incentive-Based Compensation, except as provided below.

B. Investigation in Connection with Financial Restatement. Promptly following the date that the Company is required to prepare a Financial Restatement, the Committee shall review all of the Incentive-Based Compensation (as defined below) received by a Covered Officer during the Look-Back Period (the “Awarded Compensation”). For purposes of this Restatement Clawback Policy, the Company is deemed to be required to prepare a Financial Restatement on the earlier of (i) the date the Board, a committee of the Board or an officer of the Company authorized to take such action if the Board is not required to do so, concludes, or reasonably should have concluded, that the Company’s previously issued financial statements contain a material error, or (ii) the date a court or regulator or other legally authorized body directs the Company to restate its previously issued financial statements to correct a material error. For purposes of this Restatement Clawback Policy, Incentive-Based Compensation is deemed to be received in the Company’s fiscal period during which the Financial Reporting Measure (as defined below) is attained, even if payment or grant of the Incentive-Based Compensation occurs after the end of such period. “Incentive-Based Compensation” means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure, but shall not include compensation earned or vested solely upon the passage of time such as time-vested stock options or restricted stock. A “Financial Reporting Measure” means a measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, or any measure that is derived wholly or in part from such measure and stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return).

C. Recovery of Excess Incentive-Based Compensation. To the extent that the Committee determines that the amount of the Awarded Compensation to a Covered Officer was more than or higher than the amount that should have been granted, earned or vested had such compensation been calculated based on such Financial Restatement

(the “Adjusted Compensation”), except as provided below, the Committee shall require such Covered Officer to reimburse the Company for the excess of the Awarded Compensation over the Adjusted Compensation (the “Excess Incentive-Based Compensation”). For Incentive-Based Compensation based on stock price or shareholder return, where the amount of Excess Incentive-Based Compensation is not subject to mathematical calculation directly from the information in the original and revised accounting statements, the amount of Excess Incentive-Based Compensation shall be determined by the Committee using a reasonable estimate of the effect of the accounting restatement on the stock price or total shareholder return upon which the receipt of Incentive-Based Compensation was based and the Company shall maintain and retain documentation of such reasonable estimate and provide such documentation to Nasdaq as required by the Restatement Clawback Rules.

D. Exception to Recovery. The Company must recover all Excess Incentive-Based Compensation unless the Committee determines in its reasonable discretion it would be impracticable to do so because the direct expense paid to a third party to assist in enforcing this Restatement Clawback Policy would exceed the amount to be recovered (“Impracticable”). Before concluding that the recovery cost would exceed the amount to be recovered, the Company must first make a reasonable attempt to recover all Excess Incentive-Based Compensation.

II. Misconduct Clawback Policy

To the extent that the Committee determines, in its sole discretion, that a Covered Officer committed a material error or willful commission of an act of intentional fraud, omission or criminal misconduct in the performance of the Covered Officer’s duties that results in an accounting restatement of the Company’s financial statements (“Improper Conduct”), the Committee shall require the Covered Officer who committed such act(s) to forfeit or reimburse the Company for some or all (as determined by the Committee in its sole discretion) of the Incentive-Based Compensation or other variable compensation awarded to or received by such Covered Officer during the twelve-month period following the commission of the acts of fraud or misconduct as determined by the Committee in its sole discretion. Such forfeiture or reimbursement shall be sought, unless it is Impracticable to do so or 3 the Committee otherwise determines, in its sole discretion, that such forfeiture or recovery would not be in the best interests of the Company.

III. Application of Clawback Policy

A. Supermajority Vote. Any determination or other action by the Committee pursuant to these policies shall be made and taken by a vote of two-thirds of its members.

B. Manner and timing of Recoupment. The manner of recoupment of compensation shall be determined by the Committee in its sole discretion and may include, without limitation, (a) cash, (b) Company stock; (c) offset against any compensation otherwise owed by the Company to the Covered Officer; (d) cancellation of outstanding vested or unvested equity awards; and/or (e) other remedial and recovery action permitted by law. The Committee shall also determine, in its sole discretion, the date on which the Excess Incentive-Based Compensation shall be repaid to the Company and may permit such recoupment to occur over a period of time not to exceed three years from the date of the demand.

C. Notification of Clawback Determination. In the event the Committee determines to require the recovery or forfeiture of any of a Covered Officer’s compensation as provided for herein, the Committee shall notify the Covered Officer in writing of the recovery or forfeiture demand (a “Clawback Notice”) and shall provide in such notice, in the event of a recovery demand, the manner of reimbursement and the date or time period during which reimbursement shall be made.

D. Appeal of Clawback Determination. Upon receipt of a Clawback Notice, a Covered Officer shall be given the opportunity to appear before the Committee, with or without counsel, within sixty (60) days of such receipt, to present such facts and circumstances that such Covered Officer considers relevant to the Committee’s determination. To the extent that the Covered Officer appears before the Committee, the Committee shall consider all facts and circumstances presented by such Covered Officer and shall render a final determination on the imposition of such recovery or forfeiture (the “Final Determination”) and provide written notice to such Covered Officer of such Final Determination. Upon the later of receipt of a Clawback Notice or a Final Determination, if applicable, the Covered Officer receiving a recovery demand shall reimburse the Company in the manner prescribed in such Clawback Notice.

E. Offset. To the extent that the Securities and Exchange Commission (“SEC”) seeks reimbursement of compensation on behalf of the Company pursuant to the Sarbanes-Oxley Act of 2002, any amount reduced, forfeited, or reimbursed to the Company by any Covered Officer on account of such action shall offset any amount owed to the Company pursuant to the Clawback Policy.

F. Attorney’s Fees. To the extent that a Covered Officer subject to a recovery demand, or forfeiture retains counsel to represent the Covered Officer to appear before the Committee to challenge such determination or to challenge such determination in a legal proceeding brought in a court of competent jurisdiction and as a result of such challenge the Committee retracts, withdraws or rescinds all or part of such determination, or a court of competent jurisdiction rules that all or part of such determination is invalid or inconsistent with and unsupported by the Clawback Policy, the Company shall reimburse such Covered Officer for the Covered Officer’s reasonable costs and attorney’s fees in connection with such representation.

G. Effective Date. The Clawback Policy is an amendment and restatement of that certain Clawback Policy approved by the Board on November 2, 2022 (the “Prior Policy”). The Prior Policy shall continue to apply to any Awarded Compensation (as defined in the Prior Policy) received by a Covered Officer (as defined in the Prior Policy) before October 2, 2023, and this Clawback Policy shall apply to any Awarded Compensation received by a Covered Officer on or after October 2, 2023 (the “Effective Date”).

H. Covered Officer Acknowledgement. As a condition to a Covered Officer’s employment or continuing employment and/or a Covered Officer’s right to receive any grant of Incentive-Based Compensation, a Covered Officer shall enter into a “First Western Financial, Inc. Clawback Policy Acknowledgement and Agreement” substantially in the form attached hereto as Exhibit A.

I. Authority to Bring Court Action. If a Covered Officer subject to a clawback recovery demand does not comply with such demand within the time period prescribed in the applicable Clawback Notice, and the Committee determines that such Covered Officer is unlikely to do so, the Committee may bring, or cause the Company to bring, an action in any court of competent jurisdiction against such Covered Officer to enforce such reimbursement.

IV. Prohibition on Indemnification

The Company shall not be permitted to insure or indemnify any Covered Officer against (a) the loss of any Excess Incentive-Based Compensation that is repaid, returned or recovered pursuant to the terms of this Clawback Policy, or (ii) any claims relating to the Company’s enforcement of its rights under this Clawback Policy. Further, the Company shall not enter into any agreement that exempts any Incentive-Based Compensation that is granted, paid or awarded to a Covered Officer from the application of this Clawback Policy or that waives the Company’s right to recovery of any Excess Incentive-Based Compensation, and this Clawback Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Clawback Policy).

V. Other Recovery Rights

This Clawback Policy shall be binding and enforceable against all Covered Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators or other legal representatives. The Committee intends that this Clawback Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with a Covered Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Covered Officer to abide by the terms of this Clawback Policy. Any right of recovery under this Clawback Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement.

VI. Interpretation, Amendment and Termination

The Committee shall have the sole authority to interpret, construe and apply the Clawback Policy and to institute such rules or practices relating to such interpretation or construction and make such changes thereto as it deems necessary or appropriate. It is anticipated that this Clawback Policy will be amended to reflect final regulations adopted by the SEC

under Section 10D of the Exchange Act, and to comply with any rules or standards adopted by Nasdaq. Such amendments shall be made in the Board's discretion. The Board may amend or terminate this Clawback Policy at any time.