

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

FORM 10-Q

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

For the quarterly period ended June 30, 2023

OR

o 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

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. x Yes o 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). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>
		Emerging growth company	<input checked="" type="radio"/>

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. x

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	Shares outstanding as of
	August 1, 2023
Common Stock, no par value	9,548,190

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Important Notice about Information in this Quarterly Report

Unless we state otherwise or the context otherwise requires, references in this Quarterly Report 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 Quarterly Report is accurate only as of the date of this Quarterly Report on Form 10-Q and as of the dates specified herein.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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.

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;
- claims and litigation pertaining to our fiduciary responsibilities;
- the soundness of certain securities brokerage firms;
- 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;
- our ability to attract and retain clients;
- unforeseen or catastrophic events, including pandemics, 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 "Item 1A - Risk Factors" in our Annual Report on Form 10-K.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in the section titled Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission ("SEC") on March 15, 2023. 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. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 6,285	\$ 4,926
Interest-bearing deposits in other financial institutions	291,283	191,586
Total cash and cash equivalents	297,568	196,512
Held-to-maturity securities, at amortized cost, net of allowance for credit losses of \$71 and \$0, (fair value of \$69,551 and \$74,718, respectively)	77,469	81,056
Correspondent bank stock, at cost	13,518	7,110
Mortgage loans held for sale, at fair value	19,746	8,839
Loans held for sale, at fair value	—	1,965
Loans (includes \$17,523 and \$23,321 measured at fair value, respectively)	2,495,582	2,469,413
Allowance for credit losses	(22,044)	(17,183)
Loans, net	2,473,538	2,452,230
Premises and equipment, net	25,473	25,118
Accrued interest receivable	11,135	10,445
Accounts receivable	5,116	4,873
Other receivables	3,331	1,973
Goodwill and other intangible assets, net	31,977	32,104
Deferred tax assets, net	7,202	6,914
Company-owned life insurance	16,333	16,152
Other assets	23,240	21,457
Total assets	\$ 3,005,646	\$ 2,866,748
Liabilities		
Deposits:		
Noninterest-bearing	\$ 514,241	\$ 583,092
Interest-bearing	1,861,153	1,822,137
Total deposits	2,375,394	2,405,229
Borrowings:		
Federal Home Loan Bank and Federal Reserve borrowings	312,600	146,886
Subordinated notes	52,223	52,132
Accrued interest payable	1,788	1,125
Other liabilities	21,399	20,512
Total liabilities	2,763,404	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; 9,545,071 and 9,495,440 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	—	—
Additional paid-in capital	191,968	190,494
Retained earnings	51,143	51,887
Accumulated other comprehensive loss	(869)	(1,517)
Total shareholders' equity	242,242	240,864
Total liabilities and shareholders' equity	\$ 3,005,646	\$ 2,866,748

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest and dividend income:				
Loans, including fees	\$ 33,583	\$ 20,546	\$ 65,663	\$ 39,833
Loans accounted for under the fair value option	351	346	778	346
Investment securities	627	418	1,256	755
Interest-bearing deposits in other financial institutions	1,666	549	3,069	781
Dividends, restricted stock	145	14	318	35
Total interest and dividend income	36,372	21,873	71,084	41,750
Interest expense:				
Deposits	15,864	1,103	28,956	2,046
Other borrowed funds	2,073	390	4,120	828
Total interest expense	17,937	1,493	33,076	2,874
Net interest income	18,435	20,380	38,008	38,876
Less: Provision for credit losses ⁽¹⁾	1,843	519	1,533	729
Net interest income, after provision for credit losses	16,592	19,861	36,475	38,147
Non-interest income:				
Trust and investment management fees	4,602	4,781	9,237	9,947
Net gain on mortgage loans	774	924	1,793	3,227
Net loss on loans held for sale	—	—	(178)	—
Bank fees	591	590	1,183	1,260
Risk management and insurance fees	103	83	230	192
Income on company-owned life insurance	91	87	181	173
Net gain on equity interests	—	—	—	1
Net loss on loans accounted for under the fair value option	(1,124)	(155)	(1,667)	(155)
Unrealized (loss)/gain recognized on equity securities	(11)	299	(1)	267
Other	(1,064)	89	(1,010)	174
Total non-interest income	3,962	6,698	9,768	15,086
Total income before non-interest expense	20,554	26,559	46,243	53,233
Non-interest expense:				
Salaries and employee benefits	11,148	12,945	24,246	25,003
Occupancy and equipment	1,939	1,892	3,853	3,774
Professional services	1,858	2,027	3,781	3,553
Technology and information systems	831	1,076	1,663	2,122
Data processing	1,052	987	2,191	2,174
Marketing	379	428	770	985
Amortization of other intangible assets	62	77	126	154
Net gain on assets held for sale	—	(2)	—	(3)
Other	1,250	1,153	2,417	2,179
Total non-interest expense	18,519	20,583	39,047	39,941
Income before income taxes	2,035	5,976	7,196	13,292
Income tax expense	529	1,494	1,870	3,286
Net income available to common shareholders	\$ 1,506	\$ 4,482	\$ 5,326	\$ 10,006
Earnings per common share:				
Basic	\$ 0.16	\$ 0.47	\$ 0.56	\$ 1.06
Diluted	0.16	0.46	0.55	1.03

⁽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 condensed consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 1,506	\$ 4,482	\$ 5,326	\$ 10,006
Other comprehensive income/(loss) items:				
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	89	86	180	86
Income tax effect	(29)	(21)	(51)	(21)
Unrealized gain on cash flow hedge	952	—	684	—
Income tax effect	(165)	—	(165)	—
Total other comprehensive income (loss) items	847	65	648	(1,888)
Comprehensive income	\$ 2,353	\$ 4,547	\$ 5,974	\$ 8,118

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Shares Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of April 1, 2022	9,430,007	\$ 189,283	\$ 35,713	\$ (1,730)	\$ 223,266
Net income	—	—	4,482	—	4,482
Other comprehensive income, net of tax and reclassification	—	—	—	65	65
Settlement of share awards	44,405	(557)	—	—	(557)
Options exercised	4,298	88	—	—	88
Stock-based compensation	—	680	—	—	680
Balance as of June 30, 2022	9,478,710	\$ 189,494	\$ 40,195	\$ (1,665)	\$ 228,024
Balance as of April 1, 2023	9,507,564	\$ 191,901	\$ 49,637	\$ (1,716)	\$ 239,822
Net income	—	—	1,506	—	1,506
Other comprehensive income, net of tax and reclassifications	—	—	—	847	847
Settlement of share awards	37,507	(232)	—	—	(232)
Stock-based compensation	—	299	—	—	299
Balance as of June 30, 2023	9,545,071	\$ 191,968	\$ 51,143	\$ (869)	\$ 242,242
Balance as of January 1, 2022	9,419,271	\$ 188,629	\$ 30,189	\$ 223	\$ 219,041
Net income	—	—	10,006	—	10,006
Other comprehensive loss, net of tax	—	—	—	(1,888)	(1,888)
Settlement of share awards	52,630	(688)	—	—	(688)
Options exercised	6,809	146	—	—	146
Stock-based compensation	—	1,407	—	—	1,407
Balance as of June 30, 2022	9,478,710	\$ 189,494	\$ 40,195	\$ (1,665)	\$ 228,024
Balance as of January 1, 2023	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	—	—	5,326	—	5,326
Other comprehensive income, net of tax and reclassifications	—	—	—	648	648
Dissolution of RSI entity	—	751	(751)	—	—
Settlement of share awards	43,871	(283)	—	—	(283)
Options exercised	5,760	115	—	—	115
Stock-based compensation	—	891	—	—	891
Balance as of June 30, 2023	9,545,071	\$ 191,968	\$ 51,143	\$ (869)	\$ 242,242

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

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 5,326	\$ 10,006
Adjustments to reconcile net income to net cash from operating activities:		
Net amortization of investment securities	(12)	126
Stock dividends received on correspondent bank stock	(318)	(33)
Provision for credit losses	1,533	729
Loss on loans held for sale	178	—
Net gain on mortgage loans	(1,793)	(3,227)
Origination of mortgage loans held for sale	(151,189)	(470,494)
Proceeds from mortgage loans	142,196	478,050
Gain on disposal of fixed assets	—	(50)
Depreciation and amortization	1,164	1,191
Net (accretion)/amortization of purchase accounting adjustments	285	(241)
Deferred income tax expense/(benefit)	(330)	(2,310)
Increase in cash surrender value of company-owned life insurance	(181)	(173)
Stock-based compensation	891	1,407
Change in fair value of equity securities	1	(267)
Change in fair value of loans accounted for under the fair value option	1,667	155
Change in fair value of loans held for sale	(551)	419
Net changes in operating assets and liabilities:		
Change in accounts receivable	(89)	364
Change in accrued interest receivable and other assets	233	(1,104)
Change in accrued interest payable and other liabilities	(3,640)	(3,070)
Net cash (used in) provided by operating activities	(4,629)	11,478
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	3,701	3,124
Purchases	—	(28,439)
Purchases of correspondent bank stock	(26,082)	(2,978)
Redemption of correspondent bank stock	19,992	1,243
Contributions to low-income housing tax credit investments	—	(214)
Loan and note receivable originations and principal collections, net	(65,652)	(173,728)
Purchases of premises and equipment	(1,425)	(1,150)
Proceeds from loans held for sale previously classified as loans held for investment	40,602	—
Purchases of loans	(1,162)	(24,732)
Net cash used in investing activities	(30,026)	(232,656)
Cash flows from financing activities		
Net change in deposits	(29,835)	(35,676)
Payments to Federal Home Loan Bank borrowings	(881,776)	—
Proceeds from Federal Home Loan Bank borrowings	977,645	70,000
Payments to Federal Reserve borrowings	(221,689)	(21,406)
Proceeds from Federal Reserve borrowings	291,534	—
Payments on subordinated notes	—	(6,575)
Proceeds from the exercise of stock options	115	146
Cash paid for withholding taxes on share-based awards	(283)	(688)
Net cash provided by financing activities	135,711	5,801
Net change in cash and cash equivalents	101,056	(215,377)
Cash and cash equivalents, beginning of year	196,512	386,983
Cash and cash equivalents, end of period	\$ 297,568	\$ 171,606
Supplemental cash flow information:		
Interest paid on deposits and borrowed funds	\$ 32,413	\$ 2,925
Income tax payment	2,170	4,118
Cash paid for lease liabilities	1,592	1,542
Supplemental noncash disclosures:		
Transfer of loans held for investment to loans held for sale	39,221	—
Adoption of ASU 2016-13, net of tax	5,319	—
Dissolution of RSI entity	751	—
Change in unrealized loss on available-for-sale securities	—	(2,591)
Lease right-of-use-asset obtained in exchange for lease liabilities	1,704	—
Transfer of securities from available-for-sale to held-to-maturity	—	58,727
Security purchase settled in subsequent period	—	(3,000)
Transfers from loans to other real estate owned	—	378

See accompanying notes to condensed consolidated financial statements (unaudited).

FIRST WESTERN FINANCIAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation: The condensed 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, 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 condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. The December 31, 2022 condensed consolidated balance sheet has been derived from the audited financial statements for the year ended December 31, 2022.

In the opinion of management, all adjustments that were recurring in nature and considered necessary have been included for fair presentation of the Company's financial position and results of operations. Operating results for the three and six months ended June 30, 2023 are not necessarily indicative of results that may be expected for the full year ending December 31, 2023. In preparing the condensed consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be significantly different from those estimates.

The condensed consolidated financial statements and notes should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC.

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 condensed 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 certain 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, and Vail, Colorado; Phoenix and Scottsdale, Arizona; Bozeman, Montana; and Jackson, Wyoming. The Company does not believe it has significant concentrations in any one industry or customer. As of June 30, 2023 and December 31, 2022, 80.0% 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.

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.

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 Condensed 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 Condensed Consolidated Statements of Income.

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. Receivables are recorded on the Condensed 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 Condensed Consolidated Statements of Income for the three and six months ended June 30, 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. The Company is currently evaluating and planning for the replacement of the LIBOR benchmark interest rate, including the transition to SOFR as the replacement. 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 has developed a LIBOR transition plan, which addresses governance, risk management, legal, operational, systems, fallback language, and other aspects of planning. The company no longer originates LIBOR indexed loans and is working on transitioning existing LIBOR loans to SOFR. Consumer indexed loans are being managed in accordance with Interagency Guidance.

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 will be 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.

As of June 30, 2023, the Company has pledged a par value of \$47.3 million in securities under the BTFP and borrowed \$31.0 million with a maturity date of March 27, 2024. The rate for the borrowing is based on the one year overnight swap rate plus 10 basis points and is fixed over the term of the advanced based on the date of the advance. See Note 7 - Borrowings for details on the Company's borrowings.

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

Recently adopted accounting pronouncements: The following reflects recent accounting pronouncements that were adopted by the Company since the end of the Company's fiscal year ended December 31, 2022.

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. The CECL model is applicable to the measurement of credit losses on the financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. 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. ASU 2016-13 was set to be effective for most public companies on January 1, 2020. However, at the October 16, 2019 FASB meeting, the FASB voted unanimously to delay the effective date of CECL adoption for smaller reporting companies ("SRCs") to January 1, 2023.

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 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 (dollars in thousands):

	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

Allowance for credit losses - loans: 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.

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 two years. Subsequent to the two-year period, the Company reverts to its historical loss rate and historical prepayment and curtailment speeds on a straight-line basis over a one year reversion period.

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 loan 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.

Allowance for credit losses - 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 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.

Allowance for credit losses - 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.

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 3 - Loans and the Allowance for Credit Losses for additional information on the required disclosures.

Recently issued accounting pronouncements, not yet adopted: The following reflects pending pronouncements with an update to the expected impact since the end of the Company's fiscal year ended December 31, 2022.

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.

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

The following presents a summary of the Company's loans at amortized cost as of the dates noted (dollars in thousands):

	June 30, 2023	December 31, 2022
Cash, Securities, and Other	\$ 150,620	\$ 165,559
Consumer and Other	21,762	26,070
Construction and Development	310,382	285,627
1-4 Family Residential	880,600	899,722
Non-Owner Occupied CRE	558,276	493,134
Owner Occupied CRE	217,020	214,189
Commercial and Industrial	339,399	361,791
Total	2,478,059	2,446,092
Allowance for credit losses	(22,044)	(17,183)
Total, net	\$ 2,456,015	\$ 2,428,909
Loans accounted for under the fair value option ⁽¹⁾	17,523	23,321
Loans, net	\$ 2,473,538	\$ 2,452,230

⁽¹⁾ Includes \$18.3 million and \$23.4 million of unpaid principal balance of loans held for investment measured at fair value as of June 30, 2023 and December 31, 2022, respectively. Includes fair value adjustments on loans held for investment accounted for under the fair value option. See Note 13 – Fair Value.

As of June 30, 2023 and December 31, 2022, total loans held for investment included \$221.0 million and \$230.4 million, respectively, of performing loans purchased through mergers or acquisitions.

As of June 30, 2023, the Cash, Securities, and Other portion of the loan portfolio included \$5.4 million of SBA Paycheck Protection Program (“PPP”) loans, or 3.6% 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 June 30, 2023, the Company's Commercial and Industrial loans included four Main Street Lending Program (“MSLP”) loans with the net carrying amount of \$5.5 million, or 1.6% of the total category. 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

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 two years.

In 2021, the deferral period ended for all non-acquired loans previously modified and payments resumed under the original terms. As of June 30, 2023, the Company's loan portfolio included 45 non-acquired loans which were previously modified under the loan modification program, totaling \$76.0 million. Through the Teton Acquisition, the Company acquired loans which were previously modified and are no longer in their deferral period. As of June 30, 2023, there were 14 of these loans, totaling \$3.1 million.

All loans modified in response to COVID-19 are classified as performing and pass rated as of June 30, 2023. These loans are included in the allowance for credit loss general reserve in accordance with ASU 2016-13. 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. Accrued interest receivable is excluded from the estimate of credit losses.

For the three and six months ended June 30, 2023, the Company made protective advances of \$0.3 million and \$0.5 million to borrowers experiencing financial difficulty.

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):

June 30, 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	\$ 1,704	\$ —	\$ —	\$ 1,704	\$ 148,916	\$ 150,620	\$ —	\$ 150,620
Consumer and Other	9	1,016	6	1,031	20,731	21,762	17,523	39,285
Construction and Development	—	—	—	—	310,382	310,382	—	310,382
1-4 Family Residential	651	—	—	651	879,949	880,600	—	880,600
Non-Owner Occupied CRE	—	—	—	—	558,276	558,276	—	558,276
Owner Occupied CRE	3,950	—	—	3,950	213,070	217,020	—	217,020
Commercial and Industrial	7,012	11,014	10,030	28,056	311,343	339,399	—	339,399
Total	<u>\$ 13,326</u>	<u>\$ 12,030</u>	<u>\$ 10,036</u>	<u>\$ 35,392</u>	<u>\$ 2,442,667</u>	<u>\$ 2,478,059</u>	<u>\$ 17,523</u>	<u>\$ 2,495,582</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 13 - Fair Value for additional information on the measurement of loans accounted for under the fair value option.

As of June 30, 2023, the Company had no loans that were 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.

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).

	As of June 30, 2023		
	Non-accrual loans with no ACL	Total non-accrual loans	Loans past due over 89 days still accruing
Cash, Securities, and Other	\$ —	\$ —	\$ —
Consumer and Other	6	6	—
Construction and Development	—	—	—
1-4 Family Residential	—	—	—
Owner Occupied CRE	—	—	—
Commercial and Industrial ⁽¹⁾	2,076	10,030	—
Total	<u>\$ 2,082</u>	<u>\$ 10,036</u>	<u>\$ —</u>

⁽¹⁾ The Company recorded an allowance of \$2.2 million on three individually analyzed loans totaling \$8.9 million as of June 30, 2023.

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

	As of December 31, 2022		
	Non-accrual loans with no ALLL	Total non-accrual loans	Loans past due over 89 days still accruing
Cash, Securities, and Other	\$ 4	\$ 4	\$ —
Consumer and Other	5	5	—
Construction and Development	201	201	—
1-4 Family Residential	—	—	—
Owner Occupied CRE	1,165	1,165	—
Commercial and Industrial	10,762	10,762	25
Total ⁽¹⁾	<u>\$ 12,137</u>	<u>\$ 12,137</u>	<u>\$ 25</u>

⁽¹⁾ The Company did not record a specific reserve on any individually analyzed loans as of December 31, 2022.

The Company recognized \$0.2 million of interest income on non-accrual loans during the three and six months ended June 30, 2023. Additionally, two non-accrual loans totaling \$1.8 million were paid off during the second quarter of 2023. The Company recognized an immaterial amount of interest income on non-accrual loans during the three and six months ended June 30, 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 June 30, 2023			
	Collateral Dependent Loans			Total
	Secured by Real Estate	Secured by Cash and Securities	Secured by Other	
Cash, Securities, and Other	\$ —	\$ —	\$ —	\$ —
Consumer and Other	—	—	—	—
Construction and Development	—	—	—	—
1-4 Family Residential	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—
Owner Occupied CRE	—	—	—	—
Commercial and Industrial	—	—	10,030	10,030
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,030</u>	<u>\$ 10,030</u>

Allowance for Credit Losses on Loans

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 June 30, 2023 and December 31, 2022 was \$10.5 million and \$9.8 million, respectively, presented in Accrued interest receivable on the Condensed 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 improved as of June 30, 2023 when compared to December 31, 2022. As a result, we saw 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 \$0.8 million release of provision on pooled loans. The individually analyzed loan allowance was increased \$2.2 million as of June 30, 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 activity in the allowance for credit losses by portfolio segment for the three months ended June 30, 2023 (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 three months ended June 30, 2023								
Beginning balance	\$ 1,451	\$ 196	\$ 6,229	\$ 3,821	\$ 2,709	\$ 1,272	\$ 4,165	\$ 19,843
Provision for credit losses	(140)	(50)	1,267	(242)	(214)	(90)	1,678	2,209
Charge-offs	—	(13)	—	—	—	—	—	(13)
Recoveries	—	4	—	—	—	—	1	5
Ending balance	<u>\$ 1,311</u>	<u>\$ 137</u>	<u>\$ 7,496</u>	<u>\$ 3,579</u>	<u>\$ 2,495</u>	<u>\$ 1,182</u>	<u>\$ 5,844</u>	<u>\$ 22,044</u>
Changes in allowance for credit losses for the six months ended June 30, 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)	3,470
Provision for credit losses	(80)	(145)	790	78	(306)	(224)	1,291	1,404
Charge-offs	—	(30)	—	—	—	—	—	(30)
Recoveries	—	15	—	—	—	—	2	17
Ending balance	<u>\$ 1,311</u>	<u>\$ 137</u>	<u>\$ 7,496</u>	<u>\$ 3,579</u>	<u>\$ 2,495</u>	<u>\$ 1,182</u>	<u>\$ 5,844</u>	<u>\$ 22,044</u>
Allowance for credit losses as of June 30, 2023 allocated to loans evaluated:								
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,195	\$ 2,195
Collectively	1,311	137	7,496	3,579	2,495	1,182	3,649	19,849
Ending balance	<u>\$ 1,311</u>	<u>\$ 137</u>	<u>\$ 7,496</u>	<u>\$ 3,579</u>	<u>\$ 2,495</u>	<u>\$ 1,182</u>	<u>\$ 5,844</u>	<u>\$ 22,044</u>
Loans as of June 30, 2023:								
Individually evaluated	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,030	\$ 10,030
Collectively evaluated	150,620	21,762	310,382	880,600	558,276	217,020	329,369	2,468,029
Loans held for investment measured at fair value	—	17,523	—	—	—	—	—	17,523
Ending balance	<u>\$ 150,620</u>	<u>\$ 39,285</u>	<u>\$ 310,382</u>	<u>\$ 880,600</u>	<u>\$ 558,276</u>	<u>\$ 217,020</u>	<u>\$ 339,399</u>	<u>\$ 2,495,582</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 three months ended June 30, 2022								
Beginning balance	\$ 1,440	\$ 283	\$ 954	\$ 3,789	\$ 2,867	\$ 1,328	\$ 3,224	\$ 13,885
Provision for loan losses	(246)	(16)	120	1,056	368	149	(912)	519
Charge-offs	—	(95)	—	—	—	—	—	(95)
Recoveries	—	48	—	—	—	—	—	48
Ending balance	<u>\$ 1,194</u>	<u>\$ 220</u>	<u>\$ 1,074</u>	<u>\$ 4,845</u>	<u>\$ 3,235</u>	<u>\$ 1,477</u>	<u>\$ 2,312</u>	<u>\$ 14,357</u>
Changes in allowance for loan losses for the six months ended June 30, 2022								
Beginning balance	\$ 1,598	\$ 266	\$ 1,092	\$ 3,553	\$ 2,952	\$ 1,292	\$ 2,979	\$ 13,732
Provision for loan losses	(404)	58	(18)	1,292	283	185	(667)	729
Charge-offs	—	(192)	—	—	—	—	—	(192)
Recoveries	—	88	—	—	—	—	—	88
Ending balance	<u>\$ 1,194</u>	<u>\$ 220</u>	<u>\$ 1,074</u>	<u>\$ 4,845</u>	<u>\$ 3,235</u>	<u>\$ 1,477</u>	<u>\$ 2,312</u>	<u>\$ 14,357</u>
Allowance for loan losses as of December 31, 2022 allocated to loans evaluated:								
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:								
Individually evaluated	\$ 4	\$ 5	\$ 201	\$ —	\$ —	\$ 1,165	\$ 10,762	\$ 12,137
Collectively evaluated	165,555	26,065	285,426	899,722	493,134	213,024	351,029	2,433,955
Loans held for investment measured at fair value	\$ —	\$ 23,321	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 23,321
Ending balance	<u>\$ 165,559</u>	<u>\$ 49,391</u>	<u>\$ 285,627</u>	<u>\$ 899,722</u>	<u>\$ 493,134</u>	<u>\$ 214,189</u>	<u>\$ 361,791</u>	<u>\$ 2,469,413</u>

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 June 30, 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	Revolving Loans Converted to Term	Total	
June 30, 2023	2023	2022	2021	2020	2019	Prior				
Cash, Securities, and Other										
Pass	\$ 2,252	\$ 12,232	\$ 22,220	\$ 5,712	\$ 6,405	\$ 13,269	\$ 88,530	\$ —	\$ 150,620	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Not rated	—	—	—	—	—	—	—	—	—	
Total Cash, Securities, and Other	\$ 2,252	\$ 12,232	\$ 22,220	\$ 5,712	\$ 6,405	\$ 13,269	\$ 88,530	\$ —	\$ 150,620	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Consumer and Other										
Pass	\$ 102	\$ 2,164	\$ 676	\$ 800	\$ 1,075	\$ 27	\$ 16,918	\$ —	\$ 21,762	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Not rated ⁽¹⁾	—	12,721	3,559	1,113	130	—	—	—	17,523	
Total Consumer and Other	\$ 102	\$ 14,885	\$ 4,235	\$ 1,913	\$ 1,205	\$ 27	\$ 16,918	\$ —	\$ 39,285	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ 3	\$ 25	\$ 2	\$ —	\$ —	\$ 30	
Construction and Development										
Pass	\$ 8,625	\$ 231,454	\$ 46,347	\$ 19,620	\$ —	\$ —	\$ 4,336	\$ —	\$ 310,382	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Not rated	—	—	—	—	—	—	—	—	—	
Total Construction and Development	\$ 8,625	\$ 231,454	\$ 46,347	\$ 19,620	\$ —	\$ —	\$ 4,336	\$ —	\$ 310,382	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
1-4 Family Residential										
Pass	\$ 29,331	\$ 391,651	\$ 154,576	\$ 113,083	\$ 38,392	\$ 36,469	\$ 117,098	\$ —	\$ 880,600	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Not rated	—	—	—	—	—	—	—	—	—	
Total 1-4 Family Residential	\$ 29,331	\$ 391,651	\$ 154,576	\$ 113,083	\$ 38,392	\$ 36,469	\$ 117,098	\$ —	\$ 880,600	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total	
June 30, 2023	2023	2022	2021	2020	2019	Prior				
Non-Owner Occupied CRE										
Pass	\$ 31,476	\$ 207,850	\$ 130,026	\$ 79,679	\$ 24,756	\$ 54,668	\$ 24,758	\$ —	\$ 553,213	
Special mention	—	—	—	5,063	—	—	—	—	5,063	
Substandard	—	—	—	—	—	—	—	—	—	
Not rated	—	—	—	—	—	—	—	—	—	
Total Non-Owner Occupied CRE	\$ 31,476	\$ 207,850	\$ 130,026	\$ 84,742	\$ 24,756	\$ 54,668	\$ 24,758	\$ —	\$ 558,276	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Owner Occupied CRE										
Pass	\$ 4,513	\$ 46,604	\$ 58,368	\$ 41,498	\$ 5,702	\$ 52,374	\$ 7,961	\$ —	\$ 217,020	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Not rated	—	—	—	—	—	—	—	—	—	
Total Owner Occupied CRE	\$ 4,513	\$ 46,604	\$ 58,368	\$ 41,498	\$ 5,702	\$ 52,374	\$ 7,961	\$ —	\$ 217,020	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial and Industrial										
Pass	\$ 14,149	\$ 80,825	\$ 45,913	\$ 15,064	\$ 6,971	\$ 14,060	\$ 149,459	\$ —	\$ 326,441	
Special mention	—	—	—	2,928	—	—	—	—	2,928	
Substandard	—	7,954	—	—	—	1,090	986	—	10,030	
Not rated	—	—	—	—	—	—	—	—	—	
Total Commercial and Industrial	\$ 14,149	\$ 88,779	\$ 45,913	\$ 17,992	\$ 6,971	\$ 15,150	\$ 150,445	\$ —	\$ 339,399	
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Total	\$ 90,448	\$ 993,455	\$ 461,685	\$ 284,560	\$ 83,431	\$ 171,957	\$ 410,046	\$ —	\$ 2,495,582	

⁽¹⁾ Includes loans held for investment measured at fair value as of June 30, 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 ⁽¹⁾	26,070	—	—	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	\$ 2,431,775	\$ 2,185	\$ 12,132	\$ 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.

NOTE 4 - GOODWILL

The following presents changes in the carrying amount of goodwill as of the dates noted (dollars in thousands):

	June 30, 2023	December 31, 2022
Balance, beginning of year	\$ 30,400	\$ 30,588
Acquisition activity	—	(188)
Balance, end of period	<u>\$ 30,400</u>	<u>\$ 30,400</u>

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.

Goodwill is tested annually for impairment on October 31 and reviewed quarterly for any potential triggering events.

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. As of June 30, 2023, there has not been any impairment of goodwill identified or recorded. Goodwill totaled \$30.4 million as of June 30, 2023 and December 31, 2022.

NOTE 2 - INVESTMENT SECURITIES

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

June 30, 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	\$ 247	\$ —	\$ (10)	\$ 237	\$ —
Corporate bonds	23,758	—	(3,507)	20,251	(71)
GNMA mortgage-backed securities – residential	36,921	—	(3,278)	33,643	—
FNMA mortgage-backed securities – residential	6,370	—	(545)	5,825	—
Government CMO and MBS - commercial	6,293	11	(412)	5,892	—
Corporate CMO and MBS	3,951	—	(248)	3,703	—
Total securities held-to-maturity	<u>\$ 77,540</u>	<u>\$ 11</u>	<u>\$ (8,000)</u>	<u>\$ 69,551</u>	<u>\$ (71)</u>

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

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>

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 accumulated other comprehensive loss on April 1, 2022 remained in accumulated other comprehensive loss 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 June 30, 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.

June 30, 2023	Amortized Cost	Fair Value
Due within one year	\$ —	\$ —
Due between one year and five years	2,239	2,047
Due between five years and ten years	21,513	18,208
Due after ten years	253	233
Securities (CMO and MBS)	53,535	49,063
Total	<u>\$ 77,540</u>	<u>\$ 69,551</u>

During the year ended December 31, 2022, the Company committed \$6.0 million in total to two bank technology funds. During the six months ended June 30, 2023, the Company made \$0.4 million in contributions to the partnerships. 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 June 30, 2023, the Company held a balance of \$1.7 million, which is included in Other assets in the accompanying Condensed Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$4.3 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 six months ended June 30, 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 June 30, 2023 and December 31, 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 Condensed Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$0.8 million in future SBIC investments.

As of June 30, 2023, securities with market values totaling \$48.4 million were pledged to secure various public deposits and credit facilities of the Company, including \$47.3 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 \$22.6 million were pledged to secure various public deposits and credit facilities of the Company.

As of June 30, 2023 and 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 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):

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
June 30, 2023						
Investment securities held-to-maturity:						
U.S. Treasury debt	\$ —	\$ —	\$ 237	\$ (10)	\$ 237	\$ (10)
Corporate bonds	—	—	20,251	(3,507)	20,251	(3,507)
GNMA mortgage-backed securities – residential	6,267	(393)	27,377	(2,885)	33,644	(3,278)
FNMA mortgage-backed securities – residential	—	—	5,825	(545)	5,825	(545)
Government CMO and MBS - commercial	52	*	5,241	(412)	5,293	(412)
Corporate CMO and MBS	2,689	(162)	990	(86)	3,679	(248)
Total	<u>\$ 9,008</u>	<u>\$ (555)</u>	<u>\$ 59,921</u>	<u>\$ (7,445)</u>	<u>\$ 68,929</u>	<u>\$ (8,000)</u>

(*) Immaterial

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
December 31, 2022						
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 did not sell any securities during the three and six months ended June 30, 2023 or during the year ended December 31, 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. Accrued interest receivable on held-to-maturity debt securities totaled \$0.3 million at June 30, 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 three and six months ended June 30, 2023:

Three Months Ended June 30, 2023	Corporate Bonds	Corporate CMO
Allowance for credit losses:		
Beginning balance	\$ 71	\$ —
Provision for credit losses	—	—
Securities charged-off (recoveries)	—	—
Total ending allowance balance	\$ 71	\$ —
Six Months Ended June 30, 2023	Corporate Bonds	Corporate CMO
Allowance for credit losses:		
Beginning balance	\$ —	\$ —
Impact of ASU 2016-13 adoption ⁽¹⁾	71	—
Provision for credit losses	—	—
Securities charged-off (recoveries)	—	—
Total ending allowance balance	\$ 71	\$ —

⁽¹⁾ 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 June 30, 2023, there were no held-to-maturity securities past due or on non-accrual.

NOTE 5 - 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 Condensed Consolidated Balance Sheets. The following presents the classification of the right-of-use assets and corresponding liabilities within the Condensed Consolidated Balance Sheets, as of the dates noted (dollars in thousands).

		June 30, 2023	December 31, 2022
Lease Right-of-Use Assets	Classification		
Operating lease right-of-use assets	Other assets	\$ 9,033	\$ 8,602
Lease Liabilities	Classification		
Operating lease liabilities	Other liabilities	\$ 11,323	\$ 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.

	June 30, 2023	December 31, 2022
Weighted-Average Remaining Lease Term		
Operating leases	4.72 years	4.85 years
Weighted-Average Discount Rate		
Operating leases	2.73 %	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 Condensed Consolidated Statements of Income. The following presents the Company's net lease costs during the periods presented (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Lease Costs				
Operating lease cost	\$ 775	\$ 824	\$ 1,519	\$ 1,619
Variable lease cost	480	528	973	1,086
Lease costs, net	\$ 1,255	\$ 1,352	\$ 2,492	\$ 2,705

The following 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
2023 ⁽¹⁾	\$ 1,718
2024	3,425
2025	2,493
2026	1,170
2027	1,104
Thereafter	2,046
Total future minimum lease payments	11,956
Less: imputed interest	(633)
Present value of net future minimum lease payments	\$ 11,323

⁽¹⁾ Amount represents the remaining six months of year.

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 three months ended June 30, 2023 and 2022, the Company recognized \$0.1 million of lease income. The Company recognized \$0.2 million of lease income during the six months ended June 30, 2023 and 2022.

The following 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
2023 ⁽¹⁾	\$ 200
2024	350
2025	143
2026	97
2027	43
Thereafter	—
Total undiscounted operating lease income	<u>\$ 833</u>

⁽¹⁾ Amount represents the remaining six months of the year.

NOTE 6 - DEPOSITS

The following presents the Company's interest-bearing deposits as of the dates noted (dollars in thousands):

	June 30, 2023	December 31, 2022
Money market deposit accounts	\$ 1,297,732	\$ 1,336,092
Time deposits	376,147	224,090
Negotiable order of withdrawal accounts	168,537	234,778
Savings accounts	18,737	27,177
Total interest-bearing deposits	<u>\$ 1,861,153</u>	<u>\$ 1,822,137</u>
Estimated aggregate time deposits of \$250 or greater	\$ 97,351	\$ 77,972

Overdraft balances classified as loans totaled \$0.1 million and \$0.2 million as of June 30, 2023 and December 31, 2022, respectively.

The following presents the scheduled maturities of all time deposits for each of the next five years and total amounts thereafter (dollars in thousands):

Year ending December 31,	Time Deposits
2023 ⁽¹⁾	\$ 171,068
2024	159,574
2025	7,342
2026	900
2027	2,536
Thereafter	34,727
Total	<u>\$ 376,147</u>

⁽¹⁾ Amount represents the remaining six months of year.

NOTE 7 - 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 June 30, 2023 and December 31, 2022 amounted to \$1.32 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 \$646.8 million as of June 30, 2023. Each advance is payable at its maturity date.

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 institutions need to quickly sell those securities in times of stress. As of June 30, 2023, the Company has pledged a par value of \$47.3 million in securities under the BTFP and borrowed \$31.0 million with a maturity date of March 27, 2024. The rate for the borrowing is based on the one year overnight swap rate plus 10 basis points and is fixed over the term of the advance based on the date of the advance.

The following presents the Company’s required maturities on FHLB and FRB borrowings due at a single maturity date as of the dates noted (dollars in thousands):

Maturity Date	Rate %	June 30, 2023	December 31, 2022
July 1, 2023 ⁽¹⁾	5.23	\$ 227,367	\$ 131,498
May 5, 2023	0.76	—	10,000
August 1, 2023	5.30	50,000	—
March 27, 2024	4.78	30,997	—
Total		\$ 308,364	\$ 141,498

⁽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. As of June 30, 2023 and December 31, 2022, the Company utilized \$4.2 million and \$5.4 million, respectively, under the PPPLF program which is included in the FHLB and Federal Reserve borrowings line of the Condensed 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 June 30, 2023 and December 31, 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 Condensed 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	\$ 7,958
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	9,893
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	14,823
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	19,549

⁽¹⁾ Remaining net balance includes amortization of debt issuance costs.

For the three months ended June 30, 2023 and 2022, the Company recorded \$0.7 million and \$0.3 million, respectively, of interest expense related to the collective subordinated notes. For the six months ended June 30, 2023 and 2022, the Company recorded \$1.3 million and \$0.7 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 17 – Regulatory Capital Matters for additional information. As of June 30, 2023 and December 31, 2022, the Company was in compliance with the covenant requirements.

NOTE 8 - 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 Condensed Consolidated Balance Sheets. Commitments may expire without being utilized. The Company's exposure to loan 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 presents the Company's financial instruments whose contract amounts represent credit risk, as of the dates noted (dollars in thousands):

	June 30, 2023		December 31, 2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 155,475	\$ 633,104	\$ 211,285	\$ 601,202
Standby letters of credit	13,656	14,189	8,571	16,737
Commitments to make loans to sell	29,207	—	13,553	—
Commitments to make loans	15,592	9,348	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.

Unused lines of credit under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing clients. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

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 funding balance. Refer to Note 3 - 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:

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Beginning balance	\$ 4,395	\$ 419
Impact of adopting ASU 2016-13	—	3,481
(Release) provision for credit losses	(366)	129
Ending balance	<u>\$ 4,029</u>	<u>\$ 4,029</u>

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 condensed consolidated financial statements.

NOTE 9 - 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 three and six months ended June 30, 2023, the Company did not issue any equity or debt securities under this registration statement.

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 able to be earned based on performance of the mortgage division of the Company. The performance based awards fully vested during the year ended December 31, 2020.

As of June 30, 2023, all restricted stock awards were fully vested and no unrecognized compensation expense remains. During the three and six months ended June 30, 2022, the Company recognized \$0.1 million and \$0.2 million, respectively, for the restricted stock awards and no shares of the restricted stock awards vested.

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 June 30, 2023, there were a total of 255,276 shares available for issuance under the 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 six months ended June 30, 2023 and 2022.

During the three and six months ended June 30, 2023 and 2022, the Company recognized no stock based compensation expense associated with stock options. As of June 30, 2023, the Company has no unrecognized stock-based compensation expense related to stock options.

The following presents activity for nonqualified stock options during the six months ended June 30, 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	(5,760)	20.00		
Forfeited or expired	(8,180)	20.31		
Outstanding as of June 30, 2023	170,225	23.04	1.7	(1)
Options fully vested / exercisable as of June 30, 2023	170,225	23.04	1.7	(1)

(1) Nonqualified stock options outstanding at the end of the period and those fully vested/exercisable had immaterial aggregate intrinsic values.

As of June 30, 2023, there were 170,225 options 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 2023 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 presents the activity for the Time Vesting Units, the Financial Performance Units, and the Market Performance Units during the six months ended June 30, 2023:

	Time Vesting Units	Financial Performance Units	Market Performance Units
Outstanding as of December 31, 2022	285,995	235,512	—
Granted	66,919	52,439	—
Vested	(60,672)	—	—
Forfeited	(18,337)	(10,461)	—
Outstanding as of June 30, 2023	273,905	277,490	—

During the three months ended June 30, 2023, the Company issued 37,507 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 14,913 shares, with a combined market value at the dates of settlement of \$0.2 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 six months ended June 30, 2023, the Company issued 43,871 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 16,801 shares, with a combined market value at the dates of settlement of \$0.3 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 three months ended June 30, 2022, the Company issued 53,461 net shares of common stock upon the settlement of Restricted Stock Units. The remaining 21,345 shares, with a combined market value at the dates of settlement of \$0.7 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 six months ended June 30, 2022, the Company issued 61,686 shares net of common stock upon the settlement of Restricted Stock Units. The remaining 25,634 shares, with a combined market value at the dates of settlement of \$0.8 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 66,919 Time Vesting Units with a five-year service period during the six months ended June 30, 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 three months ended June 30, 2023 and 2022, the Company recognized compensation expense of \$0.4 million for the Time Vesting Units. During the six months ended June 30, 2023 and 2022, the Company recognized compensation expense of \$0.8 million and \$0.9 million, respectively, for the Time Vesting Units. As of June 30, 2023, there was \$5.1 million of unrecognized compensation expense related to the Time Vesting Units, which is expected to be recognized over a weighted-average period of 2.0 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 presents the Company's existing Financial Performance Units as of June 30, 2023 (dollars in thousands, except share amounts):

Grant Period	Threshold Accrual	Maximum Issuable Shares at Current Threshold	Unrecognized Compensation Expense	Weighted- Average ⁽¹⁾	Financial Metric End Date	Vesting Requirement End Date
May 1, 2019 through April 30, 2020	150 %	67,730	\$ 110	0.5 years	December 31, 2021	December 31, 2023
May 1, 2020 through December 31, 2020, excluding November 18, 2020	150	72,687	329	1.5 years	December 31, 2022	December 31, 2023
On November 18, 2020	114	23,943	249	1.4 years	December 31, 2022	50% November 18, 2023 & 2025
May 3, 2021 through August 11, 2021	97	33,798	395	2.5 years	December 31, 2023	December 31, 2025
May 2, 2022 through November 2, 2022, excluding August 4, 2022 ⁽²⁾	0	—	—	3.5 years	December 31, 2024	December 31, 2026
On August 4, 2022 ⁽³⁾	33	9,090	455	3.5 years	December 31, 2024	December 31, 2026
On May 1, 2023 ⁽²⁾	0	—	—	4.5 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 June 30, 2023.

⁽³⁾ Performance threshold was not met for the year ended December 31, 2022. As of June 30, 2023, the threshold is not expected to be 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 presents the Company's Financial Performance Units activity during the periods presented (dollars in thousands, except share amounts):

Grant Period	Units Granted		Compensation Expense Recognized			
	Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022	2023	2022
May 1, 2019 through April 30, 2020	—	—	\$ 31	\$ 29	\$ 83	\$ 90
May 1, 2020 through December 31, 2020, excluding November 18, 2020	—	—	38	29	86	82
On November 18, 2020	—	—	21	(2)	40	28
May 3, 2021 through August 11, 2021	—	—	(147)	58	(91)	139
May 2, 2022 through November 2022, excluding August 4, 2022 ⁽¹⁾	322	64,629	—	58	—	58
August 4, 2022 ⁽²⁾	—	—	(24)	—	5	—
On May 1, 2023 ⁽¹⁾	52,117	—	—	—	—	—

⁽¹⁾ Performance threshold was not met as of the three and six months ended June 30, 2023, therefore, no compensation expense was recognized for the three and six months ended June 30, 2023.

⁽²⁾ Performance threshold was not met for the year ended December 31, 2022. As of June 30, 2023, the threshold is not expected to be met for the year ended December 31, 2023. The 100% threshold is expected to be met for the year ended December 31, 2024.

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 10 - EARNINGS PER COMMON SHARE

The following presents the calculation of basic and diluted earnings per common share during the periods presented (dollars in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Earnings per common share - Basic				
Numerator:				
Net income available for common shareholders	\$ 1,506	\$ 4,482	\$ 5,326	\$ 10,006
Denominator:				
Basic weighted average shares	9,532,397	9,450,987	9,518,135	9,434,742
Earnings per common share - basic	\$ 0.16	\$ 0.47	\$ 0.56	\$ 1.06
Earnings per common share - Diluted				
Numerator:				
Net income available for common shareholders	\$ 1,506	\$ 4,482	\$ 5,326	\$ 10,006
Denominator:				
Basic weighted average shares	9,532,397	9,450,987	9,518,135	9,434,742
Diluted effect of common stock equivalents:				
Stock options	—	52,870	8,012	55,005
Time Vesting Units	70,151	122,090	97,689	155,813
Financial Performance Units	83,853	91,720	85,782	92,524
Market Performance Units	—	—	—	6,827
Total diluted effect of common stock equivalents	154,004	266,680	191,483	310,169
Diluted weighted average shares	9,686,401	9,717,667	9,709,618	9,744,911
Earnings per common share - diluted	\$ 0.16	\$ 0.46	\$ 0.55	\$ 1.03

Diluted earnings per share was computed without consideration to potentially dilutive instruments as their inclusion would have been anti-dilutive.

The following presents potentially dilutive securities excluded from the diluted earnings per share calculation during the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock options	170,225	—	63,299	—
Time Vesting Units	213,322	121,942	53,331	60,971
Financial Performance Units	9,090	—	2,273	—
Total potentially dilutive securities	392,637	121,942	118,903	60,971

NOTE 11 - INCOME TAXES

During the three and six months ended June 30, 2023, the Company recorded an income tax provision of \$0.5 million and \$1.9 million, respectively, reflecting an effective tax rate of 26.0%. During the three and six months ended June 30, 2022, the Company recorded an income tax provision of \$1.5 million and \$3.3 million, respectively, reflecting an effective tax rate of 25.0% and 24.7%, respectively.

NOTE 12 - RELATED-PARTY TRANSACTIONS

The Bank extends credit to certain covered parties including Company directors, executive officers, and their affiliates. As of June 30, 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 presents a summary of related-party loan activity as of the dates noted (dollars in thousands):

	June 30, 2023	December 31, 2022
Balance, beginning of year	\$ 16,859	\$ 12,833
Funded loans	5,690	15,079
Payments collected	(3,513)	(11,053)
Balance, end of period	<u>\$ 19,036</u>	<u>\$ 16,859</u>

Deposits from related parties held by the Bank as of June 30, 2023 and December 31, 2022 totaled \$17.3 million and \$36.9 million, respectively.

The Company leases office space from an entity controlled by one of the Company's board members. During each of the six months ended June 30, 2023 and 2022, the Company incurred \$0.1 million of expenses related to these leases.

NOTE 13 - 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 asset 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: 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 Level 1 classification.

The following presents assets and liabilities measured on a recurring basis as of the dates noted (dollars in thousands):

June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
Financial Assets				
Mortgage loans held for sale	\$ —	\$ 19,746	\$ —	\$ 19,746
Loans held at fair value	\$ —	\$ —	\$ 17,523	\$ 17,523
Forward commitments and FSC	\$ —	\$ 233	\$ —	\$ 233
Equity securities	\$ 627	\$ 122	\$ —	\$ 749
Guarantee asset	\$ —	\$ —	\$ 166	\$ 166
IRLC, net	\$ —	\$ —	\$ 453	\$ 453
Equity warrants	\$ —	\$ —	\$ 825	\$ 825
Swap derivative asset	\$ —	\$ 729	\$ —	\$ 729
Financial Liabilities				
Swap derivative liabilities	\$ —	\$ 45	\$ —	\$ 45

December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
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 six months ended June 30, 2023 or year ended December 31, 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 June 30, 2023, equity securities, equity warrants, IRLC, and guarantee assets have been recorded at fair value within the Other assets line item in the Condensed Consolidated Balance Sheets. All changes are recorded in the Other line item in the Condensed 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 Condensed 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.

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 six months ended June 30, 2023, the Company reclassified \$39.2 million of loans held for investment to loans held for sale and received a commitment from third party investors to purchase the loans. As of June 30, 2023, a total of \$41.2 million reclassified loans held for sale had been sold.

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 June 30, 2023 or December 31, 2022. As of June 30, 2023, there were 126 loans, totaling \$0.2 million, accounted for under the fair value option that were on non-accrual. As of December 31, 2022, there were 145 loans totaling \$0.1 million, accounted for under the fair value option that were on non-accrual. During the three and six months ended June 30, 2023, the Company recorded net charge-offs of \$0.6 million and \$1.0 million, respectively, on loans accounted for under the fair value option to Net gain/(loss) on loans accounted for under the fair value option on the condensed consolidated statements of income. During the three and six months ended June 30, 2022, the Company recorded no charge-offs on loans accounted for under the fair value option.

The following provides 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 (dollars in thousands):

	June 30, 2023								
	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	\$ 19,746	\$ 19,529	\$ 217	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans held for investment	17,523	18,274	(751)	148	157	(9)	148	157	(9)
	<u>\$ 37,269</u>	<u>\$ 37,803</u>	<u>\$ (534)</u>	<u>\$ 148</u>	<u>\$ 157</u>	<u>\$ (9)</u>	<u>\$ 148</u>	<u>\$ 157</u>	<u>\$ (9)</u>

	December 31, 2022								
	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	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 presents the changes in fair value of loans accounted for under the fair value option as of the dates noted (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Mortgage loans held for sale	\$ 60	\$ (1,086)	\$ 128	\$ (419)
Loans held for sale	—	—	(20)	—
Loans held for investment	(507)	328	(657)	328
	<u>\$ (447)</u>	<u>\$ (758)</u>	<u>\$ (549)</u>	<u>\$ (91)</u>

The following summarizes the activity pertaining to loans accounted for under the fair value option as of the dates noted (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Mortgage loans held for sale				
Balance at beginning of period	\$ 9,873	\$ 33,663	\$ 8,839	\$ 30,620
Loans originated	97,117	279,412	151,189	470,494
Fair value changes	59	(1,086)	128	(419)
Sales	(87,303)	(285,777)	(140,403)	(474,443)
Settlements	—	(10)	(7)	(50)
Balance at end of period	\$ 19,746	\$ 26,202	\$ 19,746	\$ 26,202
	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Loans held for sale				
Balance at beginning of period	\$ —	\$ —	\$ 1,965	\$ —
Loans transferred from held for investment	—	—	39,221	—
Fair value changes	—	—	(20)	—
Sales	—	—	(40,761)	—
Settlements	—	—	(405)	—
Balance at end of period	\$ —	\$ —	\$ —	\$ —
	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Loans held for investment				
Balance at beginning of period	\$ 20,807	\$ 6,380	\$ 23,321	\$ —
Loans acquired	—	17,869	1,162	24,249
Fair value changes	(507)	328	(657)	328
Net charge-offs	(617)	—	(1,009)	—
Settlements	(2,160)	(3,100)	(5,294)	(3,100)
Balance at end of period	\$ 17,523	\$ 21,477	\$ 17,523	\$ 21,477

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 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 presents assets measured on a nonrecurring basis as of the dates noted (dollars in thousands):

June 30, 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:				
Commercial and Industrial	\$ —	\$ —	\$ 6,744	\$ 6,744

The sales comparison 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 June 30, 2023 and December 31, 2022, the Company did not own any OREO properties.

As of June 30, 2023, total collateral dependent loans measured using fair value had carrying values of \$8.9 million and were classified as Level 3. Collateral dependent loans accounted for \$2.2 million of the allowance on individually analyzed loans as of June 30, 2023 and no specific reserves as of December 31, 2022. The Company recorded no charge offs from the allowance on individually analyzed loans during the six months ended June 30, 2023 or during the year ended December 31, 2022. During the three and six months ended June 30, 2023, the Company recorded an immaterial amount of charge offs. During the year ended December 31, 2022, the Company recorded \$0.3 million of charge offs on loans held at amortized cost.

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):

Three Months Ended June 30, 2023	Corporate Bonds	Loans Held at Fair Value	FSC	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ —	\$ 20,807	\$ —	\$ 235	\$ 723	\$ 825
Acquisitions	—	—	—	—	454	—
Originations	—	—	—	9	(692)	—
Gains/(losses) in net income, net	—	(507)	—	(78)	(32)	—
Settlements	—	(2,777)	—	—	—	—
Ending balance	\$ —	\$ 17,523	\$ —	\$ 166	\$ 453	\$ 825

Three Months Ended June 30, 2022	Corporate Bonds	Loans Held at Fair Value	FSC	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ 6,215	\$ 6,380	\$ —	\$ 206	\$ 990	\$ 402
Acquisitions	—	17,869	—	—	1,083	—
Originations	—	—	—	—	(2,063)	—
Gains/(losses) in net income, net	—	328	—	(32)	826	323
Transfer to held-to-maturity	(6,215)	—	—	—	—	—
Settlements	—	(3,100)	—	—	—	—
Ending balance	\$ —	\$ 21,477	\$ —	\$ 174	\$ 836	\$ 725

Six Months Ended June 30, 2023	Corporate Bonds	Loans Held at Fair Value	FSC	Guarantee Asset	IRLC	Equity Warrants
Beginning balance	\$ —	\$ 23,321	\$ —	\$ 143	\$ 229	\$ 825
Acquisitions	—	1,162	—	—	1,340	—
Originations	—	—	—	14	(2,178)	—
Gains/(losses) in net income, net	—	(657)	—	9	1,062	—
Settlements	—	(6,303)	—	—	—	—
Ending balance	<u>\$ —</u>	<u>\$ 17,523</u>	<u>\$ —</u>	<u>\$ 166</u>	<u>\$ 453</u>	<u>\$ 825</u>

Six Months Ended June 30, 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	24,249	9	—	2,697	242
Originations	—	—	—	—	(3,417)	—
Gains/(losses) in net income, net	—	328	—	(63)	83	323
Unrealized gains, net	102	—	—	—	—	—
Transfer to held-to-maturity	(6,215)	—	—	—	—	—
Settlements	—	(3,100)	—	—	—	—
Ending balance	<u>\$ —</u>	<u>\$ 21,477</u>	<u>\$ —</u>	<u>\$ 174</u>	<u>\$ 836</u>	<u>\$ 725</u>

The following presents quantitative information about Level 3 assets measured on a recurring and nonrecurring basis as of the dates noted (dollars in thousands):

Quantitative Information about Level 3 Fair Value Measurements as of June 30, 2023				
	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Recurring fair value				
Loans held for investment at fair value	\$ 17,523	Discounted cash flow	Discount rate	8% to 9% (8%)
Guarantee asset	166	Discounted cash flow	Discount rate Prepayment rate	5% (5%) 5% (5%)
IRLC, net	453	Best execution model	Pull through	54% to 100% (90%)
Equity warrants	825	Black-Scholes option pricing model	Volatility Risk-free interest rate Remaining life	32.7% to 88.9% (43.6%) 4.59% (4.59%) 0 to 3 years
Nonrecurring fair value				
Collateral dependent loans:				
Commercial and Industrial	6,575	Credit enhancement - guarantee asset value	Market rate adjustments	44% (27%)
Commercial and Industrial	169	Sales comparison, Market approach - guideline transaction method	Loss given default	35% to 61% (50)%

Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2022				
	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):

June 30, 2023	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 297,568	\$ 297,568	\$ —	\$ —
Held-to-maturity securities, net of ACL	77,469	237	61,516	7,798
Loans, net ⁽¹⁾	2,456,015	—	—	2,370,315
Accrued interest receivable	11,135	11,135	—	—
Liabilities:				
Deposits	2,375,394	1,999,248	—	392,455
Borrowings:				
FHLB borrowings – fixed rate	308,364	—	308,316	—
Federal Reserve borrowings – fixed rate	4,236	4,236	—	—
Subordinated notes – fixed-to-floating rate	52,223	—	—	55,794
Accrued interest payable	1,788	1,788	—	—

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:				
Deposits	2,405,229	2,181,139	—	228,868
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 \$17.5 million and \$23.2 million as of June 30, 2023 and December 31, 2022, respectively, as these are carried at fair value.

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 condensed 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: 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.

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 14 - 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 and brokered CDs. 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 June 30, 2023 was \$50.0 million. As of June 30, 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 six months ended June 30, 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 June 30, 2023 was \$19.0 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 condensed consolidated balance sheets as of June 30, 2023 (dollars in thousands):

	As of June 30, 2023	
	Notional Amount	Fair Value
Included in other assets:		
Derivatives designated as hedges:		
Interest rate swaps - cash flow hedge	\$ 50,000	\$ 684
Derivatives not designated as hedging instruments:		
Interest rate swaps related to customer loans	18,991	45
Total included in other assets		\$ 729
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	18,991	45
Total included in other liabilities		\$ 45

The effect of cash flow hedge accounting on accumulated other comprehensive income for the three and six months ended June 30, 2023 is as follows (dollars in thousands):

	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
Three Months Ended June 30, 2023			
Interest rate contracts	\$ 787	\$ —	\$ —
Six Months Ended June 30, 2023			
Interest rate contracts	\$ 519	\$ —	\$ —

For the three and six months ended June 30, 2023, the Company recorded \$0.1 million and \$0.2 million of interest income related to the swap to Other borrowed funds interest expense on the condensed consolidated statements of income.

The effect of derivatives not designated as hedging instruments recorded in Other non-interest income on the condensed consolidated statements of income for the three and six months ended June 30, 2023 was immaterial.

NOTE 15 - 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 as of or during the periods presented (dollars in thousands):

As of or for the three months ended June 30, 2023	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 36,142	\$ 230	\$ 36,372
Total interest expense	17,937	—	17,937
Provision for credit losses	1,843	—	1,843
Net interest income, after provision for credit losses	16,362	230	16,592
Non-interest income	3,167	795	3,962
Total income before non-interest expense	19,529	1,025	20,554
Depreciation and amortization expense	580	9	589
All other non-interest expense	16,520	1,410	17,930
Income (loss) before income taxes	\$ 2,429	\$ (394)	\$ 2,035
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	2,983,814	21,832	3,005,646

As of or for the three months ended June 30, 2022	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 21,644	\$ 229	\$ 21,873
Total interest expense	1,493	—	1,493
Provision for credit losses	519	—	519
Net interest income, after provision for credit losses	19,632	229	19,861
Non-interest income	5,649	1,049	6,698
Total income before non-interest expense	25,281	1,278	26,559
Depreciation and amortization expense	523	11	534
All other non-interest expense	17,834	2,215	20,049
Income before income taxes	\$ 6,924	\$ (948)	\$ 5,976
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	2,513,170	28,323	2,541,493

As of or for the six months ended June 30, 2023	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 70,742	\$ 342	\$ 71,084
Total interest expense	33,076	—	33,076
Provision for credit losses	1,533	—	1,533
Net interest income, after provision for credit losses	36,133	342	36,475
Non-interest income	7,940	1,828	9,768
Total income before non-interest expense	44,073	2,170	46,243
Depreciation and amortization expense	1,166	17	1,183
All other non-interest expense	34,723	3,141	37,864
Income before income taxes	\$ 8,184	\$ (988)	\$ 7,196
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	2,983,814	21,832	3,005,646

As of or for the six months ended June 30, 2022	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 41,331	\$ 419	\$ 41,750
Total interest expense	2,874	—	2,874
Provision for loan losses	729	—	729
Net interest income, after provision for loan losses	37,728	419	38,147
Non-interest income	11,710	3,376	15,086
Total income before non-interest expense	49,438	3,795	53,233
Depreciation and amortization expense	1,070	24	1,094
All other non-interest expense	34,431	4,416	38,847
Income before income taxes	\$ 13,937	\$ (645)	\$ 13,292
Goodwill	\$ 30,400	\$ —	\$ 30,400
Total assets	2,513,170	28,323	2,541,493

NOTE 16 – LOW-INCOME HOUSING TAX CREDIT INVESTMENTS

On December 19, 2019, the Company invested in a low-income housing tax credit ("LIHTC") investment. As of June 30, 2023 and December 31, 2022, the balance of the LIHTC investment was \$2.3 million and \$2.4 million, respectively. These balances are reflected in the Other assets line item of the Condensed Consolidated Balance Sheets. As of June 30, 2023 and December 31, 2022, there were no unfunded commitments related to the LIHTC investment. On June 26, 2023, the Company entered into agreements related to two additional LIHTC investments for \$3.0 million per investment. The investments had not yet funded as of June 30, 2023, and there were no related LIHTC investment balances as of June 30, 2023. The total unfunded commitment related to the LIHTC investments as of June 30, 2023 was \$6.0 million.

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 Condensed Consolidated Statements of Income. During the three months ended June 30, 2023 and 2022, the Company recognized amortization expense of \$0.1 million. During the six months ended June 30, 2023 and 2022, the Company recognized amortization expense of \$0.2 million.

Additionally, during the three months ended June 30, 2023 and 2022, the Company recognized \$0.1 million of tax credits and other benefits from the LIHTC investment. During the six months ended June 30, 2023 and 2022, the Company recognized \$0.2 million of tax credits and other benefits. During the three and six months ended June 30, 2023 and 2022, the Company did not incur any impairment losses.

NOTE 17 - 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 condensed 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") have been fully phased in. The net unrealized gain or loss on held-to-maturity securities included in AOCI and accumulated net gains or losses on cash flow hedges are not included in computing regulatory capital. During the year ended December 31, 2022, First Western made capital injections of \$6.0 million into the Bank. Management believes as of June 30, 2023, First Western and the Bank meet all capital adequacy requirements to which they are subject.

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 June 30, 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, which are fully effective following minimum ratios: (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 its 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 June 30, 2023 and December 31, 2022, 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 June 30, 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 it was subject as of June 30, 2023 and December 31, 2022.

The following presents the actual and required capital amounts and ratios as of dates noted (dollars in thousands):

June 30, 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	\$ 242,040	10.34 %	\$ 140,484	6.0 %	\$ 187,312	8.0 %
Consolidated	217,170	9.26	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	242,040	10.34	105,363	4.5	152,191	6.5
Consolidated	217,170	9.26	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	262,989	11.23	187,312	8.0	234,140	10.0
Consolidated	291,119	12.41	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	242,040	8.70	111,300	4.0	139,125	5.0
Consolidated	217,170	7.80	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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist readers in understanding our financial condition and results of operations for the three and six months ended June 30, 2023 and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included in this Quarterly Report on Form 10-Q (this "Form 10-Q") and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 15, 2023. Unless we state otherwise or the context otherwise requires, references in this Form 10-Q 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 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 Note Regarding Forward-Looking Statements." Also, see the risk factors and other cautionary statements described under the heading "Item 1A - Risk Factors" included in our Annual Report Form 10-K filed with the SEC on March 15, 2023 and in Part II–Item 1A of this Form 10-Q. 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 a local chairman 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 June 30, 2023, we have expanded our footprint into thirteen full service profit centers, four loan production offices, and one trust office located across five states. As of and for the six months ended June 30, 2023, we had \$3.01 billion in total assets, \$46.2 million in total revenues, and provided fiduciary and advisory services on \$6.50 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 peers at \$701.2 million, or 29.5% of total deposits as of June 30, 2023. The Company has a low amount of held-to-maturity securities, which represent 2.6% of Total assets, and carries unrecognized losses amounting to 3.3% of Total shareholders' equity as of June 30, 2023. We feel we have maintained high credit quality standards which have kept our loan losses at immaterial levels and 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 Condensed 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. 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, 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 15 - Segment Reporting of the accompanying Notes to the Condensed 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 June 30, 2023, the Bank’s capital ratios exceeded the current well capitalized regulatory requirements established under Basel III.

Results of Operations

Overview

The three months ended June 30, 2023 compared with the three months ended June 30, 2022. We reported net income available to common shareholders of \$1.5 million for the three months ended June 30, 2023, compared to \$4.5 million of net income available to common shareholders for the three months ended June 30, 2022, a \$3.0 million, or 66.4% decrease. For the three months ended June 30, 2023, our income before income tax was \$2.0 million, a \$3.9 million, or 65.9% decrease from the three months ended June 30, 2022. The decrease was primarily driven by a \$3.3 million decrease in net interest income, after provision for credit losses and a \$2.7 million decrease in non-interest income, partially offset by a \$2.1 million decrease in non-interest expense. The decrease in net interest income, after provision for credit losses, was primarily due to a \$2.0 million allowance recorded on problem loan credits and higher interest expense driven primarily by higher deposit costs, offset partially by higher interest income. The decrease in non-interest income was driven by \$1.2 million of impairment to the carrying value of contingent consideration asset and losses of \$1.1 million recorded on loans accounted for under the fair value option in the second quarter of 2023. The decrease in non-interest expense was primarily driven by lower salaries and employee benefits related to staffing reductions to better align with lower revenue.

The six months ended June 30, 2023 compared with the six months ended June 30, 2022. We reported net income available to common shareholders of \$5.3 million for the six months ended June 30, 2023, compared to \$10.0 million of net income available to common shareholders for the six months ended June 30, 2022, a \$4.7 million, or 46.8% decrease. For the six months ended June 30, 2023, our income before income tax was \$7.2 million, a \$6.1 million, or 45.9% decrease from the six months ended June 30, 2022. The decrease was primarily driven by a \$5.3 million decrease in non-interest income and a \$1.7 million decrease in net interest income, after provision for credit losses, partially offset by a \$0.9 million decrease in non-interest expense. The decrease in non-interest income was due to a \$1.4 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 contingent consideration asset, and losses of \$1.7 million recorded on loans accounted for under the fair value option in the first half of 2023. The decrease in net interest income, after provision for credit losses, was primarily due to higher rates on deposits and borrowings resulting from year-over-year growth, offset partially by an increase in interest and fees on loans resulting from loan growth and higher loan yields. The decrease in non-interest expense was primarily driven by lower salaries and employee benefits related to staffing reductions to better align with current revenue.

Net Interest Income

The three months ended June 30, 2023 compared with the three months ended June 30, 2022. For the three months ended June 30, 2023, net interest income, before the provision for credit losses, was \$18.4 million, a decrease of \$1.9 million, or 9.5%, compared to the three months ended June 30, 2022. The decrease in net interest income was driven by a \$299.9 million increase in average interest-bearing deposits with a 316 basis point increase in the average rates on interest-bearing deposits, in addition to a \$422.3 million increase in average interest-bearing liabilities with a 318 basis point increase in the average rates, partially offset by a \$461.6 million increase in average loans outstanding with a 135 basis point increase in average yield on loans. Net interest margin decreased 65 basis points to 2.73% in the second quarter of 2023 from 3.38% reported in the second quarter of 2022.

The six months ended June 30, 2023 compared with the six months ended June 30, 2022. For the six months ended June 30, 2023, net interest income, before the provision for credit losses, was \$38.0 million, a decrease of \$0.9 million, or 2.2%, compared to the six months ended June 30, 2022. The decrease in net interest income was driven by a \$250.6 million increase in average interest-bearing deposits with a 293 basis point increase in the average rates on interest-bearing deposits, in addition to a \$376.1 million increase in average interest-bearing liabilities with a 296 basis point increase in the average rates, partially offset by a \$509.0 million increase in average loans outstanding and a 131 basis point increase in the average yield on loans. Net interest margin decreased 37 basis points to 2.83% for the six months ended June 30, 2023 from 3.20% reported for the six months ended June 30, 2022.

The increase in average loans outstanding for the three and six months ended June 30, 2023 compared to the same period in 2022 was due to organic loan growth. Average loan yields were 5.47% and 5.38% for the three and six months ended June 30, 2023, compared to 4.12% and 4.08% for the three and six months ended June 30, 2022. The increase in loan yields during the three and six month periods were 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 for the three and six months ended June 30, 2023 compared to the same period in 2022. Our average investment securities balances during the three and six months ended June 30, 2023 was \$80.1 million and \$81.1 million, an increase of \$10.8 million and \$18.6 million from the three and six months ended June 30, 2022.

Interest expense on deposits increased during the three and six months ended June 30, 2023 compared to the same period in 2022. Average interest-bearing deposit rates were 3.44% and 3.20% for the three and six months ended June 30, 2023, compared to 0.29% and 0.26% for the three and six months ended June 30, 2022. The growth in interest-bearing deposit rates was primarily attributable to the higher interest rate environment and highly competitive deposit market.

The following presents an analysis of net interest income and net interest margin during 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)	As of or for the Three Months Ended June 30,					
	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	\$ 135,757	\$ 1,666	4.92 %	\$ 320,656	\$ 547	0.68 %
Federal funds sold	—	—	—	1,017	2	0.79
Investment securities ⁽²⁾	80,106	627	3.14	69,320	418	2.42
Correspondent bank stock	8,844	145	6.58	1,555	14	3.61
Loans ⁽³⁾	2,471,587	33,704	5.47	2,010,024	20,663	4.12
Mortgage loans held for sale ⁽⁵⁾	15,841	230	5.82	19,452	229	4.72
Interest-earning assets ⁽⁴⁾	2,712,135	36,372	5.38	2,422,024	21,873	3.62
Allowance for credit losses	(20,077)			(13,257)		
Noninterest-earning assets	124,561			118,302		
Total assets	<u>\$ 2,816,619</u>			<u>\$ 2,527,069</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 1,847,788	15,864	3.44	\$ 1,547,901	1,103	0.29
FHLB and Federal Reserve borrowings	123,578	1,361	4.42	20,815	28	0.54
Subordinated notes	52,186	712	5.47	32,533	362	4.46
Total interest-bearing liabilities	2,023,552	17,937	3.56	1,601,249	1,493	0.37
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	527,562			679,531		
Other liabilities	23,850			19,194		
Total noninterest-bearing liabilities	551,412			698,725		
Total shareholders' equity	241,655			227,095		
Total liabilities and shareholders' equity	<u>\$ 2,816,619</u>			<u>\$ 2,527,069</u>		
Net interest rate spread ⁽⁶⁾			1.82			3.25
Net interest income ⁽⁷⁾		<u>\$ 18,435</u>			<u>\$ 20,380</u>	
Net interest margin ⁽⁸⁾			2.73			3.38

	As of and For the Six Months Ended June 30,					
	2023			2022		
	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate	Average Balance ⁽¹⁾	Interest Earned / Paid	Average Yield / Rate
<i>(Dollars in thousands)</i>						
Assets						
Interest-earning assets:						
Interest-bearing deposits in other financial institutions	\$ 131,705	\$ 3,069	4.70 %	\$ 397,199	\$ 778	0.39 %
Federal funds sold	—	—	—	1,182	3	0.51
Investment securities ⁽²⁾	81,106	1,256	3.12	62,530	755	2.43
Correspondent bank stock	9,216	318	6.96	1,618	35	4.36
Loans ⁽³⁾	2,475,594	66,098	5.38	1,966,639	39,760	4.08
Mortgage loans held for sale ⁽⁵⁾	11,704	343	5.91	21,067	419	4.01
Interest-earning assets ⁽⁴⁾	2,709,325	71,084	5.29	2,450,235	41,750	3.44
Allowance for credit losses	(20,200)			(13,485)		
Noninterest-earning assets	124,872			119,167		
Total assets	<u>\$ 2,813,997</u>			<u>\$ 2,555,917</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 1,827,006	28,956	3.20	\$ 1,576,449	2,046	0.26
FHLB and Federal Reserve borrowings	133,057	2,735	4.15	26,925	67	0.50
Subordinated notes	52,161	1,385	5.35	32,735	761	4.69
Total interest-bearing liabilities	2,012,224	33,076	3.31	1,636,109	2,874	0.35
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	536,566			674,148		
Other liabilities	25,021			21,363		
Total noninterest-bearing liabilities	561,587			695,511		
Total shareholders' equity	240,186			224,297		
Total liabilities and shareholders' equity	<u>\$ 2,813,997</u>			<u>\$ 2,555,917</u>		
Net interest rate spread ⁽⁶⁾			1.98			3.09
Net interest income ⁽⁷⁾		<u>\$ 38,008</u>			<u>\$ 38,876</u>	
Net interest margin ⁽⁸⁾			2.83			3.20

⁽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⁾ Tax-equivalent yield adjustments are immaterial.

⁽⁵⁾ 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 Condensed Consolidated Statements of Income. These balances are included in the margin calculations in these tables.

⁽⁶⁾ Net interest spread is the average yield on interest-earning assets (excluding mortgage loans held for sale) 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 presents the dollar amount of changes in interest income and interest expense during the periods presented for each component of interest-earning assets and interest-bearing liabilities (excluding mortgage loans held for sale), 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):

	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	Compared to 2022			Compared to 2022		
	Increase (Decrease) Due Change in:		Total Increase (Decrease)	Increase (Decrease) Due Change in:		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest-earning assets:						
Interest-bearing deposits in other financial institutions \$	(2,269)	\$ 3,388	\$ 1,119	\$ (6,187)	\$ 8,478	\$ 2,291
Federal funds sold	(2)	—	(2)	(3)	—	(3)
Investment securities	84	125	209	288	213	501
Correspondent bank stock	120	11	131	262	21	283
Loans	6,294	6,747	13,041	13,589	12,749	26,338
Mortgage loans held for sale	(52)	53	1	(274)	198	(76)
Total increase in interest income	4,175	10,324	14,499	7,675	21,659	29,334
Interest-bearing liabilities:						
Interest-bearing deposits	2,575	12,186	14,761	3,971	22,939	26,910
FHLB and Federal Reserve borrowings	1,132	201	1,333	2,182	486	2,668
Subordinated notes	268	82	350	516	108	624
Total increase in interest expense	3,975	12,469	16,444	6,669	23,533	30,202
Increase in net interest income	\$ 200	\$ (2,145)	\$ (1,945)	\$ 1,006	\$ (1,874)	\$ (868)

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. During the quarter two problem loans totaling \$1.8 million were paid in full after successful workout by the resolution team. For the three and six months ended June 30, 2023, we recorded a \$1.8 million and \$1.5 million provision for credit losses. The provision recorded for the three and six months ended June 30, 2023 includes a \$2.0 million allowance recorded on a non-performing asset, partially offset by general provisioning consistent with our net growth of the originated loan portfolio, changes in our portfolio mix and improved macro-economic forecasts used in our modeling.

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

Non-Interest Income

The three months ended June 30, 2023 compared with the three months ended June 30, 2022. For the three months ended June 30, 2023 compared with the three months ended June 30, 2022, non-interest income decreased \$2.7 million, or 40.8%, to \$4.0 million. The decrease in non-interest income during the three months ended June 30, 2023 was primarily due to \$1.2 million of impairment to the carrying value of a contingent consideration asset and losses of \$1.1 million on loans accounted for under the fair value option.

The six months ended June 30, 2023 compared with the six months ended June 30, 2022. For the six months ended June 30, 2023 compared with the six months ended June 30, 2022, non-interest income decreased \$5.3 million, or 35.3%, to \$9.8 million. The decrease in non-interest income during the six months ended June 30, 2023 was due to lower mortgage segment activity as higher interest rates and decreased inventory levels drove declines in both refinance and purchase volume, \$1.2 million of impairment to the carrying value of a contingent consideration asset recorded in the second quarter of 2023, and \$1.7 million loss on loans accounted for under the fair value option.

The following presents the significant categories of our non-interest income during the periods presented (dollars in thousands):

(Dollars in thousands)	Three Months Ended June 30,		Change	
	2023	2022	\$	%
Non-interest income:				
Trust and investment management fees	\$ 4,602	\$ 4,781	\$ (179)	(3.7)%
Net gain on mortgage loans	774	924	(150)	(16.2)
Bank fees	591	590	1	0.2
Risk management and insurance fees	103	83	20	24.1
Income on company-owned life insurance	91	87	4	4.6
Net loss on loans accounted for under the fair value option	(1,124)	(155)	(969)	*
Unrealized (loss)/gain recognized on equity securities	(11)	299	(310)	*
Other	(1,064)	89	(1,153)	*
Total non-interest income	<u>\$ 3,962</u>	<u>\$ 6,698</u>	<u>\$ (2,736)</u>	(40.8)

(Dollars in thousands)	Six Months Ended June 30,		Change	
	2023	2022	\$	%
Non-interest income:				
Trust and investment management fees	\$ 9,237	\$ 9,947	\$ (710)	(7.1)%
Net gain on mortgage loans	1,793	3,227	(1,434)	(44.4)
Bank fees	1,183	1,260	(77)	(6.1)
Risk management and insurance fees	230	192	38	19.8
Income on company-owned life insurance	181	173	8	4.6
Net gain on equity interests	—	1	(1)	*
Net loss on loans held for sale	(178)	—	(178)	*
Net loss on loans accounted for under the fair value option	(1,667)	(155)	(1,512)	*
Unrealized (loss)/gain recognized on equity securities	(1)	267	(268)	*
Other	(1,010)	174	(1,184)	*
Total non-interest income	<u>\$ 9,768</u>	<u>\$ 15,086</u>	<u>\$ (5,318)</u>	(35.3)

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

Trust and investment management fees—For the three months ended June 30, 2023 compared to the same period in 2022, our trust and investment management fees decreased \$0.2 million, or 3.7%. For the six months ended June 30, 2023 compared to the same period in 2022, our trust and investment management fees decreased \$0.7 million, or 7.1%. The decreases for the three and six months ended June 30, 2023 are due to decreased average AUM balances from which fees are calculated compared to the same periods a year ago.

Net gain on mortgage loans—For the three months ended June 30, 2023 compared to the same period in 2022, our net gain on mortgage loans decreased by \$0.2 million, or 16.2%, to \$0.8 million. For the six months ended June 30, 2023 compared to the same period in 2022, our net gain on mortgage loans decreased by \$1.4 million, or 44.4%, to \$1.8 million. The decrease in net gain on mortgage loans during the three and six months was primarily driven by a slowdown in new lock volume on held for sale loans associated with rising interest rates and reduced housing inventory.

Bank fees— For the three months ended June 30, 2023 compared to the same period in 2022, our bank fees remained consistent at \$0.6 million. For the six months ended June 30, 2023 compared to the same period in 2022, our bank fees decreased by \$0.1 million or 6.1%. The decrease during the six months was primarily driven by decreased treasury management fees as a result of rising interest rates driving higher earnings credit on commercial operating balances.

Net loss on loans held for sale— During the six months ended June 30, 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.

Net (loss)/gain on loans accounted for under the fair value option— The Company elected the fair value option on certain new loans purchased in 2022. For the three months ended June 30, 2023 compared to the same period in 2022, loans accounted for under the fair value option had an additional \$1.0 million in losses recorded. For the six months ended June 30, 2023 compared to the same period in 2022, loans accounted for under the fair value option had an additional \$1.5 million in losses recorded. The increase for the three and six months was attributable to net charge-offs during the periods and the decline in fair value as a result of the rising interest rates on comparable loans in the market.

Unrealized gains/(losses) on equity securities— For the three and six months ended June 30, 2023 compared to the same period in 2022, our unrealized gains on equity securities decreased by \$0.3 million. The decrease was primarily driven by fair value adjustments on equity warrants in the prior year. There were no fair value adjustments on equity warrants recorded for the three and six months ended June 30, 2023.

Other— For the three and six months ended June 30, 2023 compared to the same period in 2022, other income decreased by \$1.2 million. The decrease was attributable to \$1.2 million of impairment to the carrying value of a contingent consideration asset 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 three months ended June 30, 2023 compared with the three months ended June 30, 2022. The decrease in non-interest expense of 10.0% to \$18.5 million for the three months ended June 30, 2023, was due to lower Salaries and employee benefits related to staffing reductions to better align with current revenue.

The six months ended June 30, 2023 compared with the six months ended June 30, 2022. The decrease in non-interest expense of 2.2% to \$39.0 million for the six months ended June 30, 2023, was due to lower Salaries and employee benefits related to staffing reductions to better align with current revenue, partially offset by higher health insurance costs, FDIC insurance costs, and lower deferred compensation due to fewer loan originations.

The following presents the significant categories of our non-interest expense during the periods presented (dollars in thousands):

(Dollars in thousands)	Three Months Ended June 30,		Change	
	2023	2022	\$	%
Non-interest expense:				
Salaries and employee benefits	\$ 11,148	\$ 12,945	\$ (1,797)	(13.9)%
Occupancy and equipment	1,939	1,892	47	2.5
Professional services	1,858	2,027	(169)	(8.3)
Technology and information systems	831	1,076	(245)	(22.8)
Data processing	1,052	987	65	6.6
Marketing	379	428	(49)	(11.4)
Amortization of other intangible assets	62	77	(15)	(19.5)
Net gain on assets held for sale	—	(2)	2	*
Other	1,250	1,153	97	8.4
Total non-interest expense	<u>\$ 18,519</u>	<u>\$ 20,583</u>	<u>\$ (2,064)</u>	<u>(10.0)</u>

(Dollars in thousands)	Six Months Ended June 30,		Change	
	2023	2022	\$	%
Non-interest expense:				
Salaries and employee benefits	\$ 24,246	\$ 25,003	\$ (757)	(3.0)%
Occupancy and equipment	3,853	3,774	79	2.1
Professional services	3,781	3,553	228	6.4
Technology and information systems	1,663	2,122	(459)	(21.6)
Data processing	2,191	2,174	17	0.8
Marketing	770	985	(215)	(21.8)
Amortization of other intangible assets	126	154	(28)	(18.2)
Net gain on assets held for sale	—	(3)	3	(100.0)
Other	2,417	2,179	238	10.9
Total non-interest expense	<u>\$ 39,047</u>	<u>\$ 39,941</u>	<u>\$ (894)</u>	<u>(2.2)</u>

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

Salaries and employee benefits— The decrease in Salaries and employee benefits of \$1.8 million, or 13.9%, for the three months ended June 30, 2023 was primarily related to lower wages and employee benefits related to staffing reductions to better align with current revenue. The decrease in Salaries and employee benefits of \$0.8 million, or 3.0% for the six months ended June 30, 2023 was primarily related to lower wages and employee benefits related to staffing reductions to better align with current revenue, partially offset by higher health insurance costs and lower deferred compensation due to fewer loan originations.

Professional services— The decrease in Professional services of \$0.2 million, or 8.3%, for the three months ended June 30, 2023, was driven by lower consulting and other professional fees, as the same period a year ago had higher professional fees related to the acquisition of Teton. The decrease was partially offset by an increase in FDIC insurance costs driven by the FDIC's two basis point uniform increase in assessment rates during the first quarter of 2023 and the Company's increase in total assets year-over-year. The increase in Professional services of \$0.2 million, or 6.4% for the six months ended June 30, 2023, was primarily driven by higher FDIC insurance costs due to the FDIC's rate increase, partially offset by lower consulting and other professional fees, as the same period a year ago had higher professional fees related to the acquisition of Teton.

Technology and information systems— The decrease in Technology and information systems of \$0.2 million, or 22.8%, and \$0.5 million, or 21.6%, for the three and six months ended June 30, 2023, was driven primarily by reduced software costs related to the trust and investment management system enhancement completed in 2022 and lower infrastructure costs, as the same periods a year ago had higher costs related to updates to technology equipment and integration costs as a result of the Teton acquisition.

Marketing—The decrease in marketing of \$0.2 million, or 21.8%, for the six months ended June 30, 2023, was 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 \$0.1 million, or 8.4%, and \$0.2 million, or 10.9%, for the three and six months ended June 30, 2023, was driven primarily by increased subscription costs related to system and process improvements and increased travel for client meetings.

Income Tax

The Company recorded an income tax provision of \$0.5 million and \$1.5 million for the three months ended June 30, 2023 and 2022, respectively, reflecting an effective tax rate of 26.0% and 25.0%, respectively. The Company recorded an income tax provision of \$1.9 million and \$3.3 million, respectively, for the six months ended June 30, 2023 and 2022, respectively, reflecting an effective tax rate of 26.0% and 24.7%, respectively.

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 (dollars in thousands):

	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	Wealth Management	Mortgage	Consolidated	Wealth Management	Mortgage	Consolidated
Income ⁽¹⁾	\$ 19,529	\$ 1,025	\$ 20,554	\$ 44,073	\$ 2,170	\$ 46,243
Income/(loss) before taxes	2,429	(394)	2,035	8,184	(988)	7,196
Profit margin	12.4 %	(38.4)%	9.9 %	18.6 %	(45.5)%	15.6 %

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Wealth Management	Mortgage	Consolidated	Wealth Management	Mortgage	Consolidated
Income ⁽¹⁾	\$ 25,281	\$ 1,278	\$ 26,559	\$ 49,438	\$ 3,795	\$ 53,233
Income (loss) before taxes	6,924	(948)	5,976	13,937	(645)	13,292
Profit margin	27.4 %	(74.2)%	22.5 %	28.2 %	(17.0)%	25.0 %

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

The following presents selected financial metrics of each segment as of and during the periods presented (dollars in thousands):

Wealth Management

(Dollars in thousands)	As of or for the Three Months Ended June 30,		\$ Change	% Change
	2023	2022		
Total interest income	\$ 36,142	\$ 21,644	\$ 14,498	67.0 %
Total interest expense	17,937	1,493	16,444	*
Provision for credit losses	1,843	519	1,324	*
Net interest income, after provision for credit losses	16,362	19,632	(3,270)	(16.7)
Non-interest income	3,167	5,649	(2,482)	(43.9)
Total income	19,529	25,281	(5,752)	(22.8)
Depreciation and amortization expense	580	523	57	10.9
All other non-interest expense	16,520	17,834	(1,314)	(7.4)
Income before income tax	\$ 2,429	\$ 6,924	\$ (4,495)	(64.9)
Goodwill	\$ 30,400	\$ 30,400	\$ —	—
Total assets	2,983,814	2,513,170	470,644	18.7

(Dollars in thousands)	As of or for the Six Months Ended June 30,		\$ Change	% Change
	2023	2022		
Total interest income	\$ 70,742	\$ 41,331	\$ 29,411	71.2 %
Total interest expense	33,076	2,874	30,202	*
Provision for credit losses	1,533	729	804	*
Net interest income, after provision for credit losses	36,133	37,728	(1,595)	(4.2)
Non-interest income	7,940	11,710	(3,770)	(32.2)
Total income	44,073	49,438	(5,365)	(10.9)
Depreciation and amortization expense	1,166	1,070	96	9.0
All other non-interest expense	34,723	34,431	292	0.8
Income before income tax	\$ 8,184	\$ 13,937	\$ (5,753)	(41.3)
Goodwill	\$ 30,400	\$ 30,400	\$ —	—
Total assets	2,983,814	2,513,170	470,644	18.7

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

The Wealth Management segment reported income before income tax of \$2.4 million and \$8.2 million for the three and six months ended June 30, 2023, respectively, compared to \$6.9 million and \$13.9 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 driven by a decrease in non-interest income and a decrease in net interest income, after provision for credit losses. The decrease in non-interest income was primarily driven by \$1.2 million of impairment to the carrying value of contingent consideration assets and losses on loans accounted for under the fair value option. The decrease in net interest income, after provision for credit losses was driven primarily by a \$2.0 million allowance recorded on problem loan credits and an increase in average interest-bearing deposits with an increase on average rates on interest-bearing deposits, in addition to an increase in average interest-bearing liabilities with an increase on the average rates on interest-bearing liabilities.

Mortgage

(Dollars in thousands)	As of or for the Three Months Ended June 30,		\$ Change	% Change
	2023	2022		
Total interest income	\$ 230	\$ 229	\$ 1	*%
Total interest expense	—	—	—	—
Provision for credit losses	—	—	—	—
Net interest income, after provision for credit losses	230	229	1	*
Non-interest income	795	1,049	(254)	(24.2)
Total income	1,025	1,278	(253)	(19.8)
Depreciation and amortization expense	9	11	(2)	(18.2)
All other non-interest expense	1,410	2,215	(805)	(36.3)
Income/(loss) before income tax	\$ (394)	\$ (948)	\$ 554	(58.4)
Total assets	\$ 21,832	\$ 28,323	\$ (6,491)	(22.9)

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

(Dollars in thousands)	As of or for the Six Months Ended June 30,		\$ Change	% Change
	2023	2022		
Total interest income	\$ 342	\$ 419	\$ (77)	(18.4)%
Total interest expense	—	—	—	—
Provision for credit losses	—	—	—	—
Net interest income, after provision for credit losses	342	419	(77)	(18.4)
Non-interest income	1,828	3,376	(1,548)	(45.9)
Total income	2,170	3,795	(1,625)	(42.8)
Depreciation and amortization expense	17	24	(7)	(29.2)
All other non-interest expense	3,141	4,416	(1,275)	(28.9)
Income/(loss) before income tax	\$ (988)	\$ (645)	\$ (343)	53.2
Total assets	\$ 21,832	\$ 28,323	\$ (6,491)	(22.9)

The Mortgage segment reported a loss before income tax of \$0.4 million and \$1.0 million, respectively, for the three and six months ended June 30, 2023, compared to a loss before income tax of \$0.9 million and \$0.6 million, respectively, for the same periods 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 presents our Condensed Consolidated Balance Sheets as of the dates noted (dollars in thousands):

<i>(Dollars in thousands)</i>	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>\$ Change</u>	<u>% Change</u>
Balance Sheet Data:				
Cash and cash equivalents	\$ 297,568	\$ 196,512	\$ 101,056	51.4 %
Held-to-maturity securities, at amortized cost, net of allowance for credit losses of \$71 and \$0, (fair value of \$69,551 and \$74,718, respectively)	77,469	81,056	(3,587)	(4.4)
Loans (includes \$17,523 and \$23,321 measured at fair value, respectively)	2,495,582	2,469,413	26,169	1.1
Allowance for credit losses	(22,044)	(17,183)	(4,861)	28.3
Loans, net of allowance	2,473,538	2,452,230	21,308	0.9
Loans held for sale at fair value	—	1,965	(1,965)	*
Mortgage loans held for sale, at fair value	19,746	8,839	10,907	*
Goodwill and other intangible assets, net	31,977	32,104	(127)	(0.4)
Company-owned life insurance	16,333	16,152	181	1.1
Other assets	89,015	77,890	11,125	14.3
Total assets	\$ 3,005,646	\$ 2,866,748	\$ 138,898	4.8
Deposits	\$ 2,375,394	\$ 2,405,229	\$ (29,835)	(1.2)
Borrowings	364,823	199,018	165,805	83.3
Other liabilities	23,187	21,637	1,550	7.2
Total liabilities	2,763,404	2,625,884	137,520	5.2
Total shareholders' equity	242,242	240,864	1,378	0.6
Total liabilities and shareholders' equity	\$ 3,005,646	\$ 2,866,748	\$ 138,898	4.8

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

Cash and cash equivalents increased by \$101.1 million, or 51.4%, to \$297.6 million as of June 30, 2023 compared to December 31, 2022. The increase was a result of additional Federal Reserve and FHLB borrowings obtained to support balance sheet growth and liquidity.

Investments decreased by \$3.6 million, or 4.4%, to \$77.5 million as of June 30, 2023 compared to December 31, 2022. The decrease is due to held-to-maturity securities payments received in the first half of 2023.

Loans increased by \$26.2 million, or 1.1%, to \$2.50 billion as of June 30, 2023 compared to December 31, 2022. The increase is due to net portfolio growth.

Mortgage loans held for sale increased \$10.9 million, to \$19.7 million as of June 30, 2023 compared to December 31, 2022. The increase was driven by higher funded loan volume and the timing of loan sale settlements.

Goodwill and other intangible assets, net decreased by \$0.1 million, or 0.4%, to \$32.0 million as of June 30, 2023 compared to December 31, 2022. The decrease was driven by amortization on intangible assets.

Other assets increased by \$11.1 million, or 14.3%, to \$89.0 million as of June 30, 2023 compared to December 31, 2022. The increase was primarily driven by the purchase of correspondent bank stock, which increased, net of redemptions, by \$6.4 million as a result of increased borrowing activity. The increase was also driven by an increase in tax receivable of \$1.7 million related to estimated tax payments made during the year and the addition of hedge swap collateral of \$1.0 million and swap derivative assets of \$0.7 million, partially offset by a decrease of \$1.4 million of contingent consideration assets, primarily driven by the \$1.2 million impairment to the carrying value of contingent consideration assets recorded during the second quarter of 2023.

Deposits decreased \$29.8 million, or 1.2%, to \$2.38 billion as of June 30, 2023 compared to December 31, 2022. The decrease was primarily attributable to seasonal outflows in the second quarter related to tax payments, partially offset by net deposit inflows of \$38.0 million in June.

Money market deposit accounts decreased \$38.4 million, or 2.9%, to \$1.30 billion as of June 30, 2023 compared to December 31, 2022. Time deposit accounts increased \$152.1 million, or 67.9%, from December 31, 2022 to \$376.1 million as of June 30, 2023. Negotiable order of withdrawal, or NOW accounts, decreased \$66.2 million, or 28.2%, to \$168.5 million from December 31, 2022 to June 30, 2023. The primary driver for the net reduction in deposits was due to a mix shift from lower yielding deposit products into higher yielding products as clients seek higher rates for excess liquidity.

Borrowings increased \$165.8 million, or 83.3%, to \$364.8 million as of June 30, 2023 compared to December 31, 2022. The increase was a result of additional Federal Reserve and FHLB borrowings obtained to support balance sheet growth and liquidity.

Other liabilities increased \$1.6 million, or 7.2%, to \$23.2 million as of June 30, 2023 compared to December 31, 2022. The increase is primarily attributed to a \$3.6 million increase in the allowance for credit losses on unfunded commitments primarily driven by the adoption of ASU 2016-13 on January 1, 2023, partially offset by a \$2.2 million dollar decrease in salaries payable due to the payment of annual bonus' in the first quarter of 2023.

Total shareholders' equity increased \$1.4 million, or 0.6%, from December 31, 2022 to \$242.2 million as of June 30, 2023. The increase is primarily due to Net income for the year and a \$1.5 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)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Managed Trust Balance as of Beginning of Period	\$ 1,893	\$ 2,095	\$ 1,802	\$ 2,204
New relationships	5	8	6	32
Closed relationships	(5)	—	(6)	(1)
Contributions	3	5	6	7
Withdrawals	(21)	(70)	(107)	(171)
Market change, net	82	(259)	256	(292)
Ending Balance	\$ 1,957	\$ 1,779	\$ 1,957	\$ 1,779
Yield*	0.17 %	0.19 %	0.17 %	0.20 %
Directed Trust Balance as of Beginning of Period	\$ 1,292	\$ 1,297	\$ 1,285	\$ 1,309
New relationships	—	6	—	6
Closed relationships	—	—	—	—
Contributions	2	14	4	21
Withdrawals	(13)	(14)	(15)	(17)
Market change, net	37	(99)	44	(115)
Ending Balance	\$ 1,318	\$ 1,204	\$ 1,318	\$ 1,204
Yield*	0.09 %	0.09 %	0.09 %	0.09 %
Investment Agency Balance as of Beginning of Period	\$ 1,647	\$ 1,943	\$ 1,618	\$ 2,063
New relationships	9	21	38	32
Closed relationships	(21)	(24)	(45)	(40)
Contributions	22	19	41	72
Withdrawals	(50)	(146)	(95)	(196)
Market change, net	48	(179)	98	(297)
Ending Balance	\$ 1,655	\$ 1,634	\$ 1,655	\$ 1,634
Yield*	0.74 %	0.77 %	0.74 %	0.82 %
Custody Balance as of Beginning of Period	\$ 582	\$ 704	\$ 493	\$ 633
New relationships	2	14	4	14
Closed relationships	—	(1)	—	(1)
Contributions	9	—	45	78
Withdrawals	(95)	(57)	(99)	(66)
Market change, net	33	(94)	88	(92)
Ending Balance	\$ 531	\$ 566	\$ 531	\$ 566
Yield*	0.03 %	0.03 %	0.03 %	0.03 %
401(k)/Retirement Balance as of Beginning of Period	\$ 968	\$ 1,160	\$ 909	\$ 1,143
New relationships	—	1	—	14
Closed relationships	(1)	(1)	(1)	(39)
Contributions	31	28	57	51
Withdrawals	(23)	(22)	(47)	(55)
Market change, net	68	(71)	125	(19)
Ending Balance⁽¹⁾	\$ 1,043	\$ 1,095	\$ 1,043	\$ 1,095
Yield*	0.14 %	0.16 %	0.15 %	0.16 %
Total Assets Under Management as of Beginning of Period	\$ 6,382	\$ 7,199	\$ 6,107	\$ 7,352
New relationships	16	50	48	98
Closed relationships	(27)	(26)	(52)	(81)
Contributions	67	66	153	229
Withdrawals	(202)	(309)	(363)	(505)
Market change, net	268	(702)	611	(815)
Total Assets Under Management	\$ 6,504	\$ 6,278	\$ 6,504	\$ 6,278
Yield*	0.28 %	0.30 %	0.28 %	0.32 %

* Trust & investment management fees divided by period end balance.

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

AUM increased \$121.9 million, or 1.9%, during the three months ended June 30, 2023, and \$397.0 million, or 6.5%, for the six months ended June 30, 2023. The increase was attributable to improving market conditions year-over-year resulting in an increase in the value of assets under management balances offset partially by withdrawals.

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 accumulated other comprehensive loss on April 1, 2022 remained in accumulated other comprehensive loss 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 June 30, 2023 and December 31, 2022, all our investments in securities were classified as held-to-maturity.

The following presents the amortized cost and estimated fair value of our investment securities as of the dates noted (dollars in thousands):

(Dollars in thousands)	June 30, 2023				
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
Investment securities held-to-maturity:					
U.S. Treasury debt	\$ 247	\$ —	\$ (10)	\$ 237	\$ —
Corporate bonds	23,758	—	(3,507)	20,251	(71)
Government National Mortgage Association ("GNMA") mortgage - backed securities—residential	36,921	—	(3,278)	33,643	—
Federal National Mortgage Association ("FNMA") mortgage-backed securities—residential	6,370	—	(545)	5,825	—
Government collateralized mortgage obligations ("GMO") and mortgage-backed securities ("MBS") - commercial	6,293	11	(412)	5,892	—
Corporate collateralized mortgage obligations ("CMO") and mortgage-backed securities ("MBS")	3,951	—	(248)	3,703	—
Total securities held-to-maturity	<u>\$ 77,540</u>	<u>\$ 11</u>	<u>\$ (8,000)</u>	<u>\$ 69,551</u>	<u>\$ (71)</u>

(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 June 30, 2023. Weighted average yields are not presented on a taxable equivalent basis.

(Dollars in thousands)	Maturity as of June 30, 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
Held-to-maturity:								
U.S. Treasury debt	\$ —	— %	\$ 247	* %	\$ —	— %	\$ —	— %
U.S. Government agency	—	—	—	—	—	—	—	—
Corporate bonds	—	—	1,992	0.11	21,513	1.26	253	0.01
GNMA mortgage-backed securities - residential	—	—	82	*	—	—	36,839	1.18
FNMA mortgage-backed securities - residential	—	—	—	—	1,222	0.02	5,148	0.13
Government CMO and MBS - commercial	—	—	224	0.01	954	0.04	5,115	0.15
Corporate CMO and MBS	—	—	—	—	24	*	3,927	0.19
Total held-to-maturity	\$ —	— %	\$ 2,545	0.12 %	\$ 23,713	1.32 %	\$ 51,282	1.66 %

(Dollars in thousands)	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
Held-to-maturity:								
U.S. Treasury debt	\$ —	— %	\$ 243	*	\$ —	— %	\$ —	— %
U.S. Government agency	—	—	—	— %	—	—	—	—
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 June 30, 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 \$0.3 million at June 30, 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 three and six months ended June 30, 2023:

Three Months Ended June 30, 2023	Corporate Bonds	Corporate CMO
Allowance for credit losses:		
Beginning balance	\$ 71	\$ —
Provision for credit losses	—	—
Securities charged-off (recoveries)	—	—
Total ending allowance balance	<u>\$ 71</u>	<u>\$ —</u>

Six Months Ended June 30, 2023	Corporate Bonds	Corporate CMO
Allowance for credit losses:		
Beginning balance	\$ —	\$ —
Impact of ASU 2016-13 adoption	71	—
Provision for credit losses	—	—
Securities charged-off (recoveries)	—	—
Total ending allowance balance	<u>\$ 71</u>	<u>\$ —</u>

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 sale 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 June 30, 2023 and December 31, 2022, we had mortgage loans held for sale of \$19.7 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. As of June 30, 2023, the Company has \$17.5 million in loans accounted for under the fair value option with an unpaid principal balance amount of \$18.3 million. See Note 13 – Fair Value in the Notes to Condensed Consolidated Financial Statements.

As of June 30, 2023, the Company has \$5.4 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.

On January 1, 2023, the Company adopted ASU 2016-13, Current Expected Credit Losses or CECL which requires an allowance for credit losses on all portfolio loans including purchased loans without credit deterioration. As of June 30, 2023, the Company held \$221.3 million in acquired loans with \$2.2 million in allowance for credit losses as well as \$4.0 million in unamortized discounts.

The following presents the amortized cost of our loan portfolio by type of loan as of the dates noted (dollars in thousands):

	June 30,		December 31,	
	2023		2022	
	Amount	% of Total	Amount	% of Total
Cash, Securities, and Other ⁽¹⁾	\$ 150,620	6.1 %	\$ 165,559	6.7 %
Consumer and Other	21,762	0.9	26,070	1.0
Construction and Development	310,382	12.5	285,627	11.7
1-4 Family Residential	880,600	35.5	899,722	36.8
Non-Owner Occupied CRE	558,276	22.5	493,134	20.2
Owner Occupied CRE	217,020	8.8	214,189	8.8
Commercial and Industrial	339,399	13.7	361,791	14.8
Loans held for investment at amortized cost	\$ 2,478,059	100.0 %	\$ 2,446,092	100.0 %
Loans accounted for under the fair value option ⁽²⁾	\$ 17,523		\$ 23,321	
Total loans held for investment	2,495,582		2,469,413	
Mortgage loans held for sale, at fair value ⁽³⁾	19,746		8,839	
Loans held for sale, at fair value	—		1,965	

⁽¹⁾ Includes PPP loans of \$5.4 million and \$6.9 million as of June 30, 2023 and December 31, 2022, respectively.

⁽²⁾ Includes \$18.3 million and \$23.4 million of unpaid principal balance of loans held for investment accounted for under fair value option as of June 30, 2023 and December 31, 2022, respectively.

⁽³⁾ Includes \$19.5 million and \$8.8 million of unpaid principal balance of mortgage loans held for sale as of June 30, 2023 and December 31, 2022, respectively.

- *Cash, Securities, and Other*—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. 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 \$5.4 million and \$6.9 million as of June 30, 2023 and December 31, 2022, respectively.
- *Consumer and Other*—consists of unsecured consumer loans.
- *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 \$5.5 million and \$5.9 million as of June 30, 2023 and December 31, 2022, respectively, are classified within this line item.
- *Loans held for investment accounted for under the fair value option*—consists of unsecured consumer loans that had an unpaid principal balance of \$18.3 million and \$23.4 million as of June 30, 2023 and December 31, 2022, respectively.

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, at amortized cost as of the dates noted, are summarized in the following tables:

(Dollars in thousands)	As of June 30, 2023				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities, and Other	\$ 67,528	\$ 81,936 ⁽¹⁾	\$ 473	\$ 683	\$ 150,620
Consumer and Other	16,277	3,002	1,377	1,106	21,762
Construction and Development	104,249	174,594	25,556	5,983	310,382
1-4 Family Residential	29,112	157,748	32,807	660,933	880,600
Non-Owner Occupied CRE	24,878	343,501	176,541	13,356	558,276
Owner Occupied CRE	19,319	92,324	94,663	10,714	217,020
Commercial and Industrial	117,717	175,334	46,348	—	339,399
Total	\$ 379,080	\$ 1,028,439	\$ 377,765	\$ 692,775	\$ 2,478,059
Loans accounted for under the fair value option	284	16,600	639	—	17,523
Total loans	\$ 379,364	\$ 1,045,039	\$ 378,404	\$ 692,775	\$ 2,495,582
Amounts with fixed rates	128,295	698,574	254,320	23,290	1,104,479
Amounts with floating rates	251,069	346,465	124,084	669,485	1,391,103
Total loans	\$ 379,364	\$ 1,045,039	\$ 378,404	\$ 692,775	\$ 2,495,582

(Dollars in thousands)	As of December 31, 2022				
	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities, and Other	\$ 58,461	\$ 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	\$ 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

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 was offering 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 two years.

In 2021, the deferral period ended for all non-acquired loans previously modified and payments resumed under the original terms. As of June 30, 2023, the Company's loan portfolio included 45 non-acquired loans which were previously modified under the loan modification program, totaling \$76.0 million. Through the Teton Acquisition, the Company acquired loans which were previously modified and are no longer in their deferral period. As of June 30, 2023, there were 14 of these loans, totaling \$3.1 million.

All loans modified in response to COVID-19 are classified as performing and pass rated as of June 30, 2023 and 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.

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 recognized an immaterial amount of gains on the sale of OREO.

The amount of lost interest for non-accrual loans was \$0.5 million and immaterial for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, the amount of lost interest was \$0.9 million and \$0.1 million.

We had \$10.1 million and \$12.3 million in non-performing assets as of June 30, 2023 and December 31, 2022, respectively.

The following presents the amortized cost basis of non-performing loans as of the dates noted (dollars in thousands):

	June 30, 2023	December 31, 2022
Non-accrual loans by category		
Cash, Securities, and Other	\$ —	\$ 4
Consumer and Other	6	5
Construction and Development	—	201
Owner Occupied CRE	—	1,165
Commercial and Industrial	10,030	10,762
Total non-accrual loans	10,036	12,137
OREO	—	—
Total non-performing assets	\$ 10,036	\$ 12,137
Non-accrual loans to total loans ⁽¹⁾	0.40 %	0.50 %
Non-performing assets to total assets	0.33	0.43
Allowance for credit losses to non-accrual loans	219.65	139.14
Accruing loans 90 or more days past due	\$ —	\$ 25

⁽¹⁾ Excludes mortgage loans held for sale of \$19.7 million and \$8.8 million as of June 30, 2023 and December 31, 2022, respectively. Excludes \$18.3 million and \$23.4 million of unpaid principal balance of loans held for investment accounted for under the fair value option.

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 June 30, 2023 and December 31, 2022, non-performing loans of \$10.0 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 (dollars in thousands):

As of June 30, 2023					
	Pass	Special Mention	Substandard	Not Rated	Total
Cash, Securities, and Other ⁽¹⁾	\$ 150,620	\$ —	\$ —	\$ —	\$ 150,620
Consumer and Other ⁽²⁾	21,762	—	—	17,523	39,285
Construction and Development	310,382	—	—	—	310,382
1-4 Family Residential	880,600	—	—	—	880,600
Non-Owner Occupied CRE	553,213	5,063	—	—	558,276
Owner Occupied CRE	217,020	—	—	—	217,020
Commercial and Industrial	326,441	2,928	10,030	—	339,399
Total	\$ 2,460,038	\$ 7,991	\$ 10,030	\$ 17,523	\$ 2,495,582

As of December 31, 2022					
	Pass	Special Mention	Substandard	Not Rated	Total
Cash, Securities, and Other ⁽¹⁾	\$ 165,555	\$ —	\$ 4	\$ —	\$ 165,559
Consumer and Other ⁽²⁾	26,070	—	—	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	\$ 2,431,775	\$ 2,185	\$ 12,132	\$ 23,321	\$ 2,469,413

⁽¹⁾ Includes PPP loans of \$5.4 million and \$6.9 million as of June 30, 2023 and December 31, 2022, respectively.

⁽²⁾ Includes \$18.3 million and \$23.4 million of unpaid principal balance of loans held for investment accounted for under fair value option as of June 30, 2023 and December 31, 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 June 30, 2023 and December 31, 2022 was \$10.5 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.

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 two years. Subsequent to two year period, the Company reverts to its historical loss rate and historical prepayment and curtailment speeds on a straight-line basis over a one year 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 loan 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.

Allowance for credit losses - 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 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 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 follow major security types: Corporate bonds and Corporate CMO.

Allowance for credit losses - 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 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 improved as of June 30, 2023 when compared to December 31, 2022. As a result, we saw 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 \$0.8 million release of provision on pooled loans. The individually analyzed loan allowance was increased \$2.2 million as of June 30, 2023.

The following presents summary information regarding our allowance for credit losses during the periods presented (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 ⁽⁴⁾	2023	2022 ⁽⁴⁾
Average loans outstanding ⁽¹⁾⁽²⁾	\$ 2,471,587	\$ 2,010,024	\$ 2,475,594	\$ 1,966,639
Total loans outstanding at end of period ⁽³⁾	\$ 2,478,059	\$ 2,124,917	\$ 2,478,059	\$ 2,124,917
Allowance for credit losses at beginning of period	\$ 19,843	\$ 13,885	\$ 17,183	\$ 13,732
Impact of adopting ASU 2016-13	—	—	3,470	—
Provision for credit losses	2,209	519	1,404	729
Charge-offs:				
Cash, Securities, and Other	—	—	—	—
Consumer and Other	(13)	(95)	(30)	(192)
Construction and Development	—	—	—	—
1-4 Family Residential	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—
Owner Occupied CRE	—	—	—	—
Commercial and Industrial	—	—	—	—
Total charge-offs	(13)	(95)	(30)	(192)
Recoveries:				
Cash, Securities, and Other	—	—	—	—
Consumer and Other	4	48	15	88
Construction and Development	—	—	—	—
1-4 Family Residential	—	—	—	—
Non-Owner Occupied CRE	—	—	—	—
Owner Occupied CRE	—	—	—	—
Commercial and Industrial	1	—	2	—
Total recoveries	5	48	17	88
Net (charge-offs) recoveries	(8)	(47)	(13)	(104)
Allowance for credit losses at end of period	\$ 22,044	\$ 14,357	\$ 22,044	\$ 14,357
Allowance for credit losses to total loans ⁽³⁾	0.89 %	0.68 %	0.89 %	0.68 %
Net charge-offs to average loans	*	*	*	0.01

⁽¹⁾ Average balances are average daily balances.

⁽²⁾ Excludes average outstanding balances of mortgage loans held for sale of \$15.8 million and \$19.5 million for the three months ended June 30, 2023 and 2022, respectively, and \$11.7 million and \$21.1 million for the six months ended June 30, 2023 and 2022, respectively.

⁽³⁾ Excludes mortgage loans held for sale of \$19.7 million and \$26.2 million as of June 30, 2023 and 2022, respectively. Includes \$4.9 million and \$9.1 million in bank originated PPP loans as of June 30, 2023 and 2022, respectively, and \$0.5 million and \$1.6 million of acquired PPP loans as of June 30, 2023 and 2022, respectively. Excludes \$18.3 million and \$21.1 million of unpaid principal balance of loans held for investment accounted for under the fair value option.

⁽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.

^(*) Immaterial

The following presents 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 June 30, 2023		As of December 31, 2022	
	Amount	% ⁽²⁾	Amount ⁽¹⁾	% ⁽²⁾
Cash, Securities, and Other	\$ 1,311	6.1 %	\$ 1,198	6.7 %
Consumer and Other	137	0.9	191	1.0
Construction and Development	7,496	12.5	2,025	11.7
1-4 Family Residential	3,579	35.5	6,309	36.8
Non-Owner Occupied CRE	2,495	22.5	3,490	20.2
Owner Occupied CRE	1,182	8.8	1,510	8.8
Commercial and Industrial	5,844	13.7	2,460	14.8
Total allowance for credit losses	<u>\$ 22,044</u>	<u>100.0 %</u>	<u>\$ 17,183</u>	<u>100.0 %</u>

⁽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 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 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:

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Beginning balance	\$ 4,395	\$ 419
Impact of adopting ASU 2016-13	—	3,481
Provision for credit losses	(366)	129
Ending balance	<u>\$ 4,029</u>	<u>\$ 4,029</u>

Deferred Tax Assets, Net

Deferred tax assets, net 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 as of June 30, 2023, increased \$0.3 million, or 4.2%, compared to 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 decreased by \$29.8 million, or 1.2%, to \$2.38 billion as of June 30, 2023 from December 31, 2022. Total average deposits for the three months ended June 30, 2023 were \$2.38 billion, an increase of \$147.9 million, or 6.6%, compared to \$2.23 billion as of June 30, 2022. The decrease in total deposits from December 31, 2022 was primarily attributable to seasonal outflows in the second quarter related to tax payments. The increase in average deposits for the three months ended June 30, 2023 compared to the same period in 2022 was driven primarily by organic growth through new and expanded client relationships.

The following presents the average balances and average rates paid on deposits during the periods presented (dollars in thousands):

(Dollars in thousands)	As of or for the Three Months Ended June 30,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
Deposits				
Money market deposit accounts	\$ 1,278,448	3.81 %	\$ 1,057,026	0.27 %
Demand deposit accounts	186,205	0.42	306,590	0.15
Uninsured time deposits	74,343	3.21	55,137	1.06
Other time deposits	289,293	4.08	96,774	0.49
Total time deposits	363,636	3.90	151,911	0.70
Savings accounts	19,499	0.04	32,374	0.03
Total interest-bearing deposits	1,847,788	3.44	1,547,901	0.29
Noninterest-bearing accounts	527,562		679,531	
Total deposits	<u>\$ 2,375,350</u>	<u>2.68 %</u>	<u>\$ 2,227,432</u>	<u>0.20 %</u>

(Dollars in thousands)	As of or for the Six Months Ended June 30,			
	2023		2022	
	Average Balance	Average Rate	Average Balance	Average Rate
Deposits				
Money market deposit accounts	\$ 1,272,057	3.59 %	\$ 1,076,066	0.24 %
NOW accounts	199,881	0.42	307,579	0.15
Uninsured time deposits	73,338	2.97	53,696	1.05
Other time deposits	259,798	3.75	106,501	0.48
Total time deposits	333,136	3.58	160,197	0.67
Savings accounts	21,932	0.03	32,607	0.04
Total interest-bearing deposits	1,827,006	3.20	1,576,449	0.26
Noninterest-bearing accounts	536,566		674,148	
Total deposits	<u>\$ 2,363,572</u>	<u>2.47 %</u>	<u>\$ 2,250,597</u>	<u>0.18 %</u>

Average noninterest-bearing deposits to average total deposits was 22.2% and 30.5% for the three months ended June 30, 2023 and 2022, respectively, and 22.7% and 30.0% for the six months ended June 30, 2023 and 2022, respectively.

Our average cost of funds was 2.82% and 0.26% for the three months ended June 30, 2023 and 2022, respectively, and 2.62% and 0.25% for the six months ended June 30, 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 June 30, 2023 were \$1.30 billion, a decrease of \$38.4 million, or 2.9%, compared to December 31, 2022. NOW accounts decreased \$66.2 million, or 28.2%, to \$168.5 million compared to December 31, 2022. Total time deposits as of June 30, 2023 were \$376.1 million, an increase of \$152.1 million, or 67.9%, from December 31, 2022. These changes are a result of mix shift from lower yielding deposit products into higher yielding products as clients seek higher rates for excess liquidity.

The following presents the amount of certificates of deposit by time remaining until maturity as of June 30, 2023 (dollars in thousands):

	Three Months or Less	Three to Six Months	Six to 12 Months	After 12 Months	Total
Uninsured Time Deposits	\$ 37,547	\$ 39,569	\$ 64,700	\$ 43,443	\$ 185,259
Other	48,593	45,359	84,701	12,235	190,888
Total	\$ 86,140	\$ 84,928	\$ 149,401	\$ 55,678	\$ 376,147

Borrowings

We have short-term and long-term borrowing sources available to supplement deposits and meet our liquidity needs. As of June 30, 2023 and December 31, 2022, borrowings totaled \$364.8 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 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 institutions need to quickly sell those securities in times of stress. As of June 30, 2023, the Company has pledged a par value of \$47.3 million in securities under the BTFP and borrowed \$31.0 million with a maturity date of March 27, 2024. The rate for the borrowing is based on the one year overnight swap rate plus 10 basis points and is fixed over the term of the advanced based on the date of the advance. The borrowing can be pre-paid at any time without penalty.

The increase in borrowings as of June 30, 2023 compared to December 31, 2022 is attributed to additional FHLB borrowings driven by a desire to have increased cash levels on our balance sheet through the end of the quarter as the financial industry was experiencing heightened deposit balance volatility, partially offset by the paydown of loans in the Paycheck Protection Program Loan Facility (“PPPLF”) from the Federal Reserve with a period end balance of \$4.2 million. Borrowing from the PPPLF is expected to trend in the same direction as the PPP loan balances. The following presents balances of each of the borrowing facilities as of the dates noted (dollars in thousands):

	June 30, 2023	December 31, 2022
Borrowings		
FHLB borrowings	\$ 277,367	\$ 141,498
Federal Reserve borrowings	35,233	5,388
Subordinated notes	52,223	52,132
Total	\$ 364,823	\$ 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 June 30, 2023 and December 31, 2022 amounted to \$1.32 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 \$646.8 million as of June 30, 2023.

	As of or for the Six Months Ended June 30,
	2023
Short-term borrowings	
Maximum outstanding at any month-end during the period	\$ 343,100
Balance outstanding at end of period	227,367
Average outstanding during the period	106,788
Average interest rate during the period	2.26 %
Average interest rate at the end of the period	2.62

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 June 30, 2023 and December 31, 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 June 30, 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 June 30, 2023 was \$50.0 million.

Derivatives Not Designated as Hedges: During the six months ended June 30, 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 June 30, 2023 was \$19.0 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 contribute to our ability to raise funds to support asset growth, acquisitions, and meet deposit withdrawals and other payment obligations. Access to purchased funds include the ability to borrow from FHLB, other correspondent banks, and the use of brokered deposits.

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

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Sources of Funds:		
Deposits:		
Noninterest-bearing	18.73 %	19.07 %
Interest-bearing	65.60	64.93
FHLB and Federal Reserve borrowings	4.39	4.73
Subordinated notes	1.85	1.85
Other liabilities	0.85	0.89
Shareholders' equity	8.58	8.53
Total	100.00 %	100.00 %
Uses of Funds:		
Total loans	87.04 %	87.26 %
Investment securities	2.84	2.88
Correspondent bank stock	0.31	0.33
Mortgage loans held for sale	0.56	0.42
Interest-bearing deposits in other financial institutions	4.82	4.68
Noninterest-earning assets	4.43	4.43
Total	100.00 %	100.00 %
Average noninterest-bearing deposits to total average deposits	22.21 %	22.70 %
Average loans to total average deposits	104.05	104.74
Average interest-bearing deposits to total average deposits	77.79	77.30

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 \$1.4 million, or 0.6%, from December 31, 2022 to \$242.2 million as of June 30, 2023. The increase was primarily due to Net income for the year and a \$1.5 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").

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 condensed 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 June 30, 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 presents our regulatory capital ratios during the periods presented (dollars in thousands):

	June 30, 2023		December 31, 2022	
	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets				
Bank	\$ 242,040	10.34 %	\$ 234,738	10.29 %
Consolidated Company	217,170	9.26	212,229	9.28
Common Equity Tier 1(CET1) to risk-weighted assets				
Bank	242,040	10.34	234,738	10.29
Consolidated Company	217,170	9.26	212,229	9.28
Total capital to risk-weighted assets				
Bank	262,989	11.23	252,398	11.06
Consolidated Company	291,119	12.41	282,889	12.37
Tier 1 capital to average assets				
Bank	242,040	8.70	234,738	8.65
Consolidated Company	217,170	7.80	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 Condensed 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 during the periods presented (dollars in thousands):

	As of June 30, 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	\$ 308,364	\$ —	\$ 4,236	\$ —	\$ 312,600
Subordinated notes	—	—	—	52,223 ⁽¹⁾	52,223
Time deposits	320,470	18,118	37,559	—	376,147
Minimum lease payments	3,457	4,793	2,167	1,539	11,956
Total	\$ 632,291	\$ 22,911	\$ 43,962	\$ 53,762	\$ 752,926

⁽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):

	June 30, 2023		December 31, 2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 155,475	\$ 633,104	\$ 211,285	\$ 601,202
Standby letters of credit	13,656	14,189	8,571	16,737
Commitments to make loans to sell	29,207	—	13,553	—
Commitments to make loans	15,592	9,348	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

Our accounting policies and procedures are described in Note 1 - Organization and Summary of Significant Accounting Policies in the accompanying Notes to the Condensed Consolidated Financial Statements as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the SEC.

Item 3. 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 net interest income and 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 during the periods presented, using a parallel ramp scenario.

Change in Interest Rates (Basis Points)	As of June 30, 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	(4.33)%	(13.70)%	(2.26)%	(9.99)%
100	(2.37)	(7.45)	(1.13)	(5.09)
Base	—	—	—	—
-100	2.13	4.81	1.08	2.07
-200	6.21	(2.11)	4.33	(4.27)

The model simulations as of June 30, 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 Condensed Consolidated Financial Statements and related notes included within this Form 10-Q 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 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Operating Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Operating Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the "Exchange Act") were effective as of the end of the period covered by this report.

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 three and six months ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company, from time to time, is 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, after consulting with our 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 condensed consolidated financial statements. See Note 8 - Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

The following risk factor represents a material change to the risk factors previously disclosed under "Item 1A. Risk Factors" of the Company's 2022 Annual Report on Form 10-K filed with the SEC on March 15, 2023.

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 even 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) 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
April 1, 2023 through April 30, 2023	—	\$ —	—	—
May 1, 2023 through May 31, 2023	14,913	15.75	—	—
June 1, 2023 through June 30, 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 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6.Exhibits

Exhibit No.	Description
10.1†	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 10.1 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.2†	Second Amended and Restated Employment Agreement dated April 26, 2023 by and between First Western Financial, Inc. and Julie Courkamp (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.3†	Amended and Restated Employment Agreement dated April 26, 2023 by and between First Western Financial, Inc. and John Sawyer (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed with the SEC on May 2, 2023, File No. 001-38595)
10.4†	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)
10.5†	Employment Agreement, dated June 22, 2023, by and between First Western Financial, Inc. and Matthew C. Cassell (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on June 22, 2023, File No. 001-38595)
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
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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

<div>August 3, 2023</div> <div>Date</div>	<div>First Western Financial, Inc.</div> <div>By: <div>/s/ Scott C. Wylie</div><div>Scott C. Wylie</div><div>Chairman, Chief Executive Officer, and President</div></div>
<div>August 3, 2023</div> <div>Date</div>	<div>By: <div>/s/ Julie A. Courkamp</div><div>Julie A. Courkamp</div><div>Chief Operating Officer, Chief Financial Officer, and Treasurer</div></div>

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”) effective as of April 26, 2023 (the “Effective Date”) is by and between First Western Financial Inc., a Colorado corporation (the “Company” or “FWFI”), and Scott C. Wylie, an individual resident of the State of Colorado (the “Executive”). This Agreement amends, supersedes and replaces, in its entirety, the Employment Agreement between the Company and the Executive dated effective as of January 1, 2017, as amended by that certain Amendment to Employment Agreement dated January 30, 2020 (together, the “Prior Agreement”).

WHEREAS, the Executive is currently employed by the Company as its Chairman, President and Chief Executive Officer; and

WHEREAS, the Executive also serves as Chairman, President and CEO of the Company’s wholly owned subsidiary bank, First Western Trust Bank, as well as any other any other subsidiaries unless specifically excluded (collectively, the “Affiliates”); and

WHEREAS, the Executive and the Company would like to amend and restate the Prior Agreement to more closely align the Executive’s severance compensation to current market practice.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Employment and Duties.

(a) General. As of the Effective Date, the Executive shall continue to serve as the Chairman, President and Chief Executive Officer of the Company and the Bank. The Executive shall report directly to the Board of Directors of the Company (the “Board”). The Executive shall have such duties and responsibilities, commensurate with the Executive’s position, as may be assigned to the Executive from time to time by the Board, and he shall serve as a member of the Board and on the boards of directors or other governing bodies of the Affiliates during the Term (as defined herein). The Executive shall so serve on the aforementioned Board or boards, unless otherwise removed, without additional compensation therefor; provided, however, that the Executive shall be entitled to reimbursement of expenses incurred by the Executive in connection with such Board service. The Executive hereby accepts such employment and agrees to render the services described above.

(b) Exclusive Services. For so long as the Executive is employed by the Company, the Executive shall devote his full-time working time to his duties hereunder, shall faithfully serve the Company, shall in all material respects conform to and comply with the lawful directions and instructions given to him by the Board and shall use his reasonable best efforts to promote and serve the interests of the Company. Further, the Executive shall not, directly or indirectly, render services to any other person or organization without the consent of the Board or otherwise engage in activities that would interfere in any material respect with his faithful performance of his duties hereunder. Notwithstanding the foregoing, (i) the Executive may serve on such other for-profit corporate boards as may be consented to by the Board, provided that such activity does not contravene the first sentence of this Section 1(b), and (ii) the Executive may serve on not-for-profit corporate, civic or charitable boards or engage in charitable activities without remuneration therefor as may be consented to by the Board, provided that such activity does not contravene the first sentence of this Section 1(b).

2. Term. The term of the Executive's employment under this Agreement shall commence on the Effective Date and shall expire on the December 31, 2023. This Agreement shall automatically renew for successive one-year terms commencing January 1, 2024, unless either party gives notice to the other 90 days before the end of a particular term. The period during which the Agreement is in effect shall be referred to as the "Term."

3. Definitions.

(a) "Base Amount" means the amount equal to the sum of (i) the Executive's Base Salary at the rate then in effect and (ii) amount equal to the greater of (A) the Executive's target Annual Bonus at the rate then in effect or (B) the average Annual Bonus for the three fiscal years immediately preceding the date on which the Executive's termination occurs.

(b) Termination for "Cause" means termination of the Executive's employment because of:

(i) the willful failure by the Executive to perform the Executive's duties with the Company;

(ii) gross incompetence or gross negligence in the discharge of the Executive's duties;

(iii) willful dishonesty, theft, embezzlement, fraud, breach of confidentiality, or unauthorized disclosure or use of financial information, confidential client information, client or employee lists, trade secrets, or other Company confidential or proprietary information;

(iv) willful violation of any law, rule or regulation of any governing authority or of the Company's policies and procedures, including, without limitation, the Company's employee handbook or similar document;

(v) the willful refusal of Executive to follow the lawful directions of the Company's Board of Directors within a reasonable period after delivery to Executive of written notice of such directions;

(vi) willful conduct that is grossly injurious to the reputation, financial condition, business or assets of the Company; or

(vii) willful breach of any material provision in an agreement with the Company.

In each of (i) through (vii) the Executive shall be given written notice of such cause for termination, and in each of (i) and (vii) the Executive shall be given an opportunity to remedy such cause for termination within sixty (60) business days of receipt of such notice.

(c) "Change in Control" shall have the same meaning as the definition contained in Section 12.2 of the First Western Financial, Inc. 2016 Omnibus Incentive Plan.

(d) Resignation for "Good Reason" means termination of employment by the Executive because of the occurrence of any of the following events:

(i) there is a material reduction in the Executive's Base Salary, unless agreed to in writing by the Executive;

- (ii) there is a material reduction in the Executive's authority, duties, or responsibilities;
- (iii) the Executive does not continue to retain the title of Chairman of the Board of the Company, unless agreed to in writing by the Executive;
- (iv) the failure of any successor to assume this Agreement; and
- (v) any other action or inaction that constitutes a material breach by the Company of this Agreement after the Executive provides written notice to the Company of the facts which constitute the grounds within sixty (60) business days following the initial existence of the grounds and the Company thereafter fails to cure such grounds within sixty (60) business days following its receipt of such notice (or, in the event that such grounds cannot be corrected within such sixty (60) day period, the Company has not taken all reasonable steps within such sixty (60) day period to correct such grounds as promptly as practicable thereafter).

4. Compensation and Other Benefits. Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) Base Salary. The Company shall pay to the Executive an annual salary (the "Base Salary") payable in substantially equal installments at such intervals as may be determined by the Company in accordance with its ordinary payroll practices, as established from time to time. The Base Salary shall be reviewed by the Board of Directors annually, and increased as appropriate, for market changes. Commencing effective as of the Effective Date, Executive's annualized Base Salary is \$575,000. The Base Salary shall not be decreased by the Company except with the prior written consent of the Executive.

(b) Annual Bonus. Executive is eligible to receive annual incentive compensation (the "Annual Bonus") as governed by the terms set forth in the First Western Financial, Inc. Incentive Plan for Senior Executive Officers, as may be amended from time to time. The incentive compensation performance measures and goals are reviewed by the Board of Directors annually, and adjusted as appropriate, according to the needs of the business.

(c) Long-Term Incentive Plan. The Executive shall be eligible for grants under the First Western Financial, Inc. 2016 Omnibus Incentive Plan, including, but not limited to, grants of stock options, market conditioned performance share units, financial conditioned performance stock units and restricted stock units, as the Compensation Committee of the Board shall determine from time to time.

(d) Savings and Retirement Plans. The Executive shall be eligible to participate in all savings and retirement plans applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(e) Welfare Benefit Plans. The Executive and his eligible dependents shall be eligible to participate in and shall receive all benefits under the Company's welfare benefit plans and programs applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(f) Expenses. Upon presentation of written documentation thereof, in accordance with the applicable expense reimbursement policies and procedures of the Company as in effect from time to time, the Company shall reimburse the Executive for reasonable business-related expenses incurred by the Executive in the fulfillment of his duties. Payments

with respect to reimbursements of expenses shall be made promptly and in accordance with the applicable expense reimbursement policies and procedures of the Company, but in any event, on or before the last day of the calendar month following the calendar month in which the relevant expense is incurred.

(g) Vacation. The Executive shall be entitled to vacation each calendar year during the Term, subject to and in accordance with the Company's vacation policy in effect from time to time.

5. Termination of Employment. The terms of any equity compensation grants outstanding as of the Effective Date, as well as any future equity compensation grants made under the First Western Financial, Inc. 2016 Omnibus Incentive Plan shall govern what the Executive receives on termination of employment, in terms of equity compensation, except as expressly provided in Section 5(b)(i)(C) and Section 5(b)(ii)(C) hereof. All other forms of remuneration the Executive is eligible for on termination of employment are set forth in this Section 5.

(a) Termination for Cause; Resignation Without Good Reason. If, prior to the expiration of the Term, the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations ("Regulations") thereunder, by reason of the Company's termination of the Executive's employment for Cause, or if the Executive resigns from his employment hereunder other than for Good Reason, the Executive shall be entitled only to payment of (i) any unpaid Base Salary through and including the date of termination or resignation, (ii) any Annual Bonus earned, but unpaid, for the year immediately preceding the year in which the termination date occurs (which unpaid Annual Bonus amount shall be paid no later than March 15 of the year following the year in which the amount was earned), and (iii) any other amounts or benefits required to be paid or provided by law or under any plan, program, policy or practice of the Company (the amounts or benefits in (i) through (iii) being referred to collectively as the "Other Accrued Compensation and Benefits"). Except as set forth in this subsection (a), the Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment.

(b) Termination without Cause; Resignation for Good Reason.

(i) If the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code and the Regulations thereunder, by reason of the Company's termination of the Executive's employment without Cause, or if the Executive resigns from his employment hereunder for Good Reason, the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to two (2) times the Executive's Base Amount, which shall be payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the twenty-four (24) month period following termination.

(C) A pro-rated portion of each outstanding unvested equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse. The pro-rated portion, determined separately for each vesting tranche for each such equity award, shall be based on a fraction, (I) the numerator of which is number of days that elapse from the grant date

of the equity award until the Executive's termination date and the (II) the denominator of which is the total number of days in the period that begins on the date of grant of the applicable equity award and ends on the scheduled vesting date of such equity award (or, if applicable, the scheduled vesting date of the applicable vesting tranche). For purposes of determining the number of shares subject to any outstanding unvested equity awards subject to performance vesting conditions (as opposed to solely service-based vesting conditions) that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the level of the Company's actual achievement of the applicable performance goals as measured as of the Executive's termination date, as determined by the Compensation Committee in its reasonable discretion. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(i)(C).

(D) The Company shall monthly pay to the Executive the amount equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for the Executive, and, to the extent that the Executive is providing coverage for his spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company terminates the Executive's employment without Cause, the Company shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(i).

(E) All payments and benefits provided under this Section 5(b)(i)(B) and (D) shall commence on the first payroll date following the 60th day after the Executive's termination of employment, with the first installment payment to include any payments that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(i)(A), (B), (C) or (D) unless the Executive executes and delivers to the Company, within sixty (60) days following the Executive's termination of employment, a release substantially in the form attached hereto as Exhibit A (the "Release"), and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(i)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments. This Section 5(b)(i) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(F) If, following a termination of employment without Cause or a resignation for Good Reason, the Executive breaches the provisions of Sections 6

through 10 hereof or breaches any provision set forth in the executed copy of the general release of claims, the Executive shall not be eligible, as of the date of such breach, for the payments and benefits described in Section 5(b)(i)(A), (B), (C) or (D), and any and all obligations and agreements of the Company with respect to such payments shall thereupon cease. This Section 5(b)(i)(F) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(ii) If the Company undergoes a Change in Control and, within 24 months of such Change in Control, the Executive is terminated without Cause or resigns for Good Reason, then, in lieu of (and not in addition to) any payments or benefits payable to the Executive pursuant to Section 5(b)(i), the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to 2.99 times the Executive's Base Amount, payable in a single lump sum payment.

(C) Each outstanding equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to that number of shares of Company common stock that would otherwise vest based on Executive's continued employment. For purposes of determining the number of shares subject to any outstanding equity awards subject to performance vesting conditions that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the "target" level. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(ii)(C).

(D) Monthly payments to the Executive equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to COBRA for the Executive, and, to the extent that the Executive is providing coverage for his spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of twenty-four (24) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company (or its successor) terminates the Executive's employment without Cause, the Company (or its successor) shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(ii).

(E) Unless otherwise provided herein, all payments and benefits provided under this Section 5(b)(ii)(B) and (D) shall be paid (or, in the case of the payments described in Section 5(b)(ii)(D), commence to be paid) on the first payroll date following the 60th day after the Executive's termination of employment, with the first payment to include any payments provided under Section 5(b)(ii)(D) that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section

5(b)(ii)(A), (B), (C) or (D) unless the Executive executes and delivers the Release to the Company, within sixty (60) days following the Executive's termination of employment, and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(ii)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments.

(F) In the event that it is determined that any payment or distribution of any type to or for the benefit of an Executive made by the Company, by any of its Affiliates, by any person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of Code Section 280G) or by any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of any equity compensation plan, this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Code Section 4999 or any interest or penalties with respect to such excise tax (the "Excise Tax"), then, notwithstanding any other provision of this Agreement or any equity compensation plan to the contrary, any right of the Executive to any payment or benefit under this Agreement or any such equity compensation plan shall be reduced or eliminated, but only to the extent necessary to avoid imposition of the Excise Tax. In no case, however, shall such cutback be made if Total Payments after the imposition of the Excise Tax are greater than Total Payments cut back as provided in this Section 5(b)(ii) to avoid the Excise Tax.

(G) In the event that a cutback of Total Payments is permitted under Section 5(b)(ii)(F), and except as required by Code Section 409A or to the extent that Code 409A permits discretion, the Compensation Committee shall have the right, in the Compensation Committee's sole discretion, to designate those rights, payments, or benefits and all other agreements that should be reduced or eliminated so as to provide the Executive with the maximum pre-tax amount which avoids imposition of the Excise Tax. For example, the Compensation Committee may choose to cut back cash severance, if that would yield a higher pre-tax amount than cutting back equity. Notwithstanding the foregoing, to the extent any payment or benefit constitutes deferred compensation under Code Section 409A, in order to comply with Code Section 409A the Compensation Committee shall instead accomplish such reduction by first reducing or eliminating any cash payments (with the payments to be made furthest in the future being reduced first), then by reducing or eliminating any accelerated vesting of options or stock appreciation rights, then by reducing or eliminating any accelerated vesting of restricted stock or restricted stock units.

(c) Termination Due to Death or Disability. The Executive's employment with the Company shall terminate automatically on the Executive's death. In the event of the Executive's Disability (as defined herein), the Company shall be entitled to terminate his employment. In the event of the Executive's death or if the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code, or the Regulations thereunder, by reason of the Executive's Disability, the Company shall pay to the Executive (or his estate, as applicable), (i) the Executive's Base Salary through and including the date of termination and any Other Accrued Compensation and Benefits (ii) a pro-rata Annual Bonus for the year of

termination, based on actual audited year-end results and payable when bonuses are normally paid to employees, and (iii) three (3) months Base Salary at the rate then in effect, payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the three (3) month following termination.

(i) For purposes of this Agreement, "Disability" means a physical or mental disability or infirmity of the Executive that prevents the normal performance of substantially all his duties for a period in excess of ninety (90) consecutive days or for more than ninety (90) days in any consecutive twelve (12)-month period. Evidence of such physical or mental disability or infirmity shall be certified by a physician licensed to practice in the state of residence of the Executive, which physician is mutually agreeable to the Board and the Executive. If there is no agreement on the selection of the physician, then the Board shall select one physician and the Executive shall select one physician, and the two physicians shall attempt to mutually agree upon such physical or mental disability or infirmity. If the two physicians cannot agree, then the two physicians shall jointly select a third physician, whose opinion on such physical or mental disability or infirmity shall control.

(d) Notice of Termination. Any termination of employment by the Company or the Executive shall be communicated by a written "Notice of Termination" to the other party hereto given in accordance with Section 24 of this Agreement. In the event of a termination by the Company for Cause, or by the Executive for Good Reason, the Notice of Termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specify the date of termination, which date shall not be more than thirty (30) business days after the giving of such notice, provided that the date of termination will not occur before the expiration of any applicable cure period.

The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) No further Rights. The Executive shall have no further rights under this Agreement or otherwise to receive any other compensation or benefits after such termination or resignation of employment.

6. Confidentiality.

(a) Confidential Information.

(i) The Executive agrees that he will not at any time, except with the prior written consent of the Company its or its Affiliates or as required by applicable law, directly or indirectly, reveal to any person, entity or other organization (other than the Company its or its Affiliates or its respective employees, officers, directors, shareholders or agents) or use for the Executive's own benefit any confidential or proprietary information of any member of the Company its or its Affiliates ("Confidential Information") relating to the assets, liabilities, employees, goodwill, business or affairs of any member of the Company its or its Affiliates, including, without limitation, any information concerning past, present or prospective clients, intellectual capital, marketing data, or other confidential information used by, or useful to, any member of and known to the Executive by reason of the Executive's employment by, shareholdings in or other

association with the Company its or its Affiliates, other than disclosure while employed by the Company which the Executive reasonably and in good faith believes to be in or not opposed to the interests of the Company; provided that such Confidential Information does not include any information which is available to the general public or is generally available within the relevant business or industry other than as a result of the Executive's breach of this Agreement. Confidential Information may be in any medium or form, including, without limitation, physical documents, computer files or disks, videotapes, audiotapes, and oral communications.

(ii) In the event that the Executive becomes legally compelled to disclose any Confidential Information, the Executive shall, if permitted by law, provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, the Executive shall furnish only that portion of such Confidential Information or take only such action as is legally required by binding order and shall exercise his reasonable efforts to obtain reliable assurance that confidential treatment shall be accorded any such Confidential Information. The Company shall promptly pay (upon receipt of invoices and any other documentation as may be requested by the Company) all reasonable expenses and fees incurred by the Executive, including attorneys' fees, in connection with his compliance with the immediately preceding sentence. Notwithstanding anything herein to the contrary, nothing in this Agreement shall (A) prohibit the Executive from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of state or federal law or regulation, or (B) require notification or prior approval by the Company of any reporting described in clause (A).

(b) Confidentiality of Agreement. The Executive agrees that, except as may be required by applicable law or legal process, during the Term and thereafter, he shall not disclose the terms of this Agreement to any person or entity other than the Executive's accountants, financial advisors, attorneys or spouse, provided that such accountants, financial advisors, attorneys and spouse agree not to disclose the terms of this Agreement to any other person or entity.

(c) Exclusive Property. The Executive confirms that all Confidential Information is and shall remain the exclusive property of the Company its or its Affiliates. All business records, papers and documents kept or made by the Executive relating to the business of the Company its or its Affiliates shall be and remain the property of the Company its or its Affiliates. Upon the request and at the expense of the Company its or its Affiliates, the Executive shall promptly make all disclosures, execute all instruments and papers and perform all acts reasonably necessary to vest and confirm in the Company its or its Affiliates, fully and completely, all rights created or contemplated by this Section 6.

7. Noncompetition. The Executive agrees that, for a period commencing on January 1, 2017, and ending two (2) years following the Executive's termination of employment (the "Restricted Period"), the Executive shall not, without the prior written consent of the Company, directly or indirectly, and whether as principal or investor or as an employee, officer, director, manager, partner, consultant, agent or otherwise, alone or in association with any other person, firm, corporation or other business organization, carry on a Competing Business (as defined herein) within the County of Denver and contiguous counties. For purposes of this Section 7: (a) carrying on a "Competing Business" means to engage in the competing business of any business carried on by the Company its or its Affiliates. Notwithstanding the foregoing, nothing herein shall limit the Executive's right to own not more than one (1) percent of any of

the debt or equity securities of any business organization that is then filing reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. The Executive acknowledges that this noncompetition provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets.

Initial

8. Non-Solicitation. The Executive agrees that for the Restricted Period the Executive shall not, directly or indirectly, (a) interfere with or attempt to interfere with the relationship between any person who is, or was during the Restricted Period or the 3-month period immediately preceding the commencement of the Restricted Period, an employee, officer, representative or agent of the Company its or its Affiliates and any member of the Company its or its Affiliates, or solicit, induce or attempt to solicit or induce any of them to terminate their employment or service relationship with any member of the Company its or its Affiliates or violate the terms of their respective service contracts, or any employment arrangements, with such entities, provided that the foregoing shall not prevent general employment or service solicitations that do not specifically target any such persons; or (b) induce or attempt to induce any customer or client of any member of the Company its or its Affiliates to cease doing business with any member of the Company its or its Affiliates, or in any way interfere with the relationship between any member of the Company its or its Affiliates and any customer or client of any member of the Company its or its Affiliates. The Executive acknowledges that this non-solicitation provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets.

Initial

9. No Conflicting Agreement. The Executive represents, warrants and covenants to the Company that the Executive is not a party to any agreement, whether written or oral, that would be breached by or would prevent or interfere with the execution by the Executive of this Agreement or the fulfillment by the Executive of the Executive's obligations hereunder.

10. Nondisparagement. Each party represents, warrants and covenants to the other that at no time during the Term or thereafter shall such party make, or cause or assist any other person to make, any statement or other communication to any third party which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other party or any of its respective directors, officers or employees, as applicable; provided this Section shall not prohibit truthful testimony by or on behalf of either party in any judicial or administrative proceeding.

11. Section 409A of the Code. This Agreement is intended to meet the requirements of Section 409A of the Code and shall be interpreted and construed consistent with that intent. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the "deferral of compensation" within the meaning of Section 409A(d)(1) of the Code, if the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's "Separation from Service" within the meaning of Section 409A(a)(2)(A)(i) of the Code (the "Separation Date"), then no such payment shall be made or commence during the period beginning on the Separation Date and ending on the date that is six months following the Separation Date or, if earlier, on the date of the Executive's death. The amount of any payment

that would otherwise be paid to the Executive during this period shall instead be paid to the Executive on the fifteenth day of the first calendar month following the end of the period.

12. Certain Remedies.

(a) Forfeiture/Payment Obligations. In the event the Executive fails to comply with Sections 6 through 10., other than any isolated, insubstantial and inadvertent failure, the Executive agrees that he will forfeit any amounts not already paid pursuant to Section 5(b)(i)(A), (B), (C) or (D) of this Agreement. Notwithstanding the previous sentence, the Executive shall be given written notice of each alleged failure to comply with Sections 6 through 10, and the Executive shall be given an opportunity to remedy such failure within (60) sixty business days of the receipt of such notice. For purposes of clarity, the Executive's failure to comply with Sections 6 through 10 shall not result in forfeiture of amounts required to be paid but not already paid on account of a Change in Control pursuant to Section 5(b)(ii) of this Agreement.

(b) Injunctive Relief. Without intending to limit the remedies available to the Company its or its Affiliates, including, but not limited to, that set forth in Section 12(a) hereof, the Executive agrees that a breach of any of the covenants contained in Sections 6 through 10 of this Agreement may result in material and irreparable injury to the Company its or its Affiliates for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, any member of the Company its or its Affiliates shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from engaging in activities prohibited by the covenants contained in Sections 6 through 10 of this Agreement or such other relief as may be required specifically to enforce any of the covenants contained in this Agreement. Such injunctive relief in any court shall be available to the Company its or its Affiliates in lieu of, or prior to or pending determination in, any arbitration proceeding.

13. Defense of Claims. The Executive agrees that, during the Term, and for a period of seven (7) years after termination of the Executive's employment, upon request from the Company, the Executive will reasonably cooperate with the Company in the defense of any claims or actions that may be made by or against the Company that affect the Executive's prior areas of responsibility, except if the Executive's reasonable interests are adverse to the Company in such claim or action. The Company agrees to promptly pay in advance or reimburse the Executive for, as requested by the Executive, all of the Executive's reasonable travel and other direct costs and expenses incurred, or to be reasonably incurred, to comply with the Executive's obligations under this Section 13, including, but not limited to, legal costs and expenses.

14. Alternative Dispute Resolution. The Company and the Executive agree that any dispute that arises out of or relates to Executive's employment or termination of employment with the Company, including any dispute that the Executive may have with any present or former officer, manager, director, employee, agent, attorney or insurer of the Company, shall first be submitted to mediation through the Institute for Conflict Prevention & Resolution ("CPR") (or such other nationally-recognized alternative dispute resolution service as the Executive and Company may agree). The Executive and the Company shall use their reasonable efforts to commence and conclude such mediation in a prompt manner. If the dispute is not resolved through mediation within thirty (30) days after notice thereof, such dispute shall be resolved by binding arbitration in accordance with the rules and procedures of the CPR (or such other nationally recognized alternative dispute resolution service as the Executive and the Company may agree). Judgment upon the award rendered by the arbitrator may be entered in any court having in person and subject matter jurisdiction. The Company and the Executive hereby submit to the jurisdiction of the federal and state courts in Denver, Colorado, for the

purpose of confirming any such award and entering judgment thereon. The Company shall pay for all administrative costs and fees charged by the CPR (or such other nationally recognized alternative dispute resolution service) as well as the fees charged by the arbitrator. Each party shall pay for his or its attorneys' fees and costs.

15. Nonassignability; Binding Agreement.

(a) By the Executive. This Agreement and any and all rights, duties, obligations or interests hereunder shall not be assignable or delegable by the Executive.

(b) By the Company. This Agreement and all of the Company's rights and obligations hereunder shall not be assignable by the Company except as incident to a reorganization, merger or consolidation, or transfer of all or substantially all of the Company's assets.

(c) Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

16. Withholding. Any payments made or benefits provided to the Executive under this Agreement shall be reduced by any applicable withholding taxes or other amounts required to be withheld by law or contract.

17. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

18. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be governed by the laws of the State of Colorado applicable to contracts entered into and performed entirely therein. Any action to enforce this Agreement shall be brought solely in the state or federal courts located in the County of Denver, Colorado.

19. Survival of Certain Provisions. Unless expressly provided otherwise, the rights and obligations set forth in this Agreement shall survive any termination or expiration of this Agreement.

20. Entire Agreement: Supersedes Previous Agreements. Except as provided in Section 5(f) hereof, this Agreement contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein, and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof (including, without limitation, the Prior Agreement), all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

21. Severability. The provisions of the Agreement shall be deemed severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions herein.

22. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

23. Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

24. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary and General counsel

To the Executive:

Scott C. Wylie
435 Monroe Street
Denver, CO 80206

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer pursuant to the authority of its Board, and the Executive has executed this Agreement, as of the day and year first written above.

FIRST WESTERN FINANCIAL, INC.

By:___

SCOTT C. WYLIE

—

GENERAL RELEASE OF CLAIMS

This General Release of all Claims (this “Agreement”) is entered into by Scott C. Wylie (the “Executive”) and FWFI (the “Company”), effective as of April 26, 2023 in connection with the termination of the Executive’s employment with the Company as of _____.

In consideration of the promises set forth in the Amended and Restated Employment Agreement between the Executive and the Company, dated effective January 1, 2017 (the “Employment Agreement”), the Executive and the Company agree as follows:

1. Return of Property. All Company files, access keys and codes, desk keys, ID badges, computers, records, manuals, electronic devices, computer programs, papers, electronically stored information or documents, telephones and credit cards, and any other property of the Company in the Executive’s possession must be returned no later than the date of the Executive’s termination from the Company; provided, that, after the notification of a consultation with the Company, the Executive may keep one copy of such items as he may reasonably expect to use to protect his rights under this Agreement.

2. General Release and Waiver of Claims.

(a) Release. In consideration of the payments and benefits provided to the Executive under the Employment Agreement and after consultation with counsel, the Executive and each of the Executive’s respective heirs, executors, administrators, representatives, agents, insurers, successors and assigns (collectively, the “Releasors”) hereby irrevocably and unconditionally release and forever discharge the Company, its subsidiaries and affiliates and each of their respective officers, employees, directors, shareholders and agents (“Releasees”) from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, “Claims”), including, without limitation, any Claims under any federal, state, local or foreign law, that the Releasors may have, or in the future may possess, arising out of (i) the Executive’s employment relationship with and service as an employee, officer or director of the Company or any subsidiaries or affiliated companies and the termination of such relationship or service, and any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof; provided, however, that the Executive does not release, discharge or waive any rights to (i) payments and benefits provided under the Employment Agreement that are contingent upon the execution by the Executive of this Agreement and (ii) any indemnification rights the Executive may have under the Employment Agreement, in accordance with the Company’s governance instruments or under any director and officer liability insurance maintained by the Company with respect to liabilities arising as a result of the Executive’s service as an officer and employee of the Company. This Section 2(a) does not apply to any Claims that the Releasors may have as of the date the Executive signs this Agreement arising under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder (“ADEA”). Claims arising under ADEA are addressed in Section 2(b) of this Agreement.

(b) Specific Release of ADEA Claims. In further consideration of the payments and benefits provided to the Executive under the Employment Agreement, the Releasors hereby unconditionally release and forever discharge the Releasees from any and all

Claims arising under ADEA that the Releasors may have as of the date the Executive signs this Agreement. By signing this Agreement, the Executive hereby acknowledges and confirms the following: (i) the Executive was advised by the Company in connection with his termination to consult with an attorney of his choice prior to signing this Agreement and to have such attorney explain to the Executive the terms of this Agreement, including, without limitation, the terms relating to the Executive's release of claims arising under ADEA, and the Executive has in fact consulted with an attorney; (ii) the Executive was given a period of not fewer than 21 days to consider the terms of this Agreement and to consult with an attorney of his choosing with respect thereto; (iii) the Executive knowingly and voluntarily accepts the terms of this Agreement; and (iv) the Executive is providing this release and discharge only in exchange for consideration in addition to anything of value to which the Executive is already entitled. The Executive also understands that he has seven days following the date on which he signs this Agreement within which to revoke the release contained in this Section, by providing the Company with a written notice of his revocation of the release and waiver contained in this Section.

(c) No Assignment. The Executive represents and warrants that he has not assigned any of the Claims being released under this Agreement. The Company may assign this Agreement, in whole or in part, to any affiliated company or subsidiary of, or any successor in interest to, the Company.

3. Proceedings.

(a) General Agreement Relating to Proceedings. The Executive has not filed, and except as provided in Sections 3(b) and 3(c), the Executive agrees not to initiate or cause to be initiated on his behalf, any complaint, charge, claim or proceeding against the Releasees before any local, state or federal agency, court or other body relating to his employment or the termination of his employment, other than with respect to the obligations of the Company to the Executive under the Employment Agreement (each, individually, a "Proceeding"), and agrees not to participate voluntarily in any Proceeding. The Executive waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding.

(b) Proceedings Under ADEA. Section 3(a) shall not preclude the Executive from filing any complaint, charge, claim or proceeding challenging the validity of the Executive's waiver of Claims arising under ADEA (which is set forth in Section 2(b) of this Agreement). However, both the Executive and the Company confirm their belief that the Executive's waiver of claims under ADEA is valid and enforceable, and that their intention is that all claims under ADEA will be waived.

(c) Certain Administrative Proceedings. In addition, Section 3(a) shall not preclude the Executive from filing a charge with or participating in any administrative investigation or proceeding by the Equal Employment Opportunity Commission or another Fair Employment Practices agency. The Executive is, however, waiving his right to recover money in connection with any such charge or investigation. The Executive is also waiving his right to recover money in connection with a charge filed by any other entity or individual, or by any federal, state or local agency.

4. Remedies. In the event the Executive initiates or voluntarily participates in any Proceeding in violation of this Agreement, or if he fails to abide by any of the terms of this Agreement or his post-termination obligations contained in the Employment Agreement, or if he revokes the ADEA release contained in Section 2(b) within the seven-day period provided under Section 2(b), the Company may, in addition to any other remedies it may have, reclaim any amounts paid to him under Sections 5(b)(i)(A), (B) or (C) of the Employment Agreement or

terminate any benefits or payments that are subsequently due under Sections 5(b)(i)(A), (B) and (C) of the Employment Agreement, without waiving the release granted herein. The Executive acknowledges and agrees that the remedy at law available to the Company for breach of any of his post-termination obligations under the Employment Agreement or his obligations under Sections 2 and 3 herein would be inadequate and that damages flowing from such a breach may not readily be susceptible to measurement in monetary terms. Accordingly, the Executive acknowledges, consents and agrees that, in addition to any other rights or remedies that the Company may have at law or in equity or as may otherwise be set forth in the Employment Agreement, the Company shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from breaching his post-termination obligations under the Employment Agreement or his obligations under Sections 2 and 3 herein. Such injunctive relief in any court shall be available to the Company, in lieu of, or prior to or pending determination in, any arbitration proceeding.

The Executive understands that by entering into this Agreement he shall be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Company.

5. Severability Clause. In the event that any provision or part of this Agreement is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Agreement, shall be inoperative.

6. Non-Admission. Nothing contained in this Agreement shall be deemed or construed as an admission of wrongdoing or liability on the part of the Company or the Executive.

7. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be resolved pursuant to the provisions of Section 14 of the Employment Agreement.

8. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company;

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary and General counsel

To the Executive:

Scott C. Wylie
435 Monroe Street
Denver, CO 80206

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

THE EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT AND THAT HE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT HE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF HIS OWN FREE WILL.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

First Western Financial, Inc.

By: /s/ Julie Courkamp
Julie Courkamp, Treasurer, COO, and CFO

THE EXECUTIVE

/s/ Scott C. Wylie
Scott C. Wylie, Chairman, President, and CEO

Dated: April 26, 2023

[SIGNATURE PAGE TO GENERAL RELEASE OF CLAIMS]

SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”) effective as of April 26, 2023 (the “Effective Date”) is by and between First Western Financial Inc., a Colorado corporation (the “Company” or “FWFI”), and Julie Courkamp, an individual resident of the State of Colorado (the “Executive”). This Agreement amends, supersedes and replaces, in its entirety, the Amended & Restated Employment Agreement between the Company and the Executive dated effective as of March 5, 2018, as amended by that certain Amendment to Employment Agreement dated May 2, 2019, and that certain Second Amendment to Employment Agreement dated January 30, 2020 (collectively, the “Prior Agreement”).

WHEREAS, the Executive is currently employed by the Company as its Chief Financial Officer, Chief Operating Officer and Treasurer; and

WHEREAS, the Executive and the Company would like to amend and restate the Prior Agreement to more closely align the Executive’s severance compensation to current market practice.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Employment and Duties.

(a) General. As of the Effective Date, the Executive shall continue to serve as the Chief Financial Officer, Chief Operating Officer and Treasurer of the Company. The Executive shall report directly to the Chief Executive Officer of the Company (the “CEO”). The Executive shall have such duties and responsibilities, commensurate with the Executive’s position, as may be assigned to the Executive from time to time by the CEO. The Executive hereby accepts such employment and agrees to render the services described above.

(b) Exclusive Services. For so long as the Executive is employed by the Company, the Executive shall devote her full-time working time to her duties hereunder, shall faithfully serve the Company, shall in all material respects conform to and comply with the lawful directions and instructions given to her by the CEO and shall use her reasonable best efforts to promote and serve the interests of the Company. Further, the Executive shall not, directly or indirectly, render services to any other person or organization without the consent of the CEO or otherwise engage in activities that would interfere in any material respect with her faithful performance of her duties hereunder. Notwithstanding the foregoing, (i) the Executive may serve on such other for-profit corporate boards as may be consented to by the CEO, provided that such activity does not contravene the first sentence of this Section 1(b), and (ii) the Executive may serve on not-for-profit corporate, civic or charitable boards or engage in charitable activities without remuneration therefor as may be consented to by the CEO, provided that such activity does not contravene the first sentence of this Section 1(b).

2. Term. The term of the Executive’s employment under this Agreement commenced on the Effective Date, and shall expire on the December 31, 2023. This Agreement shall automatically renew for successive one-year terms commencing January 1, 2024, unless either party gives notice to the other 90 days before the end of a particular term. The period during which the Agreement is in effect shall be referred to as the “Term”.

3. Definitions.

(a) “Base Amount” means the amount equal to the sum of (i) the Executive’s Base Salary at the rate then in effect and (ii) amount equal to the greater of (A) the Executive’s target Annual Bonus at the rate then in effect or (B) the average Annual Bonus for the three fiscal years immediately preceding the date on which the Executive’s termination occurs.

(b) Termination for “Cause” means termination of the Executive’s employment because of:

(i) the willful failure by the Executive to perform the Executive’s duties with the Company;

(ii) gross incompetence or gross negligence in the discharge of the Executive’s duties;

(iii) willful dishonesty, theft, embezzlement, fraud, breach of confidentiality, or unauthorized disclosure or use of financial information, confidential client information, client or employee lists, trade secrets, or other Company confidential or proprietary information;

(iv) willful violation of any law, rule or regulation of any governing authority or of the Company’s policies and procedures, including, without limitation, the Company’s employee handbook or similar document;

(v) the willful refusal of Executive to follow the lawful directions of the CEO within a reasonable period after delivery to Executive of written notice of such directions;

(vi) willful conduct that is grossly injurious to the reputation, financial condition, business or assets of the Company; or

(vii) willful breach of any material provision in an agreement with the Company.

In each of (i) through (vii) the Executive shall be given written notice of such cause for termination, and in each of (i) and (vii) the Executive shall be given an opportunity to remedy such cause for termination within sixty (60) business days of receipt of such notice.

(c) “Change in Control” shall have the same meaning as the definition contained in Section 12.2 of the First Western Financial, Inc. 2016 Omnibus Incentive Plan.

(d) Resignation for “Good Reason” means termination of employment by the Executive because of the occurrence of any of the following events:

(i) there is a material reduction in the Executive’s Base Salary, unless agreed to in writing by the Executive;

(ii) there is a material reduction in the Executive’s authority, duties, or responsibilities, provided that the Company’s appointment of a new Chief Financial Officer to replace the Executive in that position shall not be considered a material reduction in the Executive’s authority, duties, or responsibilities;

(iii) the failure of any successor to assume this Agreement; and

(iv) any other action or inaction that constitutes a material breach by the Company of this Agreement after the Executive provides written notice to the Company of the facts which constitute the grounds within sixty (60) business days following the initial existence of the grounds and the Company thereafter fails to cure such grounds within sixty (60) business days following its receipt of such notice (or, in the event that such grounds cannot be corrected within such sixty (60) day period, the Company has not taken all reasonable steps within such sixty (60) day period to correct such grounds as promptly as practicable thereafter).

4. Compensation and Other Benefits. Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) Base Salary. The Company shall pay to the Executive an annual salary (the “Base Salary”) payable in substantially equal installments at such intervals as may be determined by the Company in accordance with its ordinary payroll practices, as established from time to time. The Base Salary shall be reviewed by the Board of Directors annually, and increased as appropriate, for market changes. Commencing effective as of the Effective Date, Executive’s annualized Base Salary is \$350,000. The Base Salary shall not be decreased by the Company except with the prior written consent of the Executive.

(b) Annual Bonus. Executive is eligible to receive annual incentive compensation (the “Annual Bonus”) as governed by the terms set forth in the First Western Financial, Inc. Incentive Plan for Senior Executive Officers, as may be amended from time to time. The incentive compensation performance measures and goals are reviewed by the Board of Directors annually, and adjusted as appropriate, according to the needs of the business.

(c) Long-Term Incentive Plan. The Executive shall be eligible for grants under the First Western Financial, Inc. 2016 Omnibus Incentive Plan, including, but not limited to, grants of stock options, market conditioned performance share units, financial conditioned performance stock units and restricted stock units, as the Compensation Committee of the Board shall determine from time to time.

(d) Savings and Retirement Plans. The Executive shall be eligible to participate in all savings and retirement plans applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(e) Welfare Benefit Plans. The Executive and her eligible dependents shall be eligible to participate in and shall receive all benefits under the Company’s welfare benefit plans and programs applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(f) Expenses. Upon presentation of written documentation thereof, in accordance with the applicable expense reimbursement policies and procedures of the Company as in effect from time to time, the Company shall reimburse the Executive for reasonable business-related expenses incurred by the Executive in the fulfillment of her duties. Payments with respect to reimbursements of expenses shall be made promptly and in accordance with the applicable expense reimbursement policies and procedures of the Company, but in any event, on or before the last day of the calendar month following the calendar month in which the relevant expense is incurred.

(g) Vacation. The Executive shall be entitled to vacation each calendar year during the Term, subject to and in accordance with the Company's vacation policy in effect from time to time.

5. Termination of Employment. The terms of any equity compensation grants outstanding as of the Effective Date, as well as any future equity compensation grants made under the First Western Financial, Inc. 2016 Omnibus Incentive Plan shall govern what the Executive receives on termination of employment, in terms of equity compensation, except as expressly provided in Section 5(b)(i)(C) and Section 5(b)(ii)(C) hereof. All other forms of remuneration the Executive is eligible for on termination of employment are set forth in this Section 5.

(a) Termination for Cause; Resignation Without Good Reason. If, prior to the expiration of the Term, the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations ("Regulations") thereunder, by reason of the Company's termination of the Executive's employment for Cause, or if the Executive resigns from her employment hereunder other than for Good Reason, the Executive shall be entitled only to payment of (i) any unpaid Base Salary through and including the date of termination or resignation, (ii) any Annual Bonus earned, but unpaid, for the year immediately preceding the year in which the termination date occurs (which unpaid Annual Bonus amount shall be paid no later than March 15 of the year following the year in which the amount was earned), and (iii) any other amounts or benefits required to be paid or provided by law or under any plan, program, policy or practice of the Company (the amounts or benefits in (i) through (iii) being referred to collectively as the "Other Accrued Compensation and Benefits"). Except as set forth in this subsection (a), the Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment.

(b) Termination without Cause; Resignation for Good Reason.

(i) If the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code and the Regulations thereunder, by reason of the Company's termination of the Executive's employment without Cause, or if the Executive resigns from her employment hereunder for Good Reason, the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to one (1) times the Executive's Base Amount, which shall be payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the twelve (12) month period following termination.

(C) A pro-rated portion of each outstanding unvested equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse. The pro-rated portion, determined separately for each vesting tranche for each such equity award, shall be based on a fraction, (I) the numerator of which is number of days that elapse from the grant date of the equity award until the Executive's termination date and the (II) the denominator of which is the total number of days in the period that begins on the date of grant of the applicable equity award and ends on the scheduled vesting date of such equity award (or, if applicable, the scheduled vesting date of the applicable vesting tranche). For purposes of determining the number of shares subject to any outstanding unvested equity awards

subject to performance vesting conditions (as opposed to solely service-based vesting conditions) that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the level of the Company's actual achievement of the applicable performance goals as measured as of the Executive's termination date, as determined by the Compensation Committee in its reasonable discretion. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(i)(C).

(D) The Company shall monthly pay to the Executive the amount equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for the Executive, and, to the extent that the Executive is providing coverage for her spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company terminates the Executive's employment without Cause, the Company shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(i).

(E) All payments and benefits provided under this Section 5(b)(i)(B) and (D) shall commence on the first payroll date following the 60th day after the Executive's termination of employment, with the first installment payment to include any payments that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(i)(A), (B), (C) or (D) unless the Executive executes and delivers to the Company, within sixty (60) days following the Executive's termination of employment, a release substantially in the form attached hereto as Exhibit A (the "Release"), and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(i)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments. This Section 5(b)(i) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(F) If, following a termination of employment without Cause or a resignation for Good Reason, the Executive breaches the provisions of Sections 6 through 10 hereof or breaches any provision set forth in the executed copy of the general release of claims, the Executive shall not be eligible, as of the date of such breach, for the payments and benefits described in Section 5(b)(i)(A), (B), (C) or (D), and any and all obligations and agreements of the Company with respect to such payments shall

thereupon cease. This Section 5(b)(i)(F) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(ii) If the Company undergoes a Change in Control and, within 24 months of such Change in Control, the Executive is terminated without Cause or resigns for Good Reason, then, in lieu of (and not in addition to) any payments or benefits payable to the Executive pursuant to Section 5(b)(i), the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to two (2) times the Executive's Base Amount, payable in a single lump sum payment.

(C) Each outstanding equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to that number of shares of Company common stock that would otherwise vest based on Executive's continued employment. For purposes of determining the number of shares subject to any outstanding equity awards subject to performance vesting conditions that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the "target" level. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(ii)(C).

(D) Monthly payments to the Executive equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to COBRA for the Executive, and, to the extent that the Executive is providing coverage for her spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company (or its successor) terminates the Executive's employment without Cause, the Company (or its successor) shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(ii).

(E) Unless otherwise provided herein, all payments and benefits provided under this Section 5(b)(ii)(B) and (D) shall be paid (or, in the case of the payments described in Section 5(b)(ii)(D), commence to be paid) on the first payroll date following the 60th day after the Executive's termination of employment, with the first payment to include any payments provided under Section 5(b)(ii)(D) that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(ii)(A), (B), (C) or (D) unless the Executive executes and delivers the Release to the Company, within sixty (60) days following the Executive's termination of employment, and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's

revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(ii)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments.

(F) In the event that it is determined that any payment or distribution of any type to or for the benefit of an Executive made by the Company, by any of its Affiliates, by any person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of Code Section 280G) or by any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of any equity compensation plan, this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Code Section 4999 or any interest or penalties with respect to such excise tax (the "Excise Tax"), then, notwithstanding any other provision of this Agreement or any equity compensation plan to the contrary, any right of the Executive to any payment or benefit under this Agreement or any such equity compensation plan shall be reduced or eliminated, but only to the extent necessary to avoid imposition of the Excise Tax. In no case, however, shall such cutback be made if Total Payments after the imposition of the Excise Tax are greater than Total Payments cut back as provided in this Section 5(b)(ii) to avoid the Excise Tax.

(G) In the event that a cutback of Total Payments is permitted under Section 5(b)(ii)(F), and except as required by Code Section 409A or to the extent that Code 409A permits discretion, the Compensation Committee shall have the right, in the Compensation Committee's sole discretion, to designate those rights, payments, or benefits and all other agreements that should be reduced or eliminated so as to provide the Executive with the maximum pre-tax amount which avoids imposition of the Excise Tax. For example, the Compensation Committee may choose to cut back cash severance, if that would yield a higher pre-tax amount than cutting back equity. Notwithstanding the foregoing, to the extent any payment or benefit constitutes deferred compensation under Code Section 409A, in order to comply with Code Section 409A the Compensation Committee shall instead accomplish such reduction by first reducing or eliminating any cash payments (with the payments to be made furthest in the future being reduced first), then by reducing or eliminating any accelerated vesting of options or stock appreciation rights, then by reducing or eliminating any accelerated vesting of restricted stock or restricted stock units.

(c) Termination Due to Death or Disability. The Executive's employment with the Company shall terminate automatically on the Executive's death. In the event of the Executive's Disability (as defined herein), the Company shall be entitled to terminate her employment. In the event of the Executive's death or if the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code, or the Regulations thereunder, by reason of the Executive's Disability, the Company shall pay to the Executive (or her estate, as applicable), (i) the Executive's Base Salary through and including the date of termination and any Other Accrued Compensation and Benefits (ii) a pro-rata Annual Bonus for the year of termination, based on actual audited year-end results and payable when bonuses are normally paid to employees, and (iii) three (3) months Base Salary at the rate then in effect, payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the three (3) month following termination.

(i) For purposes of this Agreement, “Disability” means a physical or mental disability or infirmity of the Executive that prevents the normal performance of substantially all her duties for a period in excess of ninety (90) consecutive days or for more than ninety (90) days in any consecutive twelve (12)-month period. Evidence of such physical or mental disability or infirmity shall be certified by a physician licensed to practice in the state of residence of the Executive, which physician is mutually agreeable to the Board and the Executive. If there is no agreement on the selection of the physician, then the Board shall select one physician and the Executive shall select one physician, and the two physicians shall attempt to mutually agree upon such physical or mental disability or infirmity. If the two physicians cannot agree, then the two physicians shall jointly select a third physician, whose opinion on such physical or mental disability or infirmity shall control.

(d) Notice of Termination. Any termination of employment by the Company or the Executive shall be communicated by a written “Notice of Termination” to the other party hereto given in accordance with Section 24 of this Agreement. In the event of a termination by the Company for Cause, or by the Executive for Good Reason, the Notice of Termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated and (iii) specify the date of termination, which date shall not be more than thirty (30) business days after the giving of such notice, provided that the date of termination will not occur before the expiration of any applicable cure period.

The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder.

(e) No Further Rights. The Executive shall have no further rights under this Agreement or otherwise to receive any other compensation or benefits after such termination or resignation of employment.

6. Confidentiality.

(a) Confidential Information.

(i) The Executive agrees that she will not at any time, except with the prior written consent of the Company or its Affiliates or as required by applicable law, directly or indirectly, reveal to any person, entity or other organization (other than the Company or its Affiliates or its respective employees, officers, directors, shareholders or agents) or use for the Executive’s own benefit any confidential or proprietary information of any member of the Company or its Affiliates (“Confidential Information”) relating to the assets, liabilities, employees, goodwill, business or affairs of any member of the Company or its Affiliates, including, without limitation, any information concerning past, present or prospective clients, intellectual capital, marketing data, or other confidential information used by, or useful to, any member of and known to the Executive by reason of the Executive’s employment by, shareholdings in or other association with the Company or its Affiliates, other than disclosure while employed by the Company which the Executive reasonably and in good faith believes to be in or not opposed to the interests of the Company; provided that such Confidential Information does not include any information which is available to the general public or is generally available within the relevant business or industry other than as a result of the Executive’s breach of this

Agreement. Confidential Information may be in any medium or form, including, without limitation, physical documents, computer files or disks, videotapes, audiotapes, and oral communications.

(ii) In the event that the Executive becomes legally compelled to disclose any Confidential Information, the Executive shall, if permitted by law, provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, the Executive shall furnish only that portion of such Confidential Information or take only such action as is legally required by binding order and shall exercise her reasonable efforts to obtain reliable assurance that confidential treatment shall be accorded any such Confidential Information. The Company shall promptly pay (upon receipt of invoices and any other documentation as may be requested by the Company) all reasonable expenses and fees incurred by the Executive, including attorneys' fees, in connection with her compliance with the immediately preceding sentence. Notwithstanding anything herein to the contrary, nothing in this Agreement shall (A) prohibit the Executive from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of state or federal law or regulation, or (B) require notification or prior approval by the Company of any reporting described in clause (A).

(b) Confidentiality of Agreement. The Executive agrees that, except as may be required by applicable law or legal process, during the Term and thereafter, she shall not disclose the terms of this Agreement to any person or entity other than the Executive's accountants, financial advisors, attorneys or spouse, provided that such accountants, financial advisors, attorneys and spouse agree not to disclose the terms of this Agreement to any other person or entity.

(c) Exclusive Property. The Executive confirms that all Confidential Information is and shall remain the exclusive property of the Company or its Affiliates. All business records, papers and documents kept or made by the Executive relating to the business of the Company or its Affiliates shall be and remain the property of the Company or its Affiliates. Upon the request and at the expense of the Company or its Affiliates, the Executive shall promptly make all disclosures, execute all instruments and papers and perform all acts reasonably necessary to vest and confirm in the Company or its Affiliates, fully and completely, all rights created or contemplated by this Section 6.

7. Noncompetition. The Executive agrees that, for a period commencing on the January 1, 2017 and ending 365 days following the Executive's termination of employment (the "Restricted Period"), the Executive shall not, without the prior written consent of the Company, directly or indirectly, and whether as principal or investor or as an employee, officer, director, manager, partner, consultant, agent or otherwise, alone or in association with any other person, firm, corporation or other business organization, carry on a Competing Business (as defined herein) within the County of Denver and contiguous counties. For purposes of this Section 7: (a) carrying on a "Competing Business" means to engage in the competing business of any business carried on by the Company or its Affiliates. Notwithstanding the foregoing nothing herein shall limit the Executive's right to own not more than one (1) percent of any of the debt or equity securities of any business organization that is then filing reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. The Executive acknowledges that this noncompetition provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to

protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets. _____

Initial

8. Non-Solicitation. The Executive agrees that for the Restricted Period the Executive shall not, directly or indirectly, (a) interfere with or attempt to interfere with the relationship between any person who is, or was during the Restricted Period or the 3-month period immediately preceding the commencement of the Restricted Period, an employee, officer, representative or agent of the Company or its Affiliates and any member of the Company or its Affiliates, or solicit, induce or attempt to solicit or induce any of them to terminate their employment or service relationship with any member of the Company or its Affiliates or violate the terms of their respective service contracts, or any employment arrangements, with such entities, provided that the foregoing shall not prevent general employment or service solicitations that do not specifically target any such persons; or (b) induce or attempt to induce any customer or client of any member of the Company or its Affiliates to cease doing business with any member of the Company or its Affiliates, or in any way interfere with the relationship between any member of the Company or its Affiliates and any customer or client of any member of the Company or its Affiliates. The Executive acknowledges that this non-solicitation provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets. _____

Initial

9. No Conflicting Agreement. The Executive represents, warrants and covenants to the Company that the Executive is not a party to any agreement, whether written or oral, that would be breached by or would prevent or interfere with the execution by the Executive of this Agreement or the fulfillment by the Executive of the Executive's obligations hereunder.

10. Nondisparagement. Each party represents, warrants and covenants to the other that at no time during the Term or thereafter shall such party make, or cause or assist any other person to make, any statement or other communication to any third party which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other party or any of its respective directors, officers or employees, as applicable; provided this Section shall not prohibit truthful testimony by or on behalf of either party in any judicial or administrative proceeding.

11. Section 409A of the Code. This Agreement is intended to meet the requirements of Section 409A of the Code and shall be interpreted and construed consistent with that intent. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the "deferral of compensation" within the meaning of Section 409A(d)(1) of the Code, if the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's "Separation from Service" within the meaning of Section 409A(a)(2)(A)(i) of the Code (the "Separation Date"), then no such payment shall be made or commence during the period beginning on the Separation Date and ending on the date that is six months following the Separation Date or, if earlier, on the date of the Executive's death. The amount of any payment that would otherwise be paid to the Executive during this period shall instead be paid to the Executive on the fifteenth day of the first calendar month following the end of the period.

12. Certain Remedies.

(a) Forfeiture/Payment Obligations. In the event the Executive fails to comply with Sections 6 through 10, other than any isolated, insubstantial and inadvertent failure, the Executive agrees that she will forfeit any amounts not already paid pursuant to Section 5(b)(i) (A), (B), (C) or (D) of this Agreement. Notwithstanding the previous sentence, the Executive shall be given written notice of each alleged failure to comply with Sections 6 through 10, and the Executive shall be given an opportunity to remedy such failure within (60) sixty business days of the receipt of such notice. For purposes of clarity, the Executive's failure to comply with Sections 6 through 10 shall not result in forfeiture of amounts required to be paid but not already paid on account of a Change in Control pursuant to Section 5(b)(ii) of this Agreement.

(b) Injunctive Relief. Without intending to limit the remedies available to the Company or its Affiliates, including, but not limited to, that set forth in Section 12(a) hereof, the Executive agrees that a breach of any of the covenants contained in Sections 6 through 10 of this Agreement may result in material and irreparable injury to the Company or its Affiliates for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, any member of the Company or its Affiliates shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from engaging in activities prohibited by the covenants contained in Sections 6 through 10 of this Agreement or such other relief as may be required specifically to enforce any of the covenants contained in this Agreement. Such injunctive relief in any court shall be available to the Company or its Affiliates in lieu of, or prior to or pending determination in, any arbitration proceeding.

13. Defense of Claims. The Executive agrees that, during the Term, and for a period of seven (7) years after termination of the Executive's employment, upon request from the Company, the Executive will reasonably cooperate with the Company in the defense of any claims or actions that may be made by or against the Company that affect the Executive's prior areas of responsibility, except if the Executive's reasonable interests are adverse to the Company in such claim or action. The Company agrees to promptly pay in advance or reimburse the Executive for, as requested by the Executive, all of the Executive's reasonable travel and other direct costs and expenses incurred, or to be reasonably incurred, to comply with the Executive's obligations under this Section 13, including, but not limited to, legal costs and expenses.

14. Alternative Dispute Resolution. The Company and the Executive agree that any dispute that arises out of or relates to Executive's employment or termination of employment with the Company, including any dispute that the Executive may have with any present or former officer, manager, director, employee, agent, attorney or insurer of the Company, shall first be submitted to mediation through the Institute for Conflict Prevention & Resolution ("CPR") (or such other nationally-recognized alternative dispute resolution service as the Executive and Company may agree). The Executive and the Company shall use their reasonable efforts to commence and conclude such mediation in a prompt manner. If the dispute is not resolved through mediation within thirty (30) days after notice thereof, such dispute shall be resolved by binding arbitration in accordance with the rules and procedures of the CPR (or such other nationally recognized alternative dispute resolution service as the Executive and the Company may agree). Judgment upon the award rendered by the arbitrator may be entered in any court having in person and subject matter jurisdiction. The Company and the Executive hereby submit to the jurisdiction of the federal and state courts in Denver, Colorado, for the purpose of confirming any such award and entering judgment thereon. The Company shall pay for all administrative costs and fees charged by the CPR (or such other nationally recognized alternative dispute resolution service) as well as the fees charged by the arbitrator. Each party shall pay for her or its attorneys' fees and costs.

15. Nonassignability; Binding Agreement.

(a) By the Executive. This Agreement and any and all rights, duties, obligations or interests hereunder shall not be assignable or delegable by the Executive.

(b) By the Company. This Agreement and all of the Company's rights and obligations hereunder shall not be assignable by the Company except as incident to a reorganization, merger or consolidation, or transfer of all or substantially all of the Company's assets.

(c) Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

16. Withholding. Any payments made or benefits provided to the Executive under this Agreement shall be reduced by any applicable withholding taxes or other amounts required to be withheld by law or contract.

17. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

18. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be governed by the laws of the State of Colorado applicable to contracts entered into and performed entirely therein. Any action to enforce this Agreement shall be brought solely in the state or federal courts located in the County of Denver, Colorado.

19. Survival of Certain Provisions. Unless expressly provided otherwise, the rights and obligations set forth in this Agreement shall survive any termination or expiration of this Agreement.

20. Entire Agreement; Supersedes Previous Agreements. This Agreement contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein, and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof (including, without limitation, the Prior Agreement), all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

21. Severability. The provisions of the Agreement shall be deemed severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions herein.

22. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

23. Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

24. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary and General counsel

To the Executive:

Julie Courkamp
14730 Verbena Court
Brighton, Colorado 80602

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer pursuant to the authority of its Board, and the Executive has executed this Agreement, as of the day and year first written above.

FIRST WESTERN FINANCIAL, INC.

By: __

JULIE COURKAMP

—

GENERAL RELEASE OF CLAIMS

This General Release of all Claims (this “Agreement”) is entered into by Julie Courkamp (the “Executive”) and FWFI (the “Company”), effective as of _____ in connection with the termination of the Executive’s employment with the Company as of _____.

In consideration of the promises set forth in the Second Amended and Restated Employment Agreement between the Executive and the Company, dated effective April 26, 2023 (the “Employment Agreement”), the Executive and the Company agree as follows:

1. Return of Property. All Company files, access keys and codes, desk keys, ID badges, computers, records, manuals, electronic devices, computer programs, papers, electronically stored information or documents, telephones and credit cards, and any other property of the Company in the Executive’s possession must be returned no later than the date of the Executive’s termination from the Company; provided, that, after the notification of a consultation with the Company, the Executive may keep one copy of such items as she may reasonably expect to use to protect her rights under this Agreement.

2. General Release and Waiver of Claims.

(a) Release. In consideration of the payments and benefits provided to the Executive under the Employment Agreement and after consultation with counsel, the Executive and each of the Executive’s respective heirs, executors, administrators, representatives, agents, insurers, successors and assigns (collectively, the “Releasors”) hereby irrevocably and unconditionally release and forever discharge the Company, its subsidiaries and affiliates and each of their respective officers, employees, directors, shareholders and agents (“Releasees”) from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, “Claims”), including, without limitation, any Claims under any federal, state, local or foreign law, that the Releasors may have, or in the future may possess, arising out of (i) the Executive’s employment relationship with and service as an employee, officer or director of the Company or any subsidiaries or affiliated companies and the termination of such relationship or service, and any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof; provided, however, that the Executive does not release, discharge or waive any rights to (i) payments and benefits provided under the Employment Agreement that are contingent upon the execution by the Executive of this Agreement and (ii) any indemnification rights the Executive may have under the Employment Agreement, in accordance with the Company’s governance instruments or under any director and officer liability insurance maintained by the Company with respect to liabilities arising as a result of the Executive’s service as an officer and employee of the Company. This Section 2(a) does not apply to any Claims that the Releasors may have as of the date the Executive signs this Agreement arising under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder (“ADEA”). Claims arising under ADEA are addressed in Section 2(b) of this Agreement.

(b) Specific Release of ADEA Claims. In further consideration of the payments and benefits provided to the Executive under the Employment Agreement, the Releasors hereby unconditionally release and forever discharge the Releasees from any and all Claims arising under ADEA that the Releasors may have as of the date the Executive signs this Agreement. By signing this Agreement, the Executive hereby acknowledges and confirms the following: (i) the Executive was advised by the Company in connection with her termination to

consult with an attorney of her choice prior to signing this Agreement; and to have such attorney explain to the Executive the terms of this Agreement, including, without limitation, the terms relating to the Executive's release of claims arising under ADEA, and the Executive has in fact consulted with an attorney; (ii) the Executive was given a period of not fewer than 21 days to consider the terms of this Agreement and to consult with an attorney of her choosing with respect thereto; (iii) the Executive knowingly and voluntarily accepts the terms of this Agreement; and (iv) the Executive is providing this release and discharge only in exchange for consideration in addition to anything of value to which the Executive is already entitled. The Executive also understands that she has seven days following the date on which she signs this Agreement within which to revoke the release contained in this Section, by providing the Company with a written notice of her revocation of the release and waiver contained in this Section.

(c) No Assignment. The Executive represents and warrants that she has not assigned any of the Claims being released under this Agreement. The Company may assign this Agreement, in whole or in part, to any affiliated company or subsidiary of, or any successor in interest to, the Company.

3. Proceedings.

(a) General Agreement Relating to Proceedings. The Executive has not filed, and except as provided in Sections 3(b) and 3(c), the Executive agrees not to initiate or cause to be initiated on her behalf, any complaint, charge, claim or proceeding against the Releasees before any local, state or federal agency, court or other body relating to her employment or the termination of her employment, other than with respect to the obligations of the Company to the Executive under the Employment Agreement (each, individually, a "Proceeding"), and agrees not to participate voluntarily in any Proceeding. The Executive waives any right she may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding.

(b) Proceedings Under ADEA. Section 3(a) shall not preclude the Executive from filing any complaint, charge, claim or proceeding challenging the validity of the Executive's waiver of Claims arising under ADEA (which is set forth in Section 2(b) of this Agreement). However, both the Executive and the Company confirm their belief that the Executive's waiver of claims under ADEA is valid and enforceable, and that their intention is that all claims under ADEA will be waived.

(c) Certain Administrative Proceedings. In addition, Section 3(a) shall not preclude the Executive from filing a charge with or participating in any administrative investigation or proceeding by the Equal Employment Opportunity Commission or another Fair Employment Practices agency. The Executive is, however, waiving her right to recover money in connection with any such charge or investigation. The Executive is also waiving her right to recover money in connection with a charge filed by any other entity or individual, or by any federal, state or local agency.

4. Remedies. In the event the Executive initiates or voluntarily participates in any Proceeding in violation of this Agreement, or if she fails to abide by any of the terms of this Agreement or her post-termination obligations contained in the Employment Agreement, or if she revokes the ADEA release contained in Section 2(b) within the seven-day period provided under Section 2(b), the Company may, in addition to any other remedies it may have, reclaim any amounts paid to her under Sections 5(b)(i)(A), (B), (C) or (D) of the Employment Agreement or terminate any benefits or payments that are subsequently due under Sections 5(b)(i)(A), (B), (C) and (D) of the Employment Agreement, without waiving the release granted herein. The Executive acknowledges and agrees that the remedy at law available to the Company for breach of any of her post-termination obligations under the Employment

Agreement or her obligations under Sections 2 and 3 herein would be inadequate and that damages flowing from such a breach may not readily be susceptible to measurement in monetary terms. Accordingly, the Executive acknowledges, consents and agrees that, in addition to any other rights or remedies that the Company may have at law or in equity or as may otherwise be set forth in the Employment Agreement, the Company shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from breaching her post-termination obligations under the Employment Agreement or her obligations under Sections 2 and 3 herein. Such injunctive relief in any court shall be available to the Company, in lieu of, or prior to or pending determination in, any arbitration proceeding.

The Executive understands that by entering into this Agreement she shall be limiting the availability of certain remedies that she may have against the Company and limiting also her ability to pursue certain claims against the Company.

5. Severability Clause. In the event that any provision or part of this Agreement is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Agreement, shall be inoperative.

6. Non-Admission. Nothing contained in this Agreement shall be deemed or construed as an admission of wrongdoing or liability on the part of the Company or the Executive.

7. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be resolved pursuant to the provisions of Section 14 of the Employment Agreement.

8. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary

To the Executive:

Julie Courkamp
14730 Verbena Court
Brighton, Colorado 80602

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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THE EXECUTIVE ACKNOWLEDGES THAT SHE HAS READ THIS AGREEMENT AND THAT SHE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT SHE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF HER OWN FREE WILL.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

First Western Financial, Inc.

By: /s/ Scott C. Wylie
Scott C. Wylie, Chairman, President, and CEO

THE EXECUTIVE

/s/ Julie Courkamp
Julie Courkamp, Treasurer, COO, and CFO

Dated: April 26, 2023

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”) effective as of April 26, 2023 (the “Effective Date”) is by and between First Western Financial Inc., a Colorado corporation (the “Company” or “FWFI”), and John Sawyer, an individual resident of the State of Colorado (the “Executive”). This Agreement amends, supersedes and replaces, in its entirety, the Employment Agreement between the Company and the Executive dated effective as of April 8, 2020 (the “Prior Agreement”).

WHEREAS, the Executive is currently employed by the Company as its Chief Investment Officer; and

WHEREAS, the Executive and the Company would like to amend and restate the Prior Agreement to more closely align the Executive’s severance compensation to current market practice.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Employment and Duties.

(a) General. As of the Effective Date, the Executive shall continue to serve as the Chief Investment Officer of the Company. The Executive shall report directly to the Chief Executive Officer of the Company (the “CEO”). The Executive shall have such duties and responsibilities, commensurate with the Executive’s position, as may be assigned to the Executive from time to time by the CEO. The Executive hereby accepts such employment and agrees to render the services described above.

(b) Exclusive Services. For so long as the Executive is employed by the Company, the Executive shall devote his full-time working time to his duties hereunder, shall faithfully serve the Company, shall in all material respects conform to and comply with the lawful directions and instructions given to him by the CEO and shall use his reasonable best efforts to promote and serve the interests of the Company. Further, the Executive shall not, directly or indirectly, render services to any other person or organization without the written consent of the CEO or otherwise engage in activities that would interfere in any material respect with his faithful performance of his duties hereunder. Notwithstanding the foregoing, (i) the Executive may serve on such other for-profit corporate boards as may be consented to by the CEO, provided that such activity does not contravene the first sentence of this Section 1(b), and (ii) the Executive may serve on not-for-profit corporate, civic or charitable boards or engage in charitable activities without remuneration therefor as may be consented to by the CEO, provided that such activity does not contravene the first sentence of this Section 1(b).

2. Term. The term of the Executive’s employment under this Agreement commenced on the Effective Date, and shall expire on the December 31, 2023. This Agreement shall automatically renew for successive one-year terms commencing January 1, 2024, unless either party gives notice to the other 90 days before the end of a particular term. The period during which the Agreement is in effect shall be referred to as the “Term”.

3. Definitions.

(a) “Base Amount” means the amount equal to the sum of (i) the Executive’s Base Salary at the rate then in effect and (ii) amount equal to the greater of (A) the Executive’s

target Annual Bonus at the rate then in effect or (B) the average Annual Bonus for the three fiscal years immediately preceding the date on which the Executive's termination occurs.

(b) Termination for "Cause" means termination of the Executive's employment because of:

- (i) the willful failure by the Executive to perform the Executive's duties with the Company;
- (ii) gross incompetence or gross negligence in the discharge of the Executive's duties;
- (iii) willful dishonesty, theft, embezzlement, fraud, breach of confidentiality, or unauthorized disclosure or use of financial information, confidential client information, client or employee lists, trade secrets, or other Company confidential or proprietary information;
- (iv) willful violation of any law, rule or regulation of any governing authority or of the Company's policies and procedures, including, without limitation, the Company's employee handbook or similar document;
- (v) the willful refusal of Executive to follow the lawful directions of the CEO within a reasonable period after delivery to Executive of written notice of such directions;
- (vi) willful conduct that is grossly injurious to the reputation, financial condition, business or assets of the Company; or
- (vii) willful breach of any material provision in an agreement with the Company.

In each of (i) through (vii) the Executive shall be given written notice of such cause for termination, and in each of (i) and (vii) the Executive shall be given an opportunity to remedy such cause for termination within sixty (60) business days of receipt of such notice.

(c) "Change in Control" shall have the same meaning as the definition contained in Section 12.2 of the First Western Financial, Inc. 2016 Omnibus Incentive Plan.

(d) Resignation for "Good Reason" means termination of employment by the Executive because of the occurrence of any of the following events:

- (i) there is a material reduction in the Executive's Base Salary, unless agreed to in writing by the Executive;
- (ii) there is a material reduction in the Executive's authority, duties, or responsibilities;
- (iii) the Executive is required to relocate the Executive's principal place of employment with the Company (or successor to the Company, if applicable) to a place that increases the Executive's one-way commute by more than twenty-five (25) miles as compared to the Executive's then-current principal place of employment immediately prior to such relocation (excluding regular travel in the ordinary course of business), unless such relocation is agreed to in writing by the Executive;

(iv) the failure of any successor to assume this Agreement; and

(v) any other action or inaction that constitutes a material breach by the Company of this Agreement after the Executive provides written notice to the Company of the facts which constitute the grounds within sixty (60) business days following the initial existence of the grounds and the Company thereafter fails to cure such grounds within sixty (60) business days following its receipt of such notice (or, in the event that such grounds cannot be corrected within such sixty (60) day period, the Company has not taken all reasonable steps within such sixty (60) day period to correct such grounds as promptly as practicable thereafter).

4. Compensation and Other Benefits. Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) Base Salary. The Company shall pay to the Executive an annual salary (the “Base Salary”) payable in substantially equal installments at such intervals as may be determined by the Company in accordance with its ordinary payroll practices, as established from time to time. The Base Salary shall be reviewed annually and increased as appropriate for market changes, commencing effective January 1, 2024. Executive annualized Base Salary as of the Effective Date is \$320,000. The Base Salary shall not be decreased by the Company except with the prior written consent of the Executive.

(b) Annual Bonus. Executive shall be eligible to receive annual incentive compensation (the “Annual Bonus”), as governed by the terms set forth in the First Western Financial, Inc. Incentive Plan for Senior Executive Officers, as may be amended from time to time. The incentive compensation performance measures and goals are reviewed by the Board of Directors annually, and adjusted as appropriate, according to the needs of the business.

(c) Long-Term Incentive Plan. The Executive shall be eligible for grants under the First Western Financial, Inc. 2016 Omnibus Incentive Plan, including, but not limited to, grants of stock options, market conditioned performance share units, financial conditioned performance stock units and restricted stock units, as the Compensation Committee of the Board shall determine from time to time.

(d) Savings and Retirement Plans. The Executive shall be eligible to participate in all savings and retirement plans applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(e) Welfare Benefit Plans. The Executive and his eligible dependents shall be eligible to participate in and shall receive all benefits under the Company’s welfare benefit plans and programs applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(f) Expenses. Upon presentation of written documentation thereof, in accordance with the applicable expense reimbursement policies and procedures of the Company as in effect from time to time, the Company shall reimburse the Executive for reasonable business-related expenses incurred by the Executive in the fulfillment of his duties. Payments with respect to reimbursements of expenses shall be made promptly and in accordance with the applicable expense reimbursement policies and procedures of the Company, but in any event, on or before the last day of the calendar month following the calendar month in which the relevant expense is incurred.

(g) Vacation. The Executive shall be entitled to vacation each calendar year during the Term, subject to and in accordance with the Company's vacation policy in effect from time to time.

5. Termination of Employment. The terms of any equity compensation grants outstanding as of the Effective Date, as well as any future equity compensation grants made under the First Western Financial, Inc. 2016 Omnibus Incentive Plan shall govern what the Executive receives on termination of employment, in terms of equity compensation, except as expressly provided in Section 5(b)(i)(C) and Section 5(b)(ii)(C) hereof. All other forms of remuneration the Executive is eligible for on termination of employment are set forth in this Section 5.

(a) Termination for Cause; Resignation Without Good Reason. If, prior to the expiration of the Term, the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations ("Regulations") thereunder, by reason of the Company's termination of the Executive's employment for Cause, or if the Executive resigns from his employment hereunder other than for Good Reason, the Executive shall be entitled only to payment of (i) any unpaid Base Salary through and including the date of termination or resignation, (ii) any Annual Bonus earned, but unpaid, for the year immediately preceding the year in which the termination date occurs (which unpaid Annual Bonus amount shall be paid no later than March 15 of the year following the year in which the amount was earned), and (iii) any other amounts or benefits required to be paid or provided by law or under any plan, program, policy or practice of the Company (the amounts or benefits in (i) through (iii) being referred to collectively as the "Other Accrued Compensation and Benefits"). Except as set forth in this subsection (a), the Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment.

(b) Termination without Cause; Resignation for Good Reason.

(i) If the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code and the Regulations thereunder, by reason of the Company's termination of the Executive's employment without Cause, or if the Executive resigns from his employment hereunder for Good Reason, the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to one (1) times the Executive's Base Amount, which shall be payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the twelve (12) month period following termination.

(C) A pro-rated portion of each outstanding unvested equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse. The pro-rated portion, determined separately for each vesting tranche for each such equity award, shall be based on a fraction, (I) the numerator of which is number of days that elapse from the grant date of the equity award until the Executive's termination date and the (II) the denominator of which is the total number of days in the period that begins on the date of grant of the applicable equity award and ends on the scheduled vesting date of such equity award (or, if applicable, the scheduled vesting date of the applicable vesting tranche). For purposes of determining the number of shares subject to any outstanding unvested equity awards

subject to performance vesting conditions (as opposed to solely service-based vesting conditions) that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the level of the Company's actual achievement of the applicable performance goals as measured as of the Executive's termination date, as determined by the Compensation Committee in its reasonable discretion. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(i)(C).

(D) The Company shall monthly pay to the Executive the amount equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for the Executive, and, to the extent that the Executive is providing coverage for his spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company terminates the Executive's employment without Cause, the Company shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(i).

(E) All payments and benefits provided under this Section 5(b)(i)(B) and (D) shall commence on the first payroll date following the 60th day after the Executive's termination of employment, with the first installment payment to include any payments that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(i)(A), (B), (C) or (D) unless the Executive executes and delivers to the Company, within sixty (60) days following the Executive's termination of employment, a release substantially in the form attached hereto as Exhibit A (the "Release"), and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(i)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments. This Section 5(b)(i) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(F) If, following a termination of employment without Cause or a resignation for Good Reason, the Executive breaches the provisions of Sections 6 through 10 hereof or breaches any provision set forth in the executed copy of the general release of claims, the Executive shall not be eligible, as of the date of such breach, for the payments and benefits described in Section 5(b)(i)(A), (B), (C) or (D), and any and all obligations and agreements of the Company with respect to such payments shall

thereupon cease. This Section 5(b)(i)(F) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(ii) If the Company undergoes a Change in Control and, within 24 months of such Change in Control, the Executive is terminated without Cause or resigns for Good Reason, then, in lieu of (and not in addition to) any payments or benefits payable to the Executive pursuant to Section 5(b)(i), the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to two (2) times the Executive's Base Amount, payable in a single lump sum payment.

(C) Each outstanding equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to that number of shares of Company common stock that would otherwise vest based on Executive's continued employment. For purposes of determining the number of shares subject to any outstanding equity awards subject to performance vesting conditions that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the "target" level. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(ii)(C).

(D) Monthly payments to the Executive equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to COBRA for the Executive, and, to the extent that the Executive is providing coverage for his spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company (or its successor) terminates the Executive's employment without Cause, the Company (or its successor) shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(ii).

(E) Unless otherwise provided herein, all payments and benefits provided under this Section 5(b)(ii)(B) and (D) shall be paid (or, in the case of the payments described in Section 5(b)(ii)(D), commence to be paid) on the first payroll date following the 60th day after the Executive's termination of employment, with the first payment to include any payments provided under Section 5(b)(ii)(D) that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(ii)(A), (B), (C) or (D) unless the Executive executes and delivers the Release to the Company, within sixty (60) days following the Executive's termination of employment, and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's

revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(ii)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments.

(F) In the event that it is determined that any payment or distribution of any type to or for the benefit of an Executive made by the Company, by any of its Affiliates, by any person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of Code Section 280G) or by any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of any equity compensation plan, this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Code Section 4999 or any interest or penalties with respect to such excise tax (the "Excise Tax"), then, notwithstanding any other provision of this Agreement or any equity compensation plan to the contrary, any right of the Executive to any payment or benefit under this Agreement or any such equity compensation plan shall be reduced or eliminated, but only to the extent necessary to avoid imposition of the Excise Tax. In no case, however, shall such cutback be made if Total Payments after the imposition of the Excise Tax are greater than Total Payments cut back as provided in this Section 5(b)(ii) to avoid the Excise Tax.

(G) In the event that a cutback of Total Payments is permitted under Section 5(b)(ii)(F), and except as required by Code Section 409A or to the extent that Code 409A permits discretion, the Compensation Committee shall have the right, in the Compensation Committee's sole discretion, to designate those rights, payments, or benefits and all other agreements that should be reduced or eliminated so as to provide the Executive with the maximum pre-tax amount which avoids imposition of the Excise Tax. For example, the Compensation Committee may choose to cut back cash severance, if that would yield a higher pre-tax amount than cutting back equity. Notwithstanding the foregoing, to the extent any payment or benefit constitutes deferred compensation under Code Section 409A, in order to comply with Code Section 409A the Compensation Committee shall instead accomplish such reduction by first reducing or eliminating any cash payments (with the payments to be made furthest in the future being reduced first), then by reducing or eliminating any accelerated vesting of options or stock appreciation rights, then by reducing or eliminating any accelerated vesting of restricted stock or restricted stock units.

(c) Termination Due to Death or Disability. The Executive's employment with the Company shall terminate automatically on the Executive's death. In the event of the Executive's Disability (as defined herein), the Company shall be entitled to terminate his employment. In the event of the Executive's death or if the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code, or the Regulations thereunder, by reason of the Executive's Disability, the Company shall pay to the Executive (or his estate, as applicable), (i) the Executive's Base Salary through and including the date of termination and any Other Accrued Compensation and Benefits (ii) a pro-rata Annual Bonus for the year of termination, based on actual audited year-end results and payable when bonuses are normally paid to employees, and (iii) three (3) months Base Salary at the rate then in effect, payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the three (3) month following termination.

(i) For purposes of this Agreement, “Disability” means a physical or mental disability or infirmity of the Executive that prevents the normal performance of substantially all his duties for a period in excess of ninety (90) consecutive days or for more than ninety (90) days in any consecutive twelve (12)-month period. Evidence of such physical or mental disability or infirmity shall be certified by a physician licensed to practice in the state of residence of the Executive, which physician is mutually agreeable to the Board and the Executive. If there is no agreement on the selection of the physician, then the Board shall select one physician and the Executive shall select one physician, and the two physicians shall attempt to mutually agree upon such physical or mental disability or infirmity. If the two physicians cannot agree, then the two physicians shall jointly select a third physician, whose opinion on such physical or mental disability or infirmity shall control.

(d) Notice of Termination. Any termination of employment by the Company or the Executive shall be communicated by a written “Notice of Termination” to the other party hereto given in accordance with Section 24 of this Agreement. In the event of a termination by the Company for Cause, or by the Executive for Good Reason, the Notice of Termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated and (iii) specify the date of termination, which date shall not be more than thirty (30) business days after the giving of such notice, provided that the date of termination will not occur before the expiration of any applicable cure period.

The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder.

(e) No Further Rights. The Executive shall have no further rights under this Agreement or otherwise to receive any other compensation or benefits after such termination or resignation of employment.

6. Confidentiality.

(a) Confidential Information.

(i) The Executive agrees that he will not at any time, except with the prior written consent of the Company or its Affiliates or as required by applicable law, directly or indirectly, reveal to any person, entity or other organization (other than the Company or its Affiliates or its respective employees, officers, directors, shareholders or agents) or use for the Executive’s own benefit any confidential or proprietary information of any member of the Company or its Affiliates (“Confidential Information”) relating to the assets, liabilities, employees, goodwill, business or affairs of any member of the Company or its Affiliates, including, without limitation, any information concerning past, present or prospective clients, intellectual capital, marketing data, or other confidential information used by, or useful to, any member of and known to the Executive by reason of the Executive’s employment by, shareholdings in or other association with the Company or its Affiliates, other than disclosure while employed by the Company which the Executive reasonably and in good faith believes to be in or not opposed to the interests of the Company; provided that such Confidential Information does not include any information which is available to the general public or is generally available within the relevant business or industry other than as a result of the Executive’s breach of this

Agreement. Confidential Information may be in any medium or form, including, without limitation, physical documents, computer files or disks, videotapes, audiotapes, and oral communications.

(ii) In the event that the Executive becomes legally compelled to disclose any Confidential Information, the Executive shall, if permitted by law, provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, the Executive shall furnish only that portion of such Confidential Information or take only such action as is legally required by binding order and shall exercise his reasonable efforts to obtain reliable assurance that confidential treatment shall be accorded any such Confidential Information. The Company shall promptly pay (upon receipt of invoices and any other documentation as may be requested by the Company) all reasonable expenses and fees incurred by the Executive, including attorneys' fees, in connection with his compliance with the immediately preceding sentence. Notwithstanding anything herein to the contrary, nothing in this Agreement shall (A) prohibit the Executive from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of state or federal law or regulation, or (B) require notification or prior approval by the Company of any reporting described in clause (A).

(b) Confidentiality of Agreement. The Executive agrees that, except as may be required by applicable law or legal process, during the Term and thereafter, he shall not disclose the terms of this Agreement to any person or entity other than the Executive's accountants, financial advisors, attorneys or spouse, provided that such accountants, financial advisors, attorneys and spouse agree not to disclose the terms of this Agreement to any other person or entity.

(c) Exclusive Property. The Executive confirms that all Confidential Information is and shall remain the exclusive property of the Company or its Affiliates. All business records, papers and documents kept or made by the Executive relating to the business of the Company or its Affiliates shall be and remain the property of the Company or its Affiliates. Upon the request and at the expense of the Company or its Affiliates, the Executive shall promptly make all disclosures, execute all instruments and papers and perform all acts reasonably necessary to vest and confirm in the Company or its Affiliates, fully and completely, all rights created or contemplated by this Section 6.

7. Noncompetition. The Executive agrees that, for a period commencing on the January 1, 2020 and ending 365 days following the Executive's termination of employment (the "Restricted Period"), the Executive shall not, without the prior written consent of the Company, directly or indirectly, and whether as principal or investor or as an employee, officer, director, manager, partner, consultant, agent or otherwise, alone or in association with any other person, firm, corporation or other business organization, carry on a Competing Business (as defined herein) within the then current footprint of the Company. For purposes of this Section 7: (a) carrying on a "Competing Business" means to engage in the competing business of any business carried on by the Company or its Affiliates. Notwithstanding the foregoing nothing herein shall limit the Executive's right to own not more than one (1) percent of any of the debt or equity securities of any business organization that is then filing reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. The Executive acknowledges that this noncompetition provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to

protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets. _____

Initial

8. Non-Solicitation and Non-Acceptance. The Executive agrees that for the Restricted Period the Executive shall not, directly or indirectly, (a) interfere with or attempt to interfere with the relationship between any person who is, or was during the Restricted Period or the 3-month period immediately preceding the commencement of the Restricted Period, an employee, officer, representative or agent of the Company or its Affiliates and any member of the Company or its Affiliates, or solicit, induce or attempt to solicit or induce any of them to terminate their employment or service relationship with any member of the Company or its Affiliates or violate the terms of their respective service contracts, or any employment arrangements, with such entities, provided that the foregoing shall not prevent general employment or service solicitations that do not specifically target any such persons; or (b) induce or attempt to induce any customer or client of any member of the Company or its Affiliates to cease doing business with any member of the Company or its Affiliates, or in any way interfere with the relationship between any member of the Company or its Affiliates and any customer or client of any member of the Company or its Affiliates. The Executive will make reasonable best efforts to not accept, and when in his control, not allow the acceptance of any of the Company relationships in this Section 8 at a new employer during the Restricted Period. The Executive acknowledges that this non-solicitation provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets. _____

Initial

9. No Conflicting Agreement. The Executive represents, warrants and covenants to the Company that the Executive is not a party to any agreement, whether written or oral, that would be breached by or would prevent or interfere with the execution by the Executive of this Agreement or the fulfillment by the Executive of the Executive's obligations hereunder.

10. Nondisparagement. Each party represents, warrants and covenants to the other that at no time during the Term or thereafter shall such party make, or cause or assist any other person to make, any statement or other communication to any third party which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other party or any of its respective directors, officers or employees, as applicable; provided this Section shall not prohibit truthful testimony by or on behalf of either party in any judicial or administrative proceeding.

11. Section 409A of the Code. This Agreement is intended to meet the requirements of Section 409A of the Code and shall be interpreted and construed consistent with that intent. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the "deferral of compensation" within the meaning of Section 409A(d)(1) of the Code, if the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's "Separation from Service" within the meaning of Section 409A(a)(2)(A)(i) of the Code (the "Separation Date"), then no such payment shall be made or commence during the period beginning on the Separation Date and ending on the date that is six months following the Separation Date or, if earlier, on the date of the Executive's death. The amount of any payment that would otherwise be paid to the Executive during this period shall instead be paid to the Executive on the fifteenth day of the first calendar month following the end of the period.

12. Certain Remedies.

(a) Forfeiture/Payment Obligations. In the event the Executive fails to comply with Sections 6 through 10, other than any isolated, insubstantial and inadvertent failure, the Executive agrees that he will forfeit any amounts not already paid pursuant to Section 5(b)(i) (A), (B), (C) or (D) of this Agreement. Notwithstanding the previous sentence, the Executive shall be given written notice of each alleged failure to comply with Sections 6 through 10, and the Executive shall be given an opportunity to remedy such failure within (60) sixty business days of the receipt of such notice. For purposes of clarity, the Executive's failure to comply with Sections 6 through 10 shall not result in forfeiture of amounts required to be paid but not already paid on account of a Change in Control pursuant to Section 5(b)(ii) of this Agreement.

(b) Injunctive Relief. Without intending to limit the remedies available to the Company or its Affiliates, including, but not limited to, that set forth in Section 12(a) hereof, the Executive agrees that a breach of any of the covenants contained in Sections 6 through 10 of this Agreement may result in material and irreparable injury to the Company or its Affiliates for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, any member of the Company or its Affiliates shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from engaging in activities prohibited by the covenants contained in Sections 6 through 10 of this Agreement or such other relief as may be required specifically to enforce any of the covenants contained in this Agreement. Such injunctive relief in any court shall be available to the Company or its Affiliates in lieu of, or prior to or pending determination in, any arbitration proceeding.

13. Defense of Claims. The Executive agrees that, during the Term, and for a period of seven (7) years after termination of the Executive's employment, upon request from the Company, the Executive will reasonably cooperate with the Company in the defense of any claims or actions that may be made by or against the Company that affect the Executive's prior areas of responsibility, except if the Executive's reasonable interests are adverse to the Company in such claim or action. The Company agrees to promptly pay in advance or reimburse the Executive for, as requested by the Executive, all of the Executive's reasonable travel and other direct costs and expenses incurred, or to be reasonably incurred, to comply with the Executive's obligations under this Section 13, including, but not limited to, legal costs and expenses.

14. Alternative Dispute Resolution. The Company and the Executive agree that any dispute that arises out of or relates to Executive's employment or termination of employment with the Company, including any dispute that the Executive may have with any present or former officer, manager, director, employee, agent, attorney or insurer of the Company, shall first be submitted to mediation through the Institute for Conflict Prevention & Resolution ("CPR") (or such other nationally-recognized alternative dispute resolution service as the Executive and Company may agree). The Executive and the Company shall use their reasonable efforts to commence and conclude such mediation in a prompt manner. If the dispute is not resolved through mediation within thirty (30) days after notice thereof, such dispute shall be resolved by binding arbitration in accordance with the rules and procedures of the CPR (or such other nationally recognized alternative dispute resolution service as the Executive and the Company may agree). Judgment upon the award rendered by the arbitrator may be entered in any court having in person and subject matter jurisdiction. The Company and the Executive hereby submit to the jurisdiction of the federal and state courts in Denver, Colorado, for the purpose of confirming any such award and entering judgment thereon. The Company shall pay for all administrative costs and fees charged by the CPR (or such other nationally recognized alternative dispute resolution service) as well as the fees charged by the arbitrator. Each party shall pay for his or its attorneys' fees and costs.

15. No assignability; Binding Agreement.

(a) By the Executive. This Agreement and any and all rights, duties, obligations or interests hereunder shall not be assignable or delegable by the Executive.

(b) By the Company. This Agreement and all of the Company's rights and obligations hereunder shall not be assignable by the Company except as incident to a reorganization, merger or consolidation, or transfer of all or substantially all of the Company's assets.

(c) Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

16. Withholding. Any payments made or benefits provided to the Executive under this Agreement shall be reduced by any applicable withholding taxes or other amounts required to be withheld by law or contract.

17. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

18. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be governed by the laws of the State of Colorado applicable to contracts entered into and performed entirely therein. Any action to enforce this Agreement shall be brought solely in the state or federal courts located in the County of Denver, Colorado.

19. Survival of Certain Provisions. Unless expressly provided otherwise, the rights and obligations set forth in this Agreement shall survive any termination or expiration of this Agreement.

20. Entire Agreement; Supersedes Previous Agreements. This Agreement contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein, and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof (including, without limitation, the Prior Agreement), all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

21. Severability. The provisions of the Agreement shall be deemed severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions herein.

22. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

23. Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

24. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary and General counsel

To the Executive:

John Sawyer
701 Race Street
Denver, CO 80206

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer pursuant to the authority of its Board, and the Executive has executed this Agreement, as of the day and year first written above.

FIRST WESTERN FINANCIAL, INC.

By: __

JOHN SAWYER

—

GENERAL RELEASE OF CLAIMS

This General Release of all Claims (this "Agreement") is entered into by John Sawyer (the "Executive") and FWFI (the "Company"), effective as of _____ in connection with the termination of the Executive's employment with the Company as of _____.

In consideration of the promises set forth in the Amended and Restated Employment Agreement between the Executive and the Company, dated effective April 26, 2023 (the "Employment Agreement"), the Executive and the Company agree as follows:

1. Return of Property. All Company files, access keys and codes, desk keys, ID badges, computers, records, manuals, electronic devices, computer programs, papers, electronically stored information or documents, telephones and credit cards, and any other property of the Company in the Executive's possession must be returned no later than the date of the Executive's termination from the Company; provided, that, after the notification of a consultation with the Company, the Executive may keep one copy of such items as he may reasonably expect to use to protect his rights under this Agreement.

2. General Release and Waiver of Claims.

(a) Release. In consideration of the payments and benefits provided to the Executive under the Employment Agreement and after consultation with counsel, the Executive and each of the Executive's respective heirs, executors, administrators, representatives, agents, insurers, successors and assigns (collectively, the "Releasors") hereby irrevocably and unconditionally release and forever discharge the Company, its subsidiaries and affiliates and each of their respective officers, employees, directors, shareholders and agents ("Releasees") from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, "Claims"), including, without limitation, any Claims under any federal, state, local or foreign law, that the Releasors may have, or in the future may possess, arising out of (i) the Executive's employment relationship with and service as an employee, officer or director of the Company or any subsidiaries or affiliated companies and the termination of such relationship or service, and any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof; provided, however, that the Executive does not release, discharge or waive any rights to (i) payments and benefits provided under the Employment Agreement that are contingent upon the execution by the Executive of this Agreement and (ii) any indemnification rights the Executive may have under the Employment Agreement, in accordance with the Company's governance instruments or under any director and officer liability insurance maintained by the Company with respect to liabilities arising as a result of the Executive's service as an officer and employee of the Company. This Section 2(a) does not apply to any Claims that the Releasors may have as of the date the Executive signs this Agreement arising under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder ("ADEA"). Claims arising under ADEA are addressed in Section 2(b) of this Agreement.

(b) Specific Release of ADEA Claims. In further consideration of the payments and benefits provided to the Executive under the Employment Agreement, the Releasors hereby unconditionally release and forever discharge the Releasees from any and all Claims arising under ADEA that the Releasors may have as of the date the Executive signs this Agreement. By signing this Agreement, the Executive hereby acknowledges and confirms the following: (i) the Executive was advised by the Company in connection with his termination to

consult with an attorney of his choice prior to signing this Agreement; and to have such attorney explain to the Executive the terms of this Agreement, including, without limitation, the terms relating to the Executive's release of claims arising under ADEA, and the Executive has in fact consulted with an attorney; (ii) the Executive was given a period of not fewer than 21 days to consider the terms of this Agreement and to consult with an attorney of his choosing with respect thereto; (iii) the Executive knowingly and voluntarily accepts the terms of this Agreement; and (iv) the Executive is providing this release and discharge only in exchange for consideration in addition to anything of value to which the Executive is already entitled. The Executive also understands that he has seven days following the date on which he signs this Agreement within which to revoke the release contained in this Section, by providing the Company with a written notice of his revocation of the release and waiver contained in this Section.

(c) No Assignment. The Executive represents and warrants that he has not assigned any of the Claims being released under this Agreement. The Company may assign this Agreement, in whole or in part, to any affiliated company or subsidiary of, or any successor in interest to, the Company.

3. Proceedings.

(a) General Agreement Relating to Proceedings. The Executive has not filed, and except as provided in Sections 3(b) and 3(c), the Executive agrees not to initiate or cause to be initiated on his behalf, any complaint, charge, claim or proceeding against the Releasees before any local, state or federal agency, court or other body relating to his employment or the termination of his employment, other than with respect to the obligations of the Company to the Executive under the Employment Agreement (each, individually, a "Proceeding"), and agrees not to participate voluntarily in any Proceeding. The Executive waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding.

(b) Proceedings Under ADEA. Section 3(a) shall not preclude the Executive from filing any complaint, charge, claim or proceeding challenging the validity of the Executive's waiver of Claims arising under ADEA (which is set forth in Section 2(b) of this Agreement). However, both the Executive and the Company confirm their belief that the Executive's waiver of claims under ADEA is valid and enforceable, and that their intention is that all claims under ADEA will be waived.

(c) Certain Administrative Proceedings. In addition, Section 3(a) shall not preclude the Executive from filing a charge with or participating in any administrative investigation or proceeding by the Equal Employment Opportunity Commission or another Fair Employment Practices agency. The Executive is, however, waiving his right to recover money in connection with any such charge or investigation. The Executive is also waiving his right to recover money in connection with a charge filed by any other entity or individual, or by any federal, state or local agency.

4. Remedies. In the event the Executive initiates or voluntarily participates in any Proceeding in violation of this Agreement, or if he fails to abide by any of the terms of this Agreement or his post-termination obligations contained in the Employment Agreement, or if he revokes the ADEA release contained in Section 2(b) within the seven-day period provided under Section 2(b), the Company may, in addition to any other remedies it may have, reclaim any amounts paid to him under Sections 5(b)(i)(A), (B), (C) or (D) of the Employment Agreement or terminate any benefits or payments that are subsequently due under Sections 5(b)(i)(A), (B), (C) and (D) of the Employment Agreement, without waiving the release granted herein. The Executive acknowledges and agrees that the remedy at law available to the Company for breach of any of his post-termination obligations under the Employment Agreement or his obligations

under Sections 2 and 3 herein would be inadequate and that damages flowing from such a breach may not readily be susceptible to measurement in monetary terms. Accordingly, the Executive acknowledges, consents and agrees that, in addition to any other rights or remedies that the Company may have at law or in equity or as may otherwise be set forth in the Employment Agreement, the Company shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from breaching his post-termination obligations under the Employment Agreement or his obligations under Sections 2 and 3 herein. Such injunctive relief in any court shall be available to the Company, in lieu of, or prior to or pending determination in, any arbitration proceeding.

The Executive understands that by entering into this Agreement he shall be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Company.

5. Severability Clause. In the event that any provision or part of this Agreement is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Agreement, shall be inoperative.

6. Non-Admission. Nothing contained in this Agreement shall be deemed or construed as an admission of wrongdoing or liability on the part of the Company or the Executive.

7. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be resolved pursuant to the provisions of Section 14 of the Employment Agreement.

8. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary

To the Executive:

John Sawyer
701 Race Street
Denver, CO 80206

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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THE EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT AND THAT HE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT HE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF HIS OWN FREE WILL.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

First Western Financial, Inc.

By: /s/ Scott C. Wylie
Scott C. Wylie, Chairman, President, and CEO

THE EXECUTIVE

/s/ John Sawyer
John Sawyer, Chief Investment Officer

Dated: April 26, 2023

**FIRST WESTERN FINANCIAL, INC.
2016 OMNIBUS INCENTIVE PLAN
(As Amended and Restated April 26, 2023)**

1. Establishment & Purpose.

1.1 First Western Financial, Inc., a Colorado corporation, sets forth herein the terms of its 2016 Omnibus Incentive Plan.

1.2 The purpose of the First Western Financial, Inc. 2016 Omnibus Incentive Plan is to further align the interests of eligible participants with those of the Company's stockholders by providing long-term cash and equity incentive compensation opportunities tied to the performance of the Company and/or its Common Stock. The Plan is intended to advance the interests of the Company and increase stockholder value by attracting, retaining and motivating key personnel upon whose judgment, initiative and effort the successful conduct of the Company's business is largely dependent. The Plan was originally adopted on November 18, 2016 (the "*Original Effective Date*"). This amendment and restatement of the Plan amends the Plan effective as April 26, 2023 (the "*Effective Date*") to provide for continued vesting of Awards held by a Retirement Eligible Employee following his or her Retirement (as those terms are defined below), subject to certain conditions as specified herein.

2. Definitions. Wherever the following capitalized terms are used in the Plan, they shall have the meanings specified below:

"*Affiliate*" means, with respect to the Company, any company or other trade or business that controls, is controlled by or is under common control with the Company within the meaning of Rule 405 of Regulation C under the Securities Act, including, without limitation, any Subsidiary.

"*Award*" means an award of a Stock Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit, Cash Performance Award, or Stock Award granted under the Plan.

"*Award Agreement*" means a notice or an agreement (whether written or electronic) entered into between the Company and a Participant setting forth the terms and conditions of an Award granted to a Participant as provided in Section 16.2 hereof.

"*Beneficial Owner*" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.

"*Board*" means the Board of Directors of the Company.

"*Cash Performance Award*" means an Award that is denominated by a cash amount to an Eligible Person under Section 10 hereof and payable based on or conditioned upon the attainment of pre-established business and/or individual Performance Goals over a specified performance period and subject to such conditions as are set forth in the Plan and the applicable Award Agreement.

"*Cause*" shall have the meaning set forth in Section 13.2 hereof.

"*Change in Control*" shall have the meaning set forth in Section 12.2 hereof.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Committee*" means (i) the Compensation Committee of the Board, (ii) such other committee of the Board appointed by the Board to administer the Plan or (iii) as provided in Section 3.1 hereof, the full Board.

"*Common Stock*" means the Company's common stock, par value \$0.001 per share, as the same may be reclassified, exchanged or recapitalized.

"*Company*" means First Western Financial, Inc., a Colorado corporation, or any successor thereto.

"*Date of Grant*" means the date on which an Award under the Plan is granted or approved for grant by the Committee or such later date as the Committee may specify to be the effective date of an Award.

“Disability” shall have the meaning set forth below, except with respect to any Participant who has an effective employment agreement or service agreement with the Company or one of its Subsidiaries that defines “Disability” or a like term, in which event the definition of “Disability” as set forth in such agreement shall be deemed to be the definition of “Disability” herein solely for such Participant and only for so long as such agreement remains effective. In all other events, the term “Disability” shall mean Participant’s inability to perform the essential duties, responsibilities and functions of Participant’s position with the Company and its Subsidiaries for a period of ninety (90) consecutive days or for a total of one hundred eighty (180) days during any twelve (12)-month period as a result of any mental or physical illness, disability or incapacity even with reasonable accommodations for such illness, disability or incapacity provided by the Company and its Subsidiaries or if providing such accommodations would be unreasonable and which condition is expected to last for a continuous period of not less than twelve (12) months, all as determined by the Committee in its reasonable good faith judgment. Participant shall cooperate in all respects with the Company if a question arises as to whether he has become disabled (including, without limitation, submitting to reasonable examinations by one or more medical doctors and other health care specialists selected by the Company and authorizing such medical doctors and other health care specialists to discuss Participant’s condition with the Company). Notwithstanding anything to the contrary contained herein, and solely for purposes of any Incentive Stock Option, “Disability” shall mean a permanent and total disability (within the meaning of Section 22(e)(3) of the Code).

“Effective Date” shall have the meaning set forth in Section 1.2 hereof.

“Eligible Person” means any person who is an employee, Non-Employee Director, consultant or other personal service provider of the Company or any of its Subsidiaries.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder from time to time.

“Fair Market Value” means, as of any given date, the value of a share of Common Stock determined as follows:

(a) For purposes of any Awards granted on the date of a Public Offering, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the Public Offering.

(b) For purposes of any Awards granted on any other date, the Fair Market Value will be the closing price as reported on NASDAQ or any other principal exchange on which the Common Stock is then listed on such date, or if the Common Stock was not traded on such date, then on the next preceding trading day that the Common Stock was traded on such exchange, as reported by such responsible reporting service as the Committee may select. If the Common Stock is not listed on any such exchange, “Fair Market Value” shall be such value as determined by the Board or the Committee in its discretion and, to the extent necessary, shall be determined in a manner consistent with Section 409A of the Code and the regulations thereunder.

The determination of fair market value for purposes of tax withholding may be made in the Committee’s discretion subject to applicable laws and is not required to be consistent with the determination of Fair Market Value for other purposes.

“Family Member” means a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships, of the Grantee, any person sharing the Grantee’s household (other than a tenant or employee), a trust in which any one or more of these persons have more than fifty percent of the beneficial interest, a foundation in which any one or more of these persons (or the Grantee) control the management of assets, and any other entity in which one or more of these persons (or the Grantee) own more than fifty percent of the voting interests; provided, however, that to the extent required by applicable law, the term Family Member shall be limited to a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships of the Grantee or a trust or foundation for the exclusive benefit of any one or more of these persons.

“Grant” means an Award under the Plan.

“Grantee” means a person who receives or holds a Grant under the Plan.

“Incentive Stock Option” means a Stock Option granted under Section 6 hereof that is intended to meet the requirements of Section 422 of the Code and the regulations thereunder.

“NASDAQ” means The NASDAQ Global Market.

“Non-Employee Director” means a member of the Board who is not an employee of the Company or any of its Subsidiaries.

“Nonqualified Stock Option” means a Stock Option granted under Section 6 hereof that is not an Incentive Stock Option.

“Participant” means any Eligible Person who holds an outstanding Award under the Plan.

“Performance Criteria” shall have the meaning set forth in Section 10.3 hereof.

“Performance Goals” shall have the meaning set forth in Section 10.4 hereof.

“Performance Stock Unit” means a Restricted Stock Unit denominated as a Performance Stock Unit under Section 9.2 hereof, to be paid or distributed based on or conditioned upon the attainment of pre-established business and/or individual Performance Goals over a specified performance period.

“Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

“Plan” means the First Western Financial, Inc. 2016 Omnibus Incentive Plan (As Amended and Restated May 9, 2018) as set forth herein, effective and as may be amended from time to time as provided herein.

“Public Offering” means the sale of shares of the Common Stock to the public pursuant to an effective registration statement (other than a registration statement on Form S-4 or S-8 or any similar or successor form) filed under the Securities Act in connection with an underwritten offering.

“Restricted Stock Award” means a grant of shares of Common Stock to an Eligible Person under Section 8 hereof that are issued subject to such vesting and transfer restrictions as the Committee shall determine, and such other conditions, as are set forth in the Plan and the applicable Award Agreement.

“Restricted Stock Unit” means a contractual right granted to an Eligible Person under Section 9 hereof representing a notional unit interest equal in value to a share of Common Stock to be paid or distributed at such times, and subject to such conditions, as set forth in the Plan and the applicable Award Agreement.

“Reporting Person” means a person who is required to file reports under Section 16(a) of the Exchange Act.

“Retirement” means, with respect to a Retirement Eligible Employee, such Retirement Eligible Employee’s termination of employment with the Company and its Subsidiaries due to the Retirement Eligible Individual’s voluntary resignation, where all of the following conditions are met: (a) the Retirement Eligible Employee has provided at least one (1) year advanced written notice of resignation to the Company; (b) the Retirement Eligible Employee terminates his or her employment on the date of resignation specified in such written notice of resignation (or such other date as may be mutually agreed in writing by the Company and the Retirement Eligible Employee following the Company’s receipt of the written notice of resignation); (c) if the Retirement Eligible Employee is not subject to a non-solicitation agreement as of the date of his or her termination, the Retirement Eligible Employee has executed and delivered to the Company a non-solicitation agreement on a form approved by the Company in its sole discretion; (d) if the Retirement Eligible Employee is not subject to a non-competition agreement as of the date of his or her termination, the Retirement Eligible Employee has entered into a non-competition agreement on a form approved by the Company in its sole discretion; and (e) the Retirement Eligible Employee executes and delivers, and does not revoke, a general release and waiver on a form approved by the Company in its sole discretion, and such general release and waiver becomes binding and irrevocable not later than sixty (60) days following the Retirement Eligible Employee’s resignation from the Company and its Subsidiaries.

“Retirement Eligible Employee” means an employee who has attained age 65 and completed 10 years of employment with Company and its Subsidiaries. For avoidance of doubt, an employee’s prior service with an entity

that is acquired (or the assets of which are acquired) by the Company or a Subsidiary shall not count towards an employee's service with the Company and its Subsidiaries for this purpose.

"*Securities Act*" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder from time to time.

"*Service*" means a Participant's employment with the Company or any Subsidiary or a Participant's service as a Non-Employee Director, consultant or other service provider with the Company or any Subsidiary, as applicable.

"*Stock Appreciation Right*" means a contractual right granted to an Eligible Person under Section 7 hereof entitling such Eligible Person to receive a payment, representing the excess of the Fair Market Value of a share of Common Stock over the base price per share of the right, at such time, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

"*Stock Award*" means a grant of shares of Common Stock to an Eligible Person under Section 11 hereof that are issued free of transfer restrictions and forfeiture conditions.

"*Stock Option*" means a contractual right granted to an Eligible Person under Section 6 hereof to purchase shares of Common Stock at such time and price, and subject to such conditions, as are set forth in the Plan and the applicable Award Agreement.

"*Subsidiary*" means an entity (whether or not a corporation) that is wholly or majority owned or controlled, directly or indirectly, by the Company or any other affiliate of the Company that is so designated, from time to time, by the Committee, during the period of such affiliated status; provided, however, that with respect to Incentive Stock Options, the term "Subsidiary" shall include only an entity that qualifies under Section 424(f) of the Code as a "subsidiary corporation" with respect to the Company.

"*Ten-Percent Stockholder*" means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, its parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Section 424(d) of the Code shall be applied.

3. Administration.

3.1 Committee Members. The Plan shall be administered by a Committee comprised of no fewer than two members of the Board who are appointed by the Board to administer the Plan. To the extent deemed necessary by the Board, each Committee member shall satisfy the requirements for (i) an "independent director" under rules adopted by NASDAQ or any other principal exchange on which the Common Stock is then listed, or (ii) a "nonemployee director" for purposes of such Rule 16b-3 under the Exchange Act. Notwithstanding the foregoing, the mere fact that a Committee member shall fail to qualify under any of the foregoing requirements shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan. Neither the Company nor any member of the Committee shall be liable for any action or determination made in good faith by the Committee with respect to the Plan or any Award thereunder. The Board shall have the authority to execute the powers of the Committee under the Plan.

3.2 Committee Authority. The Committee shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (i) determine the Eligible Persons to whom Awards shall be granted under the Plan and to grant Awards, (ii) prescribe the restrictions, terms and conditions of all Awards, (iii) interpret the Plan and terms of the Awards, (iv) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and interpret, amend or revoke any such rules, (v) make all determinations with respect to a Participant's Service and the termination of such Service for purposes of any Award, (vi) correct any defect(s) or omission(s) or reconcile any ambiguity(ies) or inconsistency(ies) in the Plan or any Award thereunder, (vii) make all determinations it deems advisable for the administration of the Plan; (viii) to decide all disputes arising in connection with the Plan and to otherwise supervise the administration of the Plan; (ix) subject to the terms of the Plan, amend the terms of an Award in any manner that is not inconsistent with the Plan, (x) accelerate the vesting or, to the extent applicable, exercisability of any Award at any time (including, but not limited to, upon a Change in Control or upon termination of Service under certain circumstances, as set forth in the Award Agreement or otherwise), and (xi) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by Eligible Person who are foreign nationals or employed outside of the United States. The Committee's determinations under the Plan need not be uniform and may be made by the Committee selectively among Participants and Eligible Persons, whether or not such persons are similarly situated. The Committee shall, in its discretion, consider such factors as it deems relevant in making its

interpretations, determinations and actions under the Plan including, without limitation, the recommendations or advice of any officer or employee of the Company or such attorneys, consultants, accountants or other advisors as it may select. All interpretations, determinations, and actions by the Committee shall be final, conclusive, and binding upon all parties.

3.3 Delegation of Authority. The Committee shall have the right, from time to time, to delegate in writing to one or more officers of the Company the authority of the Committee to grant and determine the terms and conditions of Awards granted under the Plan, subject to any applicable laws. In no event shall any such delegation of authority be permitted with respect to Awards granted to any member of the Board or to any Eligible Person who is subject to Rule 16b-3 under the Exchange Act (as determined in accordance with applicable guidance as of the applicable date of determination). The Committee shall also be permitted to delegate, to any appropriate officer or employee of the Company, responsibility for performing certain ministerial functions under the Plan. In the event that the Committee's authority is delegated to officers or employees in accordance with the foregoing, all provisions of the Plan relating to the Committee shall be interpreted in a manner consistent with the foregoing by treating any such reference as a reference to such officer or employee for such purpose. Any action undertaken in accordance with the Committee's delegation of authority hereunder shall have the same force and effect as if such action were undertaken directly by the Committee and shall be deemed for all purposes of the Plan to have been taken by the Committee.

4. Shares Subject to the Plan.

4.1 Number of Shares Reserved. Subject to adjustment as provided in Section 4.4 hereof, the total number of shares of Common Stock that are reserved for issuance under the Plan shall be 200,000 plus any shares remaining available for grant under the First Western Financial, Inc. 2008 Stock Incentive Plan (the "2008 Plan") as of the Original Effective Date (collectively, the "Share Reserve"). Each share of Common Stock subject to an Award shall reduce the Share Reserve by one share; provided that Awards that are required to be paid in cash pursuant to their terms shall not reduce the Share Reserve. Any shares of Common Stock delivered under the Plan shall consist of authorized and unissued shares or treasury shares.

4.2 Share Replenishment. To the extent that an Award granted under this Plan is canceled, expired, forfeited, surrendered, settled by delivery of fewer shares than the number underlying the Award, settled in cash or otherwise terminated without delivery of the shares to the Participant, the shares of Common Stock retained by or returned to the Company will (i) not be deemed to have been delivered under the Plan, (ii) be available for future Awards under the Plan, and (iii) increase the Share Reserve by one share for each share that is retained by or returned to the Company. Shares that are (x) withheld from an Award in payment of the exercise or purchase price or taxes relating to such an Award or (y) not issued or delivered as a result of the net settlement of an outstanding Stock Option or Stock Appreciation Right will (i) not be deemed to have been delivered under the Plan, (ii) be available for future Awards under the Plan, (iii) increase the Share Reserve by one Share for each Share that is retained by or returned to the Company and (iv) continue to be counted as outstanding for purposes of determining whether the Award limit specified in Section 4.3 has been attained. In addition to the foregoing, any shares that become available for issuance pursuant to Section 4 of the 2008 Plan as a result of the forfeiture, cancellation or termination for no consideration of an award under the 2008 Plan will (i) not be available for future awards under the 2008 Plan, (ii) be available for future Awards under this Plan, and (iii) increase the Share Reserve by one share for each share that is retained by or returned to the Company, subject to a maximum of 1,500,000 shares.

4.3 Awards Granted to Non-Employee Directors. The maximum number of shares of Common Stock that may be subject to Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units and Stock Awards granted to any Non-Employee Director during any calendar year shall be limited to 100,000 shares of Common Stock for all such Award types in the aggregate (subject to adjustment as provided in Section 4.4 hereof). If an Award is settled in cash, the number of shares of Common Stock on which the Award is based shall not count toward the individual share limit set forth in this Section 4.3 but shall count against the annual Cash Performance Award limit set forth in Section 10.7.

4.4 Adjustments. If there shall occur any change with respect to the outstanding shares of Common Stock by reason of any recapitalization, reclassification, stock dividend, extraordinary cash dividend, stock split, reverse stock split or other distribution with respect to the shares of Common Stock or any merger, reorganization, consolidation, combination, spin-off, stock purchase or other similar corporate change or any other change affecting the Common Stock (other than regular cash dividends to shareholders of the Company), the Committee shall, in the manner and to the extent it considers appropriate and equitable to the Participants and consistent with the terms of the Plan, cause an adjustment to be made to (i) the maximum number and kind of shares of Common Stock provided in Sections 4.1 and 4.3 hereof (including the maximum number of shares of Common Stock that may become payable to a Non-Employee Director provided in Sections 4.3 hereof), (ii) the number and kind of shares of Common Stock, units or other rights subject to then outstanding Awards, (iii) the exercise or base price for each

share or unit or other right subject to then outstanding Awards, and (iv) any other terms of an Award that are affected by the event. Notwithstanding the foregoing, (a) any such adjustments shall, to the extent necessary, be made in a manner consistent with the requirements of Section 409A of the Code and (b) in the case of Incentive Stock Options, any such adjustments shall, to the extent practicable, be made in a manner consistent with the requirements of Section 424(a) of the Code.

5. Eligibility and Awards.

5.1 Designation of Participants. Any Eligible Person may be selected by the Committee to receive an Award and become a Participant. The Committee has the authority, in its discretion, to determine and designate from time to time those Eligible Persons who are to be granted Awards, the types of Awards to be granted, the number of shares of Common Stock or units subject to Awards to be granted and the terms and conditions of such Awards consistent with the terms of the Plan, and to grant any such Awards. In selecting Eligible Persons to be Participants, and in determining the type and amount of Awards to be granted under the Plan, the Committee shall consider any and all factors that it deems relevant or appropriate. Designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year or, once designated, to receive the same type or amount of Award as granted to such Participant in any other year.

5.2 Determination of Awards. The Committee shall determine the terms and conditions of all Awards granted to Participants in accordance with its authority under Section 3.2 hereof. An Award may consist of one type of right or benefit hereunder or of two or more such rights or benefits granted in tandem.

5.3 Award Agreements. Each Award granted to an Eligible Person shall be represented by an Award Agreement. The terms of all Awards under the Plan, as determined by the Committee, will be set forth in each individual Award Agreement as described in Section 16.2 hereof.

6. Stock Options.

6.1 Grant of Stock Options. A Stock Option may be granted to any Eligible Person selected by the Committee, except that an Incentive Stock Option may only be granted to an Eligible Person satisfying the conditions of Section 6.7(a) hereof. Each Stock Option shall be designated on the Date of Grant, in the discretion of the Committee, as an Incentive Stock Option or as a Nonqualified Stock Option.

6.2 Exercise Price. The exercise price per share of a Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the Date of Grant. The Committee may in its discretion specify an exercise price per share that is higher than the Fair Market Value of a share of Common Stock on the Date of Grant.

6.3 Vesting of Stock Options. The Committee shall, in its discretion, prescribe the time or times at which or the conditions upon which, a Stock Option or portion thereof shall become vested and/or exercisable. The requirements for vesting and exercisability of a Stock Option may be based on the continued Service of the Participant with the Company or a Subsidiary for a specified time period (or periods), on the attainment of a specified Performance Goal(s) or on such other terms and conditions as approved by the Committee in its discretion, all as set forth in the Award Agreement. If the vesting requirements of a Stock Option are not satisfied, the Award shall be forfeited.

6.4 Term of Stock Options. The Committee shall in its discretion prescribe in an Award Agreement the period during which a vested Stock Option may be exercised; provided, however, that the maximum term of a Stock Option shall be ten (10) years from the Date of Grant. The Committee may provide that a Stock Option will cease to be exercisable upon or at the end of a specified time period following a termination of Service for any reason as set forth in the Award Agreement or otherwise. Subject to Section 409A of the Code and the provisions of this Section 6, the Committee may extend at any time the period in which a Stock Option may be exercised.

6.5 Stock Option Exercise; Tax Withholding. Subject to such terms and conditions as specified in an Award Agreement, a Stock Option may be exercised in whole or in part at any time during the term thereof by notice in the form required by the Company, together with payment of the aggregate exercise price and applicable withholding tax. Payment of the exercise price may be made: (i) in cash or by cash equivalent acceptable to the Committee or (ii) to the extent permitted by the Committee in its sole discretion and set forth in the Award Agreement or otherwise (including by a policy or resolution of the Committee), (A) in shares of Common Stock valued at the Fair Market Value of such shares on the date of exercise, (B) through an open-market, broker-assisted sales transaction pursuant to which the Company is promptly delivered the amount of proceeds necessary to satisfy the exercise price, (C) by reducing the number of shares of Common Stock otherwise deliverable upon the exercise

of the Stock Option by the number of shares of Common Stock having a Fair Market Value on the date of exercise equal to the exercise price, (D) by a combination of the methods described above or (E) by such other method as may be approved by the Committee and set forth in the Award Agreement. In addition to and at the time of payment of the exercise price, the Participant shall pay to the Company the full amount of any and all applicable income tax, employment tax and other amounts required to be withheld in connection with such exercise, payable under such of the methods described above for the payment of the exercise price as may be approved by the Committee and set forth in the Award Agreement.

6.6 Limited Transferability of Nonqualified Stock Options. All Nonqualified Stock Options shall be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative. The Nonqualified Stock Options and the rights and privileges conferred thereby shall be nontransferable except as otherwise provided in Section 16.3 hereof.

6.7 Additional Rules for Incentive Stock Options.

(a) **Eligibility.** An Incentive Stock Option may only be granted to an Eligible Person who is considered an employee for purposes of Treasury Regulation § 1.421-1(h) with respect to the Company or any Subsidiary that qualifies as a "subsidiary corporation" with respect to the Company for purposes of Section 424(f) of the Code.

(b) **Annual Limits.** No Incentive Stock Option shall be granted to a Participant as a result of which the aggregate Fair Market Value (determined as of the Date of Grant) of the Common Stock with respect to which incentive stock options under Section 422 of the Code are exercisable for the first time in any calendar year under the Plan and any other stock option plans of the Company or any subsidiary or parent corporation, would exceed \$100,000, determined in accordance with Section 422(d) of the Code. This limitation shall be applied by taking such incentive stock options into account in the order in which they were granted.

(c) **Additional Limitations.** In the case of any Incentive Stock Option granted to an Eligible Person who owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Subsidiary, the exercise price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a share of Common Stock on the Date of Grant and the maximum term shall be five (5) years.

(d) **Termination of Employment.** An Award of an Incentive Stock Option may provide that such Stock Option may be exercised not later than (i) three (3) months following termination of employment of the Participant with the Company and all Subsidiaries (other than as set forth in clause (ii) of this Section 6.7(d)) or (ii) one year following termination of employment of the Participant with the Company and all Subsidiaries due to death or permanent and total disability within the meaning of Section 22(e)(3) of the Code, in each case as and to the extent determined by the Committee to comply with the requirements of Section 422 of the Code.

(e) **Other Terms and Conditions; Nontransferability.** No Incentive Stock Options granted under the Plan may be granted more than ten (10) years following the date that the Plan is adopted or the date that the Plan is approved by the Company's stockholders, whichever is earlier. The Award Agreement representing any Incentive Stock Option granted hereunder shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as are deemed necessary or desirable by the Committee, which terms, together with the terms of the Plan, shall be intended and interpreted to cause such Incentive Stock Option to qualify as an "incentive stock option" under Section 422 of the Code. A Stock Option that is granted as an Incentive Stock Option shall, to the extent it fails to qualify as an "incentive stock option" under the Code, be treated as a Nonqualified Stock Option. An Incentive Stock Option shall by its terms be nontransferable other than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of a Participant only by such Participant.

(f) **Disqualifying Dispositions.** If shares of Common Stock acquired by exercise of an Incentive Stock Option are disposed of within two years following the Date of Grant or one year following the transfer of such shares to the Participant upon exercise, the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Company may reasonably require.

6.8 Repricing Prohibited. Subject to the anti-dilution adjustment provisions contained in Section 4.4 hereof, without the prior approval of the Company's stockholders, neither the Committee nor the Board shall cancel a Stock Option when the exercise price per share exceeds the Fair Market Value of one share of Common Stock in exchange for cash or another Award (other than in connection with a Change in Control) or cause the cancellation, substitution or amendment of a Stock Option that would have the effect of reducing the exercise price of such a Stock Option previously granted under the Plan or otherwise approve any modification to such a Stock Option that

would be treated as a “repricing” under the then applicable rules, regulations or listing requirements adopted by NASDAQ or any other principal exchange on which the Common Stock is then listed.

6.9 Dividend Equivalent Rights. Subject to the anti-dilution adjustment provisions contained in Section 4.4 hereof, dividends shall not be paid with respect to Stock Options. Dividend equivalent rights shall be granted with respect to the shares of Common Stock subject to Stock Options to the extent permitted by the Committee or set forth in the Award Agreement.

7. Stock Appreciation Rights.

7.1 Grant of Stock Appreciation Rights. Stock Appreciation Rights may be granted to any Eligible Person selected by the Committee. Stock Appreciation Rights may be granted on a basis that allows for the exercise of the right by the Participant or that provides for the automatic payment of the right upon a specified date or event. Stock Appreciation Rights shall be non-transferable, except as provided in Section 16.3 hereof.

7.2 Stand-Alone and Tandem Stock Appreciation Rights. A Stock Appreciation Right may be granted without any related Stock Option, or may be granted in tandem with a Stock Option, either on the Date of Grant or at any time thereafter during the term of the Stock Option. The Committee shall in its discretion provide in an Award Agreement the time or times at which or the conditions upon which, a Stock Appreciation Right or portion thereof shall become vested and/or exercisable. The requirements for vesting and exercisability of a Stock Appreciation Right may be based on the continued Service of a Participant with the Company or a Subsidiary for a specified time period (or periods), on the attainment of a specified Performance Goal(s) or on such other terms and conditions as approved by the Committee in its discretion. If the vesting requirements of a Stock Appreciation Right are not satisfied, the Award shall be forfeited. A Stock Appreciation Right will be exercisable or payable at such time or times as determined by the Committee; provided, that the maximum term of a Stock Appreciation Right shall be ten (10) years from the Date of Grant. The Committee may provide that a Stock Appreciation Right will cease to be exercisable upon or at the end of a period following a termination of Service for any reason. The base price of a Stock Appreciation Right granted without any related Stock Option shall be determined by the Committee in its discretion; provided, however, that the base price per share of any such stand-alone Stock Appreciation Right shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the Date of Grant.

7.3 Payment of Stock Appreciation Rights. A Stock Appreciation Right will entitle the holder, upon exercise or other payment of the Stock Appreciation Right, as applicable, to receive an amount determined by multiplying: (i) the excess of the Fair Market Value of a share of Common Stock on the date of exercise or payment of the Stock Appreciation Right over the base price of such Stock Appreciation Right, by (ii) the number of shares as to which such Stock Appreciation Right is exercised or paid. Payment of the amount determined under the foregoing may be made, as approved by the Committee and set forth in the Award Agreement, in shares of Common Stock valued at their Fair Market Value on the date of exercise or payment, in cash or in a combination of shares of Common Stock and cash, subject to applicable tax withholding requirements.

7.4 Repricing Prohibited. Subject to the anti-dilution adjustment provisions contained in Section 4.4 hereof, without the prior approval of the Company's stockholders, neither the Committee nor the Board shall cancel a Stock Appreciation Right when the base price per share exceeds the Fair Market Value of one share of Common Stock in exchange for cash or another Award (other than in connection with a Change in Control) or cause the cancellation, substitution or amendment of a Stock Appreciation Right that would have the effect of reducing the base price of such a Stock Appreciation Right previously granted under the Plan or otherwise approve any modification to such Stock Appreciation Right that would be treated as a “repricing” under the then applicable rules, regulations or listing requirements adopted by NASDAQ or any other principal exchange on which the Common Stock is then listed.

7.5 Dividend Equivalent Rights. Subject to the anti-dilution adjustment provisions contained in Section 4.4 hereof, dividends shall not be paid with respect to Stock Appreciation Rights. Dividend equivalent rights shall be granted with respect to the shares of Common Stock subject to Stock Appreciation Rights to the extent permitted by the Committee or set forth in the Award Agreement.

8. Restricted Stock Awards.

8.1 Grant of Restricted Stock Awards. A Restricted Stock Award may be granted to any Eligible Person selected by the Committee. The Committee may require the payment by the Participant of a specified purchase price in connection with any Restricted Stock Award.

8.2 Vesting Requirements. The restrictions imposed on shares granted under a Restricted Stock Award shall lapse in accordance with the vesting requirements specified by the Committee in the Award Agreement. The requirements for vesting of a Restricted Stock Award may be based on the continued Service of the Participant with the Company or a Subsidiary for a specified time period (or periods), on the attainment of a specified Performance Goal(s), or on such other terms and conditions as approved by the Committee in its discretion. If the vesting requirements of a Restricted Stock Award shall not be satisfied or, if applicable, the Performance Goal(s) with respect to such Restricted Stock Award are not attained, the Award shall be forfeited and the shares of Stock subject to the Award shall be returned to the Company.

8.3 Transfer Restrictions. Shares granted under any Restricted Stock Award may not be transferred, assigned or subject to any encumbrance, pledge or charge until all applicable restrictions are removed or have expired, except as provided in Section 16.3 hereof. Failure to satisfy any applicable restrictions shall result in the subject shares of the Restricted Stock Award being forfeited and returned to the Company. The Committee may require in an Award Agreement that certificates (if any) representing the shares granted under a Restricted Stock Award bear a legend making appropriate reference to the restrictions imposed, and that certificates (if any) representing the shares granted or sold under a Restricted Stock Award will remain in the physical custody of an escrow holder until all restrictions are removed or have expired.

8.4 Rights as Stockholder. Subject to the foregoing provisions of this Section 8 and the applicable Award Agreement, the Participant shall have all rights of a stockholder with respect to the shares granted to the Participant under a Restricted Stock Award, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto, unless otherwise provided in the applicable Award Agreement or the Committee determines otherwise at the time the Restricted Stock Award is granted. The Committee may provide in an Award Agreement for the payment of dividends and distributions to the Participant at such times as paid to stockholders generally, at the times of vesting or other payment of the Restricted Stock Award or otherwise.

8.5 Section 83(b) Election. If a Participant makes an election pursuant to Section 83(b) of the Code with respect to a Restricted Stock Award, the Participant shall file, within thirty (30) days following the Date of Grant, a copy of such election with the Company and with the Internal Revenue Service, in accordance with the regulations under Section 83 of the Code. The Committee may provide in an Award Agreement that the Restricted Stock Award is conditioned upon the Participant's making or refraining from making an election with respect to the Award under Section 83(b) of the Code.

9. Restricted Stock Units.

9.1 Grant of Restricted Stock Units. A Restricted Stock Unit may be granted to any Eligible Person selected by the Committee. The value of each Restricted Stock Unit is equal to the Fair Market Value of the Common Stock on the applicable date or time period of determination, as specified by the Committee. Restricted Stock Units shall be subject to such restrictions and conditions as the Committee shall determine. In addition, a Restricted Stock Unit may be designated as a "Performance Stock Unit", the vesting requirements of which may be based, in whole or in part, on the attainment of pre-established business and/or individual Performance Goal(s) over a specified performance period as approved by the Committee in its discretion. Restricted Stock Units shall be non-transferable, except as provided in Section 16.3 hereof.

9.2 Vesting of Restricted Stock Units. On the Date of Grant, the Committee shall, in its discretion, determine any vesting requirements with respect to Restricted Stock Units, which shall be set forth in the Award Agreement. The requirements for vesting of a Restricted Stock Unit may be based on the continued Service of the Participant with the Company or a Subsidiary for a specified time period (or periods) or on such other terms and conditions as approved by the Committee (including Performance Goal(s)) in its discretion. If the vesting requirements of a Restricted Stock Units Award are not satisfied, the Award shall be forfeited.

9.3 Payment of Restricted Stock Units. Restricted Stock Units shall become payable to a Participant at the time or times determined by the Committee and set forth in the Award Agreement, which may be upon or following the vesting of the Award. Payment of a Restricted Stock Unit may be made, as approved by the Committee and set forth in the Award Agreement, in cash or in shares of Common Stock or in a combination thereof, subject to applicable tax withholding requirements. Any cash payment of a Restricted Stock Unit shall be made based upon the Fair Market Value of the Common Stock.

9.4 Dividend Equivalent Rights. Subject to the anti-dilution adjustment provisions contained in Section 4.4 hereof, Restricted Stock Units may or may not, in the discretion of the Committee, be granted together with a dividend equivalent right with respect to the shares of Common Stock subject to the Award, which may be accumulated and may be deemed reinvested in additional Restricted Stock Units or may be accumulated in cash, as determined by the Committee in its discretion. Dividend equivalent rights will be paid at such times as determined

by the Committee in its discretion (including without limitation at the times paid to stockholders generally or at the times of vesting or payment of the Restricted Stock Unit). Dividend equivalent rights may be subject to forfeiture under the same conditions as apply to the underlying Restricted Stock Units.

9.5 *No Rights as Stockholder.* The Participant shall not have any rights as a stockholder with respect to the shares subject to a Restricted Stock Unit until such time as shares of Common Stock are delivered to the Participant pursuant to the terms of the Award Agreement.

10. Cash Performance Awards and Performance Criteria.

10.1 *Grant of Cash Performance Awards.* A Cash Performance Award may be granted to any Eligible Person selected by the Committee. Payment amounts may be based on specified levels of attainment with respect to the Performance Goals, including, if applicable, specified threshold, target and maximum performance levels. The requirements for payment may be also based upon the continued Service of the Participant with the Company or a Subsidiary during the respective performance period and on such other conditions as determined by the Committee and set forth in an Award Agreement. With respect to Cash Performance Awards and other Awards the vesting and/or payout of which are tied to one or more Performance Goals, the Committee will determine the duration of the performance period, the Performance Criteria, the applicable Performance Goals relating to the Performance Criteria, and the amount and terms of payment and/or vesting upon achievement of the Performance Goals. Cash Performance Awards shall be non-transferable, except as provided in Section 16.3 hereof.

10.2 *Award Agreements.* Each Cash Performance Award shall be evidenced by an Award Agreement that shall specify the performance period and such other terms and conditions as the Committee, in its discretion, shall determine. The Committee may accelerate the vesting of a Cash Performance Award upon a Change in Control or termination of Service under certain circumstances, as set forth in the Award Agreement.

10.3 *Performance Criteria.* For purposes of Cash Performance Awards, Performance Stock Units and other Awards, the Performance Criteria shall be one or any combination of any performance measure selected by the Committee, which may include, but shall not be limited to, any the following performance measures for the Company or any identified Subsidiary or business unit: (a) net earnings; (b) earnings per share; (c) net debt; (d) revenue or sales growth; (e) net or operating income; (f) net operating profit; (g) return measures (including, but not limited to, return on assets, capital, equity or sales); (h) cash flow (including, but not limited to, operating cash flow, distributable cash flow and free cash flow); (i) earnings before or after taxes, interest, depreciation, amortization and/or rent; (j) share price (including, but not limited to growth measures and total stockholder return); (k) expense control or loss management; (l) customer satisfaction; (m) market share; (n) economic value added; (o) working capital; (p) the formation of joint ventures or the completion of other corporate transactions; (q) gross or net profit margins; (r) revenue mix; (s) operating efficiency; (t) product diversification; (u) market penetration; (v) measurable achievement in quality, operation or compliance initiatives; (w) quarterly dividends or distributions; (x) employee retention or turnover; (y) assets under management; (z) return on average tangible common equity (defined as a ratio, the numerator of which is income before amortization of intangibles, and the denominator of which is average tangible common equity); (aa) “efficiency ratio” determined as the ratio of total noninterest operating expenses (less amortization of intangibles) divided by total tax-equivalent revenues; (bb) “burden ratio” determined as the ratio of total noninterest operating expenses (less amortization of intangibles) less noninterest income over total tax-equivalent revenues; (cc) noninterest income to total revenue ratio; (dd) noninterest income to average assets ratio; (ee) net interest margin; (ff) net interest margin — tax equivalent; (gg) ratio of noninterest expense (less amortization of intangibles) to average assets; (hh) credit quality measures (including non-performing asset ratio, net charge-off ratio, ratio of allowance to non-performing loans, and classified assets as a percentage of tier 1 capital plus allowance of loan losses); (ii) noninterest bearing deposits as a percentage of total deposits; (jj) brokered deposits as a percentage of total deposits; (kk) loan growth; (ll) deposit growth; (mm) core deposit growth (defined as deposit growth excluding time deposits); (nn) noninterest income growth; (oo) budgeted noninterest income; (pp) yield on earning assets; (qq) tax-equivalent yield on earning assets; (rr) loan yield; (ss) tax-equivalent loan yield; (tt) cost of funds; (uu) net interest income; (vv) pre-provision, pre-tax income; (ww) regulatory criteria or measures, including compliance with a regulatory enforcement action or regulation (including a regulation that would exclude certain income from being included in any of the above criteria); (xx) other strategic milestones based on objective criteria established by the Company provided that, with respect to Covered Employees, such strategic milestones must be approved by the stockholders of the Company prior to the payment of any Cash Performance Awards, Performance Stock Units and other Awards intended to qualify as “performance-based compensation”; or (yy) any combination of or a specified increase in any of the foregoing. Each of the Performance Criteria shall be applied and interpreted in accordance with an objective formula or standard established by the Committee at the time the applicable Award is granted including, without limitation, GAAP.

10.4 *Performance Goals.* For purposes of Cash Performance Awards and other Awards the vesting and/or payout of which are tied to one or more Performance Goals, the “Performance Goals” shall be the levels of

achievement relating to the Performance Criteria selected by the Committee for the Award. The Performance Goals shall be written and shall be expressed as an objective formula or standard that precludes discretion to increase the amount of compensation payable that would otherwise be due upon attainment of the goal. The Performance Goals may be (but are not required to be) applied on an absolute basis or relative to an identified index, peer group, or one or more competitors or other companies (including particular business segments or divisions or such companies). The Performance Goals need not be the same for all Participants.

10.5 *Adjustments*. At the time that an Award is granted, the Committee may provide for the Performance Goals or the manner in which performance will be measured against the Performance Goals to be adjusted in such objective manner as it deems appropriate, including, without limitation, adjustments to reflect charges for restructurings, non-operating income, the impact of corporate transactions or discontinued operations, extraordinary and other unusual or non-recurring items and the cumulative effects of accounting or tax law changes. In addition, with respect to a Participant hired or promoted following the beginning of a performance period, the Committee may determine to prorate the Performance Goals and/or the amount of any payment in respect of such Participant's Cash Performance Awards for the partial performance period.

10.6 *Negative Discretion*. Notwithstanding anything else contained in the Plan to the contrary, the Committee shall, to the extent provided in an Award Agreement, have the right, in its discretion, (i) to reduce or eliminate the amount otherwise payable to any Participant under an Award and (ii) to establish rules or procedures that have the effect of limiting the amount payable to any Participant to an amount that is less than the amount that otherwise would be payable under an Award. The Committee may exercise such discretion in a non-uniform manner among Participants.

10.7 *Certification*. Following the conclusion of the performance period of a Cash Performance Award or other Award the vesting and/or payout of which is tied to one or more Performance Goals, the Committee shall certify in writing whether the Performance Goals for that performance period have been achieved, or certify the degree of achievement, if applicable.

10.8 *Payment*. Upon certification of the Performance Goals for a Cash Performance Award or other Award, the Committee shall determine the level of vesting or amount of payment to the Participant pursuant to the Award, if any. Notwithstanding the foregoing, Cash Performance Awards may be paid, at the discretion of the Committee, in any combination of cash or shares of Common Stock, based upon the Fair Market Value of such shares at the time of payment.

11. Stock Awards.

11.1 *Grant of Stock Awards*. A Stock Award may be granted to any Eligible Person selected by the Committee. A Stock Award may be granted for past Services, in lieu of bonus or other cash compensation, as directors' compensation or for any other valid purpose as determined by the Committee. The Committee shall determine the terms and conditions of such Awards, and such Awards may be made without vesting requirements. In addition, the Committee may, in connection with any Stock Award, require the payment of a specified purchase price.

11.2 *Rights as Stockholder*. Subject to the foregoing provisions of this Section 11 and the applicable Award Agreement, upon the issuance of the Common Stock under a Stock Award the Participant shall have all rights of a stockholder with respect to the shares of Common Stock, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

12. Change in Control.

12.1 *Effect on Awards*. Upon the occurrence of a Change in Control, unless otherwise provided in the Award Agreement, the Committee is authorized (but not obligated) to make adjustments in the terms and conditions of outstanding Awards, including without limitation the following (or any combination thereof): (a) continuation or assumption of such outstanding Awards under the Plan by the Company (if it is the surviving company or corporation) or by the surviving company or corporation or its parent; (b) substitution by the surviving company or corporation or its parent of awards with substantially the same terms for outstanding Awards (with appropriate adjustments to the type of consideration payable upon settlement of the Awards); (c) accelerated exercisability, vesting and/or payment under outstanding Awards immediately prior to or upon the occurrence of such event or upon a termination of employment following such event; and (d) if all or substantially all of the Company's outstanding shares of Common Stock transferred in exchange for cash consideration in connection with such Change in Control: (i) upon written notice, provide that any outstanding Stock Options and Stock Appreciation Rights are exercisable during a reasonable period of time immediately prior to the scheduled consummation of the event or such other reasonable period as determined by the Committee (contingent upon the consummation of the event), and

at the end of such period, such Stock Options and Stock Appreciation Rights shall terminate to the extent not so exercised within the relevant period; and (ii) cancellation of all or any portion of outstanding Awards for fair value (in the form of cash, shares, other property or any combination thereof) as determined in the sole discretion of the Committee; provided, that, in the case of Stock Options and Stock Appreciation Rights, the fair value may equal the excess, if any, of the value of the consideration to be paid in the Change in Control transaction to holders of shares of Common Stock (or, if no such consideration is paid, Fair Market Value of the shares of Common Stock subject to such outstanding Awards or portion thereof being canceled) over the aggregate exercise or base price, as applicable, with respect to such Awards or portion thereof being canceled, or if no such excess, zero.

12.2 Definition of Change in Control. Unless otherwise defined in an Award Agreement, “Change in Control” shall mean the occurrence of one of the following events:

(a) Any Person, becomes the Beneficial Owner, directly or indirectly, of more than fifty percent (50%) of the combined voting power, excluding any Person who holds fifty percent (50%) or more of the voting power on the Effective Date of the Plan (the “Initial Owners”), of the then outstanding voting securities of the Company entitled to vote generally in the election of its directors (the “Outstanding Company Voting Securities”) including by way of merger, consolidation or otherwise; *provided, however*, that for purposes of this definition, the following acquisitions shall not constitute a Change in Control: (i) any acquisition of voting securities of the Company directly from the Company, including without limitation, a public offering of securities; (ii) any acquisition by the Company or any of its Subsidiaries of Outstanding Company Voting Securities, including an acquisition by any employee benefit plan or related trust sponsored or maintained by the Company or any of its Subsidiaries; or (iii) any acquisition after which the Initial Owners and their affiliates remain the Beneficial Owners of more Outstanding Voting Securities than any other Person.

(b) Consummation of a reorganization, merger, or consolidation to which the Company is a party or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, following such Business Combination: (i) any individuals and entities that were the Beneficial Owners of Outstanding Company Voting Securities immediately prior to such Business Combination are the Beneficial Owners, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors (or election of members of a comparable governing body) of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns all or substantially all of the Company or all or substantially all of the Company’s assets either directly or through one or more Subsidiaries) (the “Successor Entity”) in substantially the same proportions as their ownership immediately prior to such Business Combination; (ii) no Person (excluding any Successor Entity or any employee benefit plan or related trust of the Company, such Successor Entity, or any of their Subsidiaries) is the Beneficial Owner, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or comparable governing body) of the Successor Entity, except to the extent that such ownership existed prior to the Business Combination; and (iii) at least a majority of the members of the board of directors (or comparable governing body) of the Successor Entity were Incumbent Directors (including persons deemed to be Incumbent Directors) at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination.

Notwithstanding the foregoing, to the extent necessary to comply with Section 409A of the Code with respect to the payment of “nonqualified deferred compensation,” “Change in Control” shall be limited to a “change in control event” as defined under Section 409A of the Code. For the avoidance of doubt, neither a Public Offering nor any changes to the size or members of the Board in connection with or as a result of a Public Offering shall constitute or be deemed to result in a Change in Control.

13. Forfeiture Events.

13.1 General. The Committee may specify in an Award Agreement at the time of the Award that the Participant’s rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Service for Cause, violation of material Company policies, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant or other similar conduct by the Participant that is detrimental to the business or reputation of the Company.

13.2 Termination for Cause.

(a) **Treatment of Awards.** Unless otherwise provided by the Committee and set forth in an Award Agreement, if (i) a Participant’s Service with the Company or any Subsidiary shall be terminated for Cause or (ii)

within one (1) year following termination of Service for any other reason, the Committee determines in its discretion that, after termination, the Participant breached any of the material terms contained in any non-competition agreement, confidentiality agreement or similar restrictive covenant agreement to which such Participant is a party, such Participant's rights, payments and benefits with respect to an Award shall be subject to cancellation, forfeiture and/or recoupment, as provided in Section 13.3 below. The Company shall have the power to determine whether the Participant has been terminated for Cause, the date upon which such termination for Cause occurs and whether the Participant engaged in conduct that violated any continuing obligation or duty of the Participant in respect of the Company or any Subsidiary. Any such determination shall be final, conclusive and binding upon all Persons. In addition, if the Company shall reasonably determine that a Participant has committed or may have committed any act which could constitute the basis for a termination of such Participant's Service for Cause or violates any continuing obligation or duty of the Participant in respect of the Company or any Subsidiary, the Company may suspend the Participant's rights to exercise any Stock Option or Stock Appreciation Right, receive any payment or vest in any right with respect to any Award pending a determination by the Company of whether an act or omission could constitute the basis for a termination for Cause as provided in this Section 13.2.

(b) *Definition of Cause.* Unless otherwise defined in an Award Agreement, "Cause" shall mean:

(i) the Participant has committed a deliberate and premeditated act against the interests of the Company including, without limitation: an act of fraud, embezzlement, misappropriation or breach of fiduciary duty against the Company, including, but not limited to, the offer, payment, solicitation or acceptance of any unlawful bribe or kickback with respect to the Company's business; or

(ii) the Participant has been convicted by a court of competent jurisdiction of, or pleaded guilty or nolo contendere to, any felony or any crime involving moral turpitude; or

(iii) the Participant has failed to perform or neglected the material duties incident to his employment or other engagement with the Company on a regular basis, and such refusal or failure shall have continued for a period of twenty (20) days after written notice to the Participant specifying such refusal or failure in reasonable detail; or

(iv) the Participant has been chronically absent from work (excluding vacations, illnesses, Disability or leaves of absence approved by the Company); or

(v) the Participant has refused, after explicit written notice, to obey any lawful resolution of or direction by the Board which is consistent with the duties incident to his employment or other engagement with the Company and such refusal continues for more than twenty (20) days after written notice is given to the Participant specifying such refusal in reasonable detail; or

(vi) the Participant has breached any of the material terms contained in any employment agreement, non-competition agreement, confidentiality agreement or similar type of agreement to which such Participant is a party; or

(vii) the Participant has engaged in (x) the unlawful use (including being under the influence) or possession of illegal drugs on the Company's premises or (y) habitual drunkenness on the Company's premises.

Any voluntary termination of employment or other engagement by the Participant in anticipation of an involuntary termination of the Participant's Service for Cause shall be deemed to be a termination for "Cause." Notwithstanding the foregoing, in the event that a Participant is party to an employment, severance or similar agreement with the Company or any of its affiliates and such agreement contains a definition of "Cause," the definition of "Cause" set forth above shall be deemed replaced and superseded, with respect to such Participant, by the definition of "Cause" used in such employment, severance or similar agreement.

13.3 *Right of Recapture.*

(a) *General.* If at any time within one (1) year (or such longer time specified in an Award Agreement or other agreement with a Participant) after the date on which a Participant exercises a Stock Option or Stock Appreciation Right or on which a Stock Award, Restricted Stock Award or Restricted Stock Unit vests or becomes payable or on which a Cash Performance Award is paid to a Participant, or on which income otherwise is realized by a Participant in connection with an Award, (i) a Participant's Service is terminated for Cause or (ii) after a Participant's Service otherwise terminates for any other reason, the Committee determines in its discretion that, after termination, the Participant breached any of the material terms contained in any non-competition agreement, confidentiality agreement or similar restrictive covenant agreement to which such Participant is a party, then any

gain realized by the Participant from the exercise, vesting, payment or other realization of income by the Participant in connection with an Award, shall be paid by the Participant to the Company upon notice from the Company, subject to applicable state law. Such gain shall be determined as of the date or dates on which the gain is realized by the Participant, without regard to any subsequent change in the Fair Market Value of a share of Common Stock. To the extent not otherwise prohibited by law, the Company shall have the right to offset such gain against any amounts otherwise owed to the Participant by the Company (whether as wages, vacation pay or pursuant to any benefit plan or other compensatory arrangement).

(b)*Accounting Restatement.* If a Participant receives compensation pursuant to a performance-based Award under the Plan (whether a performance-vesting Stock Option, Cash Performance Award or otherwise) based on financial statements that are subsequently required to be restated in a way that would decrease the value of such compensation, the Participant will, to the extent not otherwise prohibited by law, forfeit and repay to the Company the difference between what the Participant received and what the Participant should have received based on the accounting restatement, (i) in accordance with the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time, or (ii) in accordance with any compensation recovery, "clawback" or similar policy made applicable by law including the provisions of Section 945 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules, regulations and requirements adopted thereunder by the Securities and Exchange Commission and/or any national securities exchange on which the Company's equity securities may be listed (the "*Policy*"). By accepting an Award hereunder, the Participant acknowledges and agrees that the Policy shall apply to such Award, and all incentive-based compensation payable pursuant to such Award shall be subject to forfeiture and repayment pursuant to the terms of the Policy.

14. Retirement. Unless otherwise provided in an Award Agreement that expressly refers to this Section 14 (or any successor provision of this Section 14), an Award held by a Retirement Eligible Employee shall continue to vest (and, in the case of an Award the payout of which is tied to one or more Performance Goals, be earned) in accordance with the terms of such Award following the Retirement of such Retirement Eligible Employee, notwithstanding the Retirement Eligible Employee's termination of employment with the Company and its Subsidiaries. For avoidance of doubt, any such Award shall continue to be subject to the terms of the Plan, including, without limitation, Section 13.2 and Section 13.3. Each Award that is outstanding on the Effective Date is hereby amended to incorporate the provisions of this Section 14.

15. Transfer, Leave of Absence, Etc. For purposes of the Plan, except as otherwise determined by the Committee, the following events shall not be deemed a termination of employment: (a) a transfer of a Participant's employment to the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or (b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

16. General Provisions.

16.1 *Status of Plan.* The Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver stock or make payments with respect to Awards.

16.2 *Award Agreement.* Each Award under the Plan shall be evidenced by an Award Agreement in a written or electronic form approved by the Committee setting forth the number of shares of Common Stock or Restricted Stock Units subject to the Award, the exercise price, base price or purchase price of the Award, the time or times at which an Award will become vested, exercisable or payable and the term of the Award. The Award Agreement also may set forth the effect on an Award of a Change in Control or a termination of Service under certain circumstances. The Award Agreement shall be subject to and incorporate, by reference or otherwise, all of the applicable terms and conditions of the Plan, and also may set forth other terms and conditions applicable to the Award as determined by the Committee consistent with the limitations of the Plan. The grant of an Award under the Plan shall not confer any rights upon the Participant holding such Award other than such terms, and subject to such conditions, as are specified in the Plan as being applicable to such type of Award (or to all Awards) or as are expressly set forth in the Award Agreement. The Committee need not require the execution of an Award Agreement by a Participant, in which case, acceptance of the Award by the Participant shall constitute agreement by the Participant to the terms, conditions, restrictions and limitations set forth in the Plan and the Award Agreement as well as the administrative guidelines of the Company in effect from time to time. In the event of any conflict between the provisions of the Plan and any Award Agreement, the provisions of the Plan shall prevail.

16.3 *No Assignment or Transfer; Beneficiaries.* Except as provided in Section 6.7(e) hereof or as otherwise determined by the Committee, Awards under the Plan shall not be assignable or transferable by the Participant, and shall not be subject in any manner to assignment, alienation, pledge, encumbrance or charge. Notwithstanding the foregoing, in the event of the death of a Participant, except as otherwise provided by the

Committee in an Award Agreement, an outstanding Award may be exercised by or shall become payable to the Participant's beneficiary as designated by the Participant in the manner prescribed by the Committee or, in the absence of an authorized beneficiary designation, by a legatee or legatees of such Award under the participant's last will or by such Participant's executors, personal representatives or distributees of such Award in accordance with the Participant's will or the laws of descent and distribution. The Committee may provide in the terms of an Award Agreement or in any other manner prescribed by the Committee that the Participant shall have the right to designate a beneficiary or beneficiaries who shall be entitled to any rights, payments or other benefits specified under an Award following the Participant's death.

(a) Notwithstanding the foregoing, if authorized in the applicable Award Agreement, a Grantee may transfer, not for value, all or part of an Option that is not an Incentive Stock Option to any Family Member. For the purpose of this Section 16.3(a), a "not for value" transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) unless applicable law does not permit such transfers, a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members (or the Grantee) in exchange for an interest in that entity. Following a transfer under this Section 16.3(a), any such Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, and shares of Stock acquired pursuant to the Option shall be subject to the same restrictions on transfer of shares as would have applied to the Grantee. Subsequent transfers of transferred Options are prohibited except to Family Members of the original Grantee in accordance with this Section 16.3(a) or by will or the laws of descent and distribution. The events of termination of Service under an Option shall continue to be applied with respect to the original Grantee, following which the Option shall be exercisable by the transferee only to the extent, and for the periods specified in the applicable Award Agreement, and the shares may be subject to repurchase by the Company or its assignee.

16.4 *Deferrals of Payment.* The Committee may in its discretion permit a Participant to defer the receipt of payment of cash or delivery of shares of Common Stock that would otherwise be due to the Participant by virtue of the exercise of a right or the satisfaction of vesting or other conditions with respect to an Award; provided, however, that such discretion shall not apply in the case of a Stock Option or Stock Appreciation Right. If any such deferral is to be permitted by the Committee, the Committee shall establish rules and procedures relating to such deferral in a manner intended to comply with the requirements of Section 409A of the Code, including, without limitation, the time when an election to defer may be made, the time period of the deferral and the events that would result in payment of the deferred amount, the interest or other earnings attributable to the deferral and the method of funding, if any, attributable to the deferred amount.

16.5 *No Right to Employment or Continued Service.* Nothing in the Plan, in the grant of any Award or in any Award Agreement shall confer upon any Eligible Person or any Participant any right to continue in the Service of the Company or any of its Subsidiaries or interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment or other service relationship of an Eligible Person or a Participant for any reason at any time.

16.6 *Stock Certificates.* The Committee may determine in its discretion the manner of delivery of Common Stock to be issued under the Plan, which may be by delivery of stock certificates, electronic account entry into new or existing accounts or any other means as the Committee, in its discretion, deems appropriate. The Committee may require that the stock certificates (if any) be held in escrow by the Company for any shares of Common Stock or cause the shares to be legended in order to comply with the securities laws or other applicable restrictions or should the shares of Common Stock be represented by book or electronic account entry rather than a certificate, the Committee may take such steps to restrict transfer of the shares of Common Stock as the Committee considers necessary or advisable.

16.7 *Trading Policy Restrictions.* Option exercises and other Awards under the Plan shall be subject to such Company insider-trading-policy-related restrictions, terms and conditions to the extent established by the Committee, or in accordance with policies set by the Committee, from time to time.

16.8 *Section 409A Compliance.* To the maximum extent possible, it is intended that the Plan and all Awards hereunder comply with, or be exempt from, the requirements of Section 409A of the Code and the Treasury Regulations and other guidance issued thereunder, and that the Plan and all Award Agreements shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A of the Code. Subject to Section 16.4 hereof, any payments due pursuant to this Plan shall be payable to the Participant no later than two-and-a-half months following the end of the taxable year in which the payments are earned (subject to a reasonable delay in payment due to an unforeseeable event making it administratively impracticable to make the payment by such time), and in no event shall the payments be made later than the end of the taxable year following the taxable year in which the payments are earned. In the event that any payment under this Plan is contingent upon the execution of a release, and the applicable release spans two of the

Participant's taxable years, the applicable payments must be made in the second of the two taxable years. In the event that any (i) provision of the Plan or an Award Agreement, (ii) Award, payment, transaction or (iii) other action or arrangement contemplated by the provisions of the Plan is determined by the Committee to not comply with the applicable requirements of Section 409A of the Code and the Treasury Regulations and other guidance issued thereunder, the Committee shall have the authority to take such actions and to make such changes to the Plan or an Award Agreement as the Committee deems necessary to comply with such requirements. No payment that constitutes deferred compensation under Section 409A of the Code that would otherwise be made under the Plan or an Award Agreement upon a termination of Service will be made or provided unless and until such termination is also a "separation from service," as determined in accordance with Section 409A of the Code. Notwithstanding the foregoing or anything elsewhere in the Plan or an Award Agreement to the contrary, if a Participant is a "specified employee" as defined in Section 409A of the Code at the time of termination of Service with respect to an Award, then solely to the extent necessary to avoid the imposition of any additional tax under Section 409A of the Code, the commencement of any payments or benefits under the Award shall be deferred until the date that is six (6) months following the Participant's termination of Service (or, if earlier, the date of death of the specified employee) and shall instead be paid (in a manner set forth in the Award Agreement) on the payment date that immediately follows the end of such six- (6-) month period (or death) or as soon as administratively practicable within thirty (30) days thereafter, but in no event later than the end of the applicable taxable year. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on a Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

16.9 Securities Law Compliance.

(a) *General.* No shares of Common Stock will be issued or transferred pursuant to an Award unless and until all then applicable requirements imposed by Federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any exchanges upon which the shares of Common Stock may be listed, have been fully met. As a condition precedent to the issuance of shares pursuant to the grant or exercise of an Award, the Company may require the Participant to take any reasonable action to meet such requirements. The Committee may impose such conditions on any shares of Common Stock issuable under the Plan as it may deem advisable, including, without limitation, restrictions under the Securities Act of 1933, as amended, under the requirements of any exchange upon which such shares of the same class are then listed, and under any blue sky or other securities laws applicable to such shares. The Committee may also require the Participant to represent and warrant at the time of issuance or transfer that the shares of Common Stock are being acquired only for investment purposes and without any current intention to sell or distribute such shares.

(b) *Compliance with Rule 701.* To the extent that any Awards are granted prior to a Public Offering and the filing of an effective registration statement on Form S-8, the Plan is intended to be a written compensatory benefit plan within the meaning of Rule 701 promulgated under the Securities Act and, therefore, such Awards are subject to the restrictions set forth in Rule 701, and are "restricted securities," as such term is defined in Rule 144 promulgated under the Securities Act, and any resale of the Shares underlying such Awards must be in compliance with the registration requirements of the Securities Act or an exemption therefrom. Awards issued pursuant to the Plan prior to a Public Offering and the filing of an effective registration statement on Form S-8 shall in no event exceed the limitations set forth in Rule 701(d), as applicable from time to time.

16.10 *Substitute Awards in Corporate Transactions.* Nothing contained in the Plan shall be construed to limit the right of the Committee to grant Awards under the Plan in connection with the acquisition, whether by purchase, merger, consolidation or other corporate transaction, of the business or assets of any corporation or other entity. Without limiting the foregoing, the Committee may grant Awards under the Plan to an employee, director or other individual service provider of another corporation who becomes an Eligible Person by reason of any such corporate transaction in substitution for awards previously granted by such corporation or entity to such person. The terms and conditions of the substitute Awards may vary from the terms and conditions that would otherwise be required by the Plan solely to the extent the Committee deems necessary for such purpose. Any such substitute awards shall not (a) reduce the number of shares of Common Stock available for issuance under the Plan, (b) be subject to or counted against the Award limits specified in Section 4.3, 4.4 or 10.7 hereof or (c) replenish the Share Reserve upon the occurrence of any event set forth in Section 4.2 hereof.

16.11 *Tax Withholding.* The Company shall have the power and the right to deduct or withhold automatically from any amount deliverable under the Award or otherwise, or require a Participant to remit to the Company or the applicable Subsidiary, up to an amount based on the maximum statutory tax rates in the Participant's applicable tax jurisdiction or such other rate that will not trigger a negative accounting impact on the Company. With respect to required withholding, Participants may elect (subject to the Company's automatic withholding right set out above) to satisfy the withholding requirement with respect to any taxable event arising as a result of the Plan, in whole or in part, by the methods described in Section 6.5 hereof with respect to Stock Options

or by a method similar to the methods described in Section 6.5 hereof with respect to Awards other than Stock Options (except as otherwise set forth in an Award Agreement).

16.12 *Unfunded Plan.* The adoption of the Plan and any reservation of shares of Stock or cash amounts by the Company to discharge its obligations hereunder shall not be deemed to create a trust or other funded arrangement. Except upon the issuance of Common Stock pursuant to an Award, any rights of a Participant under the Plan shall be those of a general unsecured creditor of the Company, and neither a Participant nor the Participant's permitted transferees or estate shall have any other interest in any assets of the Company by virtue of the Plan. Notwithstanding the foregoing, the Company shall have the right to implement or set aside funds in a grantor trust, subject to the claims of the Company's creditors or otherwise, to discharge its obligations under the Plan. The Plan is not subject to the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

16.13 *Other Compensation and Benefit Plans.* The adoption of the Plan shall not affect any other share incentive or other compensation plans in effect for the Company or any Subsidiary, nor shall the Plan preclude the Company or any Subsidiary from establishing any other forms of share incentive or other compensation or benefit program for employees of the Company or any Subsidiary. The amount of any compensation deemed to be received by a Participant pursuant to an Award shall not constitute includable compensation for purposes of determining the amount of benefits to which a Participant is entitled under any other compensation or benefit plan or program of the Company or a Subsidiary, including, without limitation, under any pension or severance benefits plan, except to the extent specifically provided by the terms of any such plan.

16.14 *Plan Binding on Transferees.* The Plan shall be binding upon the Company, its transferees and assigns, and the Participant, the Participant's executor, administrator and permitted transferees and beneficiaries.

16.15 *Severability.* If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

16.16 *Governing Law.* The Plan and all rights hereunder shall be subject to and interpreted in accordance with the laws of the State of Colorado, without reference to the principles of conflicts of laws, and to applicable Federal securities laws.

16.17 *No Fractional Shares.* No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine (i) whether cash, other securities or other property shall be paid or transferred in lieu of any fractional shares of Common Stock or (ii) whether such fractional shares or any rights thereto shall be canceled, terminated or otherwise eliminated (in the case of this clause (ii), with no consideration paid therefor).

16.18 *No Guarantees Regarding Tax Treatment.* Neither the Company nor the Committee make any guarantees to any person regarding the tax treatment of Awards or payments made under the Plan. Neither the Company nor the Committee has any obligation to take any action to prevent the assessment of any tax on any person with respect to any Award under Section 409A of the Code, Section 4999 of the Code, Section 280G of the Code or otherwise, and neither the Company nor the Committee shall have any liability to a person with respect thereto.

16.19 *Data Protection.* By participating in the Plan, each Participant consents to the collection, processing, transmission and storage by the Company, its Subsidiaries and any third party administrators of any data of a professional or personal nature for the purposes of administering the Plan.

16.20 *Awards to Non-U.S. Participants.* To comply with the laws in countries other than the United States in which the Company or any of its Subsidiaries or affiliates operates or has employees, Non-Employee Directors or consultants, the Committee, in its sole discretion, shall have the power and authority to (i) modify the terms and conditions of any Award granted to Participants outside the United States to comply with applicable foreign laws, (ii) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals and (iii) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable. Any subplans and modifications to Plan terms and procedures established under this Section 16.20 by the Committee shall be attached to this Plan document as appendices.

16.21 *Regulatory Compliance.* The Committee shall take all necessary steps to ensure the Plan is being interpreted and administered in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and any regulations promulgated thereunder, as well as Regulation O and other regulations promulgated by the Board of Governors of the Federal Reserve System.

17. Restrictions on Transfer of Shares of Stock.

17.1 *Right of First Refusal.* Subject to Section 17.4 below, a Grantee (or such other individual who is entitled to exercise an Option or otherwise acquire shares pursuant to a Grant under the terms of this Plan) shall not sell, pledge, assign, gift, transfer, or otherwise dispose of any shares of Stock acquired pursuant to a Grant to any person or entity without first offering such shares to the Company for purchase on the same terms and conditions as those offered the proposed transferee. The Company may assign its right of first refusal under this Section 17.1 in whole or in part, to (1) any holder of stock or other securities of the Company (a “*Stockholder*”), (2) any Affiliate or (3) any other person or entity that the Board determines has a sufficient relationship with or interest in the Company. The Company shall give reasonable written notice to the Grantee of any such assignment of its rights. The restrictions of this Section 17.1 apply to any person to whom Stock that was originally acquired pursuant to a Grant is sold, pledged, assigned, bequeathed, gifted, transferred or otherwise disposed of, without regard to the number of such subsequent transferees or the manner in which they acquire the Stock, but the restrictions of this Section 17.1 do not apply to a transfer of Stock that occurs as a result of the death of the Grantee or of any subsequent transferee (but shall apply to the executor, the administrator or personal representative, the estate, and the legatees, beneficiaries and assigns thereof).

17.2 *Repurchase and Other Rights.* Stock issued upon exercise of a Grant or pursuant to the Grant of Restricted Stock may be subject to such right of repurchase or other transfer restrictions as the Board may determine, consistent with applicable law. Any such additional restriction shall be set forth in the Award Agreement.

17.3 *Installment Payments.*

(a) *General Rule.* In the case of any purchase of Stock or an Option under this Section 17, the Company or its permitted assignee may pay the Grantee, transferee of the Option or other registered owner of the Stock the purchase price in three or fewer annual installments. Interest shall be credited on the installments at the applicable federal rate (as determined for purposes of Section 1274 of the Code) in effect on the date on which the purchase is made. The Company or its permitted assignee shall pay at least one-third of the total purchase price each year, plus interest on the unpaid balance, with the first payment being made on or before the 60th day after the purchase.

(b) *Exception in the Case of Stock Repurchase Right.* If an Award Agreement authorizes, upon the Grantee’s termination of Service, the repurchase of shares of Stock acquired by the Grantee pursuant to the exercise of an Option or under a Grant of Restricted Stock, to the extent required by applicable law, payment shall be made in cash or by cancellation of indebtedness within the later of 90 days from the date of termination of Service or 90 days from the date of exercise or purchase, as the case may be.

17.4 *Publicly Traded Stock.* If the Stock is listed on an established national or regional stock exchange or is admitted to quotation on The Nasdaq Stock Market, Inc., or is publicly traded in an established securities market, the foregoing transfer restrictions of Sections 17.1 and 17.2 shall terminate as of the first date that the Stock is so listed, quoted or publicly traded.

17.5 *Legend.* In order to enforce the restrictions imposed upon shares of Stock under this Plan or as provided in an Award Agreement, the Board may cause a legend or legends to be placed on any certificate representing shares issued pursuant to this Plan that complies with the applicable securities laws and regulations and makes appropriate reference to the restrictions imposed under it.

18. Term; Amendment and Termination; Stockholder Approval.

18.1 *Term.* The Plan shall be effective as of the date of adoption by the Board (the “*Effective Date*”). Subject to Section 18.2 hereof, the Plan shall terminate on the tenth anniversary of the Original Effective Date.

18.2 *Amendment and Termination.* The Board may from time to time and in any respect, amend, modify, suspend or terminate the Plan; provided, that, except as provided in Section 16.8 or 16.20 or as otherwise determined by the Committee as it deems necessary to comply with applicable laws, no amendment, modification, suspension or termination of the Plan shall adversely affect any Award theretofore granted without the consent of

the Participant or the permitted transferee of the Award. The Company will obtain approval by the Company's stockholders of any Plan amendment to the extent it is necessary or advisable to comply with the legal and regulatory requirements relating to administration of equity-based awards and the related issuance of shares of Common Stock thereunder, including by not limited to U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, and any stock exchange or quotation system on which the Common Stock is listed or quoted.

* * * *

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) effective as of June 22, 2023 (the “Effective Date”) is by and between First Western Financial Inc., a Colorado corporation (the “Company” or “FWFI”), and Matthew C. Cassell, an individual resident of the State of Colorado (the “Executive”).

WHEREAS, the Executive is currently employed by the Company as the Chief Banking Officer; and

WHEREAS, the Company would like to secure the services of the Executive under certain terms and conditions;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Employment and Duties.**

(a) **General.** As of the Effective Date, the Executive shall continue to serve as the Chief Banking Officer. The Executive shall report directly to the Chief Executive Officer of the Company (the “CEO”). The Executive shall have such duties and responsibilities, commensurate with the Executive’s position, as may be assigned to the Executive from time to time by the CEO. The Executive hereby accepts such employment and agrees to render the services described above.

(b) **Exclusive Services.** For so long as the Executive is employed by the Company, the Executive shall devote his full-time working time to his duties hereunder, shall faithfully serve the Company, shall in all material respects conform to and comply with the lawful directions and instructions given to him by the CEO and shall use his reasonable best efforts to promote and serve the interests of the Company. Further, the Executive shall not, directly or indirectly, render services to any other person or organization without the written consent of the CEO or otherwise engage in activities that would interfere in any material respect with his faithful performance of his duties hereunder. Notwithstanding the foregoing, (i) the Executive may serve on such other for-profit corporate boards as may be consented to by the CEO, provided that such activity does not contravene the first sentence of this Section 1(b), and (ii) the Executive may serve on not-for-profit corporate, civic or charitable boards or engage in charitable activities without remuneration therefor as may be consented to by the CEO, provided that such activity does not contravene the first sentence of this Section 1(b).

2. **Term.** The term of the Executive’s employment under this Agreement commenced on the Effective Date and shall expire on the December 31, 2023. This Agreement shall automatically renew for successive one-year terms commencing January 1, 2024, unless either party gives notice to the other 90 days before the end of a particular term. The period during which the Agreement is in effect shall be referred to as the “Term.”

3. **Definitions.**

(a) “**Base Amount**” means the amount equal to the sum of (i) the Executive’s Base Salary at the rate then in effect and (ii) amount equal to the greater of (A) the Executive’s target Annual Bonus at the rate then in effect or (B) the average Annual Bonus for the three fiscal years immediately preceding the date on which the Executive’s termination occurs.

(b) Termination for “Cause” means termination of the Executive’s employment because of:

- (i) the willful failure by the Executive to perform the Executive’s duties with the Company;
- (ii) gross incompetence or gross negligence in the discharge of the Executive’s duties;
- (iii) willful dishonesty, theft, embezzlement, fraud, breach of confidentiality, or unauthorized disclosure or use of financial information, confidential client information, client or employee lists, trade secrets, or other Company confidential or proprietary information;
- (iv) willful violation of any law, rule or regulation of any governing authority or of the Company’s policies and procedures, including, without limitation, the Company’s employee handbook or similar document;
- (v) the willful refusal of Executive to follow the lawful directions of the CEO within a reasonable period after delivery to Executive of written notice of such directions;
- (vi) willful conduct that is grossly injurious to the reputation, financial condition, business or assets of the Company; or
- (vii) willful breach of any material provision in an agreement with the Company.

In each of (i) through (vii) the Executive shall be given written notice of such cause for termination, and in each of (i) and (vii) the Executive shall be given an opportunity to remedy such cause for termination within sixty (60) business days of receipt of such notice.

(c) “Change in Control” shall have the same meaning as the definition contained in Section 12.2 of the First Western Financial, Inc. 2016 Omnibus Incentive Plan.

(d) Resignation for “Good Reason” means termination of employment by the Executive because of the occurrence of any of the following events:

- (i) there is a material reduction in the Executive’s Base Salary, unless agreed to in writing by the Executive;
- (ii) there is a material reduction in the Executive’s authority, duties, or responsibilities;
- (iii) the Executive is required to relocate the Executive’s principal place of employment with the Company (or successor to the Company, if applicable) to a place that increases the Executive’s one-way commute by more than twenty-five (25 miles) as compared to the Executive’s then-current principal place of employment immediately prior to such relocation (excluding regular travel in the ordinary course of business), unless such relocation is agreed to in writing by the Executive;
- (iv) the failure of any successor to assume this Agreement; and

(v) any other action or inaction that constitutes a material breach by the Company of this Agreement after the Executive provides written notice to the Company of the facts which constitute the grounds within sixty (60) business days following the initial existence of the grounds and the Company thereafter fails to cure such grounds within sixty (60) business days following its receipt of such notice (or, in the event that such grounds cannot be corrected within such sixty (60) day period, the Company has not taken all reasonable steps within such sixty (60) day period to correct such grounds as promptly as practicable thereafter).

4. Compensation and Other Benefits. Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) Base Salary. The Company shall pay to the Executive an annual salary (the “Base Salary”) payable in substantially equal installments at such intervals as may be determined by the Company in accordance with its ordinary payroll practices, as established from time to time. The Base Salary shall be reviewed annually and increased as appropriate for market changes, commencing effective January 1, 2024. Executive annualized Base Salary as of the Effective Date is \$300,000.48. The Base Salary shall not be decreased by the Company except with the prior written consent of the Executive.

(b) Annual Bonus. Executive shall be eligible to receive annual incentive compensation (the “Annual Bonus”), as governed by the terms set forth in the First Western Financial, Inc. Incentive Plan for Senior Executive Officers, as may be amended from time to time. The incentive compensation performance measures and goals are reviewed by the Board of Directors annually, and adjusted as appropriate, according to the needs of the business.

(c) Long-Term Incentive Plan. The Executive shall be eligible for grants under the First Western Financial, Inc. 2016 Omnibus Incentive Plan, including, but not limited to, grants of stock options, market conditioned performance share units, financial conditioned performance stock units and restricted stock units, as the Compensation Committee of the Board shall determine from time to time.

(d) Savings and Retirement Plans. The Executive shall be eligible to participate in all savings and retirement plans applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(e) Welfare Benefit Plans. The Executive and his eligible dependents shall be eligible to participate in and shall receive all benefits under the Company’s welfare benefit plans and programs applicable generally to other executives of the Company, in accordance with the terms of the plans, as may be amended from time to time.

(f) Expenses. Upon presentation of written documentation thereof, in accordance with the applicable expense reimbursement policies and procedures of the Company as in effect from time to time, the Company shall reimburse the Executive for reasonable business-related expenses incurred by the Executive in the fulfillment of his duties. Payments with respect to reimbursements of expenses shall be made promptly and in accordance with the applicable expense reimbursement policies and procedures of the Company, but in any event, on or before the last day of the calendar month following the calendar month in which the relevant expense is incurred.

(g) Vacation. The Executive shall be entitled to vacation each calendar year during the Term, subject to and in accordance with the Company’s vacation policy in effect from time to time.

5. Termination of Employment. The terms of any equity compensation grants outstanding as of the Effective Date, as well as any future equity compensation grants made under the First Western Financial, Inc. 2016 Omnibus Incentive Plan shall govern what the Executive receives on termination of employment, in terms of equity compensation, except as expressly provided in Section 5(b)(i)(C) and Section 5(b)(ii)(C) hereof. All other forms of remuneration the Executive is eligible for on termination of employment are set forth in this Section 5.

(a) Termination for Cause; Resignation Without Good Reason. If, prior to the expiration of the Term, the Executive incurs a “Separation from Service” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and the Treasury Regulations (“Regulations”) thereunder, by reason of the Company’s termination of the Executive’s employment for Cause, or if the Executive resigns from his employment hereunder other than for Good Reason, the Executive shall be entitled only to payment of (i) any unpaid Base Salary through and including the date of termination or resignation, (ii) any Annual Bonus earned, but unpaid, for the year immediately preceding the year in which the termination date occurs (which unpaid Annual Bonus amount shall be paid no later than March 15 of the year following the year in which the amount was earned), and (iii) any other amounts or benefits required to be paid or provided by law or under any plan, program, policy or practice of the Company (the amounts or benefits in (i) through (iii) being referred to collectively as the “Other Accrued Compensation and Benefits”). Except as set forth in this subsection (a), the Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment.

(b) Termination without Cause; Resignation for Good Reason.

(i) If the Executive incurs a “Separation from Service” within the meaning of Section 409A of the Code and the Regulations thereunder, by reason of the Company’s termination of the Executive’s employment without Cause, or if the Executive resigns from his employment hereunder for Good Reason, the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to one (1) times the Executive’s Base Amount, which shall be payable in equal installments pursuant to the Company’s normal payroll practices and subject to all legally required and customary withholdings for the twelve (12) month period following termination.

(C) A pro-rated portion of each outstanding unvested equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse. The pro-rated portion, determined separately for each vesting tranche for each such equity award, shall be based on a fraction, (I) the numerator of which is number of days that elapse from the grant date of the equity award until the Executive’s termination date and the (II) the denominator of which is the total number of days in the period that begins on the date of grant of the applicable equity award and ends on the scheduled vesting date of such equity award (or, if applicable, the scheduled vesting date of the applicable vesting tranche). For purposes of determining the number of shares subject to any outstanding unvested equity awards subject to performance vesting conditions (as opposed to solely service-based vesting conditions) that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the level of the Company’s actual achievement of the applicable performance goals as measured as of the Executive’s

termination date, as determined by the Compensation Committee in its reasonable discretion. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(i)(C).

(D) The Company shall monthly pay to the Executive the amount equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for the Executive, and, to the extent that the Executive is providing coverage for his spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company terminates the Executive's employment without Cause, the Company shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(i).

(E) All payments and benefits provided under this Section 5(b)(i)(B) and (D) shall commence on the first payroll date following the 60th day after the Executive's termination of employment, with the first installment payment to include any payments that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(i)(A), (B), (C) or (D) unless the Executive executes and delivers to the Company, within sixty (60) days following the Executive's termination of employment, a release substantially in the form attached hereto as Exhibit A (the "Release"), and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(i)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments. This Section 5(b)(i) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(F) If, following a termination of employment without Cause or a resignation for Good Reason, the Executive breaches the provisions of Sections 6 through 10 hereof or breaches any provision set forth in the executed copy of the general release of claims, the Executive shall not be eligible, as of the date of such breach, for the payments and benefits described in Section 5(b)(i)(A), (B), (C) or (D), and any and all obligations and agreements of the Company with respect to such payments shall thereupon cease. This Section 5(b)(i)(F) shall expressly not apply to payments made on account of a Change in Control, pursuant to Section 5(b)(ii) hereof.

(ii) If the Company undergoes a Change in Control and, within 24 months of such Change in Control, the Executive is terminated without Cause or resigns

for Good Reason, then, in lieu of (and not in addition to) any payments or benefits payable to the Executive pursuant to Section 5(b)(i), the Executive shall be entitled to the following:

(A) The Other Accrued Compensation and Benefits.

(B) An amount equal to two (2) times the Executive's Base Amount, payable in a single lump sum payment.

(C) Each outstanding equity award, including, without limitation, stock options, restricted stock and restricted stock units, held by the Executive shall automatically become vested and, if applicable, exercisable and any restrictions thereon shall immediately lapse, in each case, with respect to that number of shares of Company common stock that would otherwise vest based on Executive's continued employment. For purposes of determining the number of shares subject to any outstanding equity awards subject to performance vesting conditions that would otherwise vest pursuant to the foregoing sentence, the applicable performance goals shall be deemed achieved at the "target" level. Each of the Executive's outstanding equity awards as of the Effective Date is hereby amended to incorporate the terms of this Section 5.1(b)(ii)(C).

(D) Monthly payments to the Executive equal to the full premium amount (determined as of the date of termination) for continued coverage under the Company's health plan pursuant to COBRA for the Executive, and, to the extent that the Executive is providing coverage for his spouse or eligible dependents as of the termination date, for such individuals; provided, however, that the Company's obligation to pay such premiums shall cease immediately upon the earlier of (i) the passage of eighteen (18) months (ii) the expiration of the statutory COBRA period and (iii) the date the Executive becomes eligible for coverage under any other group health plan (as an employee or otherwise) or Medicare.

Notwithstanding the foregoing, if the Company (or its successor) terminates the Executive's employment without Cause, the Company (or its successor) shall provide the Executive with no less than ninety (90) days' written notice or payment of three (3) months Base Salary in lieu of ninety (90) days' written notice, which shall be in addition to payments described under this Section 5(b)(ii).

(E) Unless otherwise provided herein, all payments and benefits provided under this Section 5(b)(ii)(B) and (D) shall be paid (or, in the case of the payments described in Section 5(b)(ii)(D), commence to be paid) on the first payroll date following the 60th day after the Executive's termination of employment, with the first payment to include any payments provided under Section 5(b)(ii)(D) that would have otherwise been paid to the Executive if such payments commenced on the first payroll date following the Executive's termination date. The Company shall not be required to make the payments and provide the benefits provided for under this Section 5(b)(ii)(A), (B), (C) or (D) unless the Executive executes and delivers the Release to the Company, within sixty (60) days following the Executive's termination of employment, and the Release has become effective and irrevocable in its entirety in such 60-day period. The Executive's failure or refusal to sign the Release (or the Executive's revocation of such Release in accordance with applicable laws) will result in the forfeiture of the payments and benefits under this Section 5(b)(ii)(A), (B), (C) or (D). To the extent any amount payable under this Section 5 is deferred compensation subject to the Code, if the period during which the Executive has discretion to execute or revoke the Release straddles two of the Executive's taxable years, then the Company shall make the

severance payments starting in the second of such taxable years, regardless of which taxable year the Executive actually delivers the executed Release to the Company. The Executive may not, directly or indirectly, designate the calendar year or timing of payments.

(F) In the event that it is determined that any payment or distribution of any type to or for the benefit of an Executive made by the Company, by any of its Affiliates, by any person who acquires ownership or effective control or ownership of a substantial portion of the Company's assets (within the meaning of Code Section 280G) or by any affiliate of such person, whether paid or payable or distributed or distributable pursuant to the terms of any equity compensation plan, this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Code Section 4999 or any interest or penalties with respect to such excise tax (the "Excise Tax"), then, notwithstanding any other provision of this Agreement or any equity compensation plan to the contrary, any right of the Executive to any payment or benefit under this Agreement or any such equity compensation plan shall be reduced or eliminated, but only to the extent necessary to avoid imposition of the Excise Tax. In no case, however, shall such cutback be made if Total Payments after the imposition of the Excise Tax are greater than Total Payments cut back as provided in this Section 5(b)(ii) to avoid the Excise Tax.

(G) In the event that a cutback of Total Payments is permitted under Section 5(b)(ii)(F), and except as required by Code Section 409A or to the extent that Code 409A permits discretion, the Compensation Committee shall have the right, in the Compensation Committee's sole discretion, to designate those rights, payments, or benefits and all other agreements that should be reduced or eliminated so as to provide the Executive with the maximum pre-tax amount which avoids imposition of the Excise Tax. For example, the Compensation Committee may choose to cut back cash severance, if that would yield a higher pre-tax amount than cutting back equity. Notwithstanding the foregoing, to the extent any payment or benefit constitutes deferred compensation under Code Section 409A, in order to comply with Code Section 409A the Compensation Committee shall instead accomplish such reduction by first reducing or eliminating any cash payments (with the payments to be made furthest in the future being reduced first), then by reducing or eliminating any accelerated vesting of options or stock appreciation rights, then by reducing or eliminating any accelerated vesting of restricted stock or restricted stock units.

(c) Termination Due to Death or Disability. The Executive's employment with the Company shall terminate automatically on the Executive's death. In the event of the Executive's Disability (as defined herein), the Company shall be entitled to terminate his employment. In the event of the Executive's death or if the Executive incurs a "Separation from Service" within the meaning of Section 409A of the Code, or the Regulations thereunder, by reason of the Executive's Disability, the Company shall pay to the Executive (or his estate, as applicable), (i) the Executive's Base Salary through and including the date of termination and any Other Accrued Compensation and Benefits (ii) a pro-rata Annual Bonus for the year of termination, based on actual audited year-end results and payable when bonuses are normally paid to employees, and (iii) three (3) months Base Salary at the rate then in effect, payable in equal installments pursuant to the Company's normal payroll practices and subject to all legally required and customary withholdings for the three (3) month following termination.

(i) For purposes of this Agreement, "Disability" means a physical or mental disability or infirmity of the Executive that prevents the normal performance of substantially all his duties for a period in excess of ninety (90) consecutive days or for more than ninety (90) days in any consecutive twelve (12)-month period. Evidence of

such physical or mental disability or infirmity shall be certified by a physician licensed to practice in the state of residence of the Executive, which physician is mutually agreeable to the Board and the Executive. If there is no agreement on the selection of the physician, then the Board shall select one physician and the Executive shall select one physician, and the two physicians shall attempt to mutually agree upon such physical or mental disability or infirmity. If the two physicians cannot agree, then the two physicians shall jointly select a third physician, whose opinion on such physical or mental disability or infirmity shall control.

(d) Notice of Termination. Any termination of employment by the Company or the Executive shall be communicated by a written “Notice of Termination” to the other party hereto given in accordance with Section 24 of this Agreement. In the event of a termination by the Company for Cause, or by the Executive for Good Reason, the Notice of Termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated and (iii) specify the date of termination, which date shall not be more than thirty (30) business days after the giving of such notice, provided that the date of termination will not occur before the expiration of any applicable cure period.

The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive’s or the Company’s rights hereunder.

(e) No Further Rights. The Executive shall have no further rights under this Agreement or otherwise to receive any other compensation or benefits after such termination or resignation of employment.

6. Confidentiality.

(a) Confidential Information.

(i) The Executive agrees that he will not at any time, except with the prior written consent of the Company or its Affiliates or as required by applicable law, directly or indirectly, reveal to any person, entity or other organization (other than the Company or its Affiliates or its respective employees, officers, directors, shareholders or agents) or use for the Executive’s own benefit any confidential or proprietary information of any member of the Company or its Affiliates (“Confidential Information”) relating to the assets, liabilities, employees, goodwill, business or affairs of any member of the Company or its Affiliates, including, without limitation, any information concerning past, present or prospective clients, intellectual capital, marketing data, or other confidential information used by, or useful to, any member of and known to the Executive by reason of the Executive’s employment by, shareholdings in or other association with the Company or its Affiliates, other than disclosure while employed by the Company which the Executive reasonably and in good faith believes to be in or not opposed to the interests of the Company; provided that such Confidential Information does not include any information which is available to the general public or is generally available within the relevant business or industry other than as a result of the Executive’s breach of this Agreement. Confidential Information may be in any medium or form, including, without limitation, physical documents, computer files or disks, videotapes, audiotapes, and oral communications.

(ii) In the event that the Executive becomes legally compelled to disclose any Confidential Information, the Executive shall, if permitted by law, provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, the Executive shall furnish only that portion of such Confidential Information or take only such action as is legally required by binding order and shall exercise his reasonable efforts to obtain reliable assurance that confidential treatment shall be accorded any such Confidential Information. The Company shall promptly pay (upon receipt of invoices and any other documentation as may be requested by the Company) all reasonable expenses and fees incurred by the Executive, including attorneys' fees, in connection with his compliance with the immediately preceding sentence. Notwithstanding anything herein to the contrary, nothing in this Agreement shall (A) prohibit the Executive from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of state or federal law or regulation, or (B) require notification or prior approval by the Company of any reporting described in clause (A).

(b) Confidentiality of Agreement. The Executive agrees that, except as may be required by applicable law or legal process, during the Term and thereafter, he shall not disclose the terms of this Agreement to any person or entity other than the Executive's accountants, financial advisors, attorneys or spouse, provided that such accountants, financial advisors, attorneys and spouse agree not to disclose the terms of this Agreement to any other person or entity.

(c) Exclusive Property. The Executive confirms that all Confidential Information is and shall remain the exclusive property of the Company or its Affiliates. All business records, papers and documents kept or made by the Executive relating to the business of the Company or its Affiliates shall be and remain the property of the Company or its Affiliates. Upon the request and at the expense of the Company or its Affiliates, the Executive shall promptly make all disclosures, execute all instruments and papers and perform all acts reasonably necessary to vest and confirm in the Company or its Affiliates, fully and completely, all rights created or contemplated by this Section 6.

7. Noncompetition. The Executive agrees that, for a period commencing on the June 22, 2023 and ending 365 days following the Executive's termination of employment (the "Restricted Period"), the Executive shall not, without the prior written consent of the Company, directly or indirectly, and whether as principal or investor or as an employee, officer, director, manager, partner, consultant, agent or otherwise, alone or in association with any other person, firm, corporation or other business organization, carry on a Competing Business (as defined herein) within the then current footprint of the Company. For purposes of this Section 7: (a) carrying on a "Competing Business" means to engage in the competing business of any business carried on by the Company or its Affiliates. Notwithstanding the foregoing nothing herein shall limit the Executive's right to own not more than one (1) percent of any of the debt or equity securities of any business organization that is then filing reports with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. The Executive acknowledges that this noncompetition provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets.

Initial

8. Non-Solicitation and Non-Acceptance. The Executive agrees that for the Restricted Period the Executive shall not, directly or indirectly, (a) interfere with or attempt to interfere with the relationship between any person who is, or was during the Restricted Period or the 3-month period immediately preceding the commencement of the Restricted Period, an employee, officer, representative or agent of the Company or its Affiliates and any member of the Company or its Affiliates, or solicit, induce or attempt to solicit or induce any of them to terminate their employment or service relationship with any member of the Company or its Affiliates or violate the terms of their respective service contracts, or any employment arrangements, with such entities, provided that the foregoing shall not prevent general employment or service solicitations that do not specifically target any such persons; or (b) induce or attempt to induce any customer or client of any member of the Company or its Affiliates to cease doing business with any member of the Company or its Affiliates, or in any way interfere with the relationship between any member of the Company or its Affiliates and any customer or client of any member of the Company or its Affiliates. The Executive will make reasonable best efforts to not accept, and when in his control, not allow the acceptance of any of the Company relationships in this Section 8 at a new employer during the Restricted Period. The Executive acknowledges that this non-solicitation provision will not unreasonably impair or infringe upon the Executive's right to work or earn a living during the Restricted Period, and the Executive further acknowledges that these restrictions are necessary to protect the trade secrets of the Company as the Executive's breach of this provision would necessarily involve the Executive's use of the Company's trade secrets.

Initial

9. No Conflicting Agreement. The Executive represents, warrants and covenants to the Company that the Executive is not a party to any agreement, whether written or oral, that would be breached by or would prevent or interfere with the execution by the Executive of this Agreement or the fulfillment by the Executive of the Executive's obligations hereunder.

10. Nondisparagement. Each party represents, warrants and covenants to the other that at no time during the Term or thereafter shall such party make, or cause or assist any other person to make, any statement or other communication to any third party which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other party or any of its respective directors, officers or employees, as applicable; provided this Section shall not prohibit truthful testimony by or on behalf of either party in any judicial or administrative proceeding.

11. Section 409A of the Code. This Agreement is intended to meet the requirements of Section 409A of the Code and shall be interpreted and construed consistent with that intent. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the "deferral of compensation" within the meaning of Section 409A(d)(1) of the Code, if the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's "Separation from Service" within the meaning of Section 409A(a)(2)(A)(i) of the Code (the "Separation Date"), then no such payment shall be made or commence during the period beginning on the Separation Date and ending on the date that is six months following the Separation Date or, if earlier, on the date of the Executive's death. The amount of any payment that would otherwise be paid to the Executive during this period shall instead be paid to the Executive on the fifteenth day of the first calendar month following the end of the period.

12. Certain Remedies.

(a) Forfeiture/Payment Obligations. In the event the Executive fails to comply with Sections 6 through 10, other than any isolated, insubstantial and inadvertent failure, the Executive agrees that he will forfeit any amounts not already paid pursuant to Section 5(b)(i) (A), (B), (C) or (D) of this Agreement. Notwithstanding the previous sentence, the Executive shall be given written notice of each alleged failure to comply with Sections 6 through 10, and the Executive shall be given an opportunity to remedy such failure within (60) sixty business days of the receipt of such notice. For purposes of clarity, the Executive's failure to comply with Sections 6 through 10 shall not result in forfeiture of amounts required to be paid but not already paid on account of a Change in Control pursuant to Section 5(b)(ii) of this Agreement.

(b) Injunctive Relief. Without intending to limit the remedies available to the Company or its Affiliates, including, but not limited to, that set forth in Section 12(a) hereof, the Executive agrees that a breach of any of the covenants contained in Sections 6 through 10 of this Agreement may result in material and irreparable injury to the Company or its Affiliates for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, any member of the Company or its Affiliates shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from engaging in activities prohibited by the covenants contained in Sections 6 through 10 of this Agreement or such other relief as may be required specifically to enforce any of the covenants contained in this Agreement. Such injunctive relief in any court shall be available to the Company or its Affiliates in lieu of, or prior to or pending determination in, any arbitration proceeding.

13. Defense of Claims. The Executive agrees that, during the Term, and for a period of seven (7) years after termination of the Executive's employment, upon request from the Company, the Executive will reasonably cooperate with the Company in the defense of any claims or actions that may be made by or against the Company that affect the Executive's prior areas of responsibility, except if the Executive's reasonable interests are adverse to the Company in such claim or action. The Company agrees to promptly pay in advance or reimburse the Executive for, as requested by the Executive, all of the Executive's reasonable travel and other direct costs and expenses incurred, or to be reasonably incurred, to comply with the Executive's obligations under this Section 13, including, but not limited to, legal costs and expenses.

14. Alternative Dispute Resolution. The Company and the Executive agree that any dispute that arises out of or relates to Executive's employment or termination of employment with the Company, including any dispute that the Executive may have with any present or former officer, manager, director, employee, agent, attorney or insurer of the Company, shall first be submitted to mediation through the Institute for Conflict Prevention & Resolution ("CPR") (or such other nationally-recognized alternative dispute resolution service as the Executive and Company may agree). The Executive and the Company shall use their reasonable efforts to commence and conclude such mediation in a prompt manner. If the dispute is not resolved through mediation within thirty (30) days after notice thereof, such dispute shall be resolved by binding arbitration in accordance with the rules and procedures of the CPR (or such other nationally recognized alternative dispute resolution service as the Executive and the Company may agree). Judgment upon the award rendered by the arbitrator may be entered in any court having in person and subject matter jurisdiction. The Company and the Executive hereby submit to the jurisdiction of the federal and state courts in Denver, Colorado, for the purpose of confirming any such award and entering judgment thereon. The Company shall pay for all administrative costs and fees charged by the CPR (or such other nationally recognized alternative dispute resolution service) as well as the fees charged by the arbitrator. Each party shall pay for his or its attorneys' fees and costs.

15. No assignability; Binding Agreement.

(a) By the Executive. This Agreement and any and all rights, duties, obligations or interests hereunder shall not be assignable or delegable by the Executive.

(b) By the Company. This Agreement and all of the Company's rights and obligations hereunder shall not be assignable by the Company except as incident to a reorganization, merger or consolidation, or transfer of all or substantially all of the Company's assets.

(c) Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate.

16. Withholding. Any payments made or benefits provided to the Executive under this Agreement shall be reduced by any applicable withholding taxes or other amounts required to be withheld by law or contract.

17. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

18. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be governed by the laws of the State of Colorado applicable to contracts entered into and performed entirely therein. Any action to enforce this Agreement shall be brought solely in the state or federal courts located in the County of Denver, Colorado.

19. Survival of Certain Provisions. Unless expressly provided otherwise, the rights and obligations set forth in this Agreement shall survive any termination or expiration of this Agreement.

20. Entire Agreement; Supersedes Previous Agreements. This Agreement contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein, and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof (including, without limitation, the Prior Agreement), all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

21. Severability. The provisions of the Agreement shall be deemed severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions herein.

22. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

23. Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

24. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:
First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary

To the Executive:
Matthew C. Cassell
9464 Flattop Street
Arvada, CO 80007

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its officer pursuant to the authority of its Board, and the Executive has executed this Agreement, as of the day and year first written above.

FIRST WESTERN FINANCIAL, INC.

By: /s/ Scott C. Wylie
Scott C. Wylie, Chairman, President & CEO

MATTHEW C. CASSELL

/s/ Matthew C. Cassell
Matthew C. Cassell, Chief Banking Officer

GENERAL RELEASE OF CLAIMS

This General Release of all Claims (this “Agreement”) is entered into by Matthew C. Cassell (the “Executive”) and FWFI (the “Company”), effective as of _____ in connection with the termination of the Executive’s employment with the Company as of _____.

In consideration of the promises set forth in the Amended and Restated Employment Agreement between the Executive and the Company, dated effective April 26, 2023 (the “Employment Agreement”), the Executive and the Company agree as follows:

1. Return of Property. All Company files, access keys and codes, desk keys, ID badges, computers, records, manuals, electronic devices, computer programs, papers, electronically stored information or documents, telephones and credit cards, and any other property of the Company in the Executive’s possession must be returned no later than the date of the Executive’s termination from the Company; provided, that, after the notification of a consultation with the Company, the Executive may keep one copy of such items as he may reasonably expect to use to protect his rights under this Agreement.

2. General Release and Waiver of Claims.

(a) Release. In consideration of the payments and benefits provided to the Executive under the Employment Agreement and after consultation with counsel, the Executive and each of the Executive’s respective heirs, executors, administrators, representatives, agents, insurers, successors and assigns (collectively, the “Releasors”) hereby irrevocably and unconditionally release and forever discharge the Company, its subsidiaries and affiliates and each of their respective officers, employees, directors, shareholders and agents (“Releasees”) from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, “Claims”), including, without limitation, any Claims under any federal, state, local or foreign law, that the Releasors may have, or in the future may possess, arising out of (i) the Executive’s employment relationship with and service as an employee, officer or director of the Company or any subsidiaries or affiliated companies and the termination of such relationship or service, and any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof; provided, however, that the Executive does not release, discharge or waive any rights to (i) payments and benefits provided under the Employment Agreement that are contingent upon the execution by the Executive of this Agreement and (ii) any indemnification rights the Executive may have under the Employment Agreement, in accordance with the Company’s governance instruments or under any director and officer liability insurance maintained by the Company with respect to liabilities arising as a result of the Executive’s service as an officer and employee of the Company. This Section 2(a) does not apply to any Claims that the Releasors may have as of the date the Executive signs this Agreement arising under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder (“ADEA”). Claims arising under ADEA are addressed in Section 2(b) of this Agreement.

(b) Specific Release of ADEA Claims. In further consideration of the payments and benefits provided to the Executive under the Employment Agreement, the Releasors hereby unconditionally release and forever discharge the Releasees from any and all Claims arising under ADEA that the Releasors may have as of the date the Executive signs this Agreement. By signing this Agreement, the Executive hereby acknowledges and confirms the following: (i) the Executive was advised by the Company in connection with his termination to

consult with an attorney of his choice prior to signing this Agreement; and to have such attorney explain to the Executive the terms of this Agreement, including, without limitation, the terms relating to the Executive's release of claims arising under ADEA, and the Executive has in fact consulted with an attorney; (ii) the Executive was given a period of not fewer than 21 days to consider the terms of this Agreement and to consult with an attorney of his choosing with respect thereto; (iii) the Executive knowingly and voluntarily accepts the terms of this Agreement; and (iv) the Executive is providing this release and discharge only in exchange for consideration in addition to anything of value to which the Executive is already entitled. The Executive also understands that he has seven days following the date on which he signs this Agreement within which to revoke the release contained in this Section, by providing the Company with a written notice of his revocation of the release and waiver contained in this Section.

(c) No Assignment. The Executive represents and warrants that he has not assigned any of the Claims being released under this Agreement. The Company may assign this Agreement, in whole or in part, to any affiliated company or subsidiary of, or any successor in interest to, the Company.

3. Proceedings.

(a) General Agreement Relating to Proceedings. The Executive has not filed, and except as provided in Sections 3(b) and 3(c), the Executive agrees not to initiate or cause to be initiated on his behalf, any complaint, charge, claim or proceeding against the Releasees before any local, state or federal agency, court or other body relating to his employment or the termination of his employment, other than with respect to the obligations of the Company to the Executive under the Employment Agreement (each, individually, a "Proceeding"), and agrees not to participate voluntarily in any Proceeding. The Executive waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding.

(b) Proceedings Under ADEA. Section 3(a) shall not preclude the Executive from filing any complaint, charge, claim or proceeding challenging the validity of the Executive's waiver of Claims arising under ADEA (which is set forth in Section 2(b) of this Agreement). However, both the Executive and the Company confirm their belief that the Executive's waiver of claims under ADEA is valid and enforceable, and that their intention is that all claims under ADEA will be waived.

(c) Certain Administrative Proceedings. In addition, Section 3(a) shall not preclude the Executive from filing a charge with or participating in any administrative investigation or proceeding by the Equal Employment Opportunity Commission or another Fair Employment Practices agency. The Executive is, however, waiving his right to recover money in connection with any such charge or investigation. The Executive is also waiving his right to recover money in connection with a charge filed by any other entity or individual, or by any federal, state or local agency.

4. Remedies. In the event the Executive initiates or voluntarily participates in any Proceeding in violation of this Agreement, or if he fails to abide by any of the terms of this Agreement or his post-termination obligations contained in the Employment Agreement, or if he revokes the ADEA release contained in Section 2(b) within the seven-day period provided under Section 2(b), the Company may, in addition to any other remedies it may have, reclaim any amounts paid to him under Sections 5(b)(i)(A), (B), (C) or (D) of the Employment Agreement or terminate any benefits or payments that are subsequently due under Sections 5(b)(i)(A), (B), (C) and (D) of the Employment Agreement, without waiving the release granted herein. The Executive acknowledges and agrees that the remedy at law available to the Company for breach of any of his post-termination obligations under the Employment Agreement or his obligations

under Sections 2 and 3 herein would be inadequate and that damages flowing from such a breach may not readily be susceptible to measurement in monetary terms. Accordingly, the Executive acknowledges, consents and agrees that, in addition to any other rights or remedies that the Company may have at law or in equity or as may otherwise be set forth in the Employment Agreement, the Company shall be entitled to seek a temporary restraining order or a preliminary or permanent injunction, or both, without bond or other security, restraining the Executive from breaching his post-termination obligations under the Employment Agreement or his obligations under Sections 2 and 3 herein. Such injunctive relief in any court shall be available to the Company, in lieu of, or prior to or pending determination in, any arbitration proceeding.

The Executive understands that by entering into this Agreement he shall be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Company.

5. Severability Clause. In the event that any provision or part of this Agreement is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Agreement, shall be inoperative.

6. Non-Admission. Nothing contained in this Agreement shall be deemed or construed as an admission of wrongdoing or liability on the part of the Company or the Executive.

7. Governing Law and Forum. The Executive and the Company agree that this Agreement and all matters or issues arising out of or relating to the Executive's employment with the Company shall be resolved pursuant to the provisions of Section 14 of the Employment Agreement.

8. Notices. All notices or communications hereunder shall be in writing, addressed as follows:

To the Company:

First Western Financial, Inc.
1900 16th St
Suite #1200
Denver, CO 80202
Attention: Secretary

To the Executive:
Matthew C. Cassell
9464 Flattop Street
Arvada, CO 80007

All such notices shall be conclusively deemed to be received and shall be effective (i) if sent by hand delivery or nationally recognized courier, upon receipt or (ii) if sent by electronic mail or facsimile, upon receipt by the sender of such transmission.

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THE EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT AND THAT HE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT HE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF HIS OWN FREE WILL.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

First Western Financial, Inc.

By: /s/ Scott C. Wylie
Scott C. Wylie, Chairman, President & CEO

THE EXECUTIVE

/s/ Matthew C. Cassell
Matthew C. Cassell, Chief Banking Officer

Dated: June 22, 2023

[SIGNATURE PAGE TO GENERAL RELEASE OF CLAIMS]

CERTIFICATION

I, Scott C. Wylie, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 3, 2023

/s/ Scott C. Wylie

Scott C. Wylie
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION

I, Julie A. Courkamp, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 3, 2023

/s/ Julie A. Courkamp

Julie A. Courkamp
Chief Operating Officer, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Certification Pursuant to 18 U.S.C. Section 1350

In connection with this report of First Western Financial, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 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 Section 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.

Date: August 3, 2023

/s/ Scott C. Wylie

Scott C. Wylie
Chairman, Chief Executive Officer and President

Certification Pursuant to 18 U.S.C. Section 1350

In connection with this report of First Western Financial, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Julie A. Courkamp, Chief Operating Officer, 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 Section 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.

Date: August 3, 2023

/s/ Julie A. Courkamp

Julie A. Courkamp

Chief Operating Officer, Chief Financial Officer and Treasurer