

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

FORM 10-K

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

For the fiscal year ended December 31, 2021

OR

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

Commission File Number 001-38595

First Western Financial, Inc.

(Exact name of Registrant as specified in its Charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

1900 16th Street, Suite 1200

Denver, CO

(Address of principal executive offices)

37-1442266

(I.R.S. Employer
Identification No.)

80202

(Zip Code)

Registrant's telephone number, including area code: 303.531.8100

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

Title of each class

Common Stock, no par value

Trading Symbol

MYFW

Name of each exchange on which registered

The Nasdaq Stock Market LLC

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

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

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

As of June 30, 2021, the last day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on the NASDAQ Global Select Market, was approximately \$166.4 million.

The number of shares of the registrant's common stock outstanding as of March 9, 2022 was 9,430,007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to its 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2021.

FIRST WESTERN FINANCIAL, INC.

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Important Notice about Information in this Annual Report

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control, particularly with regard to developments related to COVID-19. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described in "Item 1A – Risk Factors" of this Annual Report on Form 10-K.

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

- The impact of the COVID-19 pandemic and actions taken by governmental authorities in response to the pandemic;
- geographic concentration in Colorado, Arizona, Wyoming and California;
- changes in the economy affecting real estate values and liquidity;
- 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;
- 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;
- changes in interest rates;
- the adequacy of our allowance for loan losses;
- weak economic conditions and global trade;
- legislative changes or the adoption of tax reform policies;
- external business disruptors in the financial services industry;
- 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 the emergence of a pandemic, 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;
- potential impairment of goodwill recorded on our balance sheet and possible requirements to recognize significant charges to earnings due to impairment of intangible assets;
- 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;
- future issuances of debt securities;
- our ability to manage our existing and future indebtedness;
- available cash flows from the Bank; and

- other factors that are discussed in "Part I – Item 1A - Risk Factors."

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

PART I

Item 1: Business

Our Company

First Western Financial, Inc. is a financial holding company headquartered in Denver, Colorado. We provide a fully integrated suite of wealth management services on our private trust bank platform, which includes a comprehensive selection of deposit, loan, trust, wealth planning and investment management products and services. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of December 31, 2021, we provided fiduciary and advisory services on \$7.35 billion of trust and investment management assets (referred to as "AUM"), and we had total assets of \$2.53 billion, total loans of \$1.95 billion, total deposits of \$2.21 billion and total shareholders' equity of \$219.0 million.

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

We generate a significant portion of our revenues from non-interest income, which we produce from our trust, investment management and other advisory services as well as through the origination and sale of mortgage loans. The balance of our revenue is generated from net interest income, which we derive from our traditional banking products and services. For the year ended December 31, 2021, non-interest income was \$40.2 million, or 42.1% of total income before non-interest expense and net interest income was \$56.5 million, or 59.2% of total income before non-interest expense.

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

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

Our History and Growth

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

Balance Sheet Growth

Since December 31, 2017, we have increased total loans from \$813.7 million to \$1.95 billion as of December 31, 2021, representing a compound annual growth rate ("CAGR") of 24.4% and we have increased total deposits from \$816.1 million as of December 31, 2017 to \$2.21 billion as of December 31, 2021, representing a CAGR of 28.2%.

Revenue, Expense, and Income Growth

Since the year ended December 31, 2017, we have increased total income before non-interest expense from \$54.5 million to \$95.4 million for the year ended December 31, 2021, representing a CAGR of 15.0%, while total non-interest expense increased from \$49.5 million for the year ended December 31, 2017 to \$68.1 million for the year ended December 31, 2021, representing a CAGR of 8.3%. We calculate operating leverage as the ratio of total income before non-interest expense CAGR to the total non-interest expense CAGR. For the year ended December 31, 2021, this 180.6% operating leverage has resulted in improved income before income tax, which increased 4.4 times over the same time period. We have demonstrated significant operating leverage by growing income before income tax at a faster rate than expenses.

Our Business Strategy

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

- *Building Out Existing Markets.* Once we have established a presence in a particular geographic market that contains attractive high net worth household demographics, we then look to establish additional locations that are closely situated to sub-concentrations of affluent households and/or commercial activity (a "hub and spoke" market build-out, as we have commenced in Denver and Phoenix). We continue to seek out talent to hire as part of our strategy of building out existing markets and continue to be successful in hiring teams that help us accomplish this goal. We also seek to employ highly capable associates with local market experience and relationships.
- *Deepening Existing Client Relationships.* We deliver our services through our eighteen local boutique private trust bank offices, loan production offices, and trust offices. This allows us to use multi-discipline sales and client service teams, in-market, to ensure we are meeting each client's comprehensive set of needs. These teams take the time to understand the complexities of our clients' financial world through wealth planning solutions and create the financial plan that helps them reach their goals. This profit center-based service model is a critical component of our future growth as we continue to develop our understanding of our clients' evolving needs, allowing us to deepen, broaden and grow our existing relationships.
- *Generating Referrals for New Client Relationships.* We believe we have demonstrated a successful sales and marketing capability, built around the personal and professional networks and centers of influence of our local profit center leadership. Our existing client base has historically provided a significant amount of new clients through referrals. In surveys, our clients generally rate us very favorably overall in areas of professionalism, reliability, service-orientation, and trust. We have added wealth advisors in many of our profit centers as commissioned sales associates to enhance our acquisition of new clients.

- *Developing Client Relationships through our Product Groups.* Each profit center is designed to feel like a boutique private trust bank office and is staffed with business development and client service personnel. The profit centers work closely with our central product groups to customize our services to each client's specific situation, without sacrificing the flexibility, expertise and authority to quickly meet complex client needs. Our central product groups are designed to support a significantly larger client and AUM base, providing an opportunity for significant operating leverage as we open additional profit centers. We have sales and service specialists in our product groups, such as Retirement Services and Mortgage Services, who are able to build relationships within their area of expertise and provide expertise and high quality service that creates an opportunity for a broader relationship across our suite of products and services.
- *Expanding to New Markets.* We believe that our profit centers are profitable and stable businesses when mature. We also believe that our product group and support center teams have a high degree of operating leverage (i.e., we believe that increasing the number of profit centers would not require a proportionate increase in our product group or support center expenses). Therefore, a key strategy of ours is to add incremental profit centers and grow them to maturity. We continue to seek out talent as part of our strategy of building out existing markets and continue to be successful in hiring teams that help us accomplish this goal. The trends in the financial services industry that make our business model successful in our existing geographic markets also exist in other locations in the Western United States. Our analysis indicates that there are hundreds of markets and submarkets in the Western United States that could support our profit centers and fit our target demographics. As such, we intend to continue to explore new Western United States markets with favorable high net worth demographics and competitive landscapes.
- *Growing our Core Deposit Franchise.* The strength of our deposit franchise is derived from the long-standing relationships we have with our clients and the strong ties we have to the markets we serve. Our deposit footprint has provided, and we believe will continue to provide, primary support for our loan growth. A key part of our strategy is to continue to enhance our funding sources by continuing to build our private and commercial banking capabilities to keep building our base of attractively priced core deposits.
- *Attracting Talent.* Our team of seasoned associates has been, and will continue to be, an important driver of our organic growth by further developing relationships with current and potential clients. We have a record of hiring experienced associates to enhance our organic growth, and sourcing and hiring talent will continue to be a core focus for us. We have significant insider ownership, and, in 2021, the Board approved stock ownership guidelines to further align management and shareholder interests. We believe that our client service model, financial strength, growth strategy and public company status will further enhance our ability to attract and retain this talent.
- *Developing New Products.* We seek to be the primary source of financial products and services for our clients. By continuing to expand our product offerings—either by internal product development or establishing third-party relationships—we work to meet expanding client needs while further diversifying our revenue streams. This includes our recent efforts to upgrade our commercial banking capabilities, adding market expertise in certain business verticals.

Our Service Model and Products

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

We have designed our business around having each profit center staffed with seasoned management. Typically, each profit center team is led by a president, who is a senior investment advisor or banker with strong client relationships and sales and leadership skills. The local team includes deposit, loan, trust, wealth planning, and related professionals, creating a strong interdisciplinary sales and service team. In addition to this service team, we added wealth advisors as a commissioned sales force to several profit centers to enhance our acquisition of new clients.

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

Lending

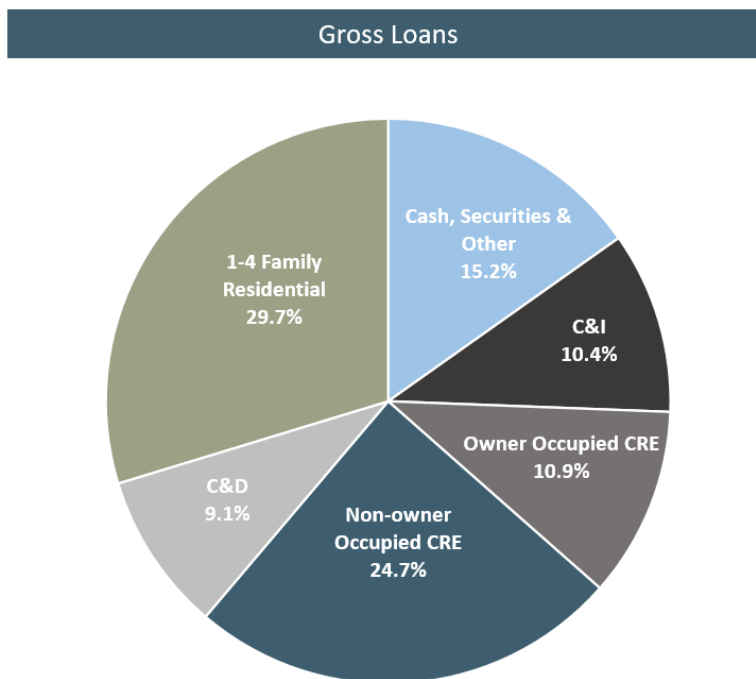
General. Through our relationship-oriented private bank lending approach, our strategy is to offer a broad range of customized consumer and commercial lending products for the personal investment and business needs of our clients. Our clients are typically well diversified and the purpose for their loan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

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

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

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

As of December 31, 2021, our loan portfolio contained a balanced and diverse mix of loans, as shown below:



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

1-4 Family Residential. Our 1-4 family residential loan portfolio consists of loans and home equity lines of credit secured by 1-4 family residential properties. These loans typically enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. In addition, some borrowers secure a commercial purpose loan with 1-4 family residential properties. As of December 31, 2021, 1-4 family residential loans were \$580.9 million, or 29.7% of our total loan portfolio, consisting of \$115.9 million and \$465.0 million of fixed-rate and adjustable-rate loans, respectively. While we typically originate loans with adjustable rates and maturities up to 30 years, as of December 31, 2021, the average term on our 1-4 family portfolio was 16.7 years with an average remaining term of 14.8 years. Such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full either upon sale of the property pledged as security or upon refinancing the original loan.

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

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

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

Cash, Securities and Other. Our cash, securities and other loan portfolio consists of consumer and commercial purpose loans that are primarily secured by securities managed and under custody with us, cash on deposit with us or life insurance policies. In addition, loans in this portfolio are collateralized with other sources of consumer collateral, which typically leaves an immaterial amount of the loan balance unsecured. As of December 31, 2021, loans secured with cash, marketable securities and other were \$295.9 million, or 15.2% of our total loan portfolio. This segment of our portfolio is affected by a variety of local and national economic factors affecting borrowers' employment prospects, income levels, and overall economic sentiment. PPP loans that are fully guaranteed by the SBA are classified within this line item.

Commercial and Industrial. We originate commercial and industrial loans, including working capital lines of credit, permanent working capital term loans, business asset loans, acquisition, expansion and development loans, and other loan products, primarily in our target markets. These loans are underwritten on the basis of the borrower's ability to service the debt from income, with maturities tied to the underlying life of the collateral. We generally take a lien on all business assets, including, among other things, accounts receivable, inventory, equipment, available real estate, and generally obtain a personal guaranty of the principal(s). Our commercial and industrial loans generally have variable interest rates and terms that typically range from one to five years. Fixed-rate commercial and industrial loan maturities are generally short-term, with three to five-year maturities, including periodic interest rate resets. As of December 31, 2021, commercial and industrial loans were \$203.6 million, or 10.4% of our total loan portfolio. The average maturity on our commercial and industrial portfolio was 3.5 years with an average remaining term of 2.2 years. This portfolio primarily consists of term loans and lines of credit which are mostly dependent on the strength of the industries of the related borrowers and the success of their businesses.

Commercial Real Estate, Owner Occupied and Non-Owner Occupied. We originate commercial loans collateralized by real estate. These loans may be collateralized by owner occupied or non-owner occupied real estate, as well as multi-family residential real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. We require our commercial real estate loans to be secured by well-managed property with adequate margins and generally obtain a guaranty from responsible parties who have outside cash flows, experience and/or other assets. Our commercial real estate loans are generally secured by properties used for business purposes such as office buildings, industrial facilities and retail facilities. Loan amounts generally do not exceed 80% or 75% of the property's appraised value for owner occupied and non-owner occupied respectively. In addition, aggregate debt service ratios, including the guarantor's cash flow and the borrower's other projects, are required by policy to have a minimum annual cash flow to debt service ratio of 2.0x. We require independent appraisals or evaluations from a list of approved appraisers on all loans secured by commercial real estate. As of December 31, 2021, owner occupied commercial real estate loans were \$212.4 million, or 10.9% of our total loan portfolio, and non-owner occupied commercial real estate loans were \$482.6 million, or 24.7% of our total loan portfolio. These loans are primarily dependent on the strength of the industries of the related borrowers and the success of their businesses.

Construction and Development. We originate loans to finance the construction of residential and non-residential properties. Construction and development loans are generally collateralized by first liens on real estate and usually have floating interest rates. Our construction and development loans typically have maturities of up to two years depending on factors such as the type and size of the development and the financial strength of the borrower/guarantor, and are typically structured with an interest only construction period. These loans are underwritten to either mature at the completion of construction, or transition to a traditional amortizing commercial real estate facility with the terms and characteristics in line with other commercial real estate loans we hold in our portfolio. As of December 31, 2021, construction and development loans were \$178.7 million, or 9.1% of our total loan portfolio.

Concentrations. Most of our lending activity and credit exposure, including real estate collateral for many of our loans, are concentrated in Colorado, Arizona, Wyoming and California, as approximately 87.3% of the loans in our loan portfolio as of December 31, 2021 were made to borrowers who live in or conduct business in those states. Our commercial real estate loans are generally secured by first liens on real property. The remaining commercial and industrial loans are typically secured by general business assets, accounts receivable, inventory and/or the corporate guaranty of the borrower and personal guaranty of its principals. The geographic concentration subjects the loan portfolio to the general economic conditions within Colorado, Arizona, Wyoming and California. The risks created by such concentrations have been considered by management in the determination of the adequacy of the allowance for loan losses. As of December 31, 2021, management believes the allowance for loan losses is adequate to absorb probable incurred losses in our loan portfolio.

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

Credit Policies and Procedures

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

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

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

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

We believe that an important part of our assessment of client risk is the ongoing completion of periodic risk rating reviews. As part of these reviews, we seek to review the risk rating of each facility within a client relationship and may recommend an upgrade or downgrade to the risk rating. We categorize loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk on a quarterly basis. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable incurred loan losses in the loan portfolio. In response to the COVID-19 pandemic, the Company performed increased reviews on clients that could be more impacted by shutdowns or other pandemic related issues. See our risk factors and Notes to the Consolidated Financial Statements for more on our response to the pandemic.

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

Deposits

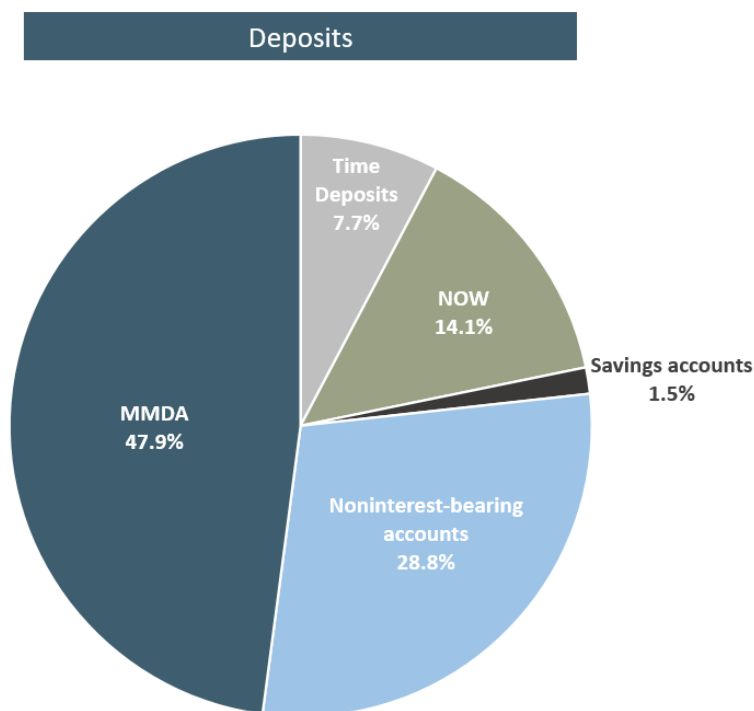
The strength of our deposit franchise is derived from the long-standing relationships we have with our clients and the strong ties we have to the markets we serve. Our deposit footprint has provided, and we believe will continue to provide, the primary support for our loan growth. A key part of our strategy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

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

For liquidity purposes, the Bank occasionally uses brokered deposits. As of December 31, 2021 and 2020, we had brokered deposits of \$22.3 million and \$20.7 million, respectively.

We have experienced banking and business development teams who we believe provide superior client service, creative cash management solutions and competitive pricing to market our depository products and services. As of December 31, 2021, total deposits were \$2.21 billion, an increase of \$585.8 million, or 36.2%, compared to \$1.62 billion as of December 31, 2020.

As of December 31, 2021, our deposit portfolio contained a balanced and diverse mix of deposits, as shown below:



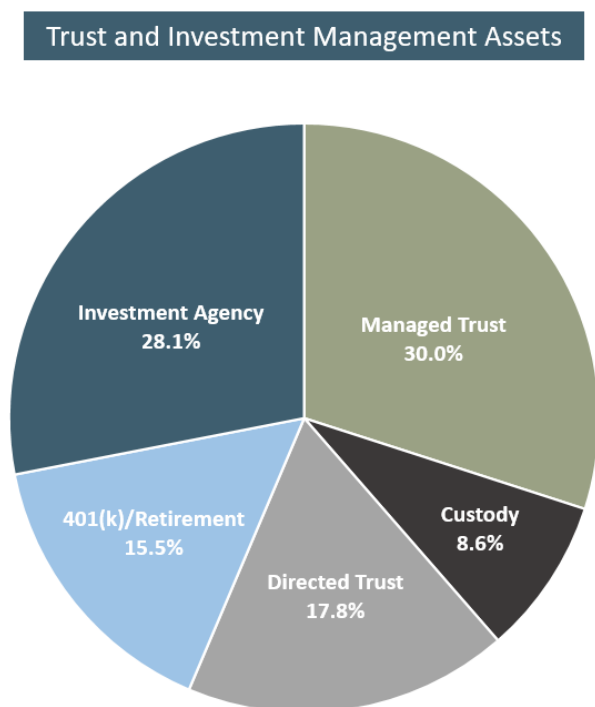
Trust and Investment Management, Advisory

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

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

We also have experienced portfolio managers and business development teams in our profit centers who provide high-touch, tailored solutions that we believe further exemplifies our superior client service. These local teams have personal and professional networks and relationships with centers of influence to market our wealth advisory products and services. As of December 31, 2021, total AUM was \$7.35 billion, an increase of \$1.10 billion, or 17.5%, compared to \$6.26 billion as of December 31, 2020.

As of December 31, 2021, we provided fiduciary and advisory services on \$7.35 billion of trust and investment management assets, as shown below:



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

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

Other Products

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

- *Mortgage Lending.* Although our primary objective is to originate loans for our own portfolio, we also conduct mortgage banking activities in which we originate and sell, servicing-released, whole loans in the secondary market. Typically, loans with a fixed interest rate of greater than 10 years are available-for-sale and sold on the secondary market. Our mortgage banking loan sales activities are primarily directed at originating single family mortgages that are priced and underwritten to conform to previously agreed criteria before loan funding and are delivered to the investor shortly after funding. The level of future loan originations, loan sales and loan repayments depends on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market. The amount of gain or loss on the sale of loans is primarily driven by market conditions and changes in interest rates, as well as our pricing and asset liability management strategies. As of December 31, 2021, we had mortgage loans held for sale of \$30.6 million in residential mortgage loans we originated. For the year ended December 31, 2021, we had net proceeds of \$1.42 billion on mortgage loans that we originated and sold into the secondary market.
- *Treasury Management.* We offer a broad range of customized treasury management products and services for commercial accounts, including disbursement and payables management, liquidity management and online business banking services. Our profit center sales and service teams are supported by a central team of treasury management specialists and deposit operations professionals.
- *Risk Management/Insurance.* Through the wealth planning process, our profit center teams are supported by a central team of insurance planning experts, specializing in risk management services, estate tax law, trusts and tax planning. We offer customized solutions in the form of, among others, charitable giving tax strategies, deferred-compensation plans, irrevocable life insurance trusts, long-term care insurance, and executive key person insurance.
- *Retirement Services, including 401(k) Plan Consulting.* We have a team of retirement plan consultants who partner with businesses to sponsor retirement plans. We offer creative corporate retirement plan design and analysis solutions and fiduciary liability management, providing tools such as corporate retirement plans, and ERISA regulation compliance, education and expertise.

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

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

- In each profit center, there are one or more portfolio managers that work as part of that local team's sales and service delivery. These portfolio managers are typically Certified Financial Planners, and occasionally Chartered Financial Analysts, with experience in wealth planning and portfolio construction. They meet with clients and develop an overall wealth management strategy, specific goals and objectives, an investment policy statement, and an implementation plan. They use our guided architecture, a diverse array of select third-party and proprietary investment products covering a broad range of asset classes as their source for portfolio construction options, asset allocation and products. Sales and marketing support is provided centrally but delivered locally.
- Our investment platform is controlled by our central investment research group, which has a strong research focus and includes many associates who have Chartered Financial Analyst designations, with oversight by our Chief Investment Officer and our Investment Policy Committee.
- Operational support for these profit center and product group teams is provided by our central trust and investment management support center team.

Investment Activities

The primary objectives of our Bank portfolio investment policy are to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements. As of December 31, 2021, the carrying value of our investment portfolio totaled \$56.2 million, with an average yield of 2.5%.

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

Our Markets

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

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

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

Enterprise Technology

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

Enterprise Risk Management

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

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

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

Competition

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

Human Capital Overview

As of December 31, 2021, we had 313 associates. We strive to recruit and retain team-oriented, respectful, problem solvers. We serve our internal team with the same approach we serve our clients, with an adaptive, entrepreneurial spirit. We take advantage of new opportunities, and encourage our team to explore new processes, products, and services to improve First Western. Associates are our trusted partner both within their teams and with our clients as we build a partnership for generations to come. None of our associates are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our strong relationships with our associates are central to establishing the corporate culture we need to serve our clients and our communities well.

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

We continue to take steps to expand our role as an employer that champions diversity, equity, and inclusion grounded in and by our core values. In 2020, we established a DEI Task Force, led by our CEO, to develop and support DEI programs and policies. We established six subcommittees devoted to carrying out our goal of fostering a diverse, equitable, and inclusive Company and workforce. In addition, we are members of Colorado Inclusive Economy, a business-led non-profit focused on promoting effective DEI initiatives.

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

Learning and Development

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

Compensation and Benefits

We offer a total rewards program to attract and retain team-oriented, respectful, problem solvers. Our compensation program includes competitive salary/hourly pay and incentive pay in the form of an annual bonus and stock awards to officers and certain members of the management team. In addition, the Company offers a 401(k) Plan with an employer matching contribution. Further, we offer a number of healthcare and insurance options, health savings accounts, paid time off, and paid family leave time for all associates.

Core Values and Culture

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

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

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

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

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

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

Available Information

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

Supervision and Regulation

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

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

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

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

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

Regulatory Capital

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

The final rules of Basel III also established a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios, 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 their capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such activities.

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

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

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

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

In accordance with the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Regulatory Relief Act"), discussed below, the federal banking agencies published final rules implementing the community bank leverage ratio in November 2019. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage capital ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed "qualifying community banking organizations" and are eligible to opt into the community bank leverage ratio framework. A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage capital ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III Capital Rules and, if applicable, is considered to have met the "well capitalized" ratio requirements for purposes of its primary federal regulators prompt corrective action rules, discussed below. Pursuant to the CARES Act, the federal banking agencies authorities adopted an interim rule, which temporarily reduced the Community Bank Leverage Ratio to 8%. This provision terminated on December 31, 2020. The Company and the Bank have not made an election to use the community bank leverage ratio framework but may make such an election in the future if determined to be possible and advantageous.

Regulation of the Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulation of the Bank

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

As of December 31, 2021 and 2020, the Bank exceeded all regulatory minimum capital requirements.

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

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

As of December 31, 2021, the Bank qualified as "well capitalized" under the prompt corrective action rules.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transactions with Affiliates

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

The Volcker Rule

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

Concentration in Commercial Real Estate Lending

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

Interstate Banking and Branching

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

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

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

Limitations on Incentive Compensation

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

Cybersecurity

In March 2015, the Federal Financial Institutions Examination Council ("FFIEC") issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity management planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In June 2016, the FDIC introduced its Information Technology Risk Examination (InTREx) Program based on the Uniform Rating System for Information Technology (URSIT) and includes core modules for Audit, Management, Development and Acquisition, and Support and Delivery component ratings.

In November 2019, the FFIEC also released updated examination procedures regarding overall business continuity management ("BCM"). The new BCM release focuses on enterprise-wide approaches that address technology, business operations, testing, and communication strategies critical to the continuity of the business. The BCM procedures describe principles and practices for information technology ("IT") and operations designed to achieve safety and soundness, consumer financial protection, and compliance with applicable laws, regulations, and rules. Continued testing, training, and program updates ensure appropriate response to cyber and non-cyber, human and non-human disaster events.

The Company had a robust pandemic plan at the time of COVID-19, which covered similar disaster events and included detailed preparation, training and testing that had been conducted over multiple years prior to COVID-19. This preparation includes a comprehensive, annual Business Impact Analysis. As such, the Company was poised to react successfully to the pandemic event.

Anti-Money Laundering Act of 2020

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

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

Changing Regulatory Structure and Future Legislation and Regulation

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

Monetary Policy and Economic Environment

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

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

ITEM 1A. Risk Factors

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

Summary of Risk Factors

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

Risks Related to Our Business

- Geographic concentration in Colorado, Arizona, Wyoming and California.
- Negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.
- If we are unable to continue to originate residential real estate loans and sell them into the secondary market for a profit, our earnings could decrease.
- Our commercial loan portfolio involves risks specific to commercial borrowers.
- We may be subject to claims and litigation pertaining to our fiduciary responsibilities.
- The loss of a key investment manager could adversely affect our business.
- The fair value of our investment securities can fluctuate due to factors outside of our control.
- The investment management contracts we have with our clients are terminable without cause and on relatively short notice by our clients.
- Changes to the level or type of investment activity by our clients may reduce our fee revenue.
- The trust wealth management fees we receive may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease our revenues and net earnings.
- Changes in interest rates could reduce our net interest margins and net interest income.
- We may be adversely impacted by the transition from LIBOR as a reference rate and the uncertainty related to one or more alternative reference rates intended to replace LIBOR.
- Our allowance for loan losses may not be adequate to cover actual losses.
- We have pledged all of the stock of the Bank as collateral for a loan and if the lender forecloses, you could lose your investment.
- Liquidity risk could adversely affect our ability to fund operations and hurt our financial condition.
- Our largest trust client accounts for 36.3% of our total assets under management.

- We face intense competition from other banks and financial institutions and other wealth and investment management firms that could hurt our business.
- Acquisition and divestitures may subject us to risks including integration risks and other unknown risks.
- Our goodwill or other intangible assets may become impaired.
- We are required to make significant estimates and assumptions in the preparation of our financial statements and our estimates and assumptions may not be accurate.
- Fraud, breaches of our information security, and cybersecurity attacks could adversely affect us.
- We rely on communications, information, operating and financial control systems technology and related services from third-party service providers and we may suffer an interruption in those systems.
- We may incur significant losses due to ineffective risk management processes and strategies.
- We are exposed to the risk of environmental liabilities with respect to real properties that we may acquire.
- New lines of business or new products and services may subject us to additional risks.
- We rely on customer and counterparty information, which subjects us to risks if that information is not accurate or is incomplete.
- The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.
- Economic and trade sanctions against targeted foreign countries and regimes could adversely affect us.

Risks Related to Our Regulatory Environment

- The financial services industry is highly regulated our failure to comply with any current or future regulation may adversely affect us.
- The level of our commercial real estate loan portfolio may subject us to heightened regulatory scrutiny.

Risks Related to Ownership of our Common Stock

- The trading volume in our common stock is less than other larger financial institutions.
- Securities analysts may not initiate or continue coverage on us.
- Our management and board of directors have significant control over our business.
- We are dependent upon the Bank for cash flow, and the Bank's ability to make cash distributions is restricted.

General Risk Factors

- The market price of our common stock could decline significantly.
- The market price of our common stock may be subject to substantial fluctuations.

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

Risks Related to Our Business

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

Our business activities and credit exposure, including real estate collateral for many of our loans, are concentrated in Colorado, Arizona, Wyoming and California. As of December 31, 2021, 87.3% of the loans in our loan portfolio were made to borrowers who live in or conduct business in those states. This geographic concentration imposes risks from lack of geographic diversification. Difficult economic conditions, including state and local government deficits, in Colorado, Arizona, Wyoming and California may affect our business, financial condition, results of operations and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects Colorado, Arizona, Wyoming and California or existing or prospective borrowers or property values in such areas may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated. This includes a sustained downturn in the oil and gas market, which is important for the general economic health of Colorado in particular. A prolonged period of low oil prices could have a material adverse effect on our results of operations and financial condition.

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

As of December 31, 2021, approximately \$1.48 billion, or 76.1%, of our total loans were loans with real estate as a primary or secondary component of collateral. The repayment of such loans is highly dependent on the ability of the borrowers to meet their loan repayment obligations to us, which can be adversely affected by economic downturns that can lead to (i) declines in the rents and, therefore, in the cash flows generated by those real properties on which the borrowers depend to fund their loan payments to us, (ii) decreases in the values of those real properties, which make it more difficult for the borrowers to sell those real properties for amounts sufficient to repay their loans in full, and (iii) job losses of residential home buyers, which makes it more difficult for these borrowers to fund their loan payments. As a result, our operating results are more vulnerable to adverse changes in the real estate market than other financial institutions with more diversified loan portfolios, and we could incur losses in the event of changes in economic conditions that disproportionately affect the real estate markets.

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

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

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

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

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

Our loan portfolio includes a significant amount of commercial real estate loans and commercial lines of credit. Our typical commercial borrower is a small or medium-sized privately owned Colorado business entity. Our commercial loans typically have greater credit risks than standard residential mortgage or consumer loans because commercial loans often have larger balances, and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve some additional risk because they generally are not fully repaid over the loan period and thus may require refinancing or a large payoff at maturity. If the general economy turns substantially downward, commercial borrowers may not be able to repay their loans, and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly. Also, when credit markets tighten due to adverse developments in specific markets or the general economy, opportunities for refinancing may become more expensive or unavailable, resulting in loan defaults.

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

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

The market for investment managers and professionals is extremely competitive and the loss of a key investment manager could adversely affect our investment advisory and wealth management business.

We believe that investment performance is one of the most important factors that affect the amount of assets under our management and, for that reason, the success of our business is heavily dependent on the quality and experience of our senior wealth management professionals and their track records in terms of making investment decisions that result in attractive investment returns for our clients. We consider the "chairman" and "president" roles in each of our profit center teams to be instrumental to executing our business strategy. However, the market for such investment professionals is extremely competitive and is increasingly characterized by frequent movement of these individuals among different firms. In addition, our individual investment professionals often have direct contact with particular clients, which can lead to a strong client relationship based on the client's trust in that individual manager. As a result, the loss of a key investment manager could jeopardize our relationships with some of our clients and lead to the loss of client accounts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The fair value of our investment securities can fluctuate due to factors outside of our control.

As of December 31, 2021, the fair value of our investment securities portfolio was \$56.2 million. Factors beyond our control can significantly influence and cause adverse changes to occur in the fair values of securities in that portfolio. These factors include, but are not limited to, rating agency actions in respect of the investment securities in our portfolio, defaults by the issuers of such securities, concerns with respect to the enforceability of the payment or other key terms of such securities, changes in market interest rates and continued instability in the capital markets. Any of these factors, as well as others, could cause other-than-temporary impairments and realized or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. In addition, the process for determining whether an impairment of a security is other-than-temporary usually requires complex, subjective judgments, which could subsequently prove to have been wrong, regarding the future financial performance and liquidity of the issuer of the security, the fair value of any collateral underlying the security and whether and the extent to which the principal of and interest on the security will ultimately be paid in accordance with its payment terms.

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

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

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

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

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

A significant portion of our revenue results from fee-based services related to wealth advisory, private banking, personal trust, investment management, mortgage lending and institutional asset management services to derive revenue. This contrasts with many commercial banks that may rely more heavily on interest-based sources of revenue, such as loans. For the year ended December 31, 2021, non-interest income represented approximately 42.1% of our total income before non-interest expense. The level of these fees is influenced by several factors, including the mix and volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody) and the volume of portfolio transactions, and the types of products and services used by our clients.

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

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

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

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

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

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

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

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

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

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

We may be adversely impacted by the transition from LIBOR as a reference rate and the uncertainty related to one or more alternative reference rates intended to replace LIBOR.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It remains unclear what rate or rates may develop as accepted alternatives to LIBOR, or what the effect of such changes will be on the markets for LIBOR-based financial instruments. The Secured Overnight Financing Rate ("SOFR") has been recommended by the Alternative Reference Rates Committee (a group of private-market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York) as an alternative for USD LIBOR, but uncertainty as to the adoption, market acceptance or availability of SOFR or other alternative reference rates may adversely affect the value of LIBOR or SOFR-based assets and liabilities held or issued by the Company.

The language in our contracts and financial instruments that define and use LIBOR have developed over time and have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments often give the calculation agent (which may be us) discretion over the successor rate or benchmark to be selected. As a result, there is considerable uncertainty as to how the financial services industry will address the discontinuance of designated rates in contracts and financial instruments or such designated rates ceasing to be acceptable reference rates. This uncertainty could ultimately result in client disputes and litigation surrounding the proper interpretation of our LIBOR-based contracts and financial instruments.

We have a significant number of loans and borrowings with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our clients could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

The Alternative Reference Rates Committee (a group of private-market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York) has identified the Secured Overnight Financing Rate, or SOFR, as the recommend alternative to LIBOR. Uncertainty as to the adoption, market acceptance or availability of SOFR or other alternative reference rates may adversely affect the value of LIBOR or SOFR-based assets and liabilities held or issued by the Company.

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

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

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

The financial services industry is undergoing rapid change, as technology enables non-traditional new entrants to compete in certain segments of the banking market, in some cases with reduced regulation. New entrants may use new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden or faster processes to challenge traditional banks. For example, new business models have been observed in retail payments, consumer and commercial lending, foreign exchange and low-cost investment advisory services. While we closely monitor business disruptors and seek to adapt to changing technologies, matching the pace of innovation exhibited by new and differently situated competitors may require us and policy-makers to adapt at a greater pace.

We have pledged all of the stock of the Bank as collateral for a loan and if the lender forecloses, you could lose your investment.

We have pledged all of the stock of the Bank as collateral for a third-party loan. The loan had no balance as of December 31, 2021. If we were to incur indebtedness under this loan and default, the lender of such loan could foreclose on the Bank's stock and we would lose our principal asset. In that event, if the value of the Bank's stock is less than the amount of the indebtedness, you could lose the entire amount of your investment.

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

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

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

We depend on checking and savings deposit account balances and other forms of client deposits as our primary source of funding for our lending activities. Our future growth will largely depend on our ability to maintain and grow a strong deposit base and our ability to retain our largest trust clients, many of whom are also depositors. We may not be able to grow and maintain our deposit base. The account and deposit balances can decrease when clients perceive alternative investments, such as the stock market or real estate, as providing a better risk/return tradeoff. If clients, including our trust clients, move money out of bank deposits and into investments (or similar deposit products at other institutions that may provide a higher rate of return), we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. We also have increased risks from losses of bank deposit clients due to the large deposits we hold from certain clients. For example, as of December 31, 2021, 15.5% of our total deposits consisted of our 10 largest depositors. Loss of any one of these deposit clients would have an outsized impact on our results of operations. Additionally, any such loss of funds could result in lower loan originations, which could materially negatively impact our growth strategy.

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

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

Our largest trust client accounts for 36.3% of our total assets under management.

As of December 31, 2021, our largest trust client accounted for, in the aggregate, 36.3% of our total assets under management and 1.9% of our non-interest income. As a result, a material decrease in the volume of those trust assets by that client could materially reduce our assets under management, which would adversely affect our non-interest income and, therefore, our results of operations.

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

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

- Any newly established offices may not generate revenues in amounts sufficient to cover the start-up costs of those offices, which would reduce our earnings;
- Acquisitions we might consummate in the future may prove not to be accretive to or may reduce our earnings if we do not realize anticipated cost savings, or if we incur unanticipated costs in integrating the acquired businesses into our operations or if a substantial number of the clients of any of the acquired businesses move their business to our competitors;
- Such expansion efforts will divert management time and effort from our existing banking operations, which could adversely affect our future financial performance; and
- Additional capital which we may need to support our growth or the issuance of shares in any acquisitions will be dilutive of the investments that our existing shareholders have in the shares of our common stock that they own and in their respective percentage ownership interests they have in the Company.

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

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

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

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

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

Although we plan to grow our business internally, we may expand our business by acquiring other banks and financial services companies, and we may not be successful in doing so.

While a key element of our business plan is to grow our banking franchise and increase our market share through internal and organic growth, we intend to take advantage of opportunities to acquire other banks, investment advisors, and other financial services companies as such opportunities present themselves. However, we may not succeed in seizing such opportunities when they arise. Our ability to execute on acquisition opportunities may require us to raise additional capital and to increase our capital position to support the growth of our franchise. It will also depend on market conditions; over which we have no control. Moreover, any acquisitions may require the approval of our bank regulators and we may not be able to obtain such approvals on acceptable terms, if at all.

Acquisition and divestitures may subject us to integration risks and other unknown risks.

Although we plan to continue to grow our business organically and through opening new boutique private trust bank offices, we also intend to pursue acquisition opportunities that we believe complement our activities and have the ability to enhance our profitability and provide attractive risk-adjusted returns. We also intend to explore the divestiture of assets and businesses that do not fit within our strategic plan. Our acquisition activities could be material to our business and involve a number of risks, including the failure to: adequately centralize and standardize policies, procedures, products, and processes; combine employee benefit plans and compensation cultures; implement a unified investment policy and make related adjustments to combined investment portfolios; implement a unified loan policy and conform lending authority; implement a standard loan management system; avoid delays in implementing new policies or procedures; and apply new policies or procedures. In addition, divestitures pose unique risks including the failure to: close the divestiture, manage expenses associated with the divestiture, retain employees and effectively manage a business or assets subject to divestiture.

Certain events may arise before the date of an acquisition or divestiture but after the announcement of an acquisition or divestiture, or we may learn of certain facts, events or circumstances, that may affect our financial condition or performance or subject us to risk of loss. Certain events may arise after the date of an acquisition or divestiture, or we may learn of certain facts, events or circumstances after the closing of an acquisition or divestiture, that may affect our financial condition or performance or subject us to risk of loss. It is possible that we could undertake an acquisition that subsequently does not perform in line with our financial or strategic objectives or expectations. These events include, but are not limited to: retaining key associates and clients, achieving anticipated synergies, meeting expectations and otherwise realizing the undertaking's anticipated benefits; litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and loan loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; and other events relating to the performance of our business. In addition, if we determined that the value of an acquired business had decreased and that the related goodwill was impaired, an impairment of goodwill charge to earnings would be recognized.

Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss or increased costs. Our due diligence or mitigation efforts may not be sufficient to protect against any such loss or increased costs.

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

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

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

The preparation of our consolidated financial statements in conformity with GAAP requires our management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting periods. Critical estimates are made by management in determining, among other things, the allowance for loan losses, amounts of impairment of assets, intangibles, and valuation of income taxes. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely affected.

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

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

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

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

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

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

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

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

We continually encounter technological change, and we may have fewer resources than many of our competitors to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many national vendors provide turn-key services that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients.

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

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

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

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

We are exposed to risk of environmental liabilities with respect to real properties that we may acquire.

From time to time, in the ordinary course of our business, we acquire, by or in lieu of foreclosure, real properties which collateralize nonperforming loans. As an owner of such properties, we could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean-up that may be required due to any environmental contamination that may be found to exist at any of those properties, even if we did not engage in the activities that led to such contamination and those activities took place prior to our ownership of the properties. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If we were to become subject to significant environmental liabilities or costs, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

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

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

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

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

The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic continues to create extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified could be exacerbated and such effects could have a material adverse impact on us in a number of ways related to credit, collateral, customer demand, funding, operations, interest rate risk, and human capital, as described in more detail below.

- ***Credit Risk.*** Our risks of timely loan repayment and the value of collateral supporting the loans are affected by the strength of our borrower's financial condition and business. Concern about the spread of COVID-19 has caused and is likely to continue to cause business shutdowns, limitations on commercial activity and financial transactions, suspensions on evictions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability, all of which may cause our clients to be unable to make scheduled loan payments. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio or defaults by counterparties, we could incur significant delinquencies, foreclosures and credit losses, particularly if the available collateral is insufficient to cover our exposure. The future effects of COVID-19 on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending, trust, wealth management and depository services, and the financial condition and credit risk of our clients. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from or, in some cases, our business decisions may result in, a delay in our taking certain remediation actions, such as foreclosure. In addition, we have unfunded commitments to extend credit to clients, which are generally not drawn upon. During a challenging economic environment, such as the ongoing pandemic, our clients are more dependent on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity. Furthermore, in an effort to support our communities during the pandemic, we participated in the PPP under the CARES Act whereby loans to small businesses were made and those loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit our ability to pursue all available remedies in the event of a loan default. If the borrower under the PPP loan fails to qualify for loan forgiveness, we are at the heightened risk of holding these loans at unfavorable interest rates as compared to the loans to clients that we would have otherwise extended credit.
- ***Strategic Risk.*** Our success may be affected by a variety of external factors that may affect the price or marketability of our products and services, including disruptions in the capital markets, changes in interest rates that may increase our funding costs, reduced demand for our financial products due to economic conditions and the various response of governmental and nongovernmental authorities. The COVID-19 pandemic has significantly increased economic and demand uncertainty and has led to disruption and volatility in the global capital markets, which increases the cost of capital and adversely impacts access to capital. Furthermore, many of the governmental actions have been directed toward curtailing household and business activity to contain COVID-19. These actions have continued to change throughout the COVID-19 pandemic. For example, in some of our markets, local governments have acted to temporarily close or restrict the operations of most businesses while others have returned to pre-pandemic operations. In particular, the Company experienced a decline in origination of loans at the beginning of the COVID-19 pandemic. The future effects of COVID-19 on economic activity could negatively affect the future banking products we provide including the ability to sell mortgage loan that we originate with the intent to sell.

- *Operational Risk.* Current and future restrictions on our workforce's access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and profit center activity that largely depend on people, technology, and the use of complex systems and models to manage our business, including access to information technology systems and models as well as information, applications, payment systems and other services provided by third parties. In response to COVID-19, we have modified our business practices and, from time to time, our employees have worked remotely from their homes to have our operations uninterrupted as much as possible. Further, technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices, the continuation of these work-from-home measures introduces additional operational risk, especially including increased cybersecurity risk. These cyber risks include greater phishing, malware, and other cybersecurity attacks, vulnerability to disruptions of our information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, great risk of a security breach resulting in destruction or misuse of valuable information, and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations and the operations of any impacted clients.

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

- *Interest Rate Risk.* Our net interest income, lending activities, deposits, hedging activities, and profitability could be negatively affected by volatility in interest rates caused by inflation, recession and continued uncertainties stemming from COVID-19. Throughout 2021, the Federal Reserve maintained the target range for the federal funds rate established in March 2020 of a range from 0 to 0.25 percent, citing continued concerns about the impact of COVID-19 on markets and stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short-term to maturity, which in turn could have a material adverse effect on our net income, operating results, or financial condition.
- *Trust and Investment Management Risk.* Recent market volatility has adversely impacted the value of our assets under management. We derive a significant amount of our revenues primarily from investment management fees based on assets under management. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings. A sustained decline in the value of the assets that we manage or otherwise administer or service for others, could have an adverse effect on related fee income and demand for our services.

Because there have been no comparable recent global pandemics that resulted in similar global impact, we do not yet know the full extent of COVID-19's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work from home arrangements and third party providers' ability to support our operation, any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.

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

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

Risks Related to Our Regulatory Environment

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

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

We are subject to changes in federal and state banking statutes, regulations and governmental policies, or the interpretation or implementation of them, and are subject to changes and increased complexity in regulatory requirements as governments and regulators continue reforms intended to strengthen the stability of the financial system and protect key markets and participants. Any changes in any federal or state banking statute, regulation or governmental policy, including changes which occurred in 2021 and may occur in 2022 and beyond during the current and future administration, could affect us in substantial and unpredictable ways, including ways that may adversely affect our business, results of operations, financial condition or prospects. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. In addition, federal and state banking regulators have broad authority to supervise our banking business and that of our subsidiaries, including the authority to prohibit activities that represent unsafe or unsound banking practices or constitute violations of statute, rule, regulation, or administrative order. Failure to comply with any such laws, regulations or regulatory policies could result in sanctions by regulatory agencies, restrictions on our business activities, civil money penalties or damage to our reputation, all of which could adversely affect our business, results of operations, financial condition or prospects.

We expect that the Biden Administration will seek to implement a regulatory reform agenda that is significantly different than that of the Trump Administration. This reform agenda could include a heightened focus on fair lending, the regulation of loan portfolios and credit concentrations to borrowers impacted by climate change, heightened scrutiny on Bank Secrecy Act and AML requirements, topics related to social equity, executive compensation, and increased capital and liquidity, as well as limits on share buybacks and dividends. In addition, mergers and acquisitions could be dampened by increased antitrust scrutiny. We also expect reform proposals for the short-term wholesale markets. It is too early for us to assess which, if any of these policies, would be implemented and what their impact on our business would be.

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

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

We are subject to stringent capital requirements.

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

New and future rulemaking by the CFPB and other regulators, as well as enforcement of existing consumer protection laws, may have a material and adverse effect on our operations and operating costs.

The CFPB has the authority to implement and enforce a variety of existing federal consumer protection statutes and to issue new regulations but, with respect to institutions of our size, does not have primary examination and enforcement authority with respect to such laws and regulations. The authority to examine depository institutions with \$10 billion or less in assets, like us, for compliance with federal consumer laws remains largely with our primary federal regulator, the FDIC. However, the CFPB may participate in examinations of smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. In some cases, regulators such as the Federal Trade Commission and the Department of Justice also retain certain rulemaking or enforcement authority, and we also remain subject to certain state consumer protection laws. As an independent bureau within the Federal Reserve, the CFPB may impose requirements more severe than the previous bank regulatory agencies. The CFPB has placed significant emphasis on consumer complaint management and has established a public consumer complaint database to encourage consumers to file complaints they may have against financial institutions. We are expected to monitor and respond to these complaints, including those that we deem frivolous, and doing so may require management to reallocate resources away from more profitable endeavors.

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

The FDIC and the Federal Reserve have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that is actively involved in commercial real estate lending should perform a risk assessment to identify potential concentrations in commercial real estate lending. A financial institution may have such a concentration if, among other factors: (i) total outstanding loans for construction, land development, and other land represent 100% or more of total risk-based capital ("CRE 1 Concentration"); or (ii) total outstanding loans for construction, land development and other land and loans secured by multifamily and non-owner occupied non-farm, non-residential properties (excluding loans secured by owner-occupied properties) represent 300% or more of total risk-based capital ("CRE 2 Concentration") and the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36-month period. In such an instance, management should employ heightened risk management practices, including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. As of December 31, 2021, our CRE 1 Concentration level was 83.2% and our CRE 2 Concentration level was 252.6%. We may, at some point, be considered to have a concentration in the future, or our risk management practices may be found to be deficient, which could result in increased reserves and capital costs as well as potential regulatory enforcement action.

The implementation of the Current Expected Credit Loss accounting standard could require the Company to increase its allowance for credit losses and may have a material adverse effect on its financial condition and results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss model, or CECL. On July 17, 2019, the FASB voted to delay CECL implementation for certain companies including smaller reporting companies ("SRCs") as defined by the SEC. The Company is designated as a SRC with the SEC. The proposed delay by FASB was subject to a comment period. At the October 16, 2019 FASB meeting, the FASB voted unanimously to delay the effective date of CECL adoption for SRCs to January 1, 2023. CECL requires a change in the model to recognize a valuation allowance based on estimated expected credit losses over the life of the portfolio, compared to the probable incurred loss model. The change to the CECL framework will require the Company to greatly increase the data the Company must collect and review to determine the appropriate level of the allowance for credit losses. The adoption of CECL may result in greater volatility in the level of the allowance for credit losses, depending on various factors and assumptions applied in the model, such as the forecasted economic conditions in the foreseeable future and loan payment behaviors. Any increase in the allowance for credit losses, or expenses incurred to determine the appropriate level of the allowance for credit losses, may have an adverse effect on the Company's financial condition and results of operations. Currently, we are unable to estimate the impact the adoption of this update will have on the consolidated financial statements and disclosures. However, the Company expects the impact of the adoption will be significantly influenced by the composition and characteristics of its loan portfolios along with economic conditions prevalent as of the date of adoption. The Company expects to implement the new standard beginning January 1, 2023.

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

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

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

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

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

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

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

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

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

Risks Related to Ownership of our Common Stock

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

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

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

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

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

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

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

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

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

Securities analysts may not initiate or continue coverage on us.

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

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

As of December 31, 2021, our directors and executive officers beneficially owned an aggregate of 1,782,802 shares, or approximately 18.5% of our shares of common stock. Consequently, our management and board of directors may be able to significantly affect our affairs and policies, including the outcome of the election of directors and the potential outcome of other matters submitted to a vote of our shareholders, such as mergers, the sale of substantially all of our assets and other extraordinary corporate matters. This influence may also have the effect of delaying or preventing changes of control or changes in management, or limiting the ability of our other shareholders to approve transactions that they may deem to be in the best interests of our Company. The interests of these insiders could conflict with the interests of our other shareholders, including you.

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

We have issued \$6.6 million aggregate principal amount of subordinated notes due 2026, \$17.7 due 2030, and \$14.7 million due 2031. In the future, we may increase our capital resources by making offerings of debt or equity securities, which may include senior or additional subordinated notes, series of preferred shares or common shares. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Preferred shares and debt, if issued, have a preference on liquidating distributions or a preference on dividend or interest payments that could limit our ability to make a distribution to the holders of our common stock. Future issuances and sales of parity preferred stock, or the perception that such issuances and sales could occur, may also cause prevailing market prices for the series of preferred stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us. Further issuances of our common stock could be dilutive to holders of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General Risk Factors

The market price of our common stock could decline significantly due to actual or anticipated issuances or sales of our common stock in the future.

Actual or anticipated issuances or sales of substantial amounts of our common stock could cause the market price of our common stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future also would, and equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuance.

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

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

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

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

- Actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- Changes in economic or business conditions;

- The effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- Publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- Operating and stock price performance of companies that investors deemed comparable to us;
- Additional or anticipated sales of our common stock or other securities by us or our existing shareholders;
- Additions or departures of key personnel;
- Prevailing market conditions, including increased general market volatility associated with recent fears of pandemics;
- Perceptions in the marketplace regarding our competitors or us;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- Other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- Other news, announcements or disclosures (whether by us or others) related to us, our competitors, our primary markets or the financial services industry.

The stock market and, in particular, the market for financial institution stocks have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

Our business and operations may be adversely affected in numerous and complex ways by weak economic conditions and global trade.

Our businesses and operations, including our private bank and trust services, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits, investing in securities and investment management, are sensitive to general business and economic conditions in the United States. If the United States economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, inflation, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries and weakening global trade due to increased anti-globalization sentiment, war, epidemics (including the recent coronavirus), or other unforeseen events could affect the stability of global financial markets, which could hinder the economic growth of the United States. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity or depressed prices in the secondary market for loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates remaining at historically low levels, which impacts our ability to attract deposits and to generate attractive earnings through our investment portfolio. Further, a general economic slowdown could decrease the value of assets under management and administration by our trust services resulting in lower fee income, and clients potentially seeking alternative investment opportunities with other providers, which could result in lower fee income to us. Volatility and uncertainty related to inflation and the effects of inflation, which may lead to increased costs for businesses and consumers and potentially contribute to poor business and economic conditions generally, may also enhance or contribute to some of the risks discussed herein. For example, higher inflation, or volatility and uncertainty related to inflation, could reduce demand for the Company's products, adversely affect the creditworthiness of the Company's borrowers, or result in lower values for the Company's investment securities and other interest-earning assets. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects. Broad market performance may not be favorable in the future.

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as coronavirus, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses. In particular, Colorado, Wyoming, Arizona, and especially California, in which a substantial portion of our business is located, have been susceptible to natural disasters, such as earthquakes, floods, mudslides, and wildfires. The nature and level of such events cannot be predicted. These catastrophic events could harm our operations through interference with technology, including the interruption or loss of our computer systems, telephone communications and other technology-dependent services which could prevent or impede us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. Additionally, natural disasters could negatively impact the values of collateral securing our borrowers' loans and interrupt our borrowers' abilities to conduct their business in a manner to support their debt obligations, either of which could result in losses and increased provisions for loan losses for us.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

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

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

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

⁽²⁾ Trust office

⁽³⁾ Loan production office

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information for Common Stock

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

Holders of Record

As of March 9, 2022, there were approximately 128 holders of record of our common stock.

Dividend Policy

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

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

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

Securities Authorized for Issuance under Equity Compensation Plans

The information concerning the ownership of shares of our common stock by certain beneficial owners and management required by this item is incorporated herein by reference from our definitive proxy statement for our 2021 Annual Meeting of Shareholders, a copy of which will be filed with the SEC no later than 120 days after the end of our fiscal year.

The following table sets forth information as of December 31, 2021, regarding our equity compensation plans that provide for the award of equity securities or the grant of options to purchase equity securities of the Company to employees and directors of First Western and its subsidiaries:

Plan Category	(A)	(B)	(C)
	Number of securities to be issued upon exercise of outstanding options or vesting of outstanding restricted stock grants	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by shareholders	755,624	\$ 29.21	334,534
Equity compensation plans not approved by shareholders	—	—	—
Total	755,624		334,534

Issuer Purchases of Equity Securities

	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
October 1, 2021 through October 31, 2021	—	\$ —	—	399,574
November 1, 2021 through November 30, 2021	1,591	31.17	—	399,574
December 1, 2021 through December 31, 2021 ⁽²⁾	—	—	—	—

⁽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 under the 2020 Repurchase Plan. 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.

⁽²⁾ The 2020 Repurchase Plan expired in November 2021.

ITEM 6: [Reserved]

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

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

Company Overview

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

We offer our services through a branded network of boutique private trust bank offices, which we believe are strategically located in affluent and high-growth markets in locations across Colorado, Arizona, Wyoming 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 December 31, 2021, we have expanded our footprint into fifteen full service profit centers, two loan production offices, and two trust offices located across four states. Following the completion of the Teton Financial Services, Inc. ("Teton") acquisition in the fourth quarter of 2021, we added three full service profit centers in Jackson Hole, Pinedale, and Rock Springs, Wyoming. As of and for the year ended December 31, 2021, we had \$2.53 billion in total assets, \$95.4 million in total revenues and provided fiduciary and advisory services on \$7.35 billion of assets under management ("AUM").

Response to COVID-19

The spread of COVID-19 has caused significant disruptions in the U.S. economy since it was declared a pandemic in March 2020 by the World Health Organization. Disruptions include temporary closures of many businesses that have led to a loss of revenues and a rapid increase in unemployment, disrupted global supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future. The changes have impacted our clients and their industries, as well as the financial services industry.

The Company activated its Business Continuity Plan in early 2020 in response to the emergence of COVID-19 and has continued to adjust as the crisis continues to impact our markets, clients and business. A majority of our associates have been working remotely since early 2020. All of our offices are open, functioning, and continue to operate as usual. We are taking additional precautions within our profit centers, including enhanced cleaning procedures and physical distancing measures, to ensure the safety of our clients and our associates.

A provision in the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") created the Paycheck Protection Program ("PPP"), which is administered by the Small Business Administration ("SBA"). The PPP is intended to provide loans to small businesses to pay their employees, rent, mortgage interest and utilities. The loans may be forgiven conditioned upon the client providing payroll documentation evidencing their compliant use of funds and otherwise complying with the terms of the program. The Bank is an approved SBA PPP lender and participated in all rounds of the program.

The last round of program funds were depleted in early May 2021. With the originations closed, the SBA turned their attention to forgiveness, processing applications submitted by the Company. Loans funded in 2021 became eligible for forgiveness after the covered period of 8 to 24 weeks, which began for some clients in early second quarter of 2021. As of December 31, 2021, we have received forgiveness payments of \$236.3 million from the SBA and have 134 PPP loans for a total of \$46.8 million with an average loan size of \$0.3 million remaining.

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 has 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. The Company had sixty-nine loans across multiple industries in the amount of \$130.4 million of loans that took part in the Company's COVID loan modification program. As of December 31, 2021, the modification periods have ended for all loans in the loan modification program and all loans were performing according to Bank policy.

The Company also participated in the Federal Reserve's Main Street Lending Program ("MSLP") to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. As of December 31, 2021, the Company had five loans with a balance held by the Bank of \$6.8 million.

Primary Factors Used to Evaluate the Results of Operations

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

Net Interest Income

Net interest income represents interest income less interest expense. We generate interest income on interest-earning assets, primarily loans and available-for-sale 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, available-for-sale 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, 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") 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.
- *Bank fees*—income generated through bank-related service charges such as: electronic transfer fees, treasury management fees, bill pay fees, servicing fees for MSLP, 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.
- *Net gain on equity interests*—gain on sale of equity securities and other assets sold. Net gain on sale of securities/assets are primarily impacted by the amount of securities/assets sold, the type of securities/assets sold and market conditions.
- *Other*—non-operating income generated through a transition services agreement with the buyer of the Los Angeles ("LA") fixed income team.

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.
- *Net loss on assets held for sale*—represents the fair value adjustment on assets being sold or business lines being divested.
- *Provision for other real estate owned*—represents the fair value adjustment for other real estate owned ("OREO").
- *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 OREO for sale, director compensation and travel, and other general corporate expenses that do not fit within one of the specific non-interest expense lines described above. Other operational expenses are generally impacted by our business activities and needs.

Operating Segments

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

Primary Factors Used to Evaluate our Balance Sheet

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

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

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

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

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The Company has adopted the Basel III regulatory capital framework. As of December 31, 2021, the Bank's capital ratios exceeded the current well capitalized regulatory requirements established under Basel III.

Acquisitions and Divestitures

On July 22, 2021, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement" or "Teton Acquisition") with Teton, parent company of Rocky Mountain Bank, a Wyoming-chartered bank headquartered in Jackson, Wyoming. The Merger Agreement provides that, subject to the terms and conditions set forth in the Merger Agreement, Teton would merge into the Company, with the Company continuing as the surviving corporation. The Merger Agreement also provides that following the merger, Rocky Mountain Bank would merge with and into the Bank, with the Bank surviving the bank merger. The transaction successfully closed on December 31, 2021. See Note 2 – Acquisitions of the accompanying Notes to the Consolidated Financial Statements for additional information.

On September 18, 2020, the Company entered into an agreement to sell its LA fixed income team and certain related advisory and sub-advisory arrangements to Lido Advisors, LLC and Oakhurst Advisors, LLC. On November 13, 2020, the Company completed the sale. On an ongoing basis, the sale of the LA fixed income team is expected to be earnings neutral to the Company, as the revenue decrease will be approximately in-line with the expected expense reduction. The sale is not expected to have an impact on Bank clients but reduced the Company's assets under management by \$330.6 million during 2020. As a result of the sale, the Company evaluated its reportable segments and determined the remaining assets following the sale in the Capital Management segment no longer meet the thresholds of income before income tax to be a reportable segment. The residual assets that remained in the Capital Management segment are now included in the Wealth Management segment.

On February 10, 2020, the Company entered into a branch purchase and assumption agreement ("Branch Acquisition") with Simmons Bank, pursuant to which the Company agreed to acquire all of Simmons' Colorado locations, including three branches and one loan production office located in metro Denver, as well as certain deposits and loans and other assets. On May 15, 2020, the Branch Acquisition was successfully completed. See Note 2 - Acquisitions of the accompanying Notes to Consolidated Financial Statements for additional information.

Results of Operations

Overview

The year ended December 31, 2021 compared with the year ended December 31, 2020. For the year ended December 31, 2021, we reported net income available to common shareholders of \$20.6 million, compared to net income available to common shareholders for December 31, 2020 of \$24.5 million, a \$3.9 million, or 16.0% decrease. For the year ended December 31, 2021, our income before income tax was \$27.3 million, a \$5.8 million, or 17.5%, decrease from December 31, 2020. The decrease was primarily driven by a \$13.2 million decrease in net gain on mortgage loans and an \$8.6 million increase in non-interest expense, partially offset by a \$13.9 million increase in net interest income, after provision for loan losses. The decrease in net gain on mortgage loans was primarily driven by a slowdown in new lock volume associated with the decrease in refinance activity. The increase in non-interest expense was primarily driven by acquisition related costs from the Teton Acquisition and an increase in personnel expense to support the growth in the balance sheet. The increase in net interest income was due to an increase in average loan balances and a reduction in our average cost of funds.

Net Interest Income

The year ended December 31, 2021 compared with the year ended December 31, 2020. For the year ended December 31, 2021, compared to the year ended December 31, 2020, net interest income, before the provision for loan losses, increased \$10.4 million, or 22.6%, to \$56.5 million. This increase was driven by a \$275.4 million increase in average loans outstanding and a 19 bps decrease in the average cost of funds, partially offset by a decrease in our average yield on loans to 3.81% for the year ended December 31, 2021 from 3.94% for the year ended December 31, 2020. For the year ended December 31, 2021, our net interest margin was 2.99% and our net interest spread was 2.87%. For the year ended December 31, 2020, our net interest margin was 3.09% and our net interest spread was 2.92%.

The increase in average loans outstanding for the year ended December 31, 2021 compared to the same periods in 2020 was primarily due to organic growth. Net interest income is also impacted by changes in the amount and type of interest-earning assets and interest-bearing liabilities. To evaluate net interest income, we measure and monitor the yields on our loans and other interest-earning assets and the costs of our deposits and other funding sources.

Interest income on our available-for-sale securities portfolio decreased as a result of lower average investment balances for the year ended December 31, 2021 compared to the same period in 2020. Our average available-for-sale securities balance during the year ended December 31, 2021 was \$30.9 million, a decrease of \$14.6 million from the year ended December 31, 2020. The impact of the reduction in average balances was partially offset by a higher average yield on the securities portfolio.

Interest expense on deposits decreased during the year ended December 31, 2021 compared to the same period in 2020. Average rates on interest bearing deposits decreased 30 basis points, consistent with the lower interest rate environment. The reduction in cost of deposits was partially offset by an increase in average interest-bearing deposit accounts of \$211.8 million compared to the prior year.

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

(Dollars in thousands)	As of and For the Year Ended December 31,					
	2021			2020		
	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	\$ 261,752	\$ 397	0.15 %	\$ 129,670	\$ 458	0.35 %
Federal funds sold	1,491	—	—	—	—	—
Available-for-sale securities ⁽²⁾	30,885	770	2.49	45,466	878	1.93
Loans ⁽³⁾	1,594,084	60,758	3.81	1,318,648	51,998	3.94
Interest-earning assets ⁽⁴⁾	1,888,212	61,925	3.28	1,493,784	53,334	3.57
Mortgage loans held for sale ⁽⁵⁾	88,651	2,490	2.81	80,469	2,388	2.97
Total interest-earning assets, plus mortgage loans held for sale	1,976,863	64,415	3.26	1,574,253	55,722	3.54
Allowance for loan losses	(12,763)			(9,945)		
Noninterest-earning assets	95,808			94,935		
Total assets	<u>\$ 2,059,908</u>			<u>\$ 1,659,243</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 1,187,941	3,482	0.29	\$ 976,108	5,794	0.59
FHLB and Federal Reserve borrowings	103,925	385	0.37	122,773	584	0.48
Subordinated notes	29,232	1,549	5.30	13,812	854	6.18
Total interest-bearing liabilities	1,321,098	5,416	0.41	1,112,693	7,232	0.65
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	550,683			383,271		
Other liabilities	18,651			21,402		
Total noninterest-bearing liabilities	569,334			404,673		
Shareholders' equity	169,476			141,877		
Total liabilities and shareholders' equity	<u>\$ 2,059,908</u>			<u>\$ 1,659,243</u>		
Net interest rate spread ⁽⁶⁾			2.87			2.92
Net interest income ⁽⁷⁾		<u>\$ 56,509</u>			<u>\$ 46,102</u>	
Net interest margin ⁽⁸⁾			2.99			3.09

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

⁽²⁾ Available-for-sale securities 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 separated from the interest-earning assets above, as these loans are held for a short period of time until sold in the secondary market and are not held for investment purposes, with interest income recognized in the net gain on mortgage loans line of the income statement. These balances are excluded from 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, which does not include interest earned on mortgage loans held for sale, and expense paid on interest-bearing liabilities.

⁽⁸⁾ Net interest margin is equal to net interest income divided by average interest-earning assets (excluding mortgage loans held for sale).

The following presents the dollar amount of changes in interest income and interest expense for the periods presented, for each component of interest-earning assets and interest-bearing liabilities (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.

<i>(Dollars in thousands)</i>	Year Ended December 31, 2021 Compared to 2020		
	Increase (Decrease) Due to Change in:		Total Increase (Decrease)
	Volume	Rate	
Interest-earning assets:			
Interest-bearing deposits in other financial institutions	\$ 201	\$ (262)	\$ (61)
Available-for-sale securities	(364)	256	(108)
Loans	10,498	(1,738)	8,760
Total increase (decrease) in interest income	\$ 10,335	\$ (1,744)	\$ 8,591
Interest-bearing liabilities:			
Interest-bearing deposits	621	(2,933)	(2,312)
FHLB and Federal Reserve borrowings	(70)	(129)	(199)
Subordinated notes	817	(122)	695
Total increase (decrease) in interest expense	\$ 1,368	\$ (3,184)	\$ (1,816)
Increase in net interest income	\$ 8,967	\$ 1,440	\$ 10,407

Provision for Loan Losses

We have a dedicated problem loan resolution team comprised of associates from our credit, senior leadership, risk and accounting teams that meets frequently to ensure that watch list and problem credits are identified early and actively managed. We work to identify potential losses in a timely manner and proactively manage the problem credits to minimize losses. For the years ended December 31, 2021 and 2020, we recorded \$1.2 million and \$4.7 million, respectively, of provision for loan losses.

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

Non-Interest Income

The year ended December 31, 2021 compared with the year ended December 31, 2020. For the year ended December 31, 2021 compared to the year ended December 31, 2020, non-interest income decreased \$11.0 million, or 21.6%, to \$40.2 million. The decrease in non-interest income was primarily a result of a \$13.2 million decrease in net gain on mortgage loans, compared to the same period in 2020.

The following presents the significant categories of our non-interest income for the year ended December 31, 2021 and 2020.

<i>(Dollars in thousands)</i>	Year Ended December 31,		Change	
	2021	2020	\$	%
Non-interest income:				
Trust and investment management fees	\$ 20,220	\$ 19,022	\$ 1,198	6.3 %
Net gain on mortgage loans	16,060	29,276	(13,216)	(45.1)
Bank fees	1,847	1,320	527	39.9
Risk management and insurance fees	1,120	1,199	(79)	(6.6)
Income on company-owned life insurance	354	363	(9)	(2.5)
Net gain on equity interests	489	—	489	*
Other	60	—	60	*
Total non-interest income	\$ 40,150	\$ 51,180	\$ (11,030)	(21.6)

* Not meaningful

Trust and investment management fees— For the year ended December 31, 2021 compared to the same period in 2020, our trust and investment management fees increased by \$1.2 million, or 6.3%, to \$20.2 million. The increase is driven by asset growth, partially offset by a reduction in trust and investment management fees generated by the LA Fixed Income team that was sold in November 2020.

Net gain on mortgage loans— For the year ended December 31, 2021 compared to the year ended December 31, 2020, our net gain on mortgage loans decreased by \$13.2 million, or 45.1%, to \$16.1 million. The decrease in net gain on mortgage loans was primarily driven by a slowdown in new interest rate locks with clients associated with the decrease in refinance activity.

Bank fees— For the year ended December 31, 2021 compared to the same period in 2020, our bank fees increased by \$0.5 million or 39.9%. The increase was driven by servicing fees related to participation in the MSLP as well as increased activity consistent with the growth of the loan portfolio.

Net gain on equity interests— For the year ended December 31, 2021, the Company recognized a net gain on equity interests of \$0.5 million.

Non-Interest Expense

The year ended December 31, 2021 compared with the year ended December 31, 2020. The increase in non-interest expense of 14.5% to \$68.1 million for the year ended December 31, 2021, was primarily due to \$4.1 million in acquisition related costs incurred as a result of the Teton Acquisition. The remaining increase is primarily due to increased salaries and employee benefits commensurate with and to support the increased production and revenues in the Wealth Management segment.

The following presents the impact from mergers and acquisitions activity for the periods noted:

<i>(Dollars in thousands)</i>	Year Ended December 31,	
	2021	2020
Mergers and acquisitions expense:		
Salaries and employee benefits	\$ 547	\$ 13
Occupancy and equipment	—	108
Professional services	1,118	477
Technology and information systems	—	19
Data processing	2,428	47
Other	8	20
Total mergers and acquisitions expense	<u>\$ 4,101</u>	<u>\$ 684</u>

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

<i>(Dollars in thousands)</i>	Year Ended December 31,		Change	
	2021	2020	\$	%
Non-interest expense:				
Salaries and employee benefits	\$ 40,746	\$ 34,785	\$ 5,961	17.1 %
Occupancy and equipment	5,990	6,009	(19)	(0.3)
Professional services	6,473	5,035	1,438	28.6
Technology and information systems	3,707	4,035	(328)	(8.1)
Data processing	6,327	4,000	2,327	58.2
Marketing	1,613	1,478	135	9.1
Amortization of other intangible assets	17	14	3	21.4
Net loss on assets held for sale	—	553	(553)	*
Provision on other real estate owned	—	176	(176)	*
Other	3,276	3,452	(176)	(5.1)
Total non-interest expense	<u>\$ 68,149</u>	<u>\$ 59,537</u>	<u>\$ 8,612</u>	14.5

* Not meaningful

Salaries and employee benefits—The increase in salaries and employee benefits of \$6.0 million, or 17.1%, was primarily related to an increase in staffing and compensation and employee benefits commensurate with increased production and revenues in the Wealth Management segment.

Professional Services—The increase in professional services of \$1.4 million, or 28.6%, was driven by acquisition related expenses of \$1.1 million, additional expenses related to the PPP program, and additional FDIC insurance expense related to our balance sheet growth.

Data processing—The increase in data processing costs of \$2.3 million, or 58.2%, was primarily driven by \$2.4 million in acquisition related expenses as a result of the Teton Acquisition in the fourth quarter of 2021.

Net loss on assets held for sale—The net loss on assets held for sale of \$0.6 million in 2020 was attributable to the completion of the sale of assets and related net loss taken on the sale of the LA fixed income team.

Income Tax

During the year ended December 31, 2021, the Company recorded an income tax provision of \$6.7 million, reflecting an effective tax rate 24.5%. During the year ended December 31, 2020, the Company recorded an income tax provision of \$8.5 million, reflecting an effective tax rate of 25.8%.

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. Our Mortgage segment consists of operations relating 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. Services provided by our Mortgage segment include soliciting, originating and selling mortgage loans into the secondary market. 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:

<i>(Dollars in thousands)</i>	Year Ended December 31, 2021		
	Wealth Management	Mortgage	Consolidated
Income ⁽¹⁾	\$ 79,310	\$ 16,119	\$ 95,429
Income before taxes	21,378	5,902	27,280
Profit margin	27.0 %	36.6 %	28.6 %

<i>(Dollars in thousands)</i>	Year Ended December 31, 2020		
	Wealth Management	Mortgage	Consolidated
Income ⁽¹⁾	\$ 63,256	\$ 29,344	\$ 92,600
Income before taxes	12,086	20,977	33,063
Profit margin	19.1 %	71.5 %	35.7 %

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

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

Wealth Management

<i>(Dollars in thousands)</i>	As of and for the Year Ended December 31,			
	2021	2020	\$ Change	% Change
Total interest income	\$ 61,925	\$ 53,334	\$ 8,591	16.1 %
Total interest expense	5,416	7,232	(1,816)	(25.1)
Provision for loan losses	1,230	4,682	(3,452)	(73.7)
Net interest income, after provision for loan losses	55,279	41,420	13,859	33.5
Non-interest income	24,031	21,836	2,195	10.1
Total income	79,310	63,256	16,054	25.4
Depreciation and amortization expense	1,147	1,035	112	10.8
All other non-interest expense	56,785	50,135	6,650	13.3
Income before income tax	\$ 21,378	\$ 12,086	\$ 9,292	76.9
Goodwill	\$ 30,588	\$ 24,191	\$ 6,397	26.4
Total assets	2,494,207	1,798,416	695,791	38.7

The Wealth Management segment reported income before income tax of \$21.4 million for the year ended December 31, 2021, compared to \$12.1 million, for the same period in 2020. The increase in net interest income, after provision for loan losses is primarily driven by an increase in average loans outstanding, a decrease in average cost of funds, and a decrease in provision for loan losses. Non-interest income primarily increased due to increasing assets under management resulting in increased trust and investment management fees. Non-interest expense increased due to \$4.1 million in acquisition related expenses as well as increases in salaries and employee benefits with additional staffing and compensation to support the growth of the organization. During the year ended December 31, 2021, average loans increased \$275.4 million and the cost of funds decreased to 0.29% from 0.48% compared to the year ended December 31, 2020.

Mortgage

<i>(Dollars in thousands)</i>	As of and for the Year Ended		\$ Change	% Change
	December 31,			
	2021	2020		
Total interest income	\$ —	\$ —	\$ —	—%
Total interest expense	—	—	—	—
Provision for loan losses	—	—	—	—
Net interest income, after provision for loan losses	—	—	—	—
Non-interest income	16,119	29,344	(13,225)	(45.1)
Total income	16,119	29,344	(13,225)	(45.1)
Depreciation and amortization expense	53	70	(17)	(24.3)
All other non-interest expense	10,164	8,297	1,867	22.5
Income before income tax	\$ 5,902	\$ 20,977	\$ (15,075)	(71.9)
Total assets	\$ 33,282	\$ 175,239	\$ (141,957)	(81.0)

The Mortgage segment reported income before income tax of \$5.9 million for the year ended December 31, 2021, compared to \$21.0 million for the same period in 2020. The overall decrease in non-interest income was primarily driven by a slowdown in new lock volume associated with the decrease in refinance activity.

Financial Condition

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

<i>(Dollars in thousands)</i>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Balance Sheet Data:				
Cash and cash equivalents	\$ 386,983	\$ 155,989	\$ 230,994	148.1 %
Investments	56,211	36,666	19,545	53.3
Loans	1,949,137	1,532,833	416,304	27.2
Allowance for loan losses	<u>(13,732)</u>	<u>(12,539)</u>	<u>(1,193)</u>	9.5
Loans, net of allowance	1,935,405	1,520,294	415,111	27.3
Mortgage loans held for sale	30,620	161,843	(131,223)	(81.1)
Goodwill and other intangible assets, net	31,902	24,258	7,644	31.5
Company-owned life insurance	15,803	15,449	354	2.3
Other assets	70,450	59,156	11,294	19.1
Assets held for sale	115	—	115	*
Total assets	<u>\$ 2,527,489</u>	<u>\$ 1,973,655</u>	<u>\$ 553,834</u>	28.1
Deposits	\$ 2,205,703	\$ 1,619,910	\$ 585,793	36.2
Borrowings	77,660	173,854	(96,194)	(55.3)
Other liabilities	25,085	24,929	156	0.6
Total liabilities	<u>2,308,448</u>	<u>1,818,693</u>	<u>489,755</u>	26.9
Total shareholders' equity	219,041	154,962	64,079	41.4
Total liabilities and shareholders' equity	<u>\$ 2,527,489</u>	<u>\$ 1,973,655</u>	<u>\$ 553,834</u>	28.1

* Not meaningful

Cash and cash equivalents increased by \$231.0 million, or 148.1%, to \$387.0 million as of December 31, 2021 compared to December 31, 2020. The increase in liquidity was driven by organic growth in deposits and a reduction in mortgage loans held for sale, along with cash and cash equivalents acquired through the Teton Acquisition.

Investments increased by \$19.5 million, or 53.3%, to \$56.2 million as of December 31, 2021 compared to December 31, 2020. The increase is due to available-for-sale securities acquired through the Teton Acquisition.

Loans, net of allowance increased by \$415.1 million, or 27.3%, to \$1.94 billion as of December 31, 2021 compared to December 31, 2020. The increase was driven by organic growth and the Teton Acquisition. We experienced growth in all categories excluding PPP loans which are included in the Cash, Securities and Other category.

Mortgage loans held for sale decreased \$131.2 million, or 81.1%, to \$30.6 million as of December 31, 2021 compared to December 31, 2020. The decrease was driven by a decrease in loan origination volume primarily driven by a slowdown in new mortgage loan origination volume associated with the decrease in refinance activity.

Goodwill and other intangible assets, net increased by \$7.6 million, or 31.5%, to \$31.9 million as of December 31, 2021 compared to December 31, 2020. The increase was driven by the recording of \$6.4 million in goodwill and \$1.2 million of core deposit intangibles related to the Teton Acquisition.

Other assets increased by \$11.3 million, or 19.1%, to \$70.5 million as of December 31, 2021 compared to December 31, 2020. This was primarily related to the acquisition of buildings and land related to the Teton Acquisition of \$17.8 million, partially offset by a \$8.4 million decrease in unfunded mortgage IRLC.

Deposits increased \$585.8 million, or 36.2%, to \$2.21 billion as of December 31, 2021 compared to December 31, 2020. The increase was primarily attributable to the Teton Acquisition and an increase in non-interest bearing and money market deposits resulting from inflows from commercial depositors and higher deposit balances across the Company's clientele due to the improving economic and business environment.

Money market deposit accounts increased \$209.2 million, or 24.7%, to \$1.06 billion as of December 31, 2021 compared to December 31, 2020. Time deposit accounts decreased \$2.2 million, or 1.3%, to \$170.5 million as of December 31, 2021. Negotiable order of withdrawal ("NOW") accounts increased \$196.9 million, or 174.2%, to \$309.9 million compared to December 31, 2020.

Borrowings decreased \$96.2 million, or 55.3%, to \$77.7 million as of December 31, 2021 compared to December 31, 2020. The decrease is primarily attributed to a reduction in outstanding advances on the Federal Reserve's Paycheck Protection Program Loan Facility. Borrowing from this facility is expected to trend in the same direction as the PPP loan balances.

Total shareholders' equity increased \$64.1 million, or 41.4%, to \$219.0 million as of December 31, 2021. The increase is primarily due to the Teton Acquisition and net income of \$20.6 million for the year ended December 31, 2021.

Assets Under Management

	Year Ended	
	December 31,	
	2021	2020
<i>(Dollars in millions)</i>		
Managed Trust Balance at Beginning of Period	\$ 1,890	\$ 1,750
New relationships	27	17
Closed relationships	(2)	(12)
Contributions	62	98
Withdrawals	(192)	(119)
Acquisitions	184	—
Market change, net	235	156
Ending Balance	\$ 2,204	\$ 1,890
Yield*	0.15 %	0.17 %
Directed Trust Balance at Beginning of Period	\$ 951	\$ 989
New relationships	131	18
Closed relationships	(7)	(6)
Contributions	52	42
Withdrawals	(26)	(96)
Acquisitions	133	—
Market change, net	75	4
Ending Balance	\$ 1,309	\$ 951
Yield*	0.07 %	0.08 %
Investment Agency Balance at Beginning of Period	\$ 1,840	\$ 2,009
New relationships	75	179
Closed relationships ⁽²⁾	(77)	(451)
Contributions	269	268
Withdrawals	(216)	(231)
Market change, net	172	66
Ending Balance	\$ 2,063	\$ 1,840
Yield*	0.68 %	0.73 %
Custody Balance at Beginning of Period	\$ 518	\$ 452
New relationships	—	7
Closed relationships	(2)	(4)
Contributions	81	105
Withdrawals	(26)	(82)
Market change, net	62	40
Ending Balance	\$ 633	\$ 518
Yield*	0.03 %	0.03 %
401(k)/Retirement Balance at Beginning of Period	\$ 1,056	\$ 988
New relationships	8	23
Closed relationships	(122)	(60)
Contributions	110	133
Withdrawals	(110)	(85)
Market change, net	201	57
Ending Balance⁽¹⁾	\$ 1,143	\$ 1,056
Yield*	0.14 %	0.15 %
Total Assets Under Management at Beginning of Period	\$ 6,255	\$ 6,188
New relationships	241	244
Closed relationships ⁽²⁾	(210)	(533)
Contributions	574	646
Withdrawals	(570)	(613)
Acquisitions	317	—
Market change, net	745	323
Total Assets Under Management	\$ 7,352	\$ 6,255
Yield*	0.28 %	0.30 %

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

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

(2) Sale of LA fixed income team resulted in closed accounts of \$330.6 million in 2020.

Assets under management increased \$1.10 billion, or 17.5%, to \$7.35 billion for the year ended December 31, 2021. The increase was primarily attributable to improving market conditions resulting in an increase in the value of assets under management balances and the Teton Acquisition.

Available-for-sale 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. All our investments in securities were classified as available-for-sale for the periods presented below. 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.

The following presents the amortized cost and estimated fair value of our investment securities as of December 31, 2021:

	December 31, 2021			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(Dollars in thousands)</i>				
Investment securities available-for-sale:				
U.S. Treasury debt	\$ 250	\$ —	\$ (3)	\$ 247
U.S Government Agency	3,522	—	—	3,522
Corporate bonds	8,113	227	(15)	8,325
Government National Mortgage Association ("GNMA") mortgage-backed securities—residential	26,611	185	(146)	26,650
Federal National Mortgage Association ("FNMA") mortgage-backed securities—residential	14,400	43	—	14,443
Government collateralized mortgage obligations ("GMO") and mortgage-backed securities ("MBS") - commercial	878	—	—	878
Corporate collateralized mortgage obligations ("CMO") and mortgage-backed securities ("MBS")	1,492	23	(18)	1,497
Other	649	—	—	649
Total securities available-for-sale	<u>\$ 55,915</u>	<u>\$ 478</u>	<u>\$ (182)</u>	<u>\$ 56,211</u>

The following presents the amortized cost and estimated fair value of our investment securities as of December 31, 2020:

	December 31, 2020			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(Dollars in thousands)</i>				
Investment securities available-for-sale:				
U.S. Treasury debt	\$ 250	\$ 4	\$ —	\$ 254
Corporate bonds	6,000	55	(11)	6,044
GNMA mortgage -backed securities—residential	23,806	798	—	24,604
FNMA mortgage-backed securities—residential	1,616	61	—	1,677
Corporate CMO and MBS	4,078	62	(53)	4,087
Total securities available-for-sale	<u>\$ 35,750</u>	<u>\$ 980</u>	<u>\$ (64)</u>	<u>\$ 36,666</u>

The following tables represent the book value of our contractual maturities and weighted average yield for our investment securities as of the dates presented. Contractual maturities may differ from expected maturities because issuers can have the right to call or prepay obligations without penalties. Our investments are taxable securities. The weighted average yield for each range of maturities was calculated using the yield on each security within that range weighted by the amortized cost of each security as of December 31, 2021. Weighted average yields are not presented on a taxable equivalent basis.

	Maturity as of December 31, 2021							
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
<i>(Dollars in thousands)</i>								
Available-for-sale:								
U.S. Treasury debt	\$ —	— %	\$ 250	* %	\$ —	— %	\$ —	— %
U.S. Government agency	506	0.02	164	*	1,190	0.04	1,662	0.07
Corporate bonds	—	—	—	—	8,113	0.71	—	—
GNMA mortgage-backed securities - residential	—	—	—	—	—	—	26,611	0.92
FNMA mortgage-backed securities - residential	—	—	176	0.01	2,183	0.10	12,041	0.36
Government CMO and MBS - commercial	—	—	202	0.01	—	—	676	0.04
Corporate CMO and MBS	—	—	—	—	33	*	1,459	0.07
Other	649	*	—	—	—	—	—	—
Total available-for-sale	<u>\$ 1,155</u>	<u>0.02 %</u>	<u>\$ 792</u>	<u>0.02 %</u>	<u>\$ 11,519</u>	<u>0.85 %</u>	<u>\$ 42,449</u>	<u>1.46 %</u>

* Not meaningful

	Maturity as of December 31, 2020							
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
<i>(Dollars in thousands)</i>								
Available-for-sale:								
U.S. Treasury debt	\$ 250	0.02 %	\$ —	— %	\$ —	— %	\$ —	— %
Corporate bonds	—	—	1,250	0.17	—	—	4,750	0.60
GNMA mortgage-backed securities - residential	—	—	—	—	—	—	23,806	1.59
FNMA mortgage-backed securities - residential	—	—	—	—	—	—	1,616	0.10
Corporate CMO and MBS	—	—	—	—	43	*	4,035	0.31
Total available-for-sale	<u>\$ 250</u>	<u>0.02 %</u>	<u>\$ 1,250</u>	<u>0.17 %</u>	<u>\$ 43</u>	<u>— %</u>	<u>\$ 34,207</u>	<u>2.60 %</u>

* Not meaningful

As of December 31, 2021 and December 31, 2020, 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.

Loan Portfolio

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

In addition to originating loans for our own portfolio, we conduct mortgage banking activities in which we originate and sell, servicing-released, whole loans in the secondary market. Our mortgage banking loan sales activities are primarily directed at originating single family mortgages that are priced and underwritten to conform to previously agreed-upon criteria before loan funding and are delivered to the investor shortly after funding. The level of future loan originations, loan sales and loan repayments depends on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market. The amount of gain or loss on the sale of loans is primarily driven by market conditions and changes in interest rates, as well as our pricing and asset liability management strategies. As of December 31, 2021 and December 31, 2020, we had mortgage loans held for sale of \$30.6 million and \$161.8 million, respectively, in residential mortgage loans we originated.

Loan balances include the impacts of PPP and the Branch Acquisition. See Note 2 - Acquisitions of the accompanying Notes to Consolidated Financial Statements for additional information.

As of December 31, 2021, the Company has \$46.8 million in PPP loans outstanding with \$0.7 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 two-year period, however if a loan receives full forgiveness from the SBA, the remaining income will be recognized upon receipt of the funds from the SBA. For PPP balances not forgiven, the remaining net fee is extended and amortized over a 5-year payback period.

The following presents our loan portfolio by type of loan as of the dates indicated, in thousands:

<i>(Dollars in thousands)</i>	As of December 31,			
	2021		2020	
	Amount	% of Total	Amount	% of Total
Cash, Securities and Other	\$ 295,948	15.2 %	\$ 357,020	23.3 %
Construction and Development	178,716	9.1	131,111	8.5
1-4 Family Residential	580,872	29.7	455,038	29.7
Non-Owner Occupied CRE	482,622	24.7	281,943	18.4
Owner Occupied CRE	212,426	10.9	163,042	10.6
Commercial and Industrial	203,584	10.4	146,031	9.5
Total loans held for investment⁽¹⁾	\$ 1,954,168	100.0 %	\$ 1,534,185	100.0 %
Mortgage loans held for sale	\$ 30,620		\$ 161,843	

⁽¹⁾ Loans held for investment exclude deferred costs/(fees) and unamortized premiums/(unaccreted discounts), net of (\$5.0) million and (\$1.4) million as of December 31, 2021 and 2020, respectively.

- *Cash, Securities and Other*—consists of consumer and commercial purpose loans that are primarily secured by securities managed and under custody with us, cash on deposit with us or life insurance policies. In addition, loans in this portfolio are collateralized with other sources of consumer collateral and an immaterial amount of each loan may be unsecured. 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 \$46.8 million and \$142.9 million as of December 31, 2021 and 2020, respectively.
- *Construction and Development*—consists of loans to finance the construction of residential and non-residential properties. These loans are dependent on the strength of the industries of the related borrowers and the risks consistent with construction projects.
- *1-4 Family Residential*—consists of loans and home equity lines of credit secured by 1-4 family residential properties. These loans typically enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. In addition, some borrowers secure a commercial purpose loan with owner occupied or non-owner occupied 1-4 family residential properties. Loans in this segment are dependent on the industries tied to these loans as well as the national and local economies, and local residential and commercial real estate markets.

- *Commercial Real Estate, Owner Occupied and Non-Owner Occupied*—consists of commercial loans collateralized by real estate. These loans may be collateralized by owner occupied or non-owner occupied real estate, as well as multi-family residential real estate. These loans are dependent on the strength of the industries of the related borrowers and the success of their businesses.
- *Commercial and Industrial*—consists of commercial and industrial loans, including working capital lines of credit, permanent working capital term loans, business asset loans, acquisition, expansion and development loans, and other loan products, primarily in our target markets. This portfolio primarily consists of term loans and lines of credit which are dependent on the strength of the industries of the related borrowers and the success of their businesses. MSLP loans of \$6.8 million and \$6.6 million as of December 31, 2021 and 2020, respectively, are included in this category.

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

	As of December 31, 2021				
(Dollars in thousands)	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities and Other	\$ 136,298 ⁽¹⁾	\$ 148,889 ⁽¹⁾	\$ 5,561	\$ 5,200	\$ 295,948
Construction and Development	74,111	96,817	7,788	—	178,716
1-4 Family Residential	24,824	126,681	33,085	396,282	580,872
Non-Owner Occupied CRE	66,036	275,057	125,330	16,199	482,622
Owner Occupied CRE	5,255	66,656	129,890	10,625	212,426
Commercial and Industrial	46,742	107,596	49,246	—	203,584
Total loans	\$ 353,266	\$ 821,696	\$ 350,900	\$ 428,306	\$ 1,954,168
Amounts with fixed rates	\$ 120,549	\$ 506,040	\$ 253,223	\$ 26,682	\$ 906,494
Amounts with floating rates	232,717	315,656	97,677	401,624	1,047,674
Total loans	\$ 353,266	\$ 821,696	\$ 350,900	\$ 428,306	\$ 1,954,168

⁽¹⁾ Includes PPP loans.

	As of December 31, 2020				
(Dollars in thousands)	One Year or Less	One Through Five Years	Five Through Fifteen Years	After Fifteen Years	Total
Cash, Securities and Other	\$ 90,053	\$ 259,611 ⁽¹⁾	\$ 6,246	\$ 1,110	\$ 357,020
Construction and Development	78,900	50,703	1,508	—	131,111
1-4 Family Residential	41,211	78,359	33,682	301,786	455,038
Non-Owner Occupied CRE	25,801	175,476	80,666	—	281,943
Owner Occupied CRE	8,355	54,403	100,284	—	163,042
Commercial and Industrial	47,397	68,607	30,027	—	146,031
Total loans	\$ 291,717	\$ 687,159	\$ 252,413	\$ 302,896	\$ 1,534,185
Amounts with fixed rates	\$ 76,130	\$ 469,155	\$ 200,111	\$ 5,438	\$ 750,834
Amounts with floating rates	215,587	218,004	52,302	297,458	783,351
Total loans	\$ 291,717	\$ 687,159	\$ 252,413	\$ 302,896	\$ 1,534,185

⁽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.

The CARES Act provides banks optional, temporary relief from accounting for certain loan modifications as a TDR. The modifications must be related to the adverse effects of COVID-19, and certain other criteria are required to be met in order to apply the relief. Interagency guidance from Federal Reserve and the FDIC confirmed with the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. We believe our loan modification program meets that definition. In accordance with that guidance, the Company is recognizing interest income on all loans modified for temporary payment moratoriums, primarily for a period of 180 days or less.

The Company had sixty-nine loans across multiple industries in the amount of \$130.4 million of loans that took part in the Company's COVID loan modification program. No loans in the loan modification program were delinquent according to Bank policy as of December 31, 2021. No loans were still in the modification period as of December 31, 2021. As of December 31, 2020, the Company's loans included two modified loans, which were still in the modification period, across multiple industries in the amount of \$2.1 million, representing 0.13% of total loans.

All loans modified in response to COVID-19 are classified as performing and pass rated as of December 31, 2021. These loans are included in the allowance for loan loss general reserve in accordance with ASC 450-20. Management has increased our loan level reviews and portfolio monitoring to address the changing environment. The Company continues to meet regularly with clients who could be more highly impacted by the recent COVID-19 pandemic. These are borrowers in industries we believe may be more impacted by the pandemic, for instance those loans where there may be a greater than 50% probability of a downgrade, covenant violation or 20% reduction in collateral position. 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. As of December 31, 2021, no allowance for loan loss was deemed necessary on the accrued interest balances related to loan modifications.

Non-Performing Assets

Non-performing assets include non-accrual loans, TDRs, loans past due 90 days or more and still accruing interest, 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. 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, 2020, we incurred \$0.2 million in losses as a result of sales contracts in place which were lower than the carrying value.

The amount of lost interest for non-accrual loans was \$0.2 million for each of the years ended December 31, 2021 and 2020.

We had \$4.3 million in non-performing assets as of December 31, 2021 and December 31, 2020.

The following presents information regarding non-performing loans as of the dates indicated:

<i>(Dollars in thousands)</i>	As of December 31,	
	2021	2020
Non-accrual loans by category ⁽¹⁾		
Cash, Securities and Other	\$ 8	\$ 50
Construction and Development	—	—
1-4 Family Residential	75	—
Non-Owner Occupied CRE	—	—
Owner Occupied CRE	1,241	479
Commercial and Industrial	2,938	3,529
Total non-accrual loans	4,262	4,058
TDRs still accruing	55	—
Accruing loans 90 or more days past due	10	—
Total non-performing loans	4,327	4,058
OREO	—	194
Total non-performing assets	\$ 4,327	\$ 4,252
Non-accrual loans to total loans ⁽²⁾	0.22 %	0.26 %
Non-performing loans to total loans ⁽²⁾	0.22	0.26
Non-performing assets to total assets	0.17	0.22
Allowance for loan losses to non-accrual loans	322.20	308.99
Allowance for loan losses to non-performing loans	317.36	308.99

⁽¹⁾ As of December 31, 2021, all but one non-accrual loan, totaling an immaterial amount, were also classified as TDRs. As of December 31, 2020, all but two non-accrual loans, totaling \$0.5 million, were also classified as TDRs. See Note 5 – Loans and the Allowance for Loan Losses to the Consolidated Financial Statements.

⁽²⁾ Excludes mortgage loans held for sale of \$30.6 million and \$161.8 million as of December 31, 2021 and 2020, respectively.

Potential Problem Loans

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 for impairment if indicators of impairment exist.

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

As of December 31, 2021 and December 31, 2020 non-performing loans of \$4.3 million and \$4.1 million, respectively, were included in the substandard category in the table below. The following presents, by class and by credit quality indicator, the recorded investment in our loans as of the dates indicated:

<i>(Dollars in thousands)</i>	As of December 31, 2021				As of December 31, 2020			
	Pass	Special Mention	Substandard	Total	Pass	Special Mention	Substandard	Total
Cash, Securities and Other	\$ 295,940	\$ —	\$ 8	\$ 295,948	\$ 356,970	\$ —	\$ 50	\$ 357,020
Construction and Development	176,194	2,522	—	178,716	131,111	—	—	131,111
1-4 Family Residential	580,797	—	75	580,872	451,918	—	3,120	455,038
Non-Owner Occupied CRE	476,670	5,952	—	482,622	275,627	6,316	—	281,943
Owner Occupied CRE	210,493	—	1,933	212,426	161,850	—	1,192	163,042
Commercial and Industrial	198,368	401	4,815	203,584	140,432	—	5,599	146,031
Total	<u>\$ 1,938,462</u>	<u>\$ 8,875</u>	<u>\$ 6,831</u>	<u>\$ 1,954,168</u>	<u>\$ 1,517,908</u>	<u>\$ 6,316</u>	<u>\$ 9,961</u>	<u>\$ 1,534,185</u>

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses, which is a noncash charge to earnings. Loan losses are charged against the allowance when management believes that a loan balance is confirmed uncollectable. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and dollar volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance for loan losses is available for any loan that, in management's judgment, should be charged off.

We are closely monitoring the changing dynamics in the economy and the client impact driven by the COVID-19 pandemic. We have intensified our portfolio management, focusing on higher impacted industries and commercial property types. Our clientele is generally comprised of high net-worth individuals and commercial borrowers with strong credit profiles and multiple sources of repayment. Excluding loans acquired through the Teton Acquisition, the portion of our credit exposure to the highest risk industries impacted by COVID-19, such as accommodations, transportation and restaurants, is less than 4.3% of our loan portfolio. We are actively reviewing our acquired loans for any exposure to high risk industries. The Company has increased our loan level reviews and portfolio monitoring to address the changing environment and continues to engage in more frequent communication with these borrowers to better understand the impact on our borrower's cash flows and respond proactively. While the length of time some of these businesses are unable to operate or operate at full capacity is unknown, it could have a significant impact on many factors that impact our borrowers and our reserve requirement. Management will continue to closely monitor the loan portfolio and analyze the economic data to assess the impact on the allowance for loan loss. We believe the allowance for loan losses is adequate as of December 31, 2021.

The following presents summary information regarding our allowance for loan losses for the periods indicated:

<i>(Dollars in thousands)</i>	Year Ended December 31,	
	2021	2020
Average loans outstanding ⁽¹⁾⁽²⁾	\$ 1,594,084	\$ 1,318,648
Total loans outstanding at end of period ⁽³⁾	\$ 1,949,137	\$ 1,532,833
Allowance for loan losses at beginning of period	\$ 12,539	\$ 7,875
Provision for loan losses	1,230	4,682
Charge-offs:		
Cash, Securities and Other	44	31
Construction and Development	—	—
1-4 Family Residential	—	—
Non-Owner Occupied CRE	—	—
Owner Occupied CRE	—	—
Commercial and Industrial	—	—
Total charge-offs	44	31
Recoveries:		
Cash, Securities and Other	7	13
Construction and Development	—	—
1-4 Family Residential	—	—
Non-Owner Occupied CRE	—	—
Owner Occupied CRE	—	—
Commercial and Industrial	—	—
Total recoveries	7	13
Net charge-offs (recoveries)	37	18
Allowance for loan losses at end of period	\$ 13,732	\$ 12,539
Allowance for loan losses to total loans ⁽⁴⁾	0.70 %	0.82 %
Net charge-offs to average loans ⁽⁵⁾	—	—

⁽¹⁾ Average balances are average daily balances.

⁽²⁾ Excludes average outstanding balances of mortgage loans held for sale of \$88.7 million and \$80.5 million for the years ended December 31, 2021 and 2020, respectively.

⁽³⁾ Excludes mortgage loans held for sale of \$30.6 million and \$161.8 million as of December 31, 2021 and 2020, respectively.

⁽⁴⁾ End of period loans as of December 31, 2021 includes \$252.3 million in acquired loans and \$46.8 million in PPP loans, of which \$6.7 million are acquired PPP loans. No reserve is allocated for these loans. Excluding these loans would result in an increase of the ratio for the year ended December 31, 2021

⁽⁵⁾ For percentages shown as a dash, the ratio of net charge-offs to average loans is negligible or immaterial.

The following table represents the allocation of the allowance for loan losses among loan categories and other summary information. The allocation for loan 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 loan losses to one category of loans does not preclude its availability to absorb losses in other categories. The primary driver for the increase in the allowance from December 31, 2020 to December 31, 2021 was the loan portfolio growth. Additionally, the Company adjusted certain macro-economic factors based on continued signs of growth and recovery in the economy due to the COVID-19 pandemic.

<i>(Dollars in thousands)</i>	As of December 31,			
	2021		2020	
	Amount	%⁽¹⁾	Amount	%⁽¹⁾
Cash, Securities and Other	\$ 1,864	15.2 %	\$ 2,579	23.3 %
Construction and Development	1,092	9.1	932	8.5
1-4 Family Residential	3,553	29.7	3,233	29.7
Non-Owner Occupied CRE	2,952	24.7	2,004	18.4
Owner Occupied CRE	1,292	10.9	1,159	10.6
Commercial and Industrial	2,979	10.4	2,632	9.5
Total allowance for loan losses	\$ 13,732	100.0 %	\$ 12,539	100.0 %

⁽¹⁾ Represents the percentage of loans to total loans in the respective category.

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, for the year ended December 31, 2021, increased \$0.8 million from December 31, 2020.

Deposits

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

Total deposits increased by \$585.8 million, or 36.2%, to \$2.21 billion as of December 31, 2021 from December 31, 2020. The increase was attributable to the Teton Acquisition and continued organic growth with new client accounts, as well as increased deposit balances within the existing deposit accounts, offset partially by intentional runoff of higher rate non-relationship deposits. Total average deposits for the year ended December 31, 2021 were \$1.74 billion, an increase of \$379.2 million, or 27.9%, compared to \$1.36 billion as of December 31, 2020.

The following presents the average balances and average rates paid on deposits for the periods below:

	As of and For the Year Ended December 31,			
	2021		2020	
(Dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate
Deposits				
Money market deposit accounts	\$ 899,970	0.23 %	\$ 719,946	0.46 %
NOW accounts	134,039	0.17	92,383	0.25
Uninsured time deposits	43,199	1.28	59,996	1.69
Other time deposits	104,637	0.63	98,231	1.28
Total time deposits	147,836	0.82	158,227	1.44
Savings accounts	6,096	0.03	5,552	0.08
Total interest-bearing deposits	1,187,941	0.29	976,108	0.59
Noninterest-bearing accounts	550,683		383,271	
Total deposits	<u>\$ 1,738,624</u>	0.20 %	<u>\$ 1,359,379</u>	0.43 %

Average noninterest-bearing deposits to average total deposits was 31.7% and 28.2% for the year ended December 31, 2021 and 2020, respectively.

Our average cost of funds was 0.29% and 0.48% during the year ended December 31, 2021 and 2020, respectively. The decrease was driven by a 30 basis point reduction in interest bearing deposit costs consistent with the lower interest rate environment.

Total money market accounts as of December 31, 2021 were \$1.06 billion, an increase of \$209.2 million, or 24.7%, compared to \$847.4 million as of December 31, 2020. NOW accounts increased \$196.9 million, or 174.2%, to \$309.9 million compared to December 31, 2020.

Total time deposits as of December 31, 2021 were \$170.5 million, a decrease of \$2.2 million, or 1.3%, compared to December 31, 2020.

The following presents the amount of certificates of deposit by time remaining until maturity as of December 31, 2021:

<i>(Dollars in thousands)</i>	Three Months or Less	Three to Six Months	Six to 12 Months	After 12 Months	Total
Uninsured Time Deposits	\$ 4,931	\$ 6,215	\$ 16,069	\$ 26,543	\$ 53,758
Other	26,983	17,127	42,748	29,875	116,733
Total	\$ 31,914	\$ 23,342	\$ 58,817	\$ 56,418	\$ 170,491

Borrowings

We have short-term and long-term borrowing sources available to supplement deposits and meet our liquidity needs. As of December 31, 2021 and December 31, 2020, borrowings totaled \$77.7 million and \$173.9 million, respectively. On August 31, 2021, the Company completed the issuance and sale of subordinated notes totaling \$15.0 million. On December 22, 2021, the Company issued Notices of Redemption to debt holders totaling \$6.6 million to be redeemed on January 2, 2022.

The decrease in other borrowings is primarily attributed to the paydown of loans in the Paycheck Protection Program Loan Facility from the Federal Reserve with a period end balance of \$23.6 million. Borrowing from this facility 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 indicated:

<i>(Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Borrowings		
FHLB borrowings	\$ 15,000	\$ 15,000
Federal Reserve borrowings	23,629	134,563
Subordinated notes	39,031	24,291
Total	\$ 77,660	\$ 173,854

FHLB

We have a blanket pledge and security agreement with FHLB that requires certain loans and securities to be pledged as collateral for any outstanding borrowings under the agreement. The collateral pledged as of December 31, 2021 and December 31, 2020 amounted to \$771.4 million and \$668.6 million, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow an additional \$509.7 million as of December 31, 2021.

<i>(Dollars in thousands)</i>	As of and for the Year Ended December 31, 2021
Short-term borrowings:	
Maximum outstanding at any month-end during the period	\$ 15,000
Balance outstanding at end of period	15,000
Average outstanding during the period	15,000
Average interest rate during the period	0.32 %
Average interest rate at the end of the period	0.32

The Bank has borrowing capacity associated with three unsecured federal funds lines of credit up to \$10.0 million, \$19.0 million, and \$25.0 million. As of December 31, 2021 and 2020, there were no amounts outstanding on any of the federal funds lines.

On October 28, 2020, the Company entered into a Business Loan Agreement and associated Promissory Note (the "Note"), dated June 30, 2020, with a corresponding lending partner. The Note is secured by stock of the Bank and bears interest at the one month ICE Benchmark Administration ("IBA") LIBOR plus 2.5%. As of December 31, 2020, there were no amounts outstanding and the borrowing capacity associated with this facility was \$5.0 million. The Business Loan Agreement expired on June 30, 2021, in accordance with its terms, and was not renewed.

Our borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies. As of December 31, 2021 and December 31, 2020, the Company was in compliance with the covenant requirements.

Liquidity and Capital Resources

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

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

	Average Percentage for the Year Ended December 31, 2021	Average Percentage for the Year Ended December 31, 2020
Sources of Funds:		
Deposits:		
Noninterest-bearing	26.73 %	23.10 %
Interest-bearing	57.67	58.83
FHLB and Federal Reserve borrowings	5.05	7.40
Subordinated notes	1.42	0.83
Other liabilities	0.90	1.29
Shareholders' equity	8.23	8.55
Total	<u>100.00 %</u>	<u>100.00 %</u>
Uses of Funds:		
Total loans	76.77 %	78.87 %
Available-for-sale securities	1.50	2.74
Mortgage loans held for sale	4.30	4.85
Interest-bearing deposits in other financial institutions	12.78	7.82
Noninterest-earning assets	4.65	5.72
Total	<u>100.00 %</u>	<u>100.00 %</u>
Average noninterest-bearing deposits to total average deposits	31.67 %	28.19 %
Average loans to total average deposits	91.69	97.00
Average interest-bearing deposits to total average deposits	68.33	71.81

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 \$64.1 million, or 41.4%, to \$219.0 million as of December 31, 2021 compared to December 31, 2020. The increase is primarily due to \$39.8 million in equity issued as consideration for the Teton Acquisition and net income of \$20.6 million.

On November 3, 2020, the Company announced that its board of directors authorized the repurchase of up to 400,000 shares of the Company's common stock, no par value, from time to time, within one year (the "2020 Repurchase Plan") and that the Board of Governors of the Federal Reserve System advised the Company that it has no objection to the Company's 2020 Repurchase Plan. The Company may repurchase shares in privately negotiated transactions, in the open market, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 promulgated by the Securities and Exchange Commission, or otherwise in a manner that complies with applicable federal securities laws. The 2020 Repurchase Plan does not obligate the Company to acquire a specific dollar amount or number of shares and it may be extended, modified or discontinued at any time without notice. The 2020 Repurchase Plan expired in November 2021. During the year ended December 31, 2021, the Company did not repurchase any shares under the 2020 Repurchase plan.

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

Capital levels are viewed as important indicators of an institution's financial soundness by banking regulators. Generally, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. As of December 31, 2021 and December 31, 2020, respectively, 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. During the years ended December 31, 2021 and 2020, First Western made capital injections of \$2.9 million and \$10.0 million, respectively, into the Bank. 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 for the dates noted.

<i>(Dollars in thousands)</i>	December 31, 2021		December 31, 2020	
	Amount	Ratio	Amount	Ratio
Tier 1 capital to risk-weighted assets				
Bank	\$ 203,164	11.40 %	\$ 133,963	10.22 %
Consolidated Company	188,777	10.54	131,507	9.96
Common Equity Tier 1(CET1) to risk-weighted assets				
Bank	203,164	11.40	133,963	10.22
Consolidated Company	188,777	10.54	131,507	9.96
Total capital to risk-weighted assets				
Bank	217,215	12.19	146,853	11.20
Consolidated Company	242,388	13.54	168,957	12.80
Tier 1 capital to average assets				
Bank	203,164	10.05	133,963	7.62
Consolidated Company	188,777	9.31	131,507	7.45

Contractual Obligations and Off-Balance Sheet Arrangements

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

The following presents future contractual obligations to make future payments for the periods indicated (amounts in thousands):

As of December 31, 2021					
	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	\$ 7,519	\$ 10,000	\$ 21,110	\$ —	\$ 38,629
Subordinated notes	—	—	—	39,031 ⁽¹⁾	39,031
Time deposits	114,073	36,058	20,337	23	170,491
Minimum lease payments	3,461	6,274	2,776	2,168	14,679
Total	\$ 125,053	\$ 52,332	\$ 44,223	\$ 41,222	\$ 262,830

⁽¹⁾ Reflects contractual maturity dates of December 31, 2026, March 31, 2030, December 1, 2030, and September 1, 2031. Notice of early redemption has been provided for the subordinated notes due December 31, 2026.

The following presents financial instruments whose contract amounts represent credit risk, as of the dates indicated.

<i>(Dollars in thousands)</i>	December 31, 2021		December 31, 2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 136,289	\$ 442,035	\$ 78,506	\$ 360,883
Standby letters of credit	2,420	20,940	1,933	17,524
Commitments to make loans to sell	60,529	—	370,512	—
Commitments to make loans	16,256	14,920	24,225	25,316

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 Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity and Market Risk

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

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

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

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

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

Change in Interest Rates (Basis Points)	As of December 31, 2021		As of December 31, 2020	
	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
300	11.85 %	11.17 %	9.04 %	19.52 %
200	9.31	11.43	5.77	16.02
100	4.88	7.78	2.73	9.58
Base	—	—	—	—
-100	(2.58)	(26.39)	(2.83)	(27.89)

The model simulations as of December 31, 2021 imply that our balance sheet is slightly more asset sensitive compared to our balance sheet as of December 31, 2020.

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

Impact of Inflation

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

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

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and accompanying notes, including the Report of Independent Registered Public Accounting Firm, are set forth on pages F-1 to F-57 of this Annual Report on Form 10-K.

Audited Financial Statements

<u>Description</u>	<u>Page Number</u>
Report of Independent Registered Public Accounting Firm (PCAOB ID: 173)	F-1
Consolidated Balance Sheets as of December 31, 2021 and 2020	F-2
Consolidated Statements of Income for the Years Ended December 31, 2021 and 2020	F-3
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021 and 2020	F-4
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2021 and 2020	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2021 and 2020	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Western Financial, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years ended December 31, 2021 and 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

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

Denver, Colorado
March 15, 2022

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

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 6,487	\$ 2,405
Federal funds sold	1,491	—
Interest-bearing deposits in other financial institutions	379,005	153,584
Total cash and cash equivalents	386,983	155,989
Available-for-sale securities, at fair value	56,211	36,666
Correspondent bank stock, at cost	2,584	2,552
Mortgage loans held for sale	30,620	161,843
Loans, net of allowance of \$13,732 and \$12,539	1,935,405	1,520,294
Premises and equipment, net	23,976	5,320
Accrued interest receivable	7,151	6,618
Accounts receivable	5,267	4,865
Other receivables	1,949	1,422
Other real estate owned, net	—	194
Goodwill and other intangible assets, net	31,902	24,258
Deferred tax assets, net	6,845	6,056
Company-owned life insurance	15,803	15,449
Other assets	22,678	32,129
Assets held for sale	115	—
Total assets	\$ 2,527,489	\$ 1,973,655
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 636,304	\$ 481,457
Interest-bearing	1,569,399	1,138,453
Total deposits	2,205,703	1,619,910
Borrowings:		
Federal Home Loan Bank and Federal Reserve borrowings	38,629	149,563
Subordinated notes	39,031	24,291
Accrued interest payable	355	453
Other liabilities	24,730	24,476
Total liabilities	2,308,448	1,818,693
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; 9,419,271 and 7,951,773 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	188,629	144,703
Retained earnings	30,189	9,579
Accumulated other comprehensive income	223	680
Total shareholders' equity	219,041	154,962
Total liabilities and shareholders' equity	\$ 2,527,489	\$ 1,973,655

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,	
	2021	2020
Interest and dividend income:		
Loans, including fees	\$ 60,758	\$ 51,998
Investment securities	770	878
Interest-bearing deposits in other financial institutions	397	458
Total interest and dividend income	61,925	53,334
Interest expense:		
Deposits	3,482	5,794
Other borrowed funds	1,934	1,438
Total interest expense	5,416	7,232
Net interest income	56,509	46,102
Less: Provision for loan losses	1,230	4,682
Net interest income, after provision for loan losses	55,279	41,420
Non-interest income:		
Trust and investment management fees	20,220	19,022
Net gain on mortgage loans	16,060	29,276
Bank fees	1,847	1,320
Risk management and insurance fees	1,120	1,199
Income on company-owned life insurance	354	363
Net gain on equity interests	489	—
Other	60	—
Total non-interest income	40,150	51,180
Total income before non-interest expense	95,429	92,600
Non-interest expense:		
Salaries and employee benefits	40,746	34,785
Occupancy and equipment	5,990	6,009
Professional services	6,473	5,035
Technology and information systems	3,707	4,035
Data processing	6,327	4,000
Marketing	1,613	1,478
Amortization of other intangible assets	17	14
Net loss on assets held for sale	—	553
Provision for other real estate owned	—	176
Other	3,276	3,452
Total non-interest expense	68,149	59,537
Income before income taxes	27,280	33,063
Income tax expense	6,670	8,529
Net income available to common shareholders	\$ 20,610	\$ 24,534
Earnings per common share:		
Basic	\$ 2.58	\$ 3.11
Diluted	2.50	3.08

See accompanying notes to consolidated financial statements.

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Net income	\$ 20,610	\$ 24,534
Other comprehensive (loss)/income items, net of tax effect:		
Net change in unrealized (losses)/gains on available-for-sale securities	(457)	844
Comprehensive income	<u>\$ 20,153</u>	<u>\$ 25,378</u>

See accompanying notes to consolidated financial statements.

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

	Shares Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2019	7,940,168	\$ 142,797	\$ (14,955)	\$ (164)	\$ 127,678
Net income	—	—	24,534	—	24,534
Other comprehensive income, net of tax	—	—	—	844	844
Settlement of share awards	34,710	(261)	—	—	(261)
Share repurchase	(23,105)	(377)	—	—	(377)
Stock-based compensation	—	2,544	—	—	2,544
Balance, December 31, 2020	<u>7,951,773</u>	<u>\$ 144,703</u>	<u>\$ 9,579</u>	<u>\$ 680</u>	<u>\$ 154,962</u>
Net income	—	—	20,610	—	20,610
Other comprehensive loss, net of tax	—	—	—	(457)	(457)
Settlement of share awards	58,884	(501)	—	—	(501)
Issuance of common stock for Teton Acquisition	1,337,791	39,818	—	—	39,818
Options exercised	70,823	1,706	—	—	1,706
Stock-based compensation	—	2,903	—	—	2,903
Balance, December 31, 2021	<u>9,419,271</u>	<u>\$ 188,629</u>	<u>\$ 30,189</u>	<u>\$ 223</u>	<u>\$ 219,041</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,	
	2021	2020
Cash flows from operating activities		
Net income	\$ 20,610	\$ 24,534
Adjustments to reconcile net income to net cash used in operating activities:		
Net amortization of investment securities	131	442
Stock dividends received on correspondent bank stock	(76)	(17)
Provision for loan losses	1,230	4,682
Net gain on mortgage loans	(16,060)	(29,276)
Origination of mortgage loans held for sale	(1,263,346)	(1,331,989)
Proceeds from mortgage loans	1,417,808	1,238,881
Depreciation and amortization	1,273	1,117
Provision for other real estate owned	—	176
Deferred income tax benefits, net of valuation allowance	(668)	(1,300)
Increase in cash surrender value of company-owned life insurance	(354)	(363)
Loss on assets held for sale	—	553
Stock-based compensation	2,903	2,544
Gain on equity interests	(489)	—
Loss/(Gain) on sale of assets	27	(43)
Net changes in operating assets and liabilities:		
Change in accounts receivable	(247)	355
Change in accrued interest receivable and other assets	1,254	(4,473)
Change in accrued interest payable and other liabilities	1,852	858
Net cash provided by/(used in) operating activities	<u>165,848</u>	<u>(93,319)</u>
Cash flows from investing activities		
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	16,241	28,639
Purchases	(17,667)	(6,000)
Purchases of correspondent bank stock	(1)	(1,950)
Redemption of correspondent bank stock	973	—
Contributions to low-income housing tax credit investments	(2,087)	—
Loan and note receivable originations and principal collections, net	(162,900)	(414,486)
Purchases of premises and equipment	(2,108)	(1,205)
Proceeds from sale of premises and equipment	—	10
Proceeds from sale of other real estate owned	194	288
Net cash received/(paid) on acquisitions	120,997	(61,316)
Net cash used in investing activities	<u>(46,358)</u>	<u>(456,020)</u>
Cash flows from financing activities		
Net change in deposits	206,566	470,046
Payments to Federal Home Loan Bank borrowings	—	(30,000)
Proceeds from Federal Home Loan Bank borrowings	—	35,000
Payments to Federal Reserve borrowings	(194,608)	(69,750)
Proceeds from Federal Reserve borrowings	83,674	204,313
Proceeds from subordinated notes, net of issuance costs	14,667	17,719
Proceeds from the exercise of stock options	1,706	—
Repurchase of common stock	—	(377)
Settlement of restricted stock	(501)	(261)
Net cash provided by financing activities	<u>111,504</u>	<u>626,690</u>
Net change in cash and cash equivalents	230,994	77,351
Cash and cash equivalents, beginning of year	155,989	78,638
Cash and cash equivalents, end of period	<u>\$ 386,983</u>	<u>\$ 155,989</u>
Supplemental cash flow information:		
Interest paid on deposits and borrowed funds	\$ 5,514	\$ 7,078
Income tax payment, net of refunds received	6,336	11,763
Cash paid for lease liabilities	5,287	5,659
Supplemental noncash disclosures:		
Common stock issued for Teton acquisition	39,818	—
Reclass of held for sale assets, net of liabilities	—	(2,990)
Contingent asset resulting from sale of held for sale assets	—	3,062
Change in unrealized (loss)/gain on available-for-sale securities	(620)	1,113
Lease right-of-use-asset obtained in exchange for lease liabilities	2,262	3,600

See accompanying notes to consolidated financial statements.

FIRST WESTERN FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FWFI is a bank holding company with financial holding company status registered with the Board of Governors of the Federal Reserve System. FWFI wholly owns the following subsidiaries: First Western Trust Bank (the "Bank") and Ryder, Stilwell Inc. ("RSI"). The Bank wholly owns the following subsidiaries, which are therefore indirectly wholly-owned by FWFI: First Western Merger Corporation ("Merger Corp.") and RRI, LLC ("RRI"). RSI and RRI are not active operating entities.

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), and Wyoming (Jackson Hole, Laramie, Pinedale and Rock Springs). The Company's revenues are generated from its full range of product offerings as noted above, but principally from net interest income (the interest income earned on the Bank's assets net of funding costs), fee-based wealth advisory, investment management, asset management and personal trust services, and net gains earned on mortgage loans.

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

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

Business Combinations and Divestitures: On December 31, 2021, the Company completed an Agreement and Plan of Merger (the "Merger Agreement" or "Teton Acquisition") with Teton Financial Services, Inc. ("Teton"), parent company of Rocky Mountain Bank, a Wyoming-chartered bank headquartered in Jackson, Wyoming. Management concluded that the merger represented a business combination, which is accounted for using the acquisition method, with the results of operations included in the Company's consolidated financial statements as of the acquisition date.

On November 13, 2020, the Company completed the sale of its Los Angeles fixed income team and certain related advisory and sub-advisory arrangements to Lido Advisors, LLC and Oakhurst Advisors, LLC. As a result of this transaction, the Company recorded a contingent consideration asset with an initial fair value estimated at \$3.1 million to be received in quarterly payments over three years and a portion will be received in perpetuity. The asset is carried at its net present value in our Other assets line item of the Consolidated Balance Sheets.

On May 15, 2020, the Company completed a branch purchase and assumption transaction ("Branch Acquisition") with Simmons Bank ("Simmons"). Management concluded that the acquisition represented a business combination, which is accounted for using the acquisition method, with the results of operations included in the Company's consolidated financial statements as of the acquisition date.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ. Information available which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, including the impact of the COVID-19 pandemic, and changes in the financial condition of borrowers. Material estimates that are particularly susceptible to significant change include: the determination of the allowance for loan losses, the evaluation of goodwill impairment, and the fair value of financial instruments.

The Company could experience a material adverse effect on its business as a result of the impact of the COVID-19 pandemic, and the resulting governmental actions to curtail its spread. It is at least reasonably possible that information which was available at the date of the financial statements will change in the near term due to the COVID-19 pandemic and that the effect of the change would be material to the financial statements. The extent to which the COVID-19 pandemic will impact our estimates and assumptions is highly uncertain.

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; and Jackson Hole, Wyoming. The Company does not believe it has significant concentrations in any one industry or customer. As of December 31, 2021 and December 31, 2020, 76.1% and 66.9%, respectively, of the Company's loan portfolio was secured by real estate collateral. Declines in real estate values in the primary markets the Company operates in could negatively impact the Company.

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

Investment Securities: Investments we intend to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are recorded at fair value using current market information from a pricing service, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax. As of December 31, 2021 and 2020, all investment securities were classified as available-for-sale. As of December 31, 2021, equity mutual funds have been recorded at fair value within the Other assets line of the Consolidated Balance Sheets with changes recorded in the Other line of the Consolidated Statements of Income.

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

Net purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are recorded in earnings as realized losses in Non-interest income.

Management evaluates securities for other-than-temporary impairment ("OTTI") on a quarterly basis, or more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to loss on securities, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. As of December 31, 2021 and 2020, no securities were determined to be other-than-temporarily impaired.

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

Correspondent Bank Stock: Correspondent bank stock includes stock in the Federal Home Loan Bank of Topeka ("FHLB"), Federal Reserve Bank ("FRB"), and Bankers' Bank of the West ("BBW"), which are considered restricted securities because the Company may be required to hold the stock in order to maintain the correspondent banking relationship with these institutions. No ready market exists for the FHLB and FRB stock and therefore, no quoted market values exist. For financial reporting purposes, the FHLB and FRB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. The BBW stock is carried at fair value. No impairment was recorded as of December 31, 2021 and 2020. Both cash and stock dividends are reported as income when received.

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

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

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

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

Troubled Debt Restructurings: A troubled debt restructuring ("TDR") is a loan the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower the Company would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to (i) a reduction in the stated interest rate of the loan, (ii) an extension of the maturity date of the loan at an interest rate below market, or (iii) a reduction of the accrued interest.

Loan modifications granted by the Company are reviewed on a case-by-case basis to determine if they should be considered a restructured loan.

COVID-19 Loan Modifications: As a result of the COVID-19 pandemic, a loan modification program was designed and implemented to assist our clients experiencing financial stress resulting from the economic impacts caused by the global pandemic. The Company 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, primarily for a period of 180 days or less.

During 2021, the Company's loan portfolio included 69 loans totaling \$130.4 million, which participated in the Company's COVID-19 loan modification program. As of December 31, 2021, the deferral period has ended for all loans previously modified and payments have resumed under the original terms.

COVID-19 and CARES Act: On March 11, 2020 the World Health Organization declared the outbreak of COVID-19 a global pandemic, which continues to spread throughout the United States and the around the world. In response to the COVID-19 pandemic, the President signed the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") into law on March 27, 2020. The objective of the CARES Act is to prevent a severe economic downturn using various measures, including economic stimulus to significantly impacted industry sectors. We continue to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act and other government actions.

The CARES Act created the paycheck protection program ("PPP"), which is administered by the Small Business Administration ("SBA"). The PPP is intended to provide loans to small businesses to pay their employees, rent, mortgage interest and utilities. The loans may be forgiven conditioned upon the client providing payroll documentation evidencing their compliant use of funds and otherwise complying with the terms of the program. The Bank is an approved SBA lender and supported the community and clients by originating PPP loans since the program was created. PPP loans are classified in the Cash, Securities and Other portion of the loan portfolio. See Note 5 - Loans and the Allowance for Loan Losses for further discussion on our PPP loans.

The CARES Act provides banks optional, temporary relief from accounting for certain loan modifications as TDRs. The modifications must be related to the adverse effects of COVID-19, and certain other criteria are required to be met in order to apply the relief. Interagency guidance from Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") confirmed with the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered a TDR. We believe our loan modification program meets that definition and have not classified any of these modifications as a TDR as of December 31, 2021 and 2020. In accordance with that guidance, the Company is recognizing interest income on all loans modified for temporary payment moratoriums. See Note 5 - Loans and the Allowance for Loan Losses for further discussion on our loan modification program.

All loans modified in response to COVID-19 are classified as performing and pass rated as of December 31, 2021 and 2020. These loans are included in the allowance for loan loss general reserve in accordance with ASC 450-20. Management has increased our loan level reviews and portfolio monitoring to address the changing environment. The Company continues to meet regularly with clients who could be more highly impacted by the recent COVID-19 pandemic. These are borrowers in industries we believe may be more impacted by the pandemic, for instance those loans where there may be a greater than 50% probability of a downgrade, covenant violation, or 20% reduction in collateral position. 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. As of December 31, 2021 and 2020, no allowance for loan loss was deemed necessary on the accrued interest balances related to loan modifications.

The Company is a participant in the Federal Reserve's Main Street Lending Program ("MSLP") to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The Company may sell a 95% participation in a new MSLP loan to the Main Street Special Purpose Vehicle ("SPV") at par value. The Company must retain 5% of the MSLP loan until (i) it matures or (ii) neither the Main Street SPV nor a Governmental Assignee holds an interest in MSLP Loan in any capacity, whichever comes first. See Note 5 - Loans and the Allowance for Loan Losses for further discussion on our participation in the program.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and dollar volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

We are closely monitoring the changing dynamics in the economy and the client impact driven by the COVID-19 pandemic. We have intensified our portfolio management, focusing on higher impacted industries and commercial property types. Excluding loans acquired through the Teton Acquisition, the portion of our credit exposure to the highest risk industries impacted by COVID-19, such as accommodations, transportation and restaurants, is less than 4.3% of our loan portfolio. We are actively reviewing our acquired loans for any exposure to high risk industries. The Company has increased our loan level reviews and portfolio monitoring to address the changing environment and continues to engage in more frequent communication with these borrowers to better understand the impact on our borrower's cash flows and respond proactively. During the year ended December 31, 2020, the Company increased its allowance to account for the additional variability surrounding the loan modifications and increased economic uncertainty related to the COVID-19 pandemic. Management will continue to closely monitor the loan portfolio and analyze the economic data to assess the impact on the allowance for loan losses.

A loan is considered impaired when, based on current information and events, it is probable the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

TDR and non-accrual loans are separately evaluated for impairment and included in the separately identified impairment disclosures. If cash flow dependent, TDR and non-accrual loans will be measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR or non-accrual loan is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDR and non-accrual loans that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting all scheduled principal and interest payments. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

- Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
- Levels and trends in net charge-offs.
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.
- Changes in the nature or volume of the loan portfolio and in the terms of loans.
- Changes in the experience, ability, and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans.
- Changes in the quality of the loan review system and associated grading changes.
- Change in the level of overdrafts.
- Levels and status of loans modified as a result of COVID-19.

The following portfolio segments have been identified:

- Cash, Securities and Other—consists of consumer and commercial purpose loans that are primarily secured by securities managed and under custody with us, cash on deposit with us or life insurance policies. In addition, loans in this portfolio are collateralized with other sources of consumer collateral and an immaterial amount of each loan may be unsecured. 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 as of December 31, 2021 and 2020.
- 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 ("CRE"), 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. This category includes MSLP loans as of December 31, 2021 and 2020.

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

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

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Prior to participating in the MSLP, the Company obtained a true sale opinion with regards to the legal isolation condition of the contract. Legal counsel determined that given the facts and circumstances provided, consistent with the FDIC rule entitled “Treatment of financial assets transferred in connection with a securitization or participation”, 12 C.F.R. §360.6, that the MSLP documents would be considered a true sale to the buyer. As such, Management concludes the MSLP loans qualify for sales accounting treatment and are true sales contracts under GAAP.

Premises and Equipment: Premises and equipment are carried at cost, net of accumulated depreciation, with the exception of artwork and land, which are carried at cost. The Company acquired land and three buildings associated with the Teton Acquisition. These assets were initially recorded at their fair values based on recent appraisals and the buildings will be depreciated over their new remaining useful life, ranging from 25 to 50 years. Leasehold improvements are depreciated using the straight-line method and recognized over the shorter of the lease term or estimated useful lives of the assets, ranging from 7 to 15 years. Furniture/equipment and software are depreciated using the straight-line method and recognized over the estimated useful lives of the assets, ranging from 3 to 7 years.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over the fair value of net identifiable tangible and intangible assets acquired in business combinations. The Company has acquired other identifiable intangible assets, primarily consisting of customer relationships, non-competition agreements, and recorded goodwill through its acquisition of financial services companies. Goodwill and other indefinite-lived intangible assets are not amortized, but are tested for impairment at the reporting unit level at least annually by applying a fair value-based test using discounted estimated future net cash flows. The Company has selected October 31 as the date to perform its annual impairment tests. Impairment exists when the carrying amount of the goodwill and other intangible assets exceeds their implied fair values. Impairment losses, if any, are recognized as a charge to non-interest expense and an adjustment to the carrying value of the goodwill or other intangible assets. Subsequent reversals of impairment charges are prohibited. Goodwill is the only intangible asset with an indefinite life on the Company’s Consolidated Balance Sheets. Other definite-lived intangible assets, including customer relationship intangibles, are amortized on an accelerated basis over periods representing the estimated remaining lives of the assets of one to ten years, and are evaluated for impairment when events or changes in circumstances indicate the carrying values of such assets may not be recoverable. As of December 31, 2021, the Company believes the carrying value of its goodwill not to be impaired and other intangible assets to be recoverable.

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

Other Receivables: Other accounts receivable represents compensation paid to employees that is contingent on future employment and recognized in the Consolidated Statements of Income over the estimated service period, sales of investments and assets in which the Company has obtained a firm commitment as of the balance sheet dates, and fees due from the SBA related to PPP.

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

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

Company-Owned Life Insurance: The Company has purchased life insurance policies on certain current and former officers and key employees. Company-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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

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

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

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

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

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

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

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, net of taxes, which is also recognized as a separate component of equity.

Earnings per Common Share: Earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during each period. See Note 13 – Earnings Per Common Share for the common share equivalents that have been included and excluded from the calculation of earnings per common share.

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

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

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

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

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 17 – Fair Value. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Revenue Recognition: In accordance with the Financial Accounting Standards Board ("FASB"), Revenue Contracts with Customers ("Topic 606"), trust and investment management fees are earned by providing trust and investment services to customers. The Company's performance obligation under these contracts is satisfied over time as the services are provided. Fees are recognized monthly based on the average monthly value of the assets under management and the corresponding fee rate based on the terms of the contract. No performance based incentive fees were earned with respect to investment management contracts for the years ended December 31, 2021 and 2020. Receivables are recorded on the Consolidated Balance Sheets in the Accounts receivable line item. Income related to trust and investment management fees, bank fees, and risk management and insurance fees on the Consolidated Statements of Income for the years ended December 31, 2021 and 2020 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 2021 it will no longer persuade or compel banks to submit rates for the calculation of LIBOR. In response, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee to identify a set of alternative reference interest rates for possible use as market benchmarks. This committee has proposed the Secured Overnight Financing Rate ("SOFR") as its recommended alternative to U.S. dollar LIBOR, and the Federal Reserve Bank of New York began publishing SOFR rates in the second quarter of 2018. SOFR is based on a broad 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.

The administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings to June 30, 2023, and to cease publishing other LIBOR settings on December 31, 2021.

Certain of the Company's assets and liabilities are indexed to LIBOR, with exposure extending past December 31, 2021. The Company is currently evaluating and planning for the eventual replacement of the LIBOR benchmark interest rate, including the possibility of SOFR as the dominant 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 and operations, fallback language, and other aspects of planning. The company no longer originates LIBOR indexed loans. Existing LIBOR indexed commercial loans are expected to be transitioned to SOFR by June 30, 2022. Consumer indexed loans are being managed in accordance with Interagency Guidance.

Restrictions on Cash: During the year ended December 31, 2020, the Board of Governors of the Federal Reserve System reduced reserve requirement ratios to zero percent. This action eliminated reserve requirements for all depository institutions.

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 reflect recent accounting pronouncements that have been adopted by the Company during the Company's fiscal year ended December 31, 2021.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* ("ASU 2021-01"). ASU 2021-01 clarifies the scope of Topic 848, originally issued in 2020 (ASU 2020-04). ASU 2021-01 clarifies that derivatives affected by the related discounting transition are explicitly eligible for certain optional expedients and exceptions. ASU 2021-01 also clarifies that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform. ASU 2021-01 was effective for the Company on January 7, 2021 and did not have a material impact on the Company's financial statement 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, 2021.

In February 2016, the FASB issued 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. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings and the allowance for credit losses as of the beginning of the first reporting period in which the guidance is effective. 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.

During the year ended December 31, 2021, the CECL committee of the Company continued to work through its implementation plan. The Company has integrated historical and current loan level data as required by CECL and is working with its third-party vendor solution to begin evaluating the methodologies available under the CECL model on its loan portfolios. The Company also continues to evaluate documentation requirements, internal control structure, relevant data sources, and system configurations. The Company has completed a successful integration of the required fields and historical data for key loan, client and collateral data within the third-party solution and has been able to run parallels of our current allowance for loan and lease losses ("ALLL") calculation in the software to compare to our internal calculation and reconcile known differences. The Company has started the process of selecting the methodologies to be used for each segment of its loan portfolio and started preliminarily testing to determine the impact of each methodology. Currently, we are unable to estimate the impact the adoption of this update will have on the consolidated financial statements and disclosures. However, the Company expects the impact of the adoption will be significantly influenced by the composition and characteristics of its loan portfolios along with economic conditions prevalent as of the date of adoption. The Company expects to implement the new standard beginning January 1, 2023.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which amended existing guidance to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge of the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 was set to be effective for the Company on January 1, 2021. However, ASU 2019-10 amended the mandatory effective date for ASU 2014-07 to January 1, 2023 for SRC's, with earlier adoption permitted. The Company expects to early adopt beginning January 1, 2022.

NOTE 2 – ACQUISITIONS

On July 22, 2021, the Company entered into the Merger Agreement with Teton, parent company of Rocky Mountain Bank, a Wyoming-chartered bank headquartered in Jackson, Wyoming. The Merger Agreement provides that, subject to the terms and conditions set forth in the Merger Agreement, Teton would merge into the Company, with the Company continuing as the surviving corporation. The Merger Agreement also provides that following the merger, Rocky Mountain Bank would merge with and into the Bank, with the Bank surviving the bank merger. The transaction closed on December 31, 2021 with an aggregate purchase price of \$51.3 million. Total acquisition costs incurred through December 31, 2021 for the transaction were approximately \$4.1 million and are primarily reflected in the Data processing, Professional services, and Salaries and employee benefits lines of the Consolidated Statements of Income, with a remaining immaterial amount in the Other line of the Consolidated Statements of Income. As part of its long-term growth strategy, the Teton Acquisition expands First Western's presence in Wyoming and allows the Bank to deliver its unique approach to private and commercial banking to more clients in the region.

The Teton Acquisition was accounted for under the acquisition method of accounting and therefore all assets and liabilities have been measured and recorded at their fair values as of the acquisition close date of December 31, 2021. All non-equity acquisition related costs were expensed as incurred and are included in noninterest expense in the Consolidated Statements of Income. Certain acquisition costs related to the issuance of equity were capitalized as of December 31, 2021. Market value adjustments for assets acquired and liabilities assumed are amortized or accreted on a level yield basis over the estimated life of the asset or liability. Loans acquired are recorded at their estimated fair value and therefore no allowance for loan and lease losses was recorded at the date of acquisition. Goodwill of \$6.4 million, which is not tax deductible, was recognized in the transaction and represents expected synergies and cost savings resulting from combining the expanded footprint and expertise of the associates. Additionally, core deposit intangible assets have been identified and recorded at their estimated fair values and are amortized over their estimated useful life. On August 31, 2021, the Company completed the issuance and sale of subordinated notes, which provided partial funding of the transaction. See Note 10 – Borrowings.

As of December 31, 2021, loans, deposits, core deposit intangible, and equity warrants fair values are considered provisional. These items contain estimates of the accounting for the acquisition which are subject to revision in future periods when the application of purchase accounting is finalized. The Company utilized preliminary balance sheet values to estimate the fair values and then applied those values to the acquired balances as of December 31, 2021. The final valuation will be determined based on the actual December 31, 2021 balances which is in process at the time of this filing.

The following presents the estimated fair values of the assets acquired and liabilities assumed in the December 31, 2021 transaction with Teton, and reflects all adjustments made to the fair value of the opening balance sheet on December 31, 2021 (in thousands):

Fair value of consideration transferred	December 31, 2021
Cash consideration	\$ 11,501
Common stock issued	39,818
Total fair value of consideration transferred	51,319
Assets acquired	
Cash and cash equivalents	132,498
Available-for-sale securities, at fair value	18,218
Correspondent bank stock, at cost	928
Mortgage loans held for sale	840
Loans, net	252,275
Premises and equipment	17,758
Accrued interest receivable	923
Accounts receivable	95
Other receivable	520
Core deposit intangible ⁽¹⁾	1,264
Other assets	66
Assets held for sale	115
Total assets acquired	425,500
Liabilities assumed	
Deposits	379,227
Accrued interest payable	26
Other liabilities	1,283
Deferred tax liabilities, net	42
Total liabilities assumed	380,578
Net assets acquired	44,922
Goodwill recognized	\$ 6,397

⁽¹⁾ The core deposit intangible was determined to have an estimated life of 10 years.

The fair value adjustments were determined using discounted expected cash flows. Loans had a fair value of \$252.3 million and a contractual balance of \$256.3 million as of December 31, 2021. The discount on the loans acquired in this transaction due to anticipated credit loss, as well as considerations for market interest rates, totaled \$4.0 million, representing 1.6% of their contractual balance. There were no loans acquired that were considered to be purchased credit impaired ("PCI") loans.

The composition of the contractual balance of acquired loans as of December 31, 2021 is detailed in the table below (in thousands):

	Year Ended December 31, 2021
Cash, Securities and Other ⁽¹⁾	\$ 20,080
Construction and Development	33,977
1-4 Family Residential	70,348
Non-Owner Occupied CRE	43,162
Owner Occupied CRE	33,000
Commercial and Industrial	55,690
Total loans	256,257
Acquisition fair value adjustments	(3,982)
Loans, net	\$ 252,275

⁽¹⁾ Includes \$6.7 million in PPP loans.

The Company incurred \$4.1 million in expenses related to the acquisition during the year ended December 31, 2021. The following presents the acquisition expenses within Non-interest expense of the Consolidated Statements of Income (in thousands):

	Year Ended December 31, 2021
Mergers and acquisitions expense:	
Salaries and employee benefits	\$ 547
Professional services	1,118
Data processing	2,428
Other	8
Total mergers and acquisitions expense	\$ 4,101

On February 10, 2020, the Company entered into a branch purchase and assumption agreement with Simmons Bank, a subsidiary of Simmons First National Corporation, to acquire all of the Simmons' Colorado locations, including three branches and one loan production office located in Denver, as well as certain deposits, loans and other assets and liabilities. The transaction closed on May 15, 2020 with an aggregate purchase price of \$61.6 million, including a deposit premium of 6.06%.

During the third quarter of 2020, the Company closed two of the branches and the loan production office acquired in the Branch Acquisition.

Goodwill of \$4.5 million was recognized in the transaction and represents expected synergies and cost savings resulting from combining the expanded footprint and expertise of the associates.

The following presents the estimated fair values of the assets acquired and liabilities assumed in the May 15, 2020 transaction with Simmons, and reflects all adjustments made to the fair value of the opening balance sheet through December 31, 2020 (in thousands):

	May 15, 2020
Fair value of consideration transferred	
Cash consideration	\$ 61,599
Total fair value of consideration transferred	61,599
Assets acquired	
Cash and due from banks	283
Loans, net	119,552
Core deposit intangible ⁽¹⁾	53
Accrued income and other assets	382
Total assets acquired	120,270
Liabilities assumed	
Deposits	63,080
Accrued expenses and other liabilities	96
Total liabilities assumed	63,176
Net assets acquired	57,094
Goodwill recognized	\$ 4,505

⁽¹⁾ The core deposit intangible was determined to have an estimated life of 10 years.

The fair value of net assets acquired includes fair value adjustments to loans as of the acquisition date. The fair value adjustments were determined using discounted expected cash flows. Loans had a fair value of \$119.6 million and a contractual balance of \$120.6 million as of May 15, 2020. The discount on the loans acquired in this transaction due to anticipated credit loss, as well as considerations for market interest rates, totaled \$1.1 million, representing 0.9% of their contractual balances. No allowance for loan losses related to acquired loans was recorded as a result of the Branch Acquisition. Loans acquired included short-term modifications made on a good faith basis by Simmons, in response to COVID-19. All of the modification were given additional review prior to the closing of the purchase and management determined that loans were performing prior to modification and were not considered impaired at purchase. There were no loans acquired that were considered to be PCI loans.

The composition of the acquired loan portfolio as of May 15, 2020 is detailed in the table below (in thousands):

	May 15, 2020
Cash, Securities and Other ⁽¹⁾	\$ 13,457
Construction and Development	40,407
1-4 Family Residential	7,252
Non-Owner Occupied CRE	545
Owner Occupied CRE	321
Commercial and Industrial	58,660
Total loans	\$ 120,642

⁽¹⁾ Includes \$12.9 million in PPP loans.

The Company incurred \$0.7 million in expenses related to the acquisition during the year ended December 31, 2020. Acquisition expenses, including Data processing, Professional fees, Salaries and employee benefit, Technology and information systems, and occupancy and equipment lines are included in the Total non-interest expense line of the Consolidated Statements of Income.

The following table presents pro forma information for the years ended December 31, 2021 and 2020, as if the Teton Acquisition and Branch Acquisition had occurred on January 1, 2020. This table has been prepared for comparative purposes only, and is not indicative of the actual results that would have been attained had the acquisitions occurred as of the beginning of the periods presented, nor is it indicative of future results (in thousands, except per share data):

	Pro Forma Twelve Months Ended December 31,	
	2021	2020
Net interest income after provision for loan losses	\$ 68,019	\$ 56,465
Noninterest income	41,206	52,926
Net income	23,234	23,689
Pro forma earnings per share:		
Basic	2.49	2.55
Diluted	2.43	2.55

NOTE 3 - INVESTMENT SECURITIES

The following presents the amortized cost and fair value of securities available-for-sale, with gross unrealized gains and losses recognized in accumulated other comprehensive income as of December 31, 2021 and December 31, 2020 (in thousands):

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
U.S. Treasury debt	\$ 250	\$ —	\$ (3)	\$ 247
U.S. Government Agency	3,522	—	—	3,522
Corporate bonds	8,113	227	(15)	8,325
GNMA mortgage-backed securities – residential	26,611	185	(146)	26,650
FNMA mortgage-backed securities – residential	14,400	43	—	14,443
Government CMO and MBS - commercial	878	—	—	878
Corporate CMO and MBS	1,492	23	(18)	1,497
Other	649	—	—	649
Total securities available-for-sale	<u>\$ 55,915</u>	<u>\$ 478</u>	<u>\$ (182)</u>	<u>\$ 56,211</u>

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
U.S. Treasury debt	\$ 250	\$ 4	\$ —	\$ 254
Corporate bonds	6,000	55	(11)	6,044
GNMA mortgage-backed securities – residential	23,806	798	—	24,604
FNMA mortgage-backed securities – residential	1,616	61	—	1,677
Corporate CMO and MBS	4,078	62	(53)	4,087
Total securities available-for-sale	<u>\$ 35,750</u>	<u>\$ 980</u>	<u>\$ (64)</u>	<u>\$ 36,666</u>

Net amortization of premiums and discounts related to mortgage securities during each of the years ended December 31, 2021 and 2020 was \$0.1 million and \$0.4 million, respectively, and is included in Net interest income in the Consolidated Statements of Income.

As of December 31, 2021, the amortized cost and estimated fair value of available-for-sale securities have contractual maturity dates shown in the table below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

December 31, 2021	Amortized Cost	Fair Value
Due within one year	\$ 506	\$ 506
Due between one year and five years	414	411
Due between five years and ten years	9,303	9,515
Due after ten years	1,662	1,662
Securities (CMO and MBS)	44,030	44,117
Total	<u>\$ 55,915</u>	<u>\$ 56,211</u>

In 2014, the Company began investing in a small business investment company ("SBIC") fund administered by the Small Business Administration. During the year ended December 31, 2021, the Company did not make any contributions to the SBIC fund and received a \$0.1 million return of capital. During the year ended December 31, 2020, the Company invested \$0.5 million in SBIC. As of December 31, 2021 and 2020, the Company held a balance of \$2.0 million and \$2.1 million, respectively, with SBIC, which is included in Other assets in the accompanying Consolidated Balance Sheets. The Company may be obligated to invest up to an additional \$1.0 million in future SBIC investments.

As of December 31, 2021, securities with carrying values totaling \$17.3 million, which includes \$14.9 million acquired from the Teton Acquisition, were pledged to secure various public deposits and credit facilities of the Company. As of December 31, 2020, securities with carrying values totaling \$3.7 million were pledged.

As of December 31, 2021 and December 31, 2020, 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.

As of December 31, 2021 and December 31, 2020, ten securities and seven securities were in an unrealized loss position, with unrealized losses totaling \$0.2 million and \$0.1 million, respectively. One of the securities in an unrealized loss position as of December 31, 2021 has been in a continuous unrealized loss position for more than twelve months, and the remaining have been in a continuous unrealized loss position for less than twelve months. The unrealized loss positions were caused primarily by interest rate changes and market assumptions about prepayments of principal and interest on the underlying mortgages. Because the decline in market value is attributable to market conditions, not credit quality, and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be near or at maturity, the Company does not consider these investments to be other-than-temporarily impaired as of December 31, 2021.

The following presents securities with unrealized losses as of December 31, 2021 and December 31, 2020, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands, before tax):

December 31, 2021	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury debt	\$ 247	\$ (3)	\$ —	\$ —	\$ 247	\$ (3)
Corporate bonds	485	(15)	—	—	485	(15)
GNMA mortgage-backed securities – residential	17,205	(146)	—	—	17,205	(146)
Corporate CMO and MBS	—	—	521	(18)	521	(18)
Total	<u>\$ 17,937</u>	<u>\$ (164)</u>	<u>\$ 521</u>	<u>\$ (18)</u>	<u>\$ 18,458</u>	<u>\$ (182)</u>

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Corporate bonds	\$ 3,489	\$ (11)	\$ —	\$ —	\$ 3,489	\$ (11)
Corporate CMO and MBS	880	(40)	566	(13)	1,446	(53)
Total	\$ 4,369	\$ (51)	\$ 566	\$ (13)	\$ 4,935	\$ (64)

The Company did not sell any securities during the years ended December 31, 2021 or 2020.

NOTE 4 – CORRESPONDENT BANK STOCK

The following presents the Company's investments in correspondent bank stock, as of the dates noted (in thousands):

	December 31,	
	2021	2020
FHLB	\$ 1,625	\$ 2,522
BBW	31	30
FRB	928	—
Total	\$ 2,584	\$ 2,552

NOTE 5 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES

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

	December 31, 2021	December 31, 2020
Cash, Securities and Other ⁽¹⁾	\$ 295,948	\$ 357,020
Construction and Development	178,716	131,111
1-4 Family Residential	580,872	455,038
Non-Owner Occupied CRE	482,622	281,943
Owner Occupied CRE	212,426	163,042
Commercial and Industrial ⁽²⁾	203,584	146,031
Total loans held for investment	1,954,168	1,534,185
Deferred fees and unamortized premiums/(unaccreted discounts), net	(5,031)	(1,352)
Allowance for loan losses	(13,732)	(12,539)
Loans, net	\$ 1,935,405	\$ 1,520,294

⁽¹⁾ Includes PPP loans of \$46.8 million and \$142.9 million as of December 31, 2021 and 2020, respectively.

⁽²⁾ Includes MSLP loans of \$6.8 million and \$6.6 million as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, total loans held for investment included \$356.7 million and \$127.2 million, respectively, of performing loans purchased through mergers or acquisitions.

The CARES Act created the PPP, which is administered by the SBA. The PPP is intended to provide loans to small businesses to pay their employees, rent, mortgage interest and utilities. The loans may be forgiven conditioned upon the client providing payroll documentation evidencing their compliant use of funds and otherwise complying with the terms of the program. The Bank is an approved SBA lender and as of December 31, 2021, the Cash, Securities and Other portion of the loan portfolio included \$46.8 million of PPP loans, or 15.8% of the total category. As of December 31, 2020, the Cash, Securities, and Other portion of the loan portfolio included \$142.9 million of PPP loans, or 40.0% of the total category.

The Company is a participant in the Federal Reserve's MSLP to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. As of December 31, 2021, the Company's Commercial and Industrial loans included five MSLP loans with the net carrying amount of \$6.8 million, or 3.3% of the total category. As of December 31, 2020, the Company's Commercial and Industrial loans included six MSLP loans with the net carrying amount of \$6.6 million, or 4.5% 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.

As of December 31, 2021, the deferral period has ended for all loans previously modified and payments have resumed under the original terms. As of December 31, 2021, the Company's loan portfolio included 69 loans which were previously modified under the loan modification program, totaling \$130.4 million.

The CARES Act provides banks optional, temporary relief from accounting for certain loan modifications as a TDR. The modifications must be related to the adverse effects of COVID-19, and certain other criteria are required to be met in order to apply the relief. Interagency guidance from Federal Reserve and the FDIC confirmed with the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. We believe our loan modification program meets that definition. In accordance with that guidance, the Company is recognizing interest income on all loans modified for temporary payment moratoriums, primarily for a period of 180 days or less.

All loans modified in response to COVID-19 are classified as performing and pass rated as of December 31, 2021 and 2020. These loans are included in the allowance for loan loss general reserve in accordance with ASC 450-20. Management has increased our loan level reviews and portfolio monitoring to address the changing environment. The Company continues to meet regularly with clients who could be more highly impacted by the recent COVID-19 pandemic. These are borrowers in accommodations, transportation and restaurant industries, which we believe may be more impacted by the pandemic, and those loans where there may be a greater than 50% probability of a downgrade, covenant violation or 20% reduction in collateral position. Excluding loans acquired through the Teton Acquisition, the portion of our credit exposure to the highest risk industries impacted by COVID-19, such as accommodations, transportation, and restaurants, is less than 4.3% of our loan portfolio. 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. As of December 31, 2021 and 2020, no allowance for loan loss was deemed necessary on the accrued interest balances related to loan modifications.

The following presents, by class, an aging analysis of the recorded investments (excluding accrued interest receivable, deferred costs (fees), and unamortized premiums/(unaccreted discounts) which are not material) in loans past due as of December 31, 2021 and December 31, 2020 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Loans Past Due	Current	Total Recorded Investment
December 31, 2021						
Cash, Securities and Other	\$ 1,199	\$ —	\$ 8	\$ 1,207	\$ 294,741	\$ 295,948
Construction and Development	2,758	—	—	2,758	175,958	178,716
1-4 Family Residential	1,449	—	—	1,449	579,423	580,872
Non-Owner Occupied CRE	—	2,548	—	2,548	480,074	482,622
Owner Occupied CRE	1,419	—	—	1,419	211,007	212,426
Commercial and Industrial	748	—	2,200	2,948	200,636	203,584
Total	\$ 7,573	\$ 2,548	\$ 2,208	\$ 12,329	\$ 1,941,839	\$ 1,954,168
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Total Loans Past Due	Current	Total Recorded Investment
December 31, 2020						
Cash, Securities and Other	\$ 752	\$ —	\$ 48	\$ 800	\$ 356,220	\$ 357,020
Construction and Development	—	—	—	—	131,111	131,111
1-4 Family Residential	1,283	—	—	1,283	453,755	455,038
Non-Owner Occupied CRE	—	—	—	—	281,943	281,943
Owner Occupied CRE	479	—	—	479	162,563	163,042
Commercial and Industrial	271	—	3,529	3,800	142,231	146,031
Total	\$ 2,785	\$ —	\$ 3,577	\$ 6,362	\$ 1,527,823	\$ 1,534,185

As of December 31, 2021 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. As of December 31, 2020, the Company did not have any loans which were more than 90 days delinquent and accruing interest.

Non-Accrual Loans and Troubled Debt Restructurings

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

	December 31, 2021	December 31, 2020
Cash, Securities and Other	\$ 8	\$ 50
1-4 Family Residential	75	—
Owner Occupied CRE	1,241	479
Commercial and Industrial	2,938	3,529
Total	\$ 4,262	\$ 4,058

Non-accrual loans classified as TDR accounted for \$4.3 million of the recorded investment as of December 31, 2021 and \$3.6 million as of December 31, 2020. Non-accrual loans are classified as impaired loans and individually evaluated for impairment.

The following presents a summary of the unpaid principal balance of loans classified as TDRs as of the dates noted (in thousands):

	December 31, 2021	December 31, 2020
Accruing		
Non-Owner Occupied CRE	\$ 55	\$ —
Non-accrual		
Cash, Securities, and Other	6	48
1-4 Family Residential	75	—
Owner Occupied CRE	1,241	—
Commercial and Industrial	2,938	3,529
Total	4,315	3,577
Allowance for loan losses associated with TDR	(1,751)	(1,619)
Net recorded investment	\$ 2,564	\$ 1,958

As of December 31, 2021 and December 31, 2020, the Company had not committed any additional funds to a borrower with a loan classified as a TDR.

The Company modified three loans resulting in TDR status during the year ended December 31, 2021. The first loan was a small mortgage with a remaining balance of \$0.1 million where the borrower was unable to make payments or obtain additional financing to pay off the mortgage. As a result, we have modified the loan at the maturity date with a one year renewal to allow the borrower time to seek a refinance. As of December 31, 2021, this loan remains current under the terms of the modification. The second and third loans modified are in relation to one borrower who has two loans, one Commercial Real Estate Loan in the amount of \$1.2 million, which is the space where the related business operates, and a Commercial loan with a balance of \$0.7 million. The borrower has experienced a reduction in cash flow through ongoing impact from the pandemic and related shut downs and hiring shortages. As a result, the Company modified both loans allowing for a six month interest only period to provide cash flow relief. The Company obtained a reduced term on the business loan as well as additional collateral from the Borrower. All three of the loans modified during 2021 were sufficiently collateralized and therefore did not require any specific reserve.

The Company modified one loan into a TDR during the year ended December 31, 2020. The Borrower was having difficulty making payments in accordance with the original contract terms. The Company restructured the loan including receiving a large paydown and extended the maturity and lowered the interest rate as a result of the Borrower's financial difficulties. The loan paid off in full as of December 31, 2020.

TDRs are reviewed individually for impairment and are included in the Company's specific reserves in the allowance for loan losses. If charged off, the amount of the charge off is included in the Company's charge off factors, which impact the Company's reserves on non-impaired loans.

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

	December 31, 2021			December 31, 2020		
	Total Recorded Investment	Unpaid Contractual Principal Balance	Allowance for Loan Losses	Total Recorded Investment	Unpaid Contractual Principal Balance	Allowance for Loan Losses
Impaired loans with a valuation allowance:						
Cash, Securities, and Other	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2
Commercial and Industrial	2,190	2,190	1,751	3,419	3,419	1,619
Total	<u>\$ 2,192</u>	<u>\$ 2,192</u>	<u>\$ 1,753</u>	<u>\$ 3,421</u>	<u>\$ 3,421</u>	<u>\$ 1,621</u>
Impaired loans with no related valuation allowance:						
Cash, Securities, and Other	\$ 6	\$ 6	\$ —	\$ 48	\$ 48	\$ —
1-4 Family Residential	75	75	—	—	—	—
Owner Occupied CRE	1,241	1,241	—	479	479	—
Commercial and Industrial	748	748	—	110	110	—
Total	<u>\$ 2,070</u>	<u>\$ 2,070</u>	<u>\$ —</u>	<u>\$ 637</u>	<u>\$ 637</u>	<u>\$ —</u>
Total impaired loans:						
Cash, Securities, and Other	\$ 8	\$ 8	\$ 2	\$ 50	\$ 50	\$ 2
1-4 Family Residential	75	75	—	—	—	—
Owner Occupied CRE	1,241	1,241	—	479	479	—
Commercial and Industrial	2,938	2,938	1,751	3,529	3,529	1,619
Total	<u>\$ 4,262</u>	<u>\$ 4,262</u>	<u>\$ 1,753</u>	<u>\$ 4,058</u>	<u>\$ 4,058</u>	<u>\$ 1,621</u>

The recorded investment in loans in the previous tables excludes accrued interest, deferred costs (fees), and unamortized premiums/(unaccreted discounts), which are not material. Interest income, if any, was recognized on the cash basis on non-accrual loans.

The average balance of impaired loans and interest income recognized on impaired loans during the years ended December 31, 2021 and 2020 are included in the table below (in thousands):

	December 31,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with a valuation allowance:				
Cash, Securities, and Other	\$ 2	\$ —	\$ 1	\$ —
Commercial and Industrial	2,413	21	3,453	—
Total	<u>\$ 2,415</u>	<u>\$ 21</u>	<u>\$ 3,454</u>	<u>\$ —</u>
Impaired loans with no related valuation allowance:				
Cash, Securities, and Other	\$ 17	\$ —	\$ 1,180	\$ —
Owner Occupied CRE	248	51	96	—
Commercial and Industrial	205	262	4,893	336
1-4 Family Residential	15	—	—	—
Total	<u>\$ 485</u>	<u>\$ 313</u>	<u>\$ 6,169</u>	<u>\$ 336</u>
Total impaired loans:				
Cash, Securities, and Other	\$ 19	\$ —	\$ 1,181	\$ —
Owner Occupied CRE	248	51	96	—
Commercial and Industrial	2,618	283	8,346	336
1-4 Family Residential	15	—	—	—
Total	<u>\$ 2,900</u>	<u>\$ 334</u>	<u>\$ 9,623</u>	<u>\$ 336</u>

Allowance for Loan Losses

Allocation of a portion of the allowance for loan losses to one category of loans does not preclude its availability to absorb losses in other categories. The following presents the activity in the Company's allowance for loan losses by portfolio class for the periods presented (in thousands):

	Cash, Securities and Other	Construction and Development	1-4 Family Residential	Non-Owner Occupied CRE	Owner Occupied CRE	Commercial and Industrial	Total
Changes in allowance for loan losses for the year ended December 31, 2021							
Beginning balance	\$ 2,579	\$ 932	\$ 3,233	\$ 2,004	\$ 1,159	\$ 2,632	\$ 12,539
(Recovery of)/provision for loan losses	(678)	160	320	948	133	347	1,230
Charge-offs	(44)	—	—	—	—	—	(44)
Recoveries	7	—	—	—	—	—	7
Ending balance	\$ 1,864	\$ 1,092	\$ 3,553	\$ 2,952	\$ 1,292	\$ 2,979	\$ 13,732
Allowance for loan losses as of December 31, 2021 allocated to loans evaluated for impairment:							
Individually	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ 1,751	\$ 1,753
Collectively	1,862	1,092	3,553	2,952	1,292	1,228	11,979
Ending balance	\$ 1,864	\$ 1,092	\$ 3,553	\$ 2,952	\$ 1,292	\$ 2,979	\$ 13,732
Loans as of December 31, 2021, evaluated for impairment:							
Individually	\$ 8	\$ —	\$ 75	\$ —	\$ 1,241	\$ 2,938	\$ 4,262
Collectively	295,940	178,716	580,797	482,622	211,185	200,646	1,949,906
Ending balance	\$ 295,948	\$ 178,716	\$ 580,872	\$ 482,622	\$ 212,426	\$ 203,584	\$ 1,954,168
Changes in allowance for loan losses for the year ended December 31, 2020							
Beginning balance	\$ 1,058	\$ 200	\$ 2,850	\$ 1,176	\$ 911	\$ 1,680	\$ 7,875
Provision for/(recovery of) loan losses	1,539	732	383	828	248	952	4,682
Charge-offs	(31)	—	—	—	—	—	(31)
Recoveries	13	—	—	—	—	—	13
Ending balance	\$ 2,579	\$ 932	\$ 3,233	\$ 2,004	\$ 1,159	\$ 2,632	\$ 12,539
Allowance for loan losses as of December 31, 2020 allocated to loans evaluated for impairment:							
Individually	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ 1,619	\$ 1,621
Collectively	2,577	932	3,233	2,004	1,159	1,013	10,918
Ending balance	\$ 2,579	\$ 932	\$ 3,233	\$ 2,004	\$ 1,159	\$ 2,632	\$ 12,539
Loans as of December 31, 2020, evaluated for impairment:							
Individually	\$ 50	\$ —	\$ —	\$ 479	\$ —	\$ 3,529	\$ 4,058
Collectively	356,970	131,111	455,038	281,464	163,042	142,502	1,530,127
Ending balance	\$ 357,020	\$ 131,111	\$ 455,038	\$ 281,943	\$ 163,042	\$ 146,031	\$ 1,534,185

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 for impairment if indicators of impairment exist.

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 not meeting any of the three criteria above are considered to be pass-rated loans. The following presents, by class and by credit quality indicator, the recorded investment in the Company's loans as of December 31, 2021 and December 31, 2020 (in thousands):

December 31, 2021	Pass	Special Mention	Substandard	Total
Cash, Securities and Other	\$ 295,940	\$ —	\$ 8	\$ 295,948
Construction and Development	176,194	2,522	—	178,716
1-4 Family Residential	580,797	—	75	580,872
Non-Owner Occupied CRE	476,670	5,952	—	482,622
Owner Occupied CRE	210,493	—	1,933	212,426
Commercial and Industrial	198,368	401	4,815	203,584
Total	\$ 1,938,462	\$ 8,875	\$ 6,831	\$ 1,954,168

December 31, 2020	Pass	Special Mention	Substandard	Total
Cash, Securities and Other	\$ 356,970	\$ —	\$ 50	\$ 357,020
Construction and Development	131,111	—	—	131,111
1-4 Family Residential	451,918	—	3,120	455,038
Non-Owner Occupied CRE	275,627	6,316	—	281,943
Owner Occupied CRE	161,850	—	1,192	163,042
Commercial and Industrial	140,432	—	5,599	146,031
Total	\$ 1,517,908	\$ 6,316	\$ 9,961	\$ 1,534,185

The Company had no loans graded doubtful as of the years ended December 31, 2021 and 2020.

NOTE 6 – PREMISES AND EQUIPMENT, NET

The following presents a summary of the cost and accumulated depreciation of premises and equipment as of December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Building and building improvements	\$ 12,190	\$ —
Leasehold improvements, including artwork	11,464	9,440
Land	4,980	—
Equipment and software	6,144	5,504
Gross premise and equipment	34,778	14,944
Less: accumulated depreciation	(10,802)	(9,624)
Premises and equipment, net	<u>\$ 23,976</u>	<u>\$ 5,320</u>

During the year ended December 31, 2021, the Company acquired buildings and land associated with the Teton Acquisition. These assets were recorded at their fair value on December 31, 2021 and the buildings will be depreciated over their remaining useful lives. During the year ended December 31, 2020, the Company retired leasehold improvements, equipment, and software in the amount of \$1.1 million for an immaterial loss.

Depreciation expense for premises and equipment for the years ended December 31, 2021 and 2020 totaled \$1.2 million and \$1.1 million, respectively.

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill were as follows as of December 31 (in thousands):

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Beginning balance	\$ 24,191	\$ 19,686
Acquisition activity	6,397	4,505
Ending balance	<u>\$ 30,588</u>	<u>\$ 24,191</u>

During the year ended December 31, 2021, the Company recorded \$6.4 million of goodwill as a result of the Teton Acquisition on December 31, 2021. During the year ended December 31, 2020, the Company recorded \$4.5 million of goodwill as a result of the Simmons Branch Acquisition on May 15, 2020. For additional information on goodwill and other intangible related to the Teton and Simmons Branch Acquisitions, see Note 2 – Acquisitions.

Goodwill is tested annually for impairment on October 31 or earlier upon the occurrence of certain events. Step 1 of 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 carrying amount of a reporting unit exceeds its fair value, we are not required to perform the second step to the impairment test.

As of December 31, 2021, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value. Therefore, the Company did not complete the two-step impairment test.

The following presents the Company's intangible assets and related accumulated amortization as of December 31 (in thousands):

	2021	2020
Other intangibles	\$ 5,857	\$ 4,593
Less: accumulated amortization on other intangibles	(4,543)	(4,526)
Other intangible assets, net	<u>\$ 1,314</u>	<u>\$ 67</u>

Amortization expense on definite-lived customer relationship and non-compete intangible assets was immaterial for the years ended December 31, 2021 and 2020. The following presents the expected amortization expense on definite-lived intangible assets existing as of December 31, 2021 (in thousands):

Year	Expense
2022	\$ 241
2023	165
2024	145
2025	130
2026	122
Thereafter	511
Total	<u>\$ 1,314</u>

NOTE 8 - 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. Certain properties contain portions that are subleased with terms that ended in 2020. In accordance with ASC 842, operating leases are required to be recognized as a right-of-use asset with a corresponding lease liability.

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

		December 31, 2021	December 31, 2020
Lease Right-of-Use Assets	Classification		
Operating lease right-of-use assets	Other assets	<u>\$ 10,720</u>	<u>\$ 11,341</u>
Lease Liabilities	Classification		
Operating lease liabilities	Other liabilities	<u>\$ 13,863</u>	<u>\$ 13,970</u>

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

	December 31, 2021	December 31, 2020
Weighted-Average Remaining Lease Term		
Operating leases	5.26 years	4.79 years
Weighted-Average Discount Rate		
Operating leases	2.67 %	3.04 %

The Company's operating leases contain fixed and variable lease components and it has elected to account for all classes of underlying assets as a single lease component. Variable lease costs primarily represent common area maintenance and parking. The Company recognized lease costs in Occupancy and equipment expense in the accompanying Consolidated Statements of Income.

The following table represents the Company's net lease costs (in thousands):

	Year Ended December 31,	
	2021	2020
Lease Costs		
Operating lease cost	\$ 3,040	\$ 3,162
Variable lease cost	1,756	1,894
Sublease income	—	(232)
Lease costs, net	\$ 4,796	\$ 4,824

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 as of December 31, 2021.

Year Ending December 31,	Operating Leases
2022	\$ 3,461
2023	3,210
2024	3,064
2025	2,073
2026	703
Thereafter	2,168
Total future minimum lease payments	14,679
Less: imputed interest	(816)
Present value of net future minimum lease payments	\$ 13,863

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. These leases were acquired as part of the Teton Acquisition and as such, no rental income is reflected as of December 31, 2021.

The following presents a maturity analysis of the Company's operating payments to be received on an annual basis for each of the next five years and total amounts thereafter as of December 31, 2021:

Year Ending December 31,	Undiscounted Operating Lease Income
2022	\$ 286
2023	221
2024	199
2025	—
2026	—
Thereafter	—
Total undiscounted operating lease income	\$ 706

NOTE 9 - DEPOSITS

The following presents the Company's interest bearing deposits as of December 31, 2021 and 2020 (in thousands):

	December 31, 2021	December 31, 2020
Money market deposit accounts	\$ 1,056,669	\$ 847,430
Time deposits	170,491	172,682
Negotiable order of withdrawal accounts	309,940	113,052
Savings accounts	32,299	5,289
Total interest-bearing deposits	\$ 1,569,399	\$ 1,138,453
Aggregate time deposits of \$250 or greater	\$ 75,747	\$ 73,401

Deposits acquired through acquisitions on December 31, 2021 and May 15, 2020 totaled \$379.2 million and \$63.1 million, respectively. See Note 2 – Acquisitions.

Overdraft balances classified as loans totaled an immaterial amount and \$0.1 million as of December 31, 2021 and 2020, respectively.

The following presents the scheduled maturities of all time deposits for the next five years ending December 31 (in thousands):

Year Ending December 31,	Time Deposits
2022	\$ 114,073
2023	31,597
2024	4,461
2025	1,909
2026	18,428
Thereafter	23
Total	\$ 170,491

NOTE 10 - BORROWINGS

The Bank has executed a blanket pledge and security agreement with the FHLB that requires certain loans and securities be pledged as collateral for any outstanding borrowings under the agreement. The collateral pledged as of December 31, 2021 and December 31, 2020 amounted to \$771.4 million and \$668.6 million, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow an additional \$509.7 million as of December 31, 2021. Each advance is payable at its maturity date.

The Company had the following required maturities on FHLB borrowings as of the dates noted (in thousands):

Maturity Date	Rate %	December 31, 2021	December 31, 2020
April 22, 2022	0.37	\$ 5,000	\$ 5,000
May 5, 2023	0.76	10,000	10,000
Total		\$ 15,000	\$ 15,000

To bolster the effectiveness of the SBA's PPP, the Federal Reserve is supplying liquidity to participating financial institutions through term financing collateralized by PPP loans to small businesses. The Paycheck Protection Program Liquidity Facility ("PPPLF") extends credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value and bearing interest at 35 bps. The terms of the loans are directly tied to the underlying PPP loans, which were originated at 2 or 5 years. For the years ended December 31, 2021 and 2020, the Company is utilizing \$23.6 million and \$134.6 million, respectively, under the PPPLF program which is included in the FHLB and Federal Reserve borrowings line of the Consolidated Balance Sheets.

The Bank has borrowing capacity associated with three unsecured federal funds lines of credit up to \$10.0 million, \$19.0 million, and \$25.0 million. As of December 31, 2021 and 2020, there were no amounts outstanding on any of the federal funds lines.

On March 17, 2020, the Company completed the issuance and sale of subordinated notes (the "March 2020 Sub Notes") totaling \$8.0 million in aggregate principal amount. The issuance included \$0.1 million of issuance costs resulting in a net balance of \$7.9 million as of December 31, 2021 included in the Subordinated notes line of the Consolidated Balance Sheets. The March 2020 Sub Notes accrue interest at a rate of 5.125% per annum until March 31, 2025, at which time the rate will adjust each quarter to the then current three-month LIBOR, or an alternative rate determined in accordance with the terms of the March 2020 Sub Notes, plus 450 basis points; mature on March 31, 2030; are redeemable at the option of the Company on or after March 31, 2025; and pay interest quarterly.

On October 28, 2020, the Company entered into a Business Loan Agreement and associated Promissory Note (the "Note"), dated June 30, 2020, with a corresponding lending partner. The Note is secured by stock of the Bank and bears interest at the one month ICE Benchmark Administration ("IBA") LIBOR plus 2.5%. As of December 31, 2020, there were no amounts outstanding and the borrowing capacity associated with this facility was \$5.0 million. The Business Loan Agreement expired on June 30, 2021, in accordance with its terms, and was not renewed.

On November 25, 2020, the Company completed the issuance and sale of subordinated notes (the "November 2020 Sub Notes") totaling \$10.0 million in aggregate principal amount. The issuance included \$0.2 million of issuance costs resulting in a net balance of \$9.8 million as of December 31, 2021 included in the Subordinated notes line of the Consolidated Balance Sheets. The November 2020 Sub Notes accrue interest at a rate of 4.25% per annum until December 1, 2025, at which time the rate will adjust each quarter to the then current three-month term SOFR, or an alternative rate determined in accordance with the terms of the November 2020 Sub Notes, plus 402 basis points; mature on December 1, 2030; are redeemable at the option of the Company on or after December 1, 2025; and pay interest semi-annually prior to December 1, 2025 and quarterly after December 1, 2025.

On August 31, 2021, the Company completed the issuance and sale of subordinated notes (the "Notes") totaling \$15.0 million in aggregate principal amount. The issuance included \$0.3 million of issuance costs resulting in a net balance of \$14.7 million as of December 31, 2021 included in the Subordinated notes line of the Consolidated Balance Sheets. The Notes accrue interest at a rate of 3.25% per annum until September 1, 2026, at which time the rate will adjust each quarter to the then current three-month SOFR, or an alternative rate determined in accordance with the terms of the Notes, plus 258 basis points; mature on September 1, 2031; are redeemable at the option of the Company on or after September 1, 2026; and pay interest quarterly.

The Company has outstanding subordinated notes due December 31, 2026, totaling \$6.6 million in aggregate principal amount, which become redeemable on or after January 1, 2022. On December 22, 2021, the Company elected to redeem the notes and notified debt holders. The redemption price is equal to 100% of the principal amount being redeemed, plus accrued and unpaid interest up to, but excluding the date of redemption.

For the years ended December 31, 2021 and 2020, the Company recorded \$1.5 million and \$0.8 million, respectively, of interest expense related to the collective subordinated notes. The subordinated notes are included in Tier 2 capital under current regulatory guidelines and interpretations, subject to limitations.

The Company's borrowing facilities include various financial and other covenants, including, but not limited to, a requirement that the Bank maintains regulatory capital that is deemed "well capitalized" by federal banking agencies. See Note 22 – Regulatory Capital Matters for more information. As of December 31, 2021 and 2020, the Company was in compliance with the covenant requirements.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Company is party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets. Commitments may expire without being utilized. The Company's exposure to 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 (in thousands):

	December 31, 2021		December 31, 2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 136,289	\$ 442,035	\$ 78,506	\$ 360,883
Standby letters of credit	2,420	20,940	1,933	17,524
Commitments to make loans to sell	60,529	—	370,512	—
Commitments to make loans	16,256	14,920	24,225	25,316

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 sell a loan 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.

Litigation, Claims and Settlements

The Company is, from time to time, involved in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, based on advice from legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company's consolidated financial statements.

Without admitting or denying the SEC's findings, First Western Capital Management ("FWCM"), a previously owned subsidiary of First Western, agreed on July 16, 2020 to settle claims that FWCM failed reasonably to supervise its investment adviser representatives who purchased securities sold in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), for advisory clients when the clients were not qualified institutional buyers in a Rule 144A transaction, and to adopt and implement written policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 and the rules thereunder by the adviser and its supervised persons. The Company had since replaced the FWCM President and FWCM compliance team which were in place during that time. FWCM recognized and paid a fine of \$0.2 million to the SEC in 2020.

NOTE 12 – 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 June 14, 2019, the Company announced that its board of directors had authorized a share repurchase plan (the "2019 Repurchase Plan") under which the Company may repurchase up to 300,000 shares of its common stock and that the Board of Governors of the Federal Reserve System advised the Company that it had no objection to the Company's 2019 Repurchase Plan. The 2019 Repurchase Plan was in effect for a one-year period, with the timing of purchases and the number of shares repurchased under the program dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements and market conditions. The 2019 Repurchase Plan expired in June 2020. During the year ended December 31, 2020, the Company repurchased 22,679 shares at an average price of \$16.50.

On November 3, 2020, the Company announced that its board of directors authorized the repurchase of up to 400,000 shares of the Company's common stock, no par value, from time to time, within one year (the "2020 Repurchase Plan") and that the Board of Governors of the Federal Reserve System advised the Company that it has no objection to the Company's 2020 Repurchase Plan. The Company may repurchase shares in privately negotiated transactions, in the open market, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 promulgated by the SEC, or otherwise in a manner that complies with applicable federal securities laws. The 2020 Repurchase Plan does not obligate the Company to acquire a specific dollar amount or number of shares and it may be extended, modified or discontinued at any time without notice. The 2020 Repurchase Plan expired in November 2021. During the year ended December 31, 2021, the Company did not repurchase any shares under the 2020 Repurchase plan. During the year ended December 31, 2020, the Company repurchased 426 shares at an average price of \$17.30 under the authorization of the 2020 Repurchase Plan.

On December 31, 2021, the Company closed on the Merger Agreement with Teton. As part of the Merger Agreement, the Company issued 1,337,791 shares of common stock to Teton shareholders. For additional information, see Note 2 – Acquisitions.

During the years ended December 31, 2021 and 2020, the Company sold no shares of common stock.

Restricted Stock Awards

In 2017, the Company issued 105,264 shares of common stock ("Restricted Stock Awards") with a value of \$3.0 million to the sole member of EMC Holdings, LLC ("EMC"), subject to forfeiture based on his continued employment with the Company. Half of the Restricted Stock Awards (\$1.5 million or 52,632 shares) vests ratably over five-years. The remaining \$1.5 million, or 52,632 shares, may be earned based on performance of the mortgage division of the Company. During the year ended December 31, 2020, the Company recognized compensation expense of \$0.1 million, representing the remaining 14,114 shares, related to the performance based awards. The performance based awards fully vested in the second quarter of 2020.

As of December 31, 2021 and 2020, the Restricted Stock Awards have a weighted-average grant date fair value of \$28.50 per share. During the years ended December 31, 2021 and 2020, the Company recognized compensation expense of \$0.3 million and \$0.4 million, respectively, for all the Restricted Stock Awards. As of December 31, 2021, the Company has \$0.2 million of unrecognized stock-based compensation expense related to the shares issued, which is expected to be recognized over a weighted average period of less than one year. During the year ended December 31, 2021, 10,526 shares of the Restricted Stock Awards vested. During the year ended December 31, 2020, 10,527 of the Restricted Stock Awards and 30,088 shares of the performance based Restricted Stock Awards vested.

Stock-Based Compensation Plans

The 2008 Stock Incentive Plan ("the 2008 Plan") was frozen in connection with the adoption of the 2016 Plan and no new awards may be granted under the 2008 Plan. As of December 31, 2021, there were a total of 334,534 shares available for issuance under the First Western Financial, Inc. 2016 Omnibus Incentive Plan ("the 2016 Plan"). If the Awards outstanding under the 2008 Plan or the 2016 Plan are forfeited, cancelled or terminated with no consideration paid to the Company, those amounts will increase the number of shares eligible to be granted under the 2016 Plan.

Stock Options

The Company did not grant any stock options during the years ended December 31, 2021 and 2020.

During the years ended December 31, 2021 and 2020, the Company recognized an immaterial amount and \$0.2 million, respectively, of stock based compensation expense associated with stock options. As of December 31, 2021, the Company has no unrecognized stock-based compensation expense related to stock options.

The following presents activity for nonqualified stock options for the year ended December 31, 2021:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	419,197	\$ 29.02		
Granted	—	—		
Exercised	(70,823)	24.08		
Forfeited or expired	(39,800)	36.29		
Outstanding as of December 31, 2021	308,574	29.21	1.9	(1)
Options fully vested/exercisable as of December 31, 2021	308,574	29.21	1.9	(1)

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

As of December 31, 2021 and December 31, 2020, there were 308,574 and 414,727 options, respectively, that were exercisable. Exercise prices are between \$20.00 and \$40.00 per share, and the options are exercisable for a period of ten years from the original grant date and expire on various dates between 2022 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. During the year ended December 31, 2021, the Company 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 for the year ended December 31, 2021:

	Time Vesting Units	Financial Performance Units	Market Performance Units
Outstanding as of December 31, 2020	285,052	152,430	14,862
Granted	59,194	41,743	—
Vested	(79,577)	—	—
Forfeited	(14,848)	(10,690)	(1,116)
Outstanding as of December 31, 2021	249,821	183,483	13,746

During the year ended December 31, 2021, the Company issued 58,884 shares of common stock upon the settlement of Restricted Stock Units. The remaining 20,693 shares were surrendered with a combined market value at the dates of settlement of \$0.5 million to cover employee withholding taxes. During the year ended December 31, 2020, the Company issued 34,710 shares of common stock upon the settlement of Restricted Stock Units. The remaining 20,043 shares were surrendered with a combined market value at the dates of settlement of \$0.3 million to cover employee withholding taxes.

Time Vesting Units

The 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 59,194 Time Vesting Units with a five-year service period during the year ended December 31, 2021, that vest in equal installments of 20% on the anniversary of the grant date, assuming continuous employment through the scheduled vesting dates. During the years ended December 31, 2021 and 2020, the Company recognized compensation expense of \$1.7 million and \$1.4 million, respectively, for the Time Vesting Units. As of December 31, 2021, there was \$3.4 million of unrecognized compensation expense related to the Time Vesting Units, which is expected to be recognized over a weighted-average period of 1.7 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 December 31, 2021 (dollars in thousands):

Grant Period	Threshold Accrual	Maximum Issuable Shares at Current Threshold	Unrecognized Compensation Expense	Weighted-Average ⁽¹⁾	Financial Metric End Date	Vesting Requirement End Date
Prior to May 1, 2019	63% on half; 135% on other half	12,100	\$ —	—	December 31, 2019	December 31, 2021
May 1, 2019 through April 30, 2020	150%	80,255	331	2.1 years	December 31, 2021	December 31, 2023
May 1, 2020 through December 31, 2020, excluding November 18, 2020	150%	81,516	438	3.0 years	December 31, 2022	December 31, 2023
On November 18, 2020	150%	34,752	329	2.9 years	December 31, 2022	50% November 18, 2023 and 2025
May 3, 2021 through August 11, 2021	150%	60,306	901	4.0 years	December 31, 2023	December 31, 2025

⁽¹⁾ Represents the expected unrecognized stock-based compensation expense recognition period.

The following presents the Company's Financial Performance Units activity for the years noted December 31 (dollars in thousands):

Grant Period	Units Granted		Compensation Expense Recognized	
	2021	2020	2021	2020
Prior to May 1, 2019	—	—	\$ 110	\$ 64
May 1, 2019 through April 30, 2020	—	1,866	216	312
May 1, 2020 through December 31, 2020, excluding November 18, 2020	—	58,993	208	156
On November 18, 2020	—	—	125	17
May 3, 2021 through August 11, 2021	41,743	23,168	221	—

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 is also a market condition as a vesting requirement for the Market Performance Units which affects the determination of the grant date fair value. The Company estimated the grant date fair value using various valuation assumptions. During years ended December 31, 2021 and 2020, the Company recognized an immaterial amount of compensation expense for the Market Performance Units. As of December 31, 2021, there was an immaterial amount of unrecognized compensation expense related to the Market Performance Units which is expected to be recognized over a weighted-average period of less than one year.

If the Company's common stock is 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 ending 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 are eligible to be earned.

NOTE 13 - EARNINGS PER COMMON SHARE

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

	Year Ended December 31,	
	2021	2020
Earnings per common share - Basic		
Numerator:		
Net income available for common shareholders	\$ 20,610	\$ 24,534
Denominator:		
Basic weighted average shares	7,980,491	7,899,278
Earnings per common share - basic	<u>\$ 2.58</u>	<u>\$ 3.11</u>
Earnings per common share - Diluted		
Numerator:		
Net income available for common shareholders	\$ 20,610	\$ 24,534
Denominator:		
Basic weighted average shares	7,980,491	7,899,278
Diluted effect of common stock equivalents:		
Stock options	30,661	—
Time Vesting Units	139,829	32,995
Financial Performance Units	70,437	16,160
Market Performance Units	13,760	13,471
Total diluted effect of common stock equivalents	<u>254,687</u>	<u>62,626</u>
Diluted weighted average shares	<u>8,235,178</u>	<u>7,961,904</u>
Earnings per common share - diluted	<u>\$ 2.50</u>	<u>\$ 3.08</u>

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

For the years ended December 31, 2021 and 2020, potentially dilutive securities excluded from the diluted earnings per share calculation are as follows:

	Year Ended December 31,	
	2021	2020
Stock options	168,872	419,197
Time Vesting Units	996	88,121
Financial Performance Units	32,713	70,397
Restricted Stock Awards	7,895	36,401
Total potentially dilutive securities	<u>210,476</u>	<u>614,116</u>

NOTE 14 - INCOME TAXES

The following presents the components of the Company's income tax expense as of December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 6,228	\$ 7,970
State and local	1,110	1,859
Total current tax expense	<u>7,338</u>	<u>9,829</u>
Deferred:		
Federal	(734)	(1,392)
State and local	66	(280)
Valuation allowance	—	372
Total deferred tax benefit	<u>(668)</u>	<u>(1,300)</u>
Income tax expense	<u>\$ 6,670</u>	<u>\$ 8,529</u>

The following is a reconciliation of income taxes reflected on the Consolidated Statements of Income for the years ended December 31, 2021 and 2020, with income tax expense computed by applying the United States federal income tax rate of 21% to income before income taxes (in thousands):

	<u>2021</u>	<u>2020</u>
Income tax expense computed at 21% statutory rate	\$ 5,729	\$ 6,943
Differences:		
Permanent differences	169	(57)
State taxes, net of federal expense	1,018	1,150
LIHTC investment tax credit	(386)	(36)
LIHTC investment proportional amortization	539	—
Valuation allowance	—	372
Other, net	(399)	157
Income tax expense	<u>\$ 6,670</u>	<u>\$ 8,529</u>

The following presents the principal components of the Company's deferred tax items as of December 31 (in thousands):

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 395	\$ 577
Allowance for loan losses	3,385	3,054
Acquired loans fair market value adjustments	976	—
Acquisition related basis adjustment	226	—
Deferred rent	753	635
Stock-based compensation	1,800	1,613
Provision on other real estate owned	463	484
Other intangible assets	279	615
Accrued bonuses	868	898
Loan fees	—	244
Accrued expenses	821	—
Other	382	553
Total deferred tax assets	<u>10,348</u>	<u>8,673</u>
Deferred tax liabilities:		
Goodwill	(1,137)	(1,013)
Depreciation	(1,636)	(904)
Unrealized gain on securities	(73)	(236)
Loan fees	(155)	—
Other	(130)	(92)
Total deferred tax liabilities	<u>(3,131)</u>	<u>(2,245)</u>
Net operating loss valuation allowance	(372)	(372)
Net deferred tax asset	<u>\$ 6,845</u>	<u>\$ 6,056</u>

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the total deferred tax assets. The net operating loss ("NOL") carryforwards expire in tax years 2028 through 2032. As of December 31, 2021, the Company has \$5.5 million of California NOLs available for utilization, compared to \$6.5 million as of December 31, 2020. For taxable years 2020, 2021, and 2022, California has suspended the NOL carryover deduction. Both corporations and individual tax payers may continue to compute and carryover an NOL during the suspension period. Different rules apply depending on the amount of income per year. The suspension does not apply to corporate tax payers if their income subject to California taxation is less than \$1 million. During 2020, as a result of this tax legislation and certain divestitures in California, the Company was uncertain as to the probability of realizing the full NOL. As such, the Company recorded a \$4.3 million valuation allowance related to the California NOLs, resulting in a tax effected valuation allowance of \$0.4 million. The Company identified no other material uncertain tax positions for which it is reasonably possible the total amount of unrecognized tax benefits will significantly increase or decrease within 12 months. For the tax year ended December 31, 2020, the Company's apportioned California income was just under \$1 million and therefore was able to utilize the same amount in NOLs.

The Company and its subsidiaries file tax returns for the United States and for multiple states and localities. The United States federal income tax returns of the Company are eligible to be examined for the years 2017 and forward. There are no federal or state tax examinations currently in progress.

NOTE 15 – EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) Plan, which is a defined contribution plan, in which substantially all associates are eligible to participate in and associates may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Company may elect to make matching contributions as defined by the plan. For the years ended December 31, 2021 and 2020, the Company expensed matching contributions to the plan totaling \$1.0 million and \$0.9 million, respectively. For the years ended December 31, 2021 and 2020, the Company incurred \$0.1 million and an immaterial amount, respectively, of administrative fees attributable to the plan.

NOTE 16 – RELATED-PARTY TRANSACTIONS

The Bank extends credit to certain covered parties including Company directors, executive officers, and their affiliates. As of December 31, 2021 and December 31, 2020, 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 (in thousands):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Balance, beginning of year	\$ 14,321	\$ 5,675
Funded loans	11,294	17,348
Payments collected	<u>(12,782)</u>	<u>(8,702)</u>
Balance, end of period	<u>\$ 12,833</u>	<u>\$ 14,321</u>

Deposits from related parties held by the Bank as of December 31, 2021 and December 31, 2020 totaled \$51.0 million and \$26.2 million, respectively.

The Company leases office spaces from entities controlled by one of the Company's board members. During each of the years ended December 31, 2021 and 2020, the Company incurred \$0.2 million of expense related to these leases.

The Company earned trust and investment management fees of \$0.1 million and \$0.2 million from related parties during the years ended December 31, 2021 and 2020, respectively. Assets under management for those related parties totaled \$103.1 million and \$92.1 million as of December 31, 2021 and 2020, respectively.

NOTE 17 - 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

Investment Securities: The fair values for 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 are not available, fair values are calculated using discounted cash flows or other market indicators (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 loan 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.

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).

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.

The following presents assets and liabilities measured on a recurring basis as of December 31, 2021 and December 31, 2020 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
December 31, 2021				
Investment securities available-for-sale:				
U.S. Treasury debt	\$ 247	\$ —	\$ —	\$ 247
U.S. Government Agency	—	3,522	—	3,522
Corporate bonds	—	6,212	2,113	8,325
GNMA mortgage-backed securities - residential	—	26,650	—	26,650
FNMA mortgage-backed securities - residential	—	14,443	—	14,443
Government CMO and MBS	—	878	—	878
Corporate CMO and MBS	—	1,497	—	1,497
Other	—	649	—	649
Total securities available-for-sale	\$ 247	\$ 53,851	\$ 2,113	\$ 56,211
Equity securities	\$ 709	\$ —	\$ —	\$ 709
Guarantee asset	\$ —	\$ —	\$ 237	\$ 237
IRLC, net	\$ —	\$ —	\$ 1,473	\$ 1,473
Forward commitments and FSC	\$ —	\$ (65)	\$ (9)	\$ (74)
Mortgage loans held for sale	\$ —	\$ 30,620	\$ —	\$ 30,620

December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
Investment securities available-for-sale:				
U.S. Treasury debt	\$ 254	\$ —	\$ —	\$ 254
Corporate bonds	—	6,044	—	6,044
GNMA mortgage-backed securities - residential	—	24,604	—	24,604
FNMA mortgage-backed securities - residential	—	1,677	—	1,677
Corporate CMO and MBS	—	4,087	—	4,087
Total securities available-for-sale	\$ 254	\$ 36,412	\$ —	\$ 36,666
Equity securities	\$ 730	\$ —	\$ —	\$ 730
Guarantee asset	\$ —	\$ —	\$ 232	\$ 232
IRLC, net	\$ —	\$ —	\$ 9,841	\$ 9,841
Forward commitments and FSC	\$ —	\$ (2,534)	\$ (89)	\$ (2,623)
Mortgage loans held for sale	\$ —	\$ 161,843	\$ —	\$ 161,843

There were no transfers between levels during 2021 or 2020.

U.S. Treasury debt is reported at fair value utilizing Level 1 inputs. One Corporate bond is reported at fair value utilizing Level 3 inputs. The remaining portfolio of securities are reported at fair value with Level 2 inputs provided by a pricing service. As of December 31, 2021 and December 31, 2020, the majority of the securities had credit support provided by the Federal Home Loan Mortgage Corporation, GNMA, and FNMA. Factors used to value the securities by the pricing service include: benchmark yields, reported trades, interest spreads, prepayments, and other market research. In addition, ratings and collateral quality are considered.

As of December 31, 2021, equity securities, IRLC, and guarantee assets have been recorded at fair value within the Other assets line item and the FSC have been recorded at fair value within the Other liabilities line item in the Consolidated Balance Sheets. All changes are recorded in the Other line item in the Consolidated Statements of Income.

Nonrecurring Fair Value

Other Real Estate Owned: 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. Other real estate owned is evaluated annually for additional impairment and adjusted accordingly.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent appraisals. 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. Impaired loans are evaluated monthly for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and other real estate owned 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 December 31, 2021 and December 31, 2020 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reported Balance
December 31, 2021				
Impaired loans ⁽¹⁾ :				
Commercial and Industrial	\$ —	\$ —	\$ 439	\$ 439
December 31, 2020				
Other real estate owned:				
Commercial properties	\$ —	\$ —	\$ 194	\$ 194
Impaired loans ⁽¹⁾ :				
Commercial and Industrial	\$ —	\$ —	\$ 1,800	\$ 1,800

⁽¹⁾ One immaterial Cash, Securities and Other loan was fully reserved for using a specific allowance as of December 31, 2021 and December 31, 2020.

The sales comparison approach was utilized for estimating the fair value of non-recurring assets.

As of December 31, 2021, the Company did not own any OREO properties. As of December 31, 2020, OREO had a carrying amount of \$0.2 million, which is the cost basis of \$2.1 million net of a valuation allowance of \$1.9 million.

As of December 31, 2021, total impaired loans measured for impairment using the fair value of the collateral for collateral dependent loans had carrying values of \$2.2 million with valuation allowances of \$1.8 million and were classified as Level 3. As of December 31, 2020, impaired loans measured for impairment using the fair value of the collateral for collateral dependent loans had carrying values of \$3.4 million with valuation allowances of \$1.6 million and were classified as Level 3.

Impaired loans accounted for specific reserves of \$1.8 million and \$1.6 million for the year ended December 31, 2021 and 2020. The Bank charged off an immaterial amount during the years ended December 31, 2021 and December 31, 2020 from the specific reserve.

Level 3 Analysis

The following presents a reconciliation for Level 3 instruments measured at fair value on a recurring basis (in thousands):

Year Ended December 31, 2021	Corporate Bonds	Guarantee Asset	IRLC	FSC
Beginning balance	\$ —	\$ 232	\$ 9,841	\$ (89)
Acquisitions	2,113	—	19,526	(182)
Originations	—	2	(25,804)	—
Gains (losses) in net income, net	—	3	(2,090)	262
Ending balance	\$ 2,113	\$ 237	\$ 1,473	\$ (9)

Year Ended December 31, 2020	Corporate Bonds	Guarantee Asset	IRLC	FSC
Beginning balance	\$ —	\$ —	\$ 1,184	\$ —
Acquisitions	—	—	34,345	(278)
Originations	—	—	(27,944)	—
Sales	—	245	—	—
Gains (losses) in net income, net	—	55	2,256	189
Other settlements	—	(68)	—	—
Ending balance	\$ —	\$ 232	\$ 9,841	\$ (89)

The following presents quantitative information about Level 3 assets measured on a recurring and nonrecurring basis as of December 31, 2021 and 2020 (in thousands):

Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2021				
	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Recurring fair value				
Corporate Bonds	\$ 2,113	Discounted cash flow	Discount rate	7% (7%)
Guarantee asset	237	Discounted cash flow	Discount rate Prepayment rate	3% (3%) 18% (18%)
IRLC, net	1,473	Best execution model	Pull through	71% to 100% (88%)
FSC	(9)	Internal pricing model	Market Differential	-14bps to -2 bps (-6bps)
Nonrecurring fair value				
Impaired loans⁽¹⁾:				
Commercial and Industrial	439	Sales comparison, Market approach - guideline transaction method	Management discount for asset/property type	17% - 45% (39%)

Quantitative Information about Level 3 Fair Value Measurements as of December 31, 2020				
	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
<i>Recurring fair value</i>				
Guarantee asset	\$ 232	Discounted cash flow	Discount rate Prepayment rate	3% (3%) 25% (25%)
IRLC, net	9,841	Best execution model	Pull through	55% to 100% (86%)
FSC	(89)	Internal pricing model	Market Differential	-59 bps to -17 bps (-31 bps)
<i>Nonrecurring fair value</i>				
Other real estate owned:				
Commercial properties	194	Sales contract	Commission, cost to sell, closing costs	5% (5%)
Impaired loans ⁽¹⁾ :				
Commercial and Industrial	1,800	Sales comparison, Market approach - guideline transaction method	Management discount for asset/property type	17% - 35% (26%)

⁽¹⁾ One immaterial Cash, Securities and Other loan was fully reserved for using a specific allowance as of December 31, 2021 and December 31, 2020.

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 December 31, 2021 and December 31, 2020 (in thousands):

December 31, 2021	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 386,983	\$ 386,983	\$ —	\$ —
Loans, net	1,935,405	—	—	1,919,625
Accrued interest receivable	7,151	—	10	7,141
Liabilities:				
Deposits	2,205,703	—	2,207,452	—
Borrowings:				
FHLB borrowings – fixed rate	15,000	—	14,990	—
Federal Reserve borrowings – fixed rate	23,629	—	23,629	—
Subordinated notes – fixed-to-floating rate	39,031	—	—	40,325
Accrued interest payable	355	—	156	199

December 31, 2020	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 155,989	\$ 155,989	\$ —	\$ —
Loans, net	1,520,294	—	—	1,512,699
Accrued interest receivable	6,618	—	90	6,528
Liabilities:				
Deposits	1,619,910	—	1,621,648	—
Borrowings:				
FHLB borrowings – fixed rate	15,000	—	15,099	—
Federal Reserve borrowings – fixed rate	134,563	—	134,563	—
Subordinated notes – fixed-to-floating rate	24,291	—	—	25,750
Accrued interest payable	453	—	124	329

The fair value estimates presented and discussed above are based on pertinent information available to management as of the dates specified. The estimated fair value amounts are based on the exit price notion set forth by ASU 2016-01. Although management is not aware of any factors that would significantly affect the estimated fair values, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since the balance sheet dates. Therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The methods and assumptions, not previously presented, used to estimate fair values are described as follows.

Cash and Cash Equivalents and Restricted Cash: The carrying amounts of cash and cash equivalents and restricted cash approximate fair values as maturities are less than 90 days and balances are generally in accounts bearing current market interest rates.

Loans, net: The fair values for all fixed-rate and variable-rate performing loans were estimated using the income approach and by discounting the projected cash flows of such loans. Principal and interest cash flows were projected based on the contractual terms of the loans, including maturity, contractual amortization and adjustments for prepayments and expected losses, where appropriate. A discount rate was developed based on the relative risk of the cash flows, taking into account the loan type, maturity and a required return on capital.

Accrued Interest Receivable and Payable: The carrying amounts of accrued interest approximate fair value due to their short-term nature.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting dates. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Fixed Rate Borrowings: Borrowings with fixed rates are valued using inputs such as discounted cash flows and current interest rates for similar instruments and borrowers with similar credit ratings.

Fixed-to-Floating Rate Borrowings: Borrowings with fixed-to-floating rates are valued using inputs such as discounted cash flows and current interest rates for similar instruments and assume the Company will redeem the instrument prior to the first interest rate reset date.

NOTE 18 - SEGMENT REPORTING

The Company's reportable segments consist of Wealth Management and Mortgage. The chief operating decision maker ("CODM") is the Chief Executive Officer. The measure of profit or loss used by the CODM to identify and measure the Company's reportable segments is income before income tax.

The Wealth Management segment consists of operations relative to the Company's fully integrated wealth management products and services. Services provided include deposit, loan, insurance, and trust and investment management advisory products and services.

The Mortgage segment consists of operations relative to the Company's residential mortgage service offerings. Mortgage products and services are financial in nature for which premiums are recognized, net of expenses, upon the sale of mortgage loans to third parties.

The following presents the financial information for each segment that is specifically identifiable or based on allocations using internal methods for the years ended December 31, 2021 and 2020 (in thousands):

As of and for the year ended December 31, 2021	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 61,925	\$ —	\$ 61,925
Total interest expense	5,416	—	5,416
Provision for loan losses	1,230	—	1,230
Net interest income, after provision for loan losses	55,279	—	55,279
Non-interest income	24,031	16,119	40,150
Total income before non-interest expense	79,310	16,119	95,429
Depreciation and amortization expense	1,147	53	1,200
All other non-interest expense	56,785	10,164	66,949
Income before income taxes	<u>\$ 21,378</u>	<u>\$ 5,902</u>	<u>\$ 27,280</u>
Goodwill	\$ 30,588	\$ —	\$ 30,588
Total assets	2,494,207	33,282	2,527,489

As of and for the year ended December 31, 2020	Wealth Management	Mortgage	Consolidated
Income Statement			
Total interest income	\$ 53,334	\$ —	\$ 53,334
Total interest expense	7,232	—	7,232
Provision for loan losses	4,682	—	4,682
Net interest income, after provision for loan losses	41,420	—	41,420
Non-interest income	21,836	29,344	51,180
Total income before non-interest expense	63,256	29,344	92,600
Depreciation and amortization expense	1,035	70	1,105
All other non-interest expense	50,135	8,297	58,432
Income before income taxes	<u>\$ 12,086</u>	<u>\$ 20,977</u>	<u>\$ 33,063</u>
Goodwill	\$ 24,191	\$ —	\$ 24,191
Total assets	1,798,416	175,239	1,973,655

NOTE 19 – LOW-INCOME HOUSING TAX CREDIT INVESTMENTS

On December 19, 2019, the Company invested in a low-income housing tax credit ("LIHTC") investment. As of December 31, 2021 and 2020, the balance of the investment for LIHTC was \$2.6 million and \$1.1 million, respectively. These balances are reflected in the Other assets line item of the Consolidated Balance Sheets. Total unfunded commitments related to the investment in the LIHTC total \$0.2 million and \$2.2 million as of December 31, 2021 and 2020. The Company expects to fulfill these commitments during the year ending 2022.

The Company uses the proportional amortization method to account for this investment. During the year ended December 31, 2021, the Company recognized amortization expense of \$0.5 million, which was included within the Income tax expense line item of the Consolidated Statements of Income. The Company recognized amortization expense of \$0.2 million in the year ended December 31, 2020.

Additionally, during the year ended December 31, 2021, the Company recognized tax credits and other benefits from this investment in the LIHTC of \$0.5 million. The Company recognized tax credits and other benefits from this investment in the LIHTC of \$0.1 million in the year end December 31, 2020. During the years ending December 31, 2021 and 2020, the Company did not incur any impairment losses.

NOTE 20 – CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The following presents condensed financial statements pertaining only to FWFI (in thousands). Investments in subsidiaries are stated using the equity method of accounting.

Condensed Balance Sheets	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 18,124	\$ 14,270
Investment in subsidiaries	233,417	157,377
Loans, net	1,978	2,021
Other assets	3,611	4,075
Total assets	<u>\$ 257,130</u>	<u>\$ 177,743</u>
LIABILITIES		
Subordinated notes	\$ 39,031	\$ 24,291
Other liabilities ⁽¹⁾	(942)	(1,510)
Total liabilities	38,089	22,781
SHAREHOLDERS' EQUITY		
Total shareholders' equity	219,041	154,962
Total liabilities and shareholders' equity	<u>\$ 257,130</u>	<u>\$ 177,743</u>

⁽¹⁾ As of December 31, 2021 and December 31, 2020, taxes payable was in a receivable position as a result of timing of tax payments.

Condensed Statements of Income	Year Ended December 31,	
	2021	2020
Income		
Interest income	\$ 60	\$ 87
Non-interest income	—	(1)
Total income	<u>60</u>	<u>86</u>
Expense		
Interest expense	1,549	854
Non-interest expense	285	355
Total expense	<u>1,834</u>	<u>1,209</u>
Loss before income tax and equity in undistributed income of subsidiaries	(1,774)	(1,123)
Income tax benefit	119	(85)
Loss before equity in undistributed income of subsidiaries	(1,655)	(1,208)
Equity in undistributed income to subsidiaries	22,265	25,742
Net income	<u>\$ 20,610</u>	<u>\$ 24,534</u>

Condensed Statements of Cash Flows	Year Ended December 31,	
	2021	2020
Cash flows from operating activities		
Net income	\$ 20,610	\$ 24,534
Adjustments:		
Depreciation and amortization	73	12
Current and deferred income tax expense/(benefit)	301	(3,003)
Stock-based compensation	2,903	2,544
Undistributed equity in subsidiaries	(22,265)	(25,742)
Change in other assets	678	(32)
Change in other liabilities	53	(42)
Net cash provided by/(used in) operating activities	2,353	(1,729)
Cash flows from investing activities		
Net cash paid on acquisition	(11,501)	—
Investment in subsidiaries	(2,913)	(10,453)
Loan and note receivable originations and principal collections	43	70
Net cash used in investing activities	(14,371)	(10,383)
Cash flows from financing activities		
Proceeds from subordinated notes	14,667	17,719
Repurchase of common stock	—	(377)
Settlement of restricted stock	(501)	(261)
Proceeds from the exercise of stock options	1,706	—
Net cash provided by financing activities	15,872	17,081
Net change in cash and cash equivalents	3,854	4,969
Cash and cash equivalents, beginning of year	14,270	9,301
Cash and cash equivalents, end of year	\$ 18,124	\$ 14,270
Supplemental cash flow information:		
Interest paid on borrowed funds	\$ 1,549	\$ 854
Supplemental noncash disclosures:		
Common stock issued for Teton acquisition	39,818	—
Segment collapse impact to investment in subsidiary	—	2,454
Segment collapse impact to deferred income tax (benefit)/expense	—	640
Segment collapse impact to other assets	—	(3,202)
Segment collapse impact to other liabilities	—	108

NOTE 21 – OTHER NON-INTEREST EXPENSE

Other non-interest expense as shown in the Consolidated Statements of Income is detailed in the following schedule to the extent the components exceed one percent of total interest income and other income (in thousands):

Other non-interest expense	Year Ended December 31,	
	2021	2020
Corporate development and related	\$ 1,769	\$ 1,517
Loan and deposit related	1,016	1,453
Other	491	482
Total other non-interest expense	\$ 3,276	\$ 3,452

NOTE 22 - REGULATORY CAPITAL MATTERS

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

First Western and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") has been fully phased in. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. During the years ended December 31, 2021 and 2020, First Western made capital injections of \$2.9 million and \$10.0 million, respectively, into the Bank. Management believes as of December 31, 2021, First Western and the Bank meet all capital adequacy requirements to which they are subject to.

Prompt corrective action regulations for First Western and the Bank provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The standard ratios established by First Western and the Bank's primary regulators to measure capital require First Western and the Bank to maintain minimum amounts and ratios, set forth in the following table. These ratios are common equity Tier 1 capital ("CET1"), Tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined).

The actual capital ratios of First Western and the Bank, along with the applicable regulatory capital requirements as of December 31, 2021, 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 their capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such activities.

As of December 31, 2021, the most recent filings with the FDIC categorized First Western and the Bank as well capitalized under the regulatory guidelines. To be categorized as well capitalized, an institution must maintain minimum CET1 risk-based, Tier 1 risk-based, total risk-based, and Tier 1 leverage ratios as set forth in the following table. Management believes there are no conditions or events since December 31, 2021 that have changed the categorization of First Western and the Bank as well capitalized. Management believes First Western and the Bank met all capital adequacy requirements to which they are subject to as of December 31, 2021 and December 31, 2020.

The following presents the actual and required capital amounts and ratios as of December 31, 2021 and December 31, 2020 (in thousands):

December 31, 2021	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	\$ 203,164	11.40 %	\$ 106,945	6.0 %	\$ 142,594	8.0 %
Consolidated	188,777	10.54	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	203,164	11.40	80,209	4.5	115,858	6.5
Consolidated	188,777	10.54	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	217,215	12.19	142,594	8.0	178,242	10.0
Consolidated	242,388	13.54	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	203,164	10.05	80,887	4.0	101,108	5.0
Consolidated	188,777	9.31	N/A	N/A	N/A	N/A
December 31, 2020	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	\$ 133,963	10.22 %	\$ 78,660	6.0 %	\$ 104,880	8.0 %
Consolidated	131,507	9.96	N/A	N/A	N/A	N/A
CET1 to risk-weighted assets						
Bank	133,963	10.22	58,995	4.5	85,215	6.5
Consolidated	131,507	9.96	N/A	N/A	N/A	N/A
Total capital to risk-weighted assets						
Bank	146,853	11.20	104,880	8.0	131,100	10.0
Consolidated	168,957	12.80	N/A	N/A	N/A	N/A
Tier 1 capital to average assets						
Bank	133,963	7.62	70,301	4.0	87,877	5.0
Consolidated	131,507	7.45	N/A	N/A	N/A	N/A

⁽¹⁾ Does not include capital conservation buffer.

NOTE 23 – SUBSEQUENT EVENTS (Unaudited)

The Company elected to redeem 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 is equal to 100% of the principal amount being redeemed, plus accrued and unpaid interest up to, but excluding the date of redemption. As of this filing, the December 31, 2026 subordinated debt has been fully redeemed.

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.

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

Evaluation of Internal Control over Financial Reporting

Report on Management's Assessment of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined under Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2021, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2021.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm due to the rules of the Securities and Exchange Commission for an Emerging Growth Company.

Disclosure Controls and Procedures

The Company's management, including our Chairman, Chief Executive Officer and President and our Chief Operating Officer, Chief Financial Officer and Treasurer, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as of the end of the period covered by this report. Based on such evaluation, our Chairman, Chief Executive Officer and President and our Chief Operating Officer, Chief Financial Officer and Treasurer have concluded that, as of the end of the period covered by the Annual Report on Form 10-K, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to the Company's management, including our Chairman, Chief Executive Officer and President and our Chief Operating Officer, Chief Financial Officer and Treasurer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2021, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Item 9B. Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The information required by this item is hereby incorporated by reference from our Definitive Proxy Statement relating to the 2021 Annual Meeting of Shareholders, or the 2022 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2021.

Our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer and other executive officers. The full text of our Code of Business Conduct and Ethics is posted on the investor relations page of our website which is located <https://myfw.gcs-web.com/investor-relations>. We will post any amendments to our Code of Business Conduct and Ethics, or waivers of its requirements, on our website.

Item 11: Executive Compensation

The information required by this item is hereby incorporated by reference from the 2022 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2021.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is hereby incorporated by reference from the 2022 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2021.

Information relating to securities authorized for issuance under our equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5 – Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities."

Item 13: Certain Relationships and Related Transactions, and Director Independence

The information required by this item is hereby incorporated by reference from the 2022 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2021.

Item 14: Principal Accounting Fees and Services

The information required by this item is hereby incorporated by reference from the 2022 Proxy Statement, to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2021.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a) (1) Financial Statements
See Index to Consolidated Financial Statements on page 91
- (2) Financial Statement Schedules
All financial statement schedules are omitted because they are either not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto included in Part II, Item 8.
- (b) (3) Exhibits

The exhibits are filed as part of this report and exhibits incorporated by reference to other documents are as follows:

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated July 22, 2021, by and between First Western Financial, Inc. and Teton Financial Services, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed with the SEC on July 22, 2021, File No. 001-38595)
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the SEC on July 3, 2018, File No. 333-225719)
3.2	Amended and Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the SEC on July 3, 2018, File No. 333-225719)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
4.2	Certain instruments defining the rights of holders of long-term debt securities of the registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.
4.3	Form of Note Purchase Agreement for 7.25% Fixed-to-Floating Rate Subordinated Notes due 2026 (incorporated by reference to Exhibit 4.6 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
4.4	Form of 5.125% Fixed-to-Floating Rate Subordinated Note (incorporated by reference as Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 17, 2020, File No. 001-38595)
4.5	Form of 4.25% Fixed-to-Floating Rate Subordinated Note (incorporated by reference as Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on November 25, 2020, File No. 001-38595)
4.6	Form of 3.25% Fixed-to-Floating Rate Subordinated Note due 2031 (incorporated by reference to Exhibit A to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on August 31, 2021, File No. 001-38595)
4.7	Description of Registrant's Securities
10.1†	First Western Financial, Inc. 2008 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)

- 10.2† First Western Financial, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company’s Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
- 10.3† Employment Agreement, dated January 1, 2017, between Scott Wylie and First Western Financial, Inc. (incorporated by reference to Exhibit 10.3 to the Company’s Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
- 10.4† Amendment to Employment Agreement dated January 30, 2020 by and between First Western Financial, Inc. and Scott Wylie (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on January 30, 2020, File No. 001-38595)
- 10.5† Amended and Restated Employment Agreement, dated March 5, 2018, between Julie Courkamp and First Western Financial, Inc. (incorporated by reference to Exhibit 10.4 to the Company’s Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
- 10.6† Amended Employment Agreement dated May 2, 2019, by and between First Western Financial, Inc. and Julie Courkamp (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on May 8, 2019, File No. 001-38595)
- 10.7† Second Amendment to Employment Agreement dated January 30, 2020 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 January 30, 2020, File No. 001-38595)
- 10.8† Employment Agreement, dated April 8, 2020, by and between First Western Financial, Inc. and John Sawyer (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on April 10, 2020, File No. 001-38595)
- 10.9 Asset Purchase Agreement, dated August 18, 2017, among EMC Holdings, LLC, WHMC, LLC, Alan Schrum and First Western Trust Bank (incorporated by reference to Exhibit 10.6 to the Company’s Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
- 10.10† Form of Indemnification Agreement between First Western Financial, Inc. and its directors and certain officers (incorporated by reference to Exhibit 10.7 to the Company’s Form S-1 filed with the SEC on June 19, 2018, File No. 333-225719)
- 10.11 Form of Subordinated Note Purchase Agreement, dated March 17, 2020, by and among First Western Financial, Inc. and several purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on March 17, 2020, File No. 001-38595)
- 10.12 Form of Subordinated Note Purchase Agreement, dated November 25, 2020, by and among First Western Financial, Inc. and the several purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on November 25, 2020, File No. 001-38595)
- 10.13 Form of Subordinated Note Purchase Agreement, dated August 31, 2021, by and among First Western Financial, Inc. and the Purchaser named therein (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on August 31, 2021, File No. 001-38595)
- 21.1* Subsidiaries of First Western Financial, Inc.
- 23.1* Consent of Crowe LLP
- 24.1* Powers of attorney (included on signature page to the Annual Report on Form 10-K)

31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

† Indicates a management contract or compensatory plan.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

First Western Financial, Inc.

March 15, 2022
Date

By: /s/ Scott C. Wylie
Scott C. Wylie
Chairman, Chief Executive Officer and President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Scott C. Wylie and Julie A. Courkamp, with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full and several powers of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully as to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Scott C. Wylie</u> Scott C. Wylie	Chairman, Chief Executive Officer, and President (principal executive officer)	March 15, 2022
<u>/s/ Julie A. Courkamp</u> Julie A. Courkamp	Director, Chief Operating Officer, Chief Financial Officer, and Treasurer (principal financial and accounting officer)	March 15, 2022
<u>/s/ Julie A. Caponi</u> Julie A. Caponi	Director	March 15, 2022
<u>/s/ David R. Duncan</u> David R. Duncan	Director	March 15, 2022
<u>/s/ Thomas A. Gart</u> Thomas A. Gart	Director	March 15, 2022
<u>/s/ Patrick H. Hamill</u> Patrick H. Hamill	Director	March 15, 2022
<u>/s/ Scott C. Mitchell</u> Scott C. Mitchell	Director	March 15, 2022
<u>/s/ Luke A. Latimer</u> Luke A. Latimer	Director	March 15, 2022
<u>/s/ Eric D. Sipf</u> Eric D. Sipf	Director	March 15, 2022
<u>/s/ Mark L. Smith</u> Mark L. Smith	Director	March 15, 2022
<u>/s/ Joseph C. Zimlich</u> Joseph C. Zimlich	Director	March 15, 2022