CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SOLERA NATIONAL BANCORP, INC.
AND SUBSIDIARY

December 31, 2015 and 2014

FORTNER, BAYENS, LEVKULICH
■
& GARRISON, P.C.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Solera National Bancorp, Inc. and Subsidiary, which are comprised of the balance sheets as of December 31, 2015 and 2014, the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solera National Bancorp, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Fortner, Bayens, Levkulich & Garrison, P.C.

Denver, Colorado
March 11, 2016

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Certified Public Accountants • A Professional Corporation

Solera National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,

	2015	2014
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 2,489	$ 3,432
Interest-bearing deposits with banks	750	257
Investment securities, available-for-sale	48,374	52,900
Investment securities, held-to-maturity	4,500	-
Loans held for sale	1,039	-
Loans held for investment, net	80,591	79,288
Nonmarketable equity securities	874	780
Bank-owned life insurance	4,369	4,462
Other real estate owned	-	657
Premises and equipment, net	1,918	646
Accrued interest receivable	570	616
Other assets	599	1,634
	$ 146,073	$ 144,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	$ 3,954	$ 5,853
Interest-bearing demand	8,405	7,866
Savings and money market	42,320	48,007
Time deposits	66,160	57,387
Total deposits	120,839	119,113
Accrued interest payable	88	62
Accrued payable and other liabilities	309	556
FHLB advances	5,000	6,500
Total liabilities	126,236	126,231
Commitments and contingencies (see Notes H, Q, R)		
Stockholders' equity		
Common stock - 10,000,000 shares of $0.01 par value authorized; 2,773,838 and 2,772,422 shares outstanding as of December 31, 2015 and 2014, respectively	27	27
Additional paid-in capital	27,137	27,120
Accumulated deficit	(6,670)	(8,448)
Accumulated other comprehensive loss	(501)	(102)
Treasury stock, at cost; 25,776 shares	(156)	(156)
Total stockholders' equity	19,837	18,441
	$ 146,073	$ 144,672

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

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years ended December 31,

	2015	2014
	(in thousands)	
Interest income		
Interest and fees on loans	$ 4,237	$ 4,338
Interest on loans held for sale	-	201
Interest on investment securities	1,044	1,445
Dividends on nonmarketable equity securities	46	54
Other interest income	15	11
Total interest income	5,342	6,049
Interest expense		
Deposits	1,039	1,065
FHLB advances	96	144
Total interest expense	1,135	1,209
Net interest income	4,207	4,840
Provision (credit) for loan losses	(50)	426
Net interest income after provision for loan losses	4,257	4,414
Noninterest income		
Service charges and fees	110	115
Other income	449	146
Gain on loans sold	-	2,877
Gain on sale of available-for-sale securities, net	186	254
Total noninterest income	745	3,392
Noninterest expense		
Employee compensation and benefits	1,581	4,280
Occupancy and equipment	203	949
Professional fees	205	784
Other general and administrative	1,235	2,226
Total noninterest expense	3,224	8,239
Income (loss) before income taxes	1,778	(433)
Income tax expense (benefit)	-	-
Net income (loss)	$ 1,778	$ (433)
Other comprehensive income, net of tax		
Net change in unrealized (losses) gains on securities	(213)	1,644
Reclassification adjustment for net gains realized in net loss	(186)	(254)
Total other comprehensive (loss) income	(399)	1,390
Total comprehensive income	$ 1,379	$ 957

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

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2015 and 2014

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)				
Balance at December 31, 2013	2,654,890	$ 26	$ 26,558	$ (8,015)	$ (102)	$ (1,492)	$ 16,975
Options exercised	127,532	1	473	-	-	-	474
Stock compensation awards (forfeitures), net	(10,000)	-	-	-	-	-	-
Stock-based compensation	-	-	89	-	-	-	89
Purchase of treasury stock (11,568 shares)	-	-	-	-	(54)	-	(54)
Net loss	-	-	-	(433)	-	-	(433)
Other comprehensive income	-	-	-	-	-	1,390	1,390
Balance at December 31, 2014	2,772,422	$ 27	$ 27,120	$ (8,448)	$ (156)	$ (102)	$ 18,441
Options exercised	1,416	-	5	-	-	-	5
Stock-based compensation	-	-	12	-	-	-	12
Net income	-	-	-	1,778	-	-	1,778
Other comprehensive loss	-	-	-	-	-	(399)	(399)
Balance at December 31, 2015	2,773,838	$ 27	$ 27,137	$ (6,670)	$ (156)	$ (501)	$ 19,837

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

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years ended December 31,

	2015	2014
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ 1,778	$ (433)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	159	269
Provision for loan losses	(50)	426
Net amortization of premiums on investment securities	743	868
Recognition of stock-based compensation on stock options/restricted stock awards	12	89
Loans originated for sale	-	(100,655)
Proceeds from the sale of loans held for sale	-	111,306
Gain on sale of loans held for sale	-	(2,700)
Gain on sale of available-for-sale securities, net	(186)	(254)
Gain on sale of SBA loans	-	(177)
Proceeds from the sale of SBA loans	-	2,342
Loss on disposal of premises and equipment	34	57
Federal Home Loan Bank stock dividend	(15)	(24)
Increase in bank-owned life insurance cash surrender value	(136)	(146)
Valuation adjustments on other real estate owned	-	354
Net change in:		
Accrued interest receivable	46	89
Other assets	967	(593)
Accrued interest payable	26	(1)
Accounts payable and other liabilities	(247)	(931)
Net cash provided by operating activities	3,131	9,886
Cash flows from investing activities		
Activity in securities available-for-sale:		
Purchases	(26,234)	(24,361)
Maturities, prepayments, and calls	6,796	7,679
Sales	23,008	34,397
Purchases of investment securities held-to-maturity	(4,500)	-
Purchases of nonmarketable equity securities, net	(79)	1,590
Redemption of bank-owned life insurance	229	-
Loan (originations)/principal collections, net	(2,292)	(3,709)
Purchases of interest-bearing deposits with banks	(493)	-
Proceeds from the sale of other real estate owned	657	735
Purchases of premises and equipment	(1,402)	(8)
Proceeds from the sale of premises and equipment	5	-
Net cash (used) provided by investing activities	(4,305)	16,323

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

Solera National Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years ended December 31,

	2015	2014
	(in thousands)	
Cash flows from financing activities		
Net change in deposits	$ 1,726	$ (13,731)
Repurchase of common stock	-	(54)
Net (decrease) increase in short-term FHLB advances	-	(9,808)
Repayment of long-term FHLB borrowings	(1,500)	(4,000)
Proceeds of long-term FHLB borrowings	-	2,000
Proceeds from stock options exercised	5	474
Net cash provided (used) by financing activities	231	(25,119)
Net change in cash and cash equivalents	(943)	1,090
Cash and cash equivalents at beginning of year	3,432	2,342
Cash and cash equivalents at end of year	$ 2,489	$ 3,432
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$ 1,109	$ 1,210
Loan balances transferred to loans held for sale	$ 1,039	$ -

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Solera National Bancorp, Inc. (the "Holding Company") is a Delaware corporation that was incorporated to organize and serve as the holding company for Solera National Bank (the "Bank"), which opened for business in 2007. Solera National Bank is a full-service commercial bank headquartered in Lakewood. The entities collectively are referred to as "the Company".

The Company offers a broad range of commercial and consumer banking services to small and medium-sized businesses, licensed professionals and individuals who are particularly responsive to the personalized service that Solera National Bank provides to its customers. The Company believes that local ownership and control allows the Bank to serve customers efficiently and effectively. Solera National Bank competes on the basis of providing a personalized banking experience combined with a broad range of services, customized and tailored to fit the individual needs of its clients. The Company has an emphasis in serving the local Hispanic and other minority populations which it believes are underserved. The Company remains focused on executing its strategy of delivering prudent and controlled growth to efficiently leverage the Company's capital while controlling its expense base to achieve sustained profitability.

The Company was subject to a contentious proxy contest in the first half of 2014 and now has a reconstituted board of directors with one primary goal - to be the premier community bank in Colorado with the ultimate objective of creating shareholder value. During 2015, the Company focused on its traditional strength as a commercial bank and worked to maintain a lean and efficient structure. To help reduce costs, the Company de-registered as an SEC reporting company during the third quarter of 2014. This significantly reduced accounting, legal and auditing costs as well as allowed management to devote more time to the Bank's operations rather than SEC reporting and compliance. The Company is committed to providing transparent financial reporting through publication of quarterly earnings releases and annual audited financial statements. Importantly, the Company's common stock will remain traded over-the-counter.

Since the Company operates in Colorado, the operating results are significantly influenced by economic conditions in Colorado, particularly the health of the real estate market. Additionally, the Company is subject to competition from other financial institutions and is impacted by fiscal and regulatory policies of the federal government as well as regulatory oversight by the Office of the Comptroller of the Currency, (the “OCC”) and the Federal Reserve Bank of Kansas City (the "FRB").

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of Solera National Bancorp, Inc. and its wholly-owned subsidiary, Solera National Bank. All entities are collectively referred to as the Company. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the consolidated financial statements and related notes of prior periods to conform to the current presentation. These reclassifications had no impact on stockholders’ equity or net income for the periods. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and prevailing practices within the banking industry.

Use of Estimates

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

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

In connection with the determination of the allowance for loan losses and the valuation of other real estate owned, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers’ operations and the liquidation of loan collateral.

Management believes that the allowance for loan losses and the valuation of other real estate owned are adequate. While management uses available information to recognize losses on loans and other real estate owned, changes in economic conditions may necessitate revisions in future years.

Business Segments

The Company uses the "management approach" for reporting information about segments and has determined that during 2015, its business was comprised of one operating segment: community banking.

During 2014, the Company measured financial performance by major lines of business based on the products and services provided to customers. Based on this approach, during 2014, the Company had two reportable operating segments:

Community Banking - which offers commercial banking products such as commercial lending and deposit products to small and medium-sized businesses, as well as consumer banking products and services such as deposit accounts, home equity loans and mobile banking services.

Residential Mortgage Banking – from December 2012 to July 2014, the Bank offered one-to-four family residential mortgage loans to consumers. The majority of these loans and their servicing rights were sold to secondary market investors. However, some of these loans were retained by the Bank and are serviced by a contracted third-party. The Company is committed to this line of business and exploring strategic opportunities to re-establish this business segment. However, there was no activity in this business segment during 2015.

Presentation of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents includes cash, balances due from banks and federal funds sold. Generally, federal funds are sold for one day periods. Cash flows from loans, deposits, and securities sold under agreements to repurchase and federal funds purchased are reported net.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold.

The Company may maintain amounts due from banks which exceed federally insured limits. The Company has not experienced nor does it anticipate any losses in such accounts.

Investment Securities

Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investments to be held for an indefinite amount of time, but not necessarily to maturity, are classified as available-for-sale and reported at fair value using Level 2 inputs. For these securities, the Company obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things. Unrealized gains and losses are reported as a separate component of accumulated other comprehensive income. Premiums or discounts are amortized or accreted into income using the interest method. Realized gains or losses are recorded using the specific identification method.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than temporary. Securities are evaluated for impairment utilizing criteria such as the magnitude and duration of the decline, current market conditions, payment history, the credit worthiness of the obligor, the intent of the Company to retain the security or whether it is more likely than not that the Company will be required to sell the security before recovery of the value, as well as other qualitative factors. If a decline in value below amortized cost is determined to be other-than-temporary, which does not necessarily indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not favorable, the security is reviewed in more detail in order to determine the portion of the impairment that relates to credit (resulting in a charge to earnings) versus the portion of the impairment that is noncredit related (resulting in a charge to accumulated other comprehensive income). If it is more likely than not that sale of the security will be required prior to recovery of its amortized cost, the entire impairment is recognized in earnings equal to the difference between the amortized cost basis and the fair value. A credit loss is determined by comparing the amortized cost basis to the present value of cash flows expected to be collected, computed using the original yield as the discount rate.

Loans Held for Sale

Particular loans may be considered held for sale as of the Company's balance sheet date. From time to time, the Company sells SBA guaranteed loans and may designate select classified or nonaccrual loans as held for sale as part of the Company's strategy to dispose of non-earning assets. Once the decision to sell a loan has been made, the loan is designated held for sale and is carried at the lower of cost or fair value, with any required write-down being charged to earnings at the time of the reclassification.

Loan Commitments and Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note Q. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Loans Held for Investment

Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances net of any deferred fees or costs, and reduced by any charge-offs and the allowance for loan.

Credit and loan decisions are made by management and the Board of Directors' Credit Committee in conformity with established loan policies. The Company's practice is to charge-off any loan or portion of a loan when the loan is determined to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss, or for other reasons.

The Company considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans (see Interest and Fees on Loans, below).

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectability of all or a portion of the loan unless the loan is in the process restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Interest and Fees on Loans

Interest income is recognized daily in accordance with the terms of each note based on the outstanding principal balance. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is 90 days past due based on contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the Company's recorded investment in the loan (the customer's balance less any partial charge-offs) is deemed collectible. Interest accruals are resumed on such loans only when they are brought current and when, in the judgment of management, the loans are estimated to be fully collectible as to all interest and the Company's recorded investment.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent by 30 days or more. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan using the effective interest method and without anticipating prepayments.

Provision and Allowance for Loan Losses

Implicit in the Company's lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loans being made and the creditworthiness of the borrowers over the terms of the loans. The allowance for loan losses represents the Company's recognition of the risks of extending credit and its evaluation of the loan portfolio. The evaluation of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses based on management's assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged-off, net of recoveries. Loan losses are charged against the allowance for loan losses when management believes the balance is uncollectible.

The Company has established a formal process for determining an adequate allowance for loan losses. The allowance for loan losses calculation has two components. The first component represents the allowance for loan losses for impaired loans; that is, loans where the Company believes collection of the contractual principal and interest payments is not probable. To determine this component of the calculation, impaired loans and leases are individually evaluated by either discounting the expected future cash flows or determining the fair value of the collateral, if repayment is expected solely from collateral. The fair value of the collateral is determined using internal analyses as well as third-party information, such as appraisals. That value, less estimated costs to sell, is compared to the recorded investment in the loan and any shortfall is charged-off. Unsecured loans and loans that are not collateral-dependent are evaluated by calculating the discounted cash flow of the payments expected over the life of the loan using the loan's effective interest rate and giving consideration to currently existing factors that would impact the amount or timing of the cash flows. The shortfall between the recorded investment in the loan and the discounted cash flows, or the fair value of the collateral less estimated costs to sell, represents the first component of the allowance for loan losses.

The second component of the allowance for loan losses represents contingent losses – the estimated probable losses inherent within the portfolio due to uncertainties. To determine this component, management calculates a weighted-average loss rate based on actual loss rates over the last two to three years for all banks in Colorado and for similarly-sized commercial banks with two or fewer locations in a metropolitan area. Management then adjusts the loss rate for environmental factors which include, but are not limited to, 1) historical and current trends in downgraded loans; 2) the level of the allowance in relation to total loans; 3) the levels and trends in non-performing and past due loans; and 4) management's assessment of economic conditions and certain qualitative factors as defined by bank regulatory guidance, including but not limited to, changes in the size, composition and concentrations of the loan portfolio, changes in the legal and regulatory environment, and changes in lending management. The qualitative factors also consider the risk elements within each segment of the loan portfolio. The primary risk comes from the difference between the expected and actual cash flows of the borrower and is influenced by the type of collateral securing the loans. For real estate secured loans, conditions in the real estate markets as well as the general economy influence real estate values and may impact the Company's ability to recover its investment due to declines in the fair value of the underlying collateral. The risks in non-real estate secured loans include general economic conditions as well as interest rate changes. Classified and criticized loans, which are closely monitored by management, are taken out of their original category for calculating their contingent loss rate and are assigned an appropriate loss rate. The aggregate of the above described segments represents the contingent losses in the loan portfolio.

The recorded allowance for loan losses is the aggregate of the impaired loan component and the contingent loss component. The Company aggregates loans into five portfolio segments: Commercial Real Estate; Residential Real Estate; Commercial and Industrial; Construction and Land Development; and Consumer. These segments are based upon the loan's categorization in the Consolidated Report of Condition and Income, as set forth by banking regulators, (the "Call Report"). The methodology for estimating the allowance has not changed materially during the current or prior reporting period and is consistent across all portfolio segments and classes of loans.

At December 31, 2015, the Company had an allowance for loan losses of approximately $1.5 million. The Company believes that this is adequate to cover probable losses based on currently available information. Future additions to the allowance for loan losses may be required based on management's continuing evaluation of the inherent risks in the portfolio. Additional provisions for loan losses may be needed if the economy declines, asset quality deteriorates, or the loss experience changes.

Nonmarketable Equity Securities

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

Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure or deed in lieu of foreclosure and is carried at its fair value less estimated costs to sell. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are taken as a valuation allowance and charged to earnings as an operating expense. Operating income of such properties, net of related expenses, are included in other noninterest income.

Premises and Equipment

Land is carried at cost. Buildings, equipment and software are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful life of the asset. Building and leasehold improvements carry an estimated useful life of 39 years and equipment and software carry estimated useful lives ranging from one to seven years. Expenditures for leasehold improvements or major repairs are capitalized and those for ordinary repairs and maintenance are charged to noninterest expense when incurred.

Core Deposit Intangible

The Company's core deposit intangible includes the deposit premium paid and other transaction costs incurred in conjunction with the acquisition of customer deposits. Intangible assets are amortized over their estimated useful lives, using the straight-line method. Intangible assets are assessed for impairment at least quarterly, or when events or circumstances indicate a possible inability to realize the carrying amount. The core deposit intangible is included in Other Assets on the Company's Consolidated Balance Sheets and the amortization of the core deposit intangible is included in Other General and Administrative expenses on the Company's Consolidated Statements of Comprehensive Income.

Share-Based Compensation

The Company can grant stock options as incentive compensation to employees and directors. The cost of employee/director services received in exchange for an award of equity instruments is based on the grant-date fair value of the award, which is determined using a Black-Scholes-Merton model. This cost, net of estimated forfeitures, is expensed to employee compensation and benefits over the period in which the recipient is required to provide services in exchange for the award, generally the vesting period.

Additionally, the Company can grant restricted stock awards. These stock awards may vest based on a performance or service condition. For awards that vest based on a service condition, the compensation expense is recognized over the service period based on the grant-date fair value of the award (as determined by the quoted market price on the date of grant). For awards that vest based on a performance condition, the expense is recognized based on the number of awards that are expected to vest based on then-current projections. Should these expectations change in future periods, additional expense could be recorded or expense previously recorded could be reversed. Prior to the vesting of stock awards, each restricted stock grantee shall have the rights of a stockholder with respect to voting and dividend rights of the granted stock.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Applicable Accounting Standards Updates

The Financial Accounting Standards Board recently issued Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard also reduces or eliminates several financial reporting disclosure requirements. The standard is effective for the Company beginning January 1, 2019; however, for 2015 the Company has early adopted a provision that eliminates the disclosures of the fair values of financial instruments carried at amortized cost. Other provisions of the standard are not expected to have a significant impact to the consolidated financial statements.

Income (Loss) per Common Share

Basic earnings (loss) per common share (EPS) is based on the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is similar to basic EPS except that the weighted-average number of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period. When the Company's net operating results are a loss, all dilutive potential common shares are anti-dilutive so there is no difference between basic EPS and diluted EPS.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, unrealized gains or losses on securities available for sale and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company recognizes interest and penalties, if any, in Other General and Administrative expense. There were no interest or penalties recorded or accrued at December 31, 2015 or 2014. Similarly, as of December 31, 2015 and 2014, the Company has no uncertain income tax positions as defined in Accounting Standards Codification (“ASC”) 740, *Income Taxes*. It should be noted that taxes are estimated to be $0 for both 2015 and 2014, as a full valuation allowance has been established for all deferred tax assets and liabilities until it is more likely than not that the tax assets or liabilities will be realized.

The Company is no longer subject to examination by taxing authorities for years before 2012.

Comprehensive Income

For the years ended December 31, 2015 and 2014, the Company's comprehensive income included net income (loss) from operations and unrealized losses on investment securities, net of applicable taxes. However, since a full valuation allowance has been established for all deferred tax asset and liabilities until it is more likely than not that the tax assets or liabilities will be realized, there was no tax impact associated with the unrealized loss of the investment portfolio.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Holding Company or by the Holding Company to stockholders. With certain exceptions, the Company may not pay a dividend to its stockholders unless its retained earnings equal at least the amount of the proposed dividend.

Reclassifications

Certain reclassifications have been made to 2014 amounts to conform to the current year's presentation.

NOTE B - SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale				
Corporate	$ 6,683	$ 26	$ (185)	$ 6,524
State and municipal	13,710	31	(200)	13,541
Residential agency mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs)	26,466	41	(215)	26,292
U.S. Agency	2,016	1	-	2,017
Total securities available-for-sale	$ 48,875	$ 99	$ (600)	$ 48,374
Securities Held-to-Maturity				
Corporate	$ 4,500	$ 8	$ (110)	$ 4,398
Total securities held-to-maturity	$ 4,500	$ 8	$ (110)	$ 4,398

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale	(in thousands)			
Corporate	$ 11,604	$ 61	$ (161)	$ 11,504
State and municipal	14,745	104	(118)	14,731
Residential agency mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs)	26,653	138	(126)	26,665
Total securities available-for-sale	$ 53,002	$ 303	$ (405)	$ 52,900

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

December 31, 2015 and 2014

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2015 are shown below.

	Available-for-sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due within one year	$ 100	$ 102	$ -	$ -
Due within one year through five years	7,916	7,778	-	-
Due within five years through ten years	13,262	13,068	2,750	2,727
Due after ten years	1,131	1,134	1,750	1,671
	22,409	22,082	4,500	4,398
Residential agency MBS and CMOs	26,466	26,292	-	-
	$ 48,875	$ 48,374	$ 4,500	$ 4,398

The following tables show the estimated fair value and gross unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous loss position as of December 31, 2015 and 2014.

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
Securities Available-for-Sale						
Corporate	$ 2,932	$ (100)	$ 2,278	$ (86)	$ 5,210	$ (186)
State and municipal	7,428	(155)	2,015	(45)	9,443	(200)
Residential agency MBS and CMOs	14,478	(153)	4,948	(61)	19,426	(214)
Total temporarily-impaired	$ 24,838	$ (408)	$ 9,241	$ (192)	$ 34,079	$ (600)
Securities Held-to-Maturity						
Corporate	$ 3,390	$ (110)	$ -	$ -	$ 3,390	$ (110)
Total temporarily-impaired	$ 3,390	$ (110)	$ -	$ -	$ 3,390	$ (110)

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
Securities Available-for-Sale						
Corporate	$ 3,653	$ (27)	$ 6,122	$ (134)	$ 9,775	$ (161)
State and municipal	945	(8)	5,492	(110)	6,437	(118)
Residential agency MBS and CMOs	7,921	(76)	5,318	(50)	13,239	(126)
Total temporarily-impaired	$ 12,519	$ (111)	$ 16,932	$ (294)	$ 29,451	$ (405)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2015, no declines were deemed to be other than temporary.

For the years ended December 31, 2015 and 2014, gross realized gains amounted to $199,000 and $261,000, respectively. Gross realized losses amounted to $13,000 and $7,000, respectively.

Securities with carrying values of $21.0 million and $18.7 million at December 31, 2015 and 2014, respectively, were pledged as collateral to secure public deposits, borrowings from the FHLB, repurchase agreements and for other purposes as required or permitted by law.

NOTE C – LOANS HELD FOR SALE

As of December 31, 2015, the Company had $1.0 million in loans held for sale compared to no loans held for sale as of December 31, 2014. The loans held for sale at December 31, 2015 were commercial loans that had been identified for sale to a third party and were carried at the lower of cost or fair value.

NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table sets forth the composition of the loan portfolio, excluding loans held for sale:

	December 31, 2015	December 31, 2014
	(in thousands)	
Commercial real estate ("CRE")	$ 42,395	$ 38,867
Residential real estate	26,080	26,734
Commercial and industrial	10,046	8,288
Construction and land development	3,571	6,926
Consumer and other	31	49
Subtotal	82,123	80,864
Less: Allowance for loan losses	(1,518)	(1,600)
Net deferred loan fees	(14)	24
Loans held for investment, net	$ 80,591	$ 79,288

The Company's loan portfolio generally consists of loans to borrowers within Colorado. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, the Company's loan portfolio consists primarily of loans secured by real estate located in Colorado, making the value of the portfolio more susceptible to declines in real estate values and other changes in economic conditions in Colorado. No single borrower can be approved for a loan over the Company's current legal lending limit of approximately $2.9 million. This regulatory requirement helps to ensure the Company's exposure to one individual customer is limited.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

December 31, 2015 and 2014

Activity in the allowance for loan and lease losses for the years ended December 31, 2015 and 2014 is summarized as follows:

	Rollforward of Allowance for Loan Losses by Portfolio Segment					
	Twelve Months Ended December 31, 2015					
	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	(in thousands)					
Balance at December 31, 2014	$ 926	$ 391	$ 187	$ 95	$ 1	$ 1,600
Provision (credit) for loan losses	(60)	(117)	136	(8)	(1)	(50)
Charge-offs	-	-	(117)	-	-	(117)
Recoveries	-	48	-	36	1	85
Net (charge-offs) recoveries	-	48	(117)	36	1	(32)
Balance at December 31, 2015	$ 866	$ 322	$ 206	$ 123	$ 1	$ 1,518

	Rollforward of Allowance for Loan Losses by Portfolio Segment					
	Twelve Months Ended December 31, 2014					
	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	(in thousands)					
Balance at December 31, 2013	$ 655	$ 292	$ 149	$ 20	$ -	$ 1,116
Provision for loan losses	271	53	26	75	1	426
Charge-offs	-	-	-	-	-	-
Recoveries	-	46	12	-	-	58
Net (charge-offs) recoveries	-	46	12	-	-	58
Balance at December 31, 2014	$ 926	$ 391	$ 187	$ 95	$ 1	$ 1,600

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

December 31, 2015 and 2014

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

	Ending Balances in Loan and Allowance for Loan Losses by Portfolio Segment					
	December 31, 2015					
	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	(in thousands)					
Loans						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	42,395	26,080	10,046	3,571	31	82,123
Total	$ 42,395	$ 26,080	$ 10,046	$ 3,571	$ 31	$ 82,123
Allowance for loan losses						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	866	322	206	123	1	1,518
Total	$ 866	$ 322	$ 206	$ 123	$ 1	$ 1,518

	Ending Balances in Loan and Allowance for Loan Losses by Portfolio Segment					
	December 31, 2014					
	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Construction and Land Development	Consumer	Total
	(in thousands)					
Loans						
Individually evaluated for impairment	$ -	$ -	$ 158	$ -	$ -	$ 158
Collectively evaluated for impairment	38,867	26,734	8,130	6,926	49	80,706
Total	$ 38,867	$ 26,734	$ 8,288	$ 6,926	$ 49	$ 80,864
Allowance for loan losses						
Individually evaluated for impairment	$ -	$ -	$ 39	$ -	$ -	$ 39
Collectively evaluated for impairment	926	391	148	95	1	1,561
Total	$ 926	$ 391	$ 187	$ 95	$ 1	$ 1,600

Impaired Loans and Troubled Debt Restructurings

There was one impaired loan and no troubled debt restructurings (TDRs) as of December 31, 2015. The impaired loan was a commercial and industrial loan with a recorded investment[1] of $131,000, and an unpaid principal balance of $147,000 as of December 31, 2015. The impaired loan had no valuation allowance at December 31, 2015, as the loan was held for sale at par value. No interest income was recognized during 2015 on this impaired loan.

As of December 31, 2014, the Company had one impaired, TDR commercial and industrial loan with a recorded investment of $158,000. The unpaid principal balance at December 31, 2014 was $163,000 and the related allowance for loan losses was $39,000. Interest income totaling $3,000 was recognized during the year ended December 31, 2014 on this impaired loan. The terms of the TDR included an extension of maturity and longer amortization schedule.

No previously restructured loans subsequently defaulted and were charged-off during 2015 or 2014.

[1] The recorded investment represents the customer balance less partial charge-offs, if any, and excluding any accrued interest receivable since most impaired loans are on nonaccrual status.

Past Due and Nonaccrual Loans

The following tables show past due loans, by class, as of December 31, 2015 and 2014:

	Age Analysis of Loans by Class				
	Year Ended December 31, 2015				
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
	(in thousands)				
CRE - owner occupied	$ -	$ -	$ -	$ -	$ -
CRE - non-owner occupied	-	-	-	-	-
Commercial and industrial	-	20	-	-	20
Residential real estate	112	-	-	-	112
Construction and land development	-	-	-	-	-
Government guaranteed	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 112	$ 20	$ -	$ -	$ 132

Age Analysis of Loans by Class

	Year Ended December 31, 2014				
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual
	(in thousands)				
CRE - owner occupied	$ -	$ -	$ -	$ -	$ -
CRE - non-owner occupied	-	-	-	-	-
Commercial and industrial	126	31	-	158	315
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Government guaranteed	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 126	$ 31	$ -	$ 158	$ 315

The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance and are the same for all classes of loans:

<u>Special Mention</u>: Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment at some future date.

<u>Substandard</u>: Loans in this category are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. These loans have well-defined weaknesses that jeopardize the liquidation of the debt and have the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

<u>Doubtful</u>: Loans in this category have all the weaknesses inherent in those classified as substandard, above, with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

<u>Loss</u>: Loans in this category are deemed not collectible and are charged-off.

Solera National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

December 31, 2015 and 2014

Loans not meeting any of the definitions above are considered to be pass rated loans.

As of December 31, 2015, and based on the most recent analysis performed during the month of December 2015, the recorded investment in each risk category of loans by class of loan is as follows:

	Credit Quality of Loans by Class				
	Year Ended December 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
CRE - owner occupied	$ 20,391	$ 740	$ 2,093	$ -	$ 23,224
CRE - non-owner occupied	18,669	502	-	-	19,171
Residential real estate	26,080	-	-	-	26,080
Commercial and industrial	7,978	-	307	-	8,285
Government guaranteed	1,761	-	-	-	1,761
Construction and land development	3,571	-	-	-	3,571
Consumer	31	-	-	-	31
Total	$ 78,481	$ 1,242	$ 2,400	$ -	$ 82,123

As of December 31, 2014, and based on the analysis performed during the month of December 2014, the recorded investment in each risk category of loans by class of loan is as follows:

	Credit Quality of Loans by Class				
	Year Ended December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
CRE - owner occupied	$ 15,821	$ 1,490	$ 2,000	$ -	$ 19,311
CRE - non-owner occupied	16,385	3,171	-	-	19,556
Residential real estate	26,235	92	407	-	26,734
Commercial and industrial	5,629	126	510	-	6,265
Government guaranteed	2,023	-	-	-	2,023
Construction and land development	6,358	568	-	-	6,926
Consumer	49	-	-	-	49
Total	$ 72,500	$ 5,447	$ 2,917	$ -	$ 80,864

NOTE E – NONMARKETABLE EQUITY SECURITIES

The Company, through its subsidiary bank, is a member of both the Federal Reserve Bank of Kansas City and the Federal Home Loan Bank of Topeka. Membership in these banks requires the Company to maintain an investment in the capital stock of each. These investments are restricted in that they can only be redeemed by the issuer at par value. The Company's investments at December 31, were as follows:

	2015	2014
	(in thousands)	
Federal Reserve Bank of Kansas City	$ 545	$ 485
Federal Home Loan Bank of Topeka	329	295
	$ 874	$ 780

NOTE F – BANK-OWNED LIFE INSURANCE

Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Increases in the cash surrender value are recognized as other noninterest income. In 2015, the Company received a one-time bank-owned life insurance benefit of $293,000.

NOTE G – OTHER REAL ESTATE OWNED

Changes in the balance of other real estate owned for the years ended December 31, 2015 and 2014 were as follows:

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Balance at beginning of year	$ 657	$ 1,746
Additions to OREO	-	-
Sales proceeds in escrow	(657)	(735)
Valuation adjustments	-	(354)
Balance at end of year	$ -	$ 657

Expenses related to other real estate owned included insurance, taxes and operating expenses of $0 and $47,000 during 2015 and 2014, respectively. The Company recorded $0 net operating income from its OREO property in 2015 and 2014 due to the sale of the property in early 2015.

NOTE H – PREMISES AND EQUIPMENT

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

	2015	2014
	(in thousands)	
Land	$ 272	$ -
Buildings	1,476	-
Leasehold improvements	-	604
Furniture, fixtures and equipment	943	1,008
	2,691	1,612
Accumulated depreciation and amortization	(773)	(966)
Total premises and equipment	$ 1,918	$ 646

Depreciation and amortization expense on premises and equipment was $115,000 and $171,000 for the years ended December 31, 2015 and 2014, respectively, and is included in occupancy expense in the accompanying consolidated statements of comprehensive income. Rent expense on premises was approximately $11,000 and $601,000 for the years ended December 31, 2015 and 2014, respectively. The decrease in rent expense is due to the Company's sublease of its residential mortgage offices, and the purchase of the Bank's main office which had been on a long-term lease.

The Company has noncancelable operating leases for three mortgage loan production offices, and several copiers/printers that expire at various dates not later than the year 2017. Each of the leases for office space has a renewal option that extends through various dates not later than 2021. The cost of such renewals is not included below.

The following table shows future minimum noncancelable operating lease payments as of December 31, 2015:

Year ending December 31,	(in thousands)	
2016	$	122
2017		6
Total	$	128

In June and July 2014, all of the Company's residential mortgage loan officers and the majority of their support staff tendered their resignations. By September 2014, the Company ceased its residential mortgage lending division. As such, the Company recorded a loss of $199,000 in 2014 associated with the abandoned lease calculation for the residential mortgage division's four offices as well as for the long-term contracts and other equipment the Company was no longer able to utilize. In late 2014 and 2015, the Company was able to sublease all locations and updated the disposal liability for these items. The total remaining costs expected to be incurred on the leased properties, net of expected sublease payments, is $24,000. This amount includes rental expense due from January 2016 through February 2017, giving effect to the sublease agreements signed in 2015.

NOTE I – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2015 and 2014 was $12.5 million and $12.3 million, respectively.

At December 31, 2015, the scheduled maturities of interest-bearing time deposits are as follows:

	2015 (in thousands)	
2016	$	25,266
2017		14,553
2018		9,677
2019		3,474
2020		12,034
Thereafter		1,156
Total	$	66,160

Time deposits at December 31, 2015 included approximately $5.5 million in brokered deposits. The majority of this balance consisted of time deposits opened during 2015 that mature during 2016. There were no reciprocal time deposits included in brokered deposits at December 31, 2015. Time deposits at December 31, 2014 included approximately $3.6 million in brokered deposits. The majority of this balance consisted of time deposits opened during 2014 that matured during 2015. There were no reciprocal time deposits included in brokered deposits at December 31, 2014.

In 2013, the Company completed its acquisition of customer deposits, excluding certificates of deposit, and a nominal amount of overdraft lines of credit balances, totaling approximately $6.0 million, associated with deposit accounts from the Lakewood branch of Liberty Savings Bank, FSB. The Company paid a deposit premium of $468,000 based upon the average daily total deposits during the 30 calendar days immediately preceding the closing of the transaction. The deposit premium, as well as other transaction costs incurred, were capitalized as a core deposit intangible and are being amortized on a straight-line basis over a period of seven years. In 2015 and 2014, the Company recorded $67,000 in amortization expense. As of December 31, 2015 and 2014, the core deposit intangible is $295,000 and $362,000 and is included in Other Assets on the Company's Consolidated Balance Sheets. Quarterly, the Company evaluates the core deposit intangible for impairment. As of December 31, 2015, no impairment has been noted.

NOTE J – FHLB ADVANCES

The Company is a member of the Federal Home Loan Bank of Topeka (FHLB) and, as a regular part of its business, obtains advances from this FHLB. Overnight advances bear interest at a variable rate while all other advances bear interest at a fixed rate. All advances are collateralized by certain securities pledged by the Company and some of the Company's qualifying loans. The Company's authorized borrowing line with the FHLB is capped at 40% of total assets, subject to the availability of sufficient collateral to pledge against such borrowings. As of December 31, 2015, the Company had $3.0 million in fixed-rate borrowings and $2.0 million in variable-rate, callable borrowings from the FHLB with varying maturity dates between June 2016 and October 2018 and a weighted-average effective interest rate of 1.54%. As of December 31, 2015, the contractual interest rates ranged from 0.45% to 2.07%. As of December 31, 2014, the Company had $4.5 million in fixed-rate borrowings and $2.0 million in variable-rate, callable borrowings from the FHLB with varying maturity dates between June 2015 and October 2018 and a weighted-average effective interest rate of 1.57%.

In addition to FHLB borrowings, the Company may borrow overnight funds on an unsecured basis from its correspondent banks. As of December 31, 2015 and 2014, the Company had approved borrowing lines up to $13.1 million, from correspondent banks. As of both December 31, 2015 and 2014, there were no outstanding borrowings under these arrangements. The Company also has the ability to borrow at the Federal Reserve Bank Discount Window on a secured basis.

At December 31, 2015, the scheduled maturities and weighted-average effective interest rate of FHLB borrowings are as follows:

	Amount Maturing	Weighted-Average Interest Rate
	(in thousands)	
2016	$ 1,600	2.39%
2017	2,400	0.88%
2018	1,000	1.76%
Total	$ 5,000	1.54%

NOTE K – INCOME TAXES

A deferred tax asset or liability is recognized for the tax consequences of temporary differences in the recognition of revenue and expense for financial reporting and tax purposes. Listed below are the components of the net deferred tax asset (liability) at December 31:

	2015	2014
	(in thousands)	
Deferred tax assets:		
Start-up and organizational expenses	$ 535	$ 614
Net operating loss carryforward	1,325	1,895
Net unrealized loss on available-for-sale securities	186	38
Allowance for loan losses	411	429
Non-qualified stock options	80	76
Other	115	174
Total deferred tax assets	2,652	3,226
Deferred tax liabilities:		
Federal Home Loan Bank dividends	(21)	(41)
Other	(99)	(99)
Total deferred tax liabilities	(120)	(140)
Valuation reserve	(2,532)	(3,086)
Net deferred tax asset (liability)	$ -	$ -

The valuation allowance was established because the Company has not reported earnings sufficient enough to support the recognition of the deferred tax assets. The Company has net operating loss carryforwards of approximately $4.0 million for federal and state income tax purposes. Federal and state net operating loss carryforwards, to the extent not used, will expire starting in 2027. The Company is no longer subject to examination by Federal and State taxing authorities for years before 2012.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate of 34% to pretax income from continuing operations for the years ended December 31, 2015 and 2014, due to the following:

	Year ended December 31, 2015	Year ended December 31, 2014
	(in thousands)	
Computed "expected" tax (benefit) expense	$ 605	$ (147)
Change in income taxes resulting from:		
Change in valuation allowance	(702)	222
Other	97	(75)
Income tax provision	$ -	$ -

NOTE L - EMPLOYEE BENEFIT PLANS

The Company sponsors a Qualified Automatic Contribution Arrangement (QACA) 401(k) Plan whereby the Company contributes three percent of an employee's compensation to the Plan. Employer contributions cliff-vest after two years of service. Employees may also make volunteer contributions to the Plan, subject to certain limits based on federal tax laws. The employee's contributions vest immediately. For the years ended December 31, 2015 and 2014, expense attributable to the Plan amounted to $25,000 and $35,000, respectively.

NOTE M – STOCK-BASED COMPENSATION

In 2012, the Board of Directors adopted the Company's 2012 Long-Term Incentive Plan, (the "2012 Plan"). Under the terms of the 2012 Plan, the Company may grant incentive stock options, nonqualified stock options, restricted stock awards, and/or stock appreciation rights to eligible persons, including officers and directors of the Company. The 2012 Plan does not terminate or amend the Company's 2007 Stock Incentive Plan (the "2007 Plan"). The 2012 Plan reserves 250,000 shares of common stock of the Company for issuance. At December 31, 2015 and 2014, approximately 246,000 shares were available for future grants. Stock options expire no later than 10 years from the date of the grant and generally vest over 4 years. The 2012 Plan provides for accelerated vesting if there is a change of control, as defined in the 2012 Plan.

Under the terms of the Company's 2007 Plan, employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also officers or employees, may only be granted nonqualified stock options. The Board reserved 510,734 shares of common stock for issuance under the 2007 Plan. At December 31, 2015, approximately 99,000 shares were available for future grants. The 2007 Plan provides for options to purchase shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than 10 years from the date of the grant and generally vest over 5 years. The 2007 Plan provides for accelerated vesting if there is a change of control, as defined in the 2007 Plan. Effective June 13, 2014, a change of control, as defined in the 2007 Plan, occurred. As such all options granted prior to June 13, 2014 and not forfeited before June 13, 2014 became fully vested and exercisable. This resulted in approximately $33,000 of accelerated compensation expense recorded during the second quarter 2014.

The Company recognized stock-based compensation costs of approximately $12,000 during 2015 compared to $89,000 during 2014. No tax benefit related to stock-based compensation will be recognized until the Company demonstrates an ability to maintain profitability.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model. As of December 31, 2015, there was approximately $114,000 of unrecognized compensation costs related to outstanding stock options that will be recognized over a weighted-average period of 2.9 years.

There were no options granted during 2014. The fair value of the 2015 stock option grants was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the assumptions presented in the table below:

	2015 Nonqualified Grants
Number of Options Granted	250,000
Expected Volatility	22.7%
Expected Term	4.2 - 6.0 years
Expected Dividend	0%
Risk-Free Rate	1.42% - 1.80%
Grant-Date Fair Value	$0.71 - $1.01

The expected volatility is based on the volatility of the Company's stock using historical activity. The expected term represents the estimated average period of time that the options will remain outstanding. The expected dividend is set to zero since the Company does not expect to pay dividends in the foreseeable future. The risk-free rate of return reflects the grant-date interest rate offered for zero coupon U.S. Treasury bonds with the same expected term as the options. The Company's estimated forfeiture rate is 36% for executive officers and 41% for employees. The different ranges result from certain groups of individuals exhibiting different behavior. The estimated forfeiture rate is reviewed at each reporting date to confirm that it is the best estimate to support the then-current trends within the Company. Options forfeited impact the amount of compensation expense recognized. Share-based compensation expense is based on awards that are ultimately expected to vest; accordingly, share-based compensation expense may be impacted if actual forfeitures differ from estimated forfeitures.

As of December 31, 2015 and 2014, the aggregate intrinsic value of in-the-money outstanding stock options was approximately $11,000 and $26,000, respectively. As of December 31, 2015, there were approximately 20,000 fully-vested and exercisable stock options outstanding with a weighted-average exercise price of $6.85 per share, a weighted-average remaining contractual term of 4.1 years and an aggregate intrinsic value of approximately $11,000. As of December 31, 2015, there were 43,000 options expected to vest.

The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2015:

	Options	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Outstanding at January 1, 2015	90,362	$ 2.18	$ 8.29
Granted	250,000	0.76	7.00
Exercised	(1,416)	0.63	3.24
Expired	(67,014)	2.37	8.90
Forfeited	(1,182)	1.43	5.88
Outstanding at December 31, 2015	270,750	$ 0.83	$ 6.98

The following is a summary of the Company's outstanding stock options and related activity for the year ended December 31, 2014:

	Options	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Outstanding at January 1, 2014	610,177	$ 1.66	$ 6.70
Exercised	(127,532)	0.65	3.72
Forfeited	(275,415)	2.03	7.87
Expired	(116,868)	1.47	5.96
Outstanding at December 31, 2014	90,362	$ 2.18	$ 8.29

Restricted Stock

During 2012, the Company granted 50,000 shares of restricted stock as inducement awards to officers of the Company's residential mortgage division. The awards were originally scheduled to cliff-vest on November 30, 2014 conditioned upon the officers' continued employment with the Company. In August 2013, the Company accelerated the vesting of 25,000 shares making them fully vested as of August 30, 2013. In December 2013, an additional 12,500 shares vested in conjunction with the separation of an officer. The remaining shares vested on November 30, 2014. The shares had a grant-date fair value of $4.80 per share.

As of December 31, 2014, 25,000 performance-based restricted shares have been issued; however, they have not been deemed granted as the conditions for the vesting have not yet been established. The fair value of the performance-based restricted shares will be calculated on the date the performance measure is established. Per the terms of the agreement, no more than 5,000 shares can be granted each year.

The Company recognized $0 and $24,000 of stock-based compensation expense associated with stock awards for the year ended December 31, 2015 and December 31, 2014, respectively. As of December 31, 2015, there was no unrecorded compensation cost associated with restricted stock grants to be recognized in future periods. The entire 25,000 restricted stock awards are considered issued and outstanding as they have voting and dividend rights; however, since none of those shares are vested they are excluded from the computation of earnings per share.

NOTE N – WARRANTS

In recognition of the substantial financial risks undertaken by the members of the organizing group, the Company granted an aggregate of 317,335 warrants to its organizers and one non-organizer director. These warrants are exercisable at a price of $10.00 per share, subject to an effective registration statement, and may be exercised any time prior to September 10, 2017.

Warrants Outstanding and Exercisable

Type	Exercise Price	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Organizer warrants	$ 10.00	317,335	1.69 years	$ 10.00

Organizer warrants to purchase fractional shares were not issued. Instead, rounding down to the next whole number was used in calculating the number of warrants issued to any stockholder. Holders of warrants will be able to profit from any rise in the market price of the Company's common stock over the exercise price of the warrants because they will be able to purchase shares of the Company's common stock at a price that is less than the then-current market value. If the Bank's capital falls below the minimum level required by the OCC, management may be directed to require the holders to exercise or forfeit their warrants.

NOTE O – EARNINGS (LOSS) PER SHARE

The following table presents the net earnings and weighted average common shares outstanding used to calculate earnings per share for the years ended December 31, 2015 and 2014:

	2015	2014
Basic (loss) / earnings per share computation		
Net earnings / (loss) to common stockholders	$ 1,778,199	$ (433,000)
Weighted average shares outstanding - basic	2,722,473	2,655,530
Basic earnings (loss) per share	$ 0.65	$ (0.16)
Diluted (loss) / earnings per share computation		
Net earnings / (loss) to common stockholders	$ 1,778,199	$ (433,000)
Weighted average shares outstanding - basic	2,722,473	2,655,530
Shares assumed issued:		
Stock options	2,019	-
Unvested restricted stock	-	-
Organizer stock warrants	-	-
Weighted average shares outstanding - diluted	2,724,492	2,655,530
Diluted earnings (loss) per share	$ 0.65	$ (0.16)

Given the loss for the year ended December 31, 2014, diluted EPS did not differ from basic EPS as all dilutive-potential shares were anti-dilutive. For the years ended December 31, 2015 and 2014, respectively, approximately 107,000 and 67,000 anti-dilutive options were not included in the calculation of diluted EPS. Additionally, approximately 281,000 and 288,000, organizer warrants were not included in the calculation of diluted EPS for the years ended December 31, 2015 and 2014, respectively, as their exercise prices were above the market price of the stock making them anti-dilutive.

As of December 31, 2015, 25,000 unvested restricted stock awards were not included in the weighted average shares outstanding for the computation of basic earnings per share as they are only considered issued and outstanding due to their voting and dividend rights.

As of December 31, 2014, 25,000 unvested restricted stock awards were not included in the weighted average shares outstanding for the computation of basic earnings per share as they were only considered issued and outstanding due to their voting and dividend rights. The treasury stock method was used to estimate the weighted-average diluted shares outstanding for the 22,500 shares of restricted stock that were considered granted as of December 31, 2014 and resulted in 7,000 dilutive-potential shares. However, these shares were not included in the computation of weighted-average diluted shares outstanding as they were anti-dilutive given the Company's net loss.

NOTE P – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates and holds deposits from these related parties as follows:

	2015	2014
	(in thousands)	
Loans to principal officers and directors and their affiliates	$ 37	$ 2
Deposits from related parties	252	70

NOTE Q – COMMITMENTS AND CONTINGENCIES

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2015 and 2014, $16.2 million and $11.7 million, respectively, in unfunded commitments outstanding whose contract amounts represent credit risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income producing commercial properties.

NOTE R – LEGAL CONTINGENCIES

In the ordinary course of the business, the Company may be party to various legal actions, which it believes are incidental to the operation of the business and will not have a material impact on the financial condition, cash flow, or results of operations of the Company.

As of December 31, 2015, the Company was involved in a legal proceeding. On August 20, 2015, the Company's former Chief Executive Officer, Mr. John Carmichael, filed a lawsuit against the Company in the District Court of Jefferson County, Colorado seeking approximately $430,000 in salary compensation, 10,000 shares of common stock and stock options relating to 30,000 shares of common stock. The Company firmly believes Mr. Carmichael's claims are without merit and has filed counterclaims against him alleging damages owed as a result of his actions and inactions while he was the Company's CEO. A jury trial is set for August 2016. The Company believes it will prevail in this lawsuit and no amounts will be owed to Mr. Carmichael, although the Company will incur legal fees and expenses in this matter. The Company does not expect the legal costs or the final outcome of this matter to have a material impact on the Company's financial position, results of operations or cash flows.

NOTE S – NONINTEREST EXPENSE

The following table details the items comprising other general and administrative expenses:

	Year Ended December 31, 2015	Year Ended December 31, 2014	Increase/ (Decrease)
	(in thousands)		
Other general and administrative expenses:			
Data processing	$ 524	$ 616	$ (92)
Other loan expenses	86	252	(166)
Marketing and promotions	17	96	(79)
Regulatory and reporting fees	115	149	(34)
Directors' fees	-	36	(36)
FDIC assessment	159	159	-
Telephone/communication	26	77	(51)
Travel and entertainment	8	51	(43)
Printing, stationery and supplies	28	62	(34)
OREO expenses/write-downs	-	402	(402)
Training, education and conferences	11	15	(4)
Insurance	70	64	6
Dues and memberships	9	27	(18)
Core deposit intangible amortization	67	67	-
Postage and shipping	10	23	(13)
ATM and debit card fees	20	25	(5)
Franchise taxes	24	39	(15)
Operating losses / legal settlements	52	55	(3)
Miscellaneous other	9	11	(2)
Total	$ 1,235	$ 2,226	$ (991)

NOTE T – FAIR VALUE MEASUREMENTS

The Company carries its available-for-sale securities, at fair value measured on a recurring basis. Fair value measurements are determined based on the assumptions the market participants would use in pricing the asset. See additional discussion regarding fair value measurement in Note A under the discussion of significant accounting policies.

For available-for-sale securities, fair value measurement is obtained from independent pricing services which utilize observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things. As of December 31, 2015 and 2014, all of the Company's available-for-sale securities were valued using Level 2 inputs.

Impaired loans, if any, are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans or the present value of expected cash flows and is classified as Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals performed by qualified licensed appraisers hired by the Company. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans, if any, are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Other real estate owned, if any, is valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third party appraisals, less costs to sell. The appraisals may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Other real estate owned, if any, is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly.

There were no changes to management's valuation methodology during 2015 or 2014.

Assets and Liabilities Measured on a Recurring Basis

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

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets at December 31, 2015				
Securities available-for-sale				
Corporate	$ -	$ 6,524	$ -	$ 6,524
State and municipal	-	13,541	-	13,541
Residential agency MBS/CMOs	-	26,292	-	26,292
U.S. Agency	-	2,017	-	2,017
Assets at December 31, 2014				
Securities available-for-sale				
Corporate	$ -	$ 11,504	$ -	$ 11,504
State and municipal	-	14,731	-	14,731
Residential agency MBS/CMOs	-	26,665	-	26,665

Assets and Liabilities Measured on a Nonrecurring Basis

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

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets at December 31, 2015				
Impaired loans *(Financial)*	$ -	$ -	$ -	$ -
Assets at December 31, 2014				
Impaired loans *(Financial)*	$ -	$ -	$ 119	$ 119
Other real estate owned *(Non-financial)*	-	-	657	657

At December 31, 2015, the Company had no impaired loans with a valuation allowance. As of December 31, 2014 impaired loans had a carrying value of $158,000, and there was a valuation allowance of $39,000 associated with this loan.

Other real estate owned (OREO) is real property taken by the Company either through foreclosure or through deed in lieu of foreclosure. The fair value of OREO is based on property appraisals adjusted at management's discretion to reflect further decline in fair value since the time the appraisal analysis was completed, if warranted. Therefore, the inputs used to determine the fair value of OREO fall within Level 3. At December 31, 2015, the Company had no OREO properties. At December 31, 2014, OREO with a book value of $910,000 is carried at its fair value of $657,000. The valuation allowance of $253,000 has been recorded through a charge to earnings. The change in fair value of OREO properties from December 31, 2014 to December 31, 2015 is due to the sale of an OREO property during the first quarter of 2015.

The following table provides information describing the valuation process used to determine recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy:

Asset Type	Valuation Method	Unobservable Inputs	Range
Impaired Loans	Property appraisals	Management discount for property and/or recent market volatility	0% - 20% discount
	Discounted cash flows	Estimated loss probability based on management's knowledge of client or client's business	0% - 30% discount
OREO	Property appraisals	Management discount for property type, recent market volatility, and/or management's knowledge of the property	0% - 20% discount

NOTE U – REGULATORY MATTERS

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

At December 31, 2015, the Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock and related paid-in-capital, and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital – consisting of a permissible portion of the allowance for loan losses; and 4) total capital – the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity tier 1 capital. At December 31, 2014, the Bank's regulatory capital is comprised of the same components as at December 31, 2015, except that the regulations in effect at that time did not distinguish between common equity tier 1 and additional tier 1 capital.

When fully phased in on January 1, 2019, the Basel III capital rules will require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio as the buffer is phased in, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7% upon full phase in). The Bank will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four year period beginning January 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2015 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

	December 31, 2015			
	Risk-based			Leverage
	Tier 1	Common Equity Tier 1	Total capital	Tier 1
	(dollars in thousands)			
Actual regulatory capital	$ 18,557	$ 18,557	$ 19,797	$ 18,557
Well-capitalized requirement	5,937	6,431	9,894	7,033
Excess regulatory capital	$ 12,620	$ 12,126	$ 9,903	$ 11,524
Capital ratios	18.8%	18.8%	20.0%	13.2%
Minimum capital requirement	6.0%	4.5%	8.0%	4.0%
Well-capitalized requirement	6.0%	6.5%	10.0%	5.0%
Minimum required for capital adequacy, purposes - Basel III phased-in schedule	6.0%	4.5%	8.0%	4.0%
Minimum required for capital adequacy, purposes - Basel III fully phased-in	8.5%	7.0%	10.5%	4.0%

The following table presents the Bank's actual and required capital ratios as of December 31, 2014 under the regulatory capital rules then in effect.

	December 31, 2014		
	Risk-based		Leverage
	Tier 1	Total capital	Tier 1
	(dollars in thousands)		
Actual regulatory capital	$ 16,428	$ 17,727	$ 16,428
Well-capitalized requirement	6,216	10,359	7,273
Excess regulatory capital	$ 10,212	$ 7,368	$ 9,155
Capital ratios	15.9%	17.1%	11.3%
Minimum capital requirement	4.0%	8.0%	4.0%
Well-capitalized requirement	6.0%	10.0%	5.0%

Capital adequacy ratios are not presented on a consolidated basis, as they are only applicable for bank holding companies with consolidated assets of $500 million or more, or for those bank holding companies that are engaged in significant nonbanking activities.

The Bank is restricted as to the amount of dividends which can be paid. Dividends declared by national banks that exceed net income (as defined by OCC regulations) for the current year plus retained net income for the preceding two years must be approved by the OCC. Also, the Bank may not pay dividends until it has received a prior written determination of no supervisory objection from the Assistant Deputy Comptroller of the Western District of the OCC.

With certain exceptions, the Company may not pay a dividend to its stockholders unless its retained earnings equal at least the amount of the proposed dividend.

NOTE V – SEGMENT REPORTING

During 2013 and most of 2014, the Bank's reportable segments included community banking and residential mortgage banking. These segments were determined based on the products and services provided and the information that is used by the Bank's key decision makers to make operating decisions and to assess the Company's performance. Community banking involves making loans to and generating deposits primarily from individuals and businesses in the Bank's primary market - the six-county Denver metropolitan area. Residential mortgage banking involves the origination of residential loans and subsequent sale of those loans to investors. The residential mortgage banking segment was a strategic business unit that offered different products and services. It was managed separately because the segment appeals to different markets and, accordingly, requires different technology and marketing strategies. During July 2014, all of the Bank's mortgage loan officers and the majority of their support staff resigned from the Bank to join other institutions. Management and the Board are committed to this line of business and are actively exploring opportunities to revamp our residential mortgage banking segment. However, during 2015, the Company had no meaningful business for this segment. As such, there are no residential mortgage banking results for 2015 and the residential mortgage banking results for 2014 include approximately seven months of activity and the expenses associated with exiting the business. Our mortgage loan production offices in Colorado Springs, the Denver Tech Center and Boulder were vacated during the third quarter 2014. As of September 2015, all remaining lease agreements have been subleased for the majority of the monthly rental expense.

The Bank does not have other reportable operating segments. The accounting policies of the mortgage banking department are the same as those described in the summary of significant accounting policies.

The following table presents the financial information from the Bank's two operating segments for the year ended December 31, 2014.

	Community Banking	Residential Mortgage Banking	Total
		(in thousands)	
Year Ended December, 31 2014			
Net interest income	$ 4,093	$ 747	$ 4,840
Provision for loan and lease losses	336	90	426
Total noninterest income	692	2,700	3,392
Noninterest expense:			
Employee compensation and benefits	2,033	2,247	4,280
Occupancy	397	552	949
Professional fees	765	19	784
Other general and administrative	1,614	612	2,226
Total noninterest expense	4,809	3,430	8,239
(Loss) / income before income taxes	$ (360)	$ (73)	$ (433)
Segment Assets			
December 31, 2014	$ 128,489	$ 16,213	$ 144,702
Average Loans	$ 69,358	$ 18,190	$ 87,548

NOTE W – SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material, or disclosed if the financial statements would otherwise be misleading.

With respect to the December 31, 2015 financial statements, management has considered subsequent events through March 11, 2016 and determined there are no recognized subsequent events.

FORTNER, BAYENS, LEVKULICH
& GARRISON, P.C.

INDEPENDENT AUDITORS' REPORT
ON THE SUPPLEMENTAL SCHEDULES

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 56 through 59 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Fortner, Bayens, Levkulich & Garrison, P.C.

Denver, Colorado
March 11, 2016

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Certified Public Accountants • A Professional Corporation

Solera National Bancorp, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2015

ASSETS	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
	(in thousands)			
Cash and cash equivalents	$ 2,489	$ 1,689	$ (1,689)	$ 2,489
Interest-bearing deposits with banks	750	-	-	750
Investment securities, available-for-sale	48,374	-	-	48,374
Investment securities, held-to-maturity	4,500	-	-	4,500
Loans held for sale	1,039	-	-	1,039
Loans held for investment, net	80,591	-	-	80,591
Nonmarketable equity securities	874	-	-	874
Investment in subsidiary	-	18,174	(18,174)	-
Bank-owned life insurance	4,369	-	-	4,369
Premises and equipment, net	1,918	-	-	1,918
Accrued interest receivable	570	-	-	570
Other assets	620	-	(21)	599
	$146,094	$ 19,863	$ (19,884)	$ 146,073
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	$ 3,954	$ -	$ -	$ 3,954
Interest-bearing demand	8,405	-	-	8,405
Savings and money market	44,009	-	(1,689)	42,320
Time deposits	66,160	-	-	66,160
Total deposits	122,528	-	(1,689)	120,839
Accrued interest payable	88	-	-	88
Accrued payable and other liabilities	304	26	(21)	309
FHLB advances	5,000	-	-	5,000
Total liabilities	127,920	26	(1,710)	126,236
Stockholders' equity				
Common stock	10,500	27	(10,500)	27
Additional paid-in capital	11,566	27,137	(11,566)	27,137
Accumulated deficit	(3,391)	(6,670)	3,391	(6,670)
Accumulated other comprehensive loss	(501)	(501)	501	(501)
Treasury stock, at cost, 25,776 shares	-	(156)	-	(156)
Total stockholders' equity	18,174	19,837	(18,174)	19,837
	$146,094	$ 19,863	$ (19,884)	$ 146,073

Solera National Bancorp, Inc. and Subsidiary

Consolidating Statement of Income

Year Ended December 31, 2015

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
		(in thousands)		
Interest income				
Interest and fees on loans	$ 4,237	$ -	$ -	$ 4,237
Interest on investment securities	1,044	-	-	1,044
Dividends on FHLB and FRB stocks	46	-	-	46
Other interest income	15	2	(2)	15
Total interest income	5,342	2	(2)	5,342
Interest expense				
Deposits	1,041	-	(2)	1,039
FHLB advances	96	-	-	96
Total interest expense	1,137	-	(2)	1,135
Net interest income	4,205	2	-	4,207
Credit for loan losses	(50)	-	-	(50)
Net interest income after provision for loan losses	4,255	2	-	4,257
Noninterest income				
Service charges and fees	110	-	-	110
Other income	449	-	-	449
Equity in undistributed earnings of subsidiary	-	1,873	(1,873)	-
Gain on sale of available-for-sale securities, net	186	-	-	186
Total noninterest income	745	1,873	(1,873)	745
Noninterest expense				
Employee compensation and benefits	1,581	-	-	1,581
Occupancy and equipment	203	-	-	203
Professional fees	139	66	-	205
Other general and administrative	1,204	31	-	1,235
Total noninterest expense	3,127	97	-	3,224
Income before income taxes	1,873	1,778	(1,873)	1,778
Income tax expense	-	-	-	-
Net income	$ 1,873	$ 1,778	$ (1,873)	$ 1,778

Solera National Bancorp, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2014

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
ASSETS	(in thousands)			
Cash and cash equivalents	$ 3,432	$ 1,761	$ (1,761)	$ 3,432
Interest-bearing deposits with banks	257	-	-	257
Investment securities, available-for-sale	52,900	-	-	52,900
Loans held for sale	-	-	-	-
Loans held for investment, net	79,288	-	-	79,288
Nonmarketable equity securities	780	-	-	780
Investment in subsidiary	-	16,688	(16,688)	-
Bank-owned life insurance	4,462	-	-	4,462
Other real estate owned	657	-	-	657
Premises and equipment, net	646	-	-	646
Accrued interest receivable	616	-	-	616
Other assets	1,635	-	(1)	1,634
	$ 144,673	$ 18,449	$ (18,450)	$ 144,672
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest-bearing demand	$ 5,853	$ -	$ -	$ 5,853
Interest-bearing demand	7,866	-	-	7,866
Savings and money market	49,768	-	(1,761)	48,007
Time deposits	57,387	-	-	57,387
Total deposits	120,874	-	(1,761)	119,113
Accrued interest payable	62	-	-	62
Accrued payable and other liabilities	549	8	(1)	556
FHLB advances	6,500	-	-	6,500
Total liabilities	127,985	8	(1,762)	126,231
Stockholders' equity				
Common stock	10,500	27	(10,500)	27
Additional paid-in capital	11,554	27,120	(11,554)	27,120
Accumulated deficit	(5,264)	(8,448)	5,264	(8,448)
Accumulated other comprehensive loss	(102)	(102)	102	(102)
Treasury stock, at cost, 14,208 shares	-	(156)	-	(156)
Total stockholders' equity	16,688	18,441	(16,688)	18,441
	$ 144,673	$ 18,449	$ (18,450)	$ 144,672

Solera National Bancorp, Inc. and Subsidiary

Consolidating Statement of Income

Year Ended December 31, 2014

	Solera National Bank	Solera National Bancorp, Inc.	Consolidating Entries	Consolidated
		(in thousands)		
Interest income				
Interest and fees on loans	$ 4,338	$ -	$ -	$ 4,338
Interest on loans held for sale	201	-	-	201
Interest on investment securities	1,445	-	-	1,445
Dividends on FHLB and FRB stocks	54	-	-	54
Other interest income	11	2	(2)	11
Total interest income	6,049	2	(2)	6,049
Interest expense				
Deposits	1,067	-	(2)	1,065
FHLB advances	144	-	-	144
Total interest expense	1,211	-	(2)	1,209
Net interest income	4,838	2	-	4,840
Provision for loan losses	426	-	-	426
Net interest income after provision for loan losses	4,412	2	-	4,414
Noninterest income				
Service charges and fees	115	-	-	115
Other income	146	-	-	146
Equity in undistributed earnings of subsidiary	-	88	(88)	-
Gain on loans sold	2,877	-	-	2,877
Gain on sale of available-for-sale securities, net	254	-	-	254
Total noninterest income	3,392	88	(88)	3,392
Noninterest expense				
Employee compensation and benefits	4,250	30	-	4,280
Occupancy and equipment	949	-	-	949
Professional fees	380	404	-	784
Other general and administrative	2,137	89	-	2,226
Total noninterest expense	7,716	523	-	8,239
Income (loss) before income taxes	88	(433)	(88)	(433)
Income tax expense	-	-	-	-
Net income (loss)	$ 88	$ (433)	$ (88)	$ (433)