High Country Bancorp, Inc.

Annual Report

For the year ended
June 30, 2023

High Country
Bancorp, Inc.

To Our Stockholders,

Management and the Board of Directors of High Country Bancorp, Inc. are pleased to present this 2023 Annual Report to you. We are appreciative of your support and encourage you to attend our Annual Meeting of Stockholders.

Fiscal 2023 was another year for solid growth in loans and net interest income during an uncertain economic environment. While these conditions are conducive for growth in earnings, increases in market interest rates resulted in a continued decline in income on loans sold and other noninterest income and, coupled with a decline in total deposits across the banking sector, contributed to an increase in overall funding costs during fiscal 2023. Throughout these challenging economic conditions, we have maintained solid asset quality and a strong financial condition.

For the fiscal year ending June 30, 2023, net income was $4.6 million compared to $4.2 million in the previous fiscal year. Basic earnings per share was $4.77 in fiscal 2023 compared to $4.43 in fiscal 2022. The Company's core earnings and the strength of our capital position enabled us to pay dividends on our common stock of $2.00 per share in fiscal 2023.

Consistent with our strategic plan of growth with a focus on asset quality, the Company's total loans receivable, net increased nearly 17% to $346.0 million at June 30, 2023 from $296.8 million a year earlier. The Company achieved this growth organically.

As always, we remain committed to support our communities, promote the career growth and development of our employees and reward our stakeholders. While the current operating environment presents challenges from economic uncertainty, we remain committed to continue the prudent growth of the Company, while preserving our asset quality and capital strength so we may continue to support the communities we serve. We acknowledge our fortunate position and will continue to dedicate ourselves to the continued prosperity of the Company.

Sincerely,

Timothy Glenn
Chairman of the Board

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

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FORVIS

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Independent Auditor's Report

Audit Committee and Board of Directors
High Country Bancorp, Inc.
Salida, Colorado

Opinion

We have audited the consolidated financial statements of High Country Bancorp, Inc. (the Company) and subsidiaries, which comprise the consolidated statements of financial condition as of June 30, 2023 and 2022, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of June 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Audit Committee and Board of Directors
High Country Bancorp, Inc.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS, LLP

Denver, Colorado
September 8, 2023

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2023 AND 2022

(ROUNDED TO THOUSANDS)

	2023	2022
ASSETS		
Cash and equivalents, non-interest earning	$ 4,602,000	$ 6,931,000
Cash and equivalents, interest earning	4,013,000	71,464,000
Cash and Equivalents	8,615,000	78,395,000
Interest-bearing time deposits	1,244,000	1,244,000
Available-for-sale securities	66,060,000	61,254,000
Held-to-maturity securities	4,000	9,000
Loans held for sale	110,000	—
Loans receivable, net of allowance for loan losses of $3,030,000 and $2,714,000 as of June 30, 2023 and 2022, respectively	346,007,000	296,840,000
Nonmarketable equity securities, carried at cost	1,461,000	809,000
Accrued interest receivable	1,580,000	1,267,000
Property and equipment, net	6,626,000	7,327,000
Deferred income taxes	1,433,000	1,473,000
Bank owned life insurance	6,032,000	5,897,000
Prepaid expenses and other assets	756,000	872,000
TOTAL ASSETS	$ 439,928,000	$ 455,387,000
LIABILITIES AND EQUITY		
LIABILITIES		
Non-interest-bearing demand deposits	$ 112,393,000	$ 145,055,000
Savings, interest-bearing demand and money market	220,055,000	234,397,000
Time deposits	41,936,000	33,439,000
Total Deposits	374,384,000	412,891,000
Escrow accounts	188,000	173,000
FHLBank line of credit borrowing	22,700,000	—
Accrued interest payable	2,000	1,000
Accrued income taxes and other liabilities	4,363,000	5,305,000
TOTAL LIABILITIES	401,637,000	418,370,000
STOCKHOLDERS' EQUITY		
Preferred stock- $.01 par value; authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock - $.01 par value; 3,000,000 shares authorized; 1,020,158 and 1,032,190 shares, respectively, issued and outstanding	10,000	10,000
Paid-in capital	10,417,000	11,227,000
Company common stock held in subsidiary trust	(1,251,000)	(1,251,000)
Accumulated other comprehensive income (loss)	(3,246,000)	(2,692,000)
Retained earnings	32,361,000	29,723,000
TOTAL STOCKHOLDERS' EQUITY	38,291,000	37,017,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 439,928,000	$ 455,387,000

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

(ROUNDED TO THOUSANDS)

	2023	2022
Interest income		
Interest and fees on loans	$ 17,695,000	$ 17,059,000
Investment securites	1,662,000	629,000
Interest-earning time deposits	31,000	32,000
Interest on other interest earning assets	1,020,000	191,000
Total interest income	20,408,000	17,911,000
Interest expense		
Deposits	1,125,000	402,000
FHLBank and other borrowing	228,000	-
Total interest expense	1,353,000	402,000
Net interest income	19,055,000	17,509,000
Provision for losses on loans	300,000	-
Net interest income after provision for losses on loans	18,755,000	17,509,000
Non-interest income		
Service charges on deposits	222,000	167,000
Income on loans sold	337,000	1,690,000
Debit card surcharge income	908,000	876,000
Other non-interest income	576,000	682,000
Total non-interest income	2,043,000	3,415,000
Non-interest expense		
Compensation and benefits	9,101,000	10,273,000
Occupancy, equipment and data processing expense	2,980,000	2,941,000
Insurance and professional fees	855,000	732,000
Other	1,953,000	1,414,000
Total non-interest expense	14,889,000	15,360,000
Net income before income taxes	5,909,000	5,564,000
Income tax expense	1,352,000	1,321,000
Net income	4,557,000	4,243,000
Other comprehensive income (loss)		
Unrealized losses on securities available for sale, net of deferred income taxes	(554,000)	(2,963,000)
Total comprehensive income	$ 4,003,000	$ 1,280,000
Basic earnings per common share	$ 4.77	$ 4.43
Diluted earnings per common share	$ 4.45	$ 4.11
Weighted average common shares outstanding		
Basic	954,523	957,192
Fully diluted	1,024,091	1,033,073

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

(ROUNDED TO THOUSANDS)

	COMMON STOCK		PAID-IN	COMPANY COMMON STOCK HELD IN	OTHER COMPREHENSIVE	RETAINED	
	SHARES	AMOUNT	CAPITAL	SUBSIDIARY TRUST	INCOME (LOSS)	EARNINGS	TOTAL
BALANCES JULY 1, 2021	1,033,897	$ 10,000	$ 11,007,000	$ (1,251,000)	$ 271,000	$ 27,419,000	$ 37,456,000
Net income	—	—	—	—	—	4,243,000	4,243,000
Compensation for vesting of restricted stock awards	—	—	239,000	—	—	—	239,000
Common stock issued as compensation, net of (forfeitures)	(1,420)	—	(6,000)	—	—	—	(6,000)
Common stock repurchased and retired	(287)		(13,000)			—	(13,000)
Unrealized losses on available for sale securities, net of deferred income taxes	—	—	—	—	(2,963,000)	—	(2,963,000)
Dividends declared and paid ($2.00 per share)	—	—	—	—	—	(1,939,000)	(1,939,000)
BALANCES JUNE 30, 2022	1,032,190	10,000	11,227,000	(1,251,000)	(2,692,000)	29,723,000	37,017,000
Net income	—	—	—	—	—	4,557,000	4,557,000
Compensation for vesting of restricted stock awards	—	—	248,000	—	—	—	248,000
Common stock issued as compensation, net of (forfeitures)	13,955	—	(5,000)	—	—	—	(5,000)
Common stock repurchased and retired	(25,987)	—	(1,053,000)	—	—	—	(1,053,000)
Unrealized losses on available for sale securities, net of deferred income taxes	—	—	—	—	(554,000)	—	(554,000)
Dividends declared and paid ($2.00 per share)	—	—	—	—	—	(1,919,000)	(1,919,000)
BALANCES JUNE 30, 2023	1,020,158	$ 10,000	$ 10,417,000	$ (1,251,000)	$ (3,246,000)	$ 32,361,000	$ 38,291,000

See notes to consolidated financial statements.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

(ROUNDED TO THOUSANDS)

	2023	2022
Operating Activites		
Net income	$ 4,557,000	$ 4,243,000
Items not requiring (providing) cash		
Depreciation and right-of-use asset amortization	914,000	1,002,000
Provision for loan loss	300,000	-
Amortization of net deferred loan origination fees	(486,000)	(583,000)
Amortization of premiums, net of discounts on investment securities	400,000	458,000
Compensation for vesting of restricted stock awards, net of forfeitures	243,000	233,000
Deferred income taxes	222,000	(251,000)
Change in bank owned life insurance	(135,000)	(127,000)
Loss on sale of premises and equipment	24,000	-
Stock dividends received	(27,000)	(5,000)
Changes in:		
Loans held for sale	(110,000)	2,344,000
Interest receivable	(313,000)	13,000
Prepaid expenses and other assets	116,000	(106,000)
Interest payable	1,000	-
Other liabilities	(927,000)	(312,000)
Net cash provided by operating activities	4,779,000	6,909,000
Investing Activities		
Proceeds from maturities of interest-bearing time deposits	-	249,000
Purchases of available-for-sale securities	(14,499,000)	(36,013,000)
Proceeds for calls, maturities, & principal repayments of AFS securities	8,557,000	7,190,000
Proceeds from calls, maturities, & principal repayments of HTM securities	5,000	10,000
Net change in loans held for investment	(48,981,000)	(12,999,000)
Purchase of non-marketable equity securities	(671,000)	(60,000)
Proceeds from sale or redemption of non-marketable equity securities	46,000	153,000
Proceeds from sale of property and equipment	56,000	23,000
Purchase of property and equipment	(293,000)	(448,000)
Net cash used in investing activities	(55,780,000)	(41,895,000)
Financing Activities		
Net change in deposits	(38,507,000)	51,874,000
Common stock repurchased and retired	(1,053,000)	(13,000)
Cash dividends paid	(1,919,000)	(1,939,000)
Proceeds from short-term borrowing	52,362,000	-
Repayment of short-term borrowing	(29,662,000)	-
Net cash provided by (used in) financing activities	(18,779,000)	49,922,000
Net change in cash and cash equivalents	(69,780,000)	14,936,000
Cash and cash equivalents, beginning of year	78,395,000	63,459,000
Cash and cash equivalents, end of year	$ 8,615,000	$ 78,395,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for:		
Taxes, net of refunds	$ 1,480,000	$ 815,000
Interest	1,351,000	402,000

See notes to consolidated financial statements.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business — High Country Bancorp, Inc. is a bank holding company which has two wholly-owned subsidiaries, High Country Bank (the Bank) and B.Ass. Co., Inc. (B.Ass). The Bank is a Colorado state chartered commercial bank with Federal Reserve Bank membership; its main office is in Salida, Colorado and has branch offices in Salida, Buena Vista, Canon City and Longmont, Colorado. The Bank provides a variety of financial services to the area it serves. Its primary deposit products are noninterest-bearing and interest-bearing checking accounts, savings accounts and time deposit accounts, and its primary lending products are real estate mortgage, construction, consumer and commercial loans. B.Ass makes limited investments in notes receivable and real estate acquired at fair value from the Bank.

Deposit accounts of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limitations. The Bank pays a premium to the FDIC for the insurance of such deposit accounts.

Principles of Consolidation — The consolidated financial statements include the accounts of High Country Bancorp, Inc., High Country Bank, and B.Ass. Co., Inc. (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates — The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses and the valuation of foreclosed real estate is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Equivalents — Cash on hand, cash items in process of collection and amounts due from the Federal Reserve Bank, FHLBank of Topeka and Bankers Bank of the West are included in cash and equivalents.

As of June 30, 2023 and 2022, the Company held balances in interest-bearing deposits at the Federal Reserve Bank of Kansas City of approximately $566,000 and $68.0 million, respectively. In addition, as of June 30, 2023, the Company held balances in interest-bearing and noninterest-bearing deposits accounts at other correspondent banking institutions that exceeded federally insured limits by approximately $642,000.

The Company may be required to maintain average balances on hand or with the Federal Reserve Bank. At June 30, 2023 and 2022, there was no required reserve balance.

Interest-Bearing Time Deposits – Interest-bearing time deposits in banks mature within one year and are carried at cost.

Investment Securities — The Company accounts for its investments in accordance with their classification as available-for-sale, held-to-maturity or trading securities. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums is recognized in interest income using methods approximating the interest method over the period to the security's call date. The accretion of discounts is recognized in interest income using methods approximating the interest method over the period to the security's maturity date. Trading securities are carried at fair value with unrealized gains and losses reported in operations. The Company had no trading securities during the years ended June 30, 2023 and 2022.

Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in non-interest income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

The Company measures marketable equity securities in unconsolidated entities at fair value with changes recognized in net income.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Any related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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.

Loans Held for Sale — Loans originated and held for sale to the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans — Loans are stated at unpaid principal balances, less the allowance for loan losses, net of deferred loan fees and loans in process.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Accrual of interest may be discontinued when collection of principal and interest is delinquent for 90 days or more. Uncollectible interest on these loans is charged off, based on management's periodic evaluation, by a charge to interest income equal to all accrued interest deemed uncollectible. Income is subsequently recognized only to the extent that cash payments are received until the loan's return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses — The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon the factors listed below. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the changes in lending policies and procedures, which includes changes in underwriting standards and collection procedures, charge-off and recovery practices not considered elsewhere in estimating credit losses, changes in economic and business conditions, the condition of various market segments, changes in the nature and volume of the portfolio and in the terms of loans, changes in the experience, ability and depth of lending management and other relevant staff, changes in the volume and severity of past due loans, the volume of nonaccrual loans, the volume and severity of adversely classified or graded loans, changes in the quality of the Company's loan review system, changes in the value of underlying collateral for collateral-dependent loans, the existence and effect of any concentrations of credit, changes in the level of such concentrations, and the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's existing portfolio.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention that are deemed to be impaired. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. Within the general component is an element to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Property and Equipment — Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using primarily the straight-line method over the estimated useful lives of the related assets. Estimated useful lives of furniture, fixtures, and equipment range from two to ten years and those assigned to buildings and improvements range from ten to forty years.

Nonmarketable Equity Securities – The Bank holds investments in Federal Reserve and Federal Home Loan Bank stock. Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets — Assets acquired through, or in lieu of, foreclosure are held for sale and initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are charged to operations.

Bank Owned Life Insurance — The Bank has purchased single-premium life insurance on certain employees of the Bank. 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 adjusted for other charges or other amounts due that are probable at settlement. Appreciation in value of the insurance policies from their earnings is recorded in other non-interest income.

Income Taxes — The Company accounts for income taxes using the asset and liability method under which a deferred tax liability or asset (net of a valuation allowance, if necessary) is provided in the financial statements by applying the provisions of applicable tax laws to measure the deferred tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These temporary differences will result in net taxable or deductible amounts in future years as a result of events recognized in the financial statements in the current or preceding years.

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time and may result in changes to the Company's subjective assumptions and judgments which can materially affect amounts recognized in the consolidated statements of financial condition and consolidated statements of income. The Company believes that it does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination include 2019 through the current period.

Earnings Per Share — The Company calculates its earnings per share (EPS) in accordance with FASB Accounting Standards Codification (ASC) 260. Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share are computed using the treasury stock method and reflect the potential dilution assuming the issuance of common shares for all dilutive potential unvested stock awards and shares held by the Company's subsidiary rabbi trust outstanding during the period. There were no outstanding options as of June 30, 2023 or 2022.

Revenue Recognition — The Company recognizes revenue from contracts with customers, in accordance with FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606), when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Company's revenues are derived from interest income and other sources that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within noninterest income in the accompanying statements of income and are recognized as revenue as the Company satisfies its obligation to the customer. Revenue within the scope of Topic 606 include service charges on deposit accounts, debit card surcharge income and gain (loss) on the sale of foreclosed assets which totaled $1,164,000 and $1,077,000, respectively, for the years ended June 30, 2023 and 2022. A description of the Company's revenue streams accounted for under Topic 606 are as follows:

Service charges on deposit accounts: The Company generates revenues through fees charged to depositors related to deposit account maintenance fees and other miscellaneous services provided at the request of the customer. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is generally at a point in time.

Debit card surcharge income: Revenue from debit cards includes interchange fee income from debit cards processed through card association networks. Interchange fees represent a portion of a transaction amount that the Company and other transaction-associated parties retain to compensate themselves for providing the cardholder immediate access to funds. Interchange rates are generally set by the card association network and are based on purchase volumes and other factors. The Company records interchange fees as services are provided.

Leases — The Company leases certain premises and equipment from third parties. When the Company is a lessee party to a lease, the lease is classified as an operating lease unless it meets certain criteria (e.g., lease contains an option to purchase that the Company is reasonably certain to exercise), in which case it is classified as a finance lease. Effective with the Company's adoption of ASU No. 2016-02, Leases (Topic 842), Right-of-use ("ROU") assets and corresponding lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term, in net premises and equipment and other liabilities, respectively, on the Company's statements of financial condition and lease expense for lease payments is recognized over the lease term. An ROU asset represents the right to use the underlying asset for the lease term and also includes any direct costs and payments made prior to lease commencement and excludes lease incentives. When an implicit rate to the lease is not available, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of the lease payments. A lease term may include an option to extend or terminate the lease when it is reasonably certain the option will be exercised. Short-term leases of 12 months or less are excluded from the accounting guidance; as a result, the lease payments are recognized over the lease term and no ROU asset or lease liability are reflected on the Company's statements of financial condition. Renewal and termination options are considered when determining short-term leases. Leases are accounted for on an individual lease level.

Adoption of New Financial Accounting Standard — In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance removes the existing "probable" and "incurred" loss recognition threshold and requires an entity to estimate lifetime expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts, including estimates for prepayments. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The current expected credit loss model represents a significant change from the Bank's existing practice and may result in material change to the Bank's accounting for financial instruments. ASU No. 2016-13 will be effective for the Company as of July 1, 2023 and Management has estimated at this time that its initial adoption could increase the allowance for credit losses on loans and unfunded commitments by approximately $600,000 to $1,000,000.

2. SECURITIES

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

Available-for-sale securities — The amortized cost and estimated fair value of securities available for sale as of June 30 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(rounded to thousands)		
2023:				
Mortgage-backed securities	$ 25,120,000	$ –	$ (2,214,000)	$ 22,906,000
Municipal bonds	16,794,000	31,000	(296,000)	16,529,000
Agency notes	16,820,000	–	(1,231,000)	15,589,000
SBA securities	6,100,000	3,000	(228,000)	5,875,000
U.S. Treasury notes	5,542,000	–	(381,000)	5,161,000
	$ 70,376,000	$ 34,000	$ (4,350,000)	$ 66,060,000
2022:				
Mortgage-backed securities	$ 22,731,000	$ –	$ (1,700,000)	$ 21,031,000
Municipal bonds	16,906,000	7,000	(327,000)	16,586,000
Agency notes	16,465,000	2,000	(936,000)	15,531,000
SBA securities	3,168,000	–	(214,000)	2,954,000
U.S. Treasury notes	5,563,000	–	(411,000)	5,152,000
	$ 64,833,000	$ 9,000	$ (3,588,000)	$ 61,254,000

The unrealized gains and losses on securities available for sale are included in other comprehensive income (loss). No securities available for sale were sold during the years ended June 30, 2023 and 2022.

Held-to-maturity securities — The amortized cost and estimated fair value of securities held-to-maturity at June 30 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(rounded to thousands)		
2023:				
Mortgage-backed securities	$ 4,000	$ —	$ —	$ 4,000
2022:				
Mortgage-backed securities	$ 9,000	$ —	$ —	$ 9,000

No held-to-maturity securities were sold during the years ended June 30, 2023 and 2022.

Maturities of available-for-sale securities — The amortized cost and fair value of securities available for sale by contractual maturity at June 30, 2023 were as follows:

	Amortized Cost	Fair Value
	(rounded to thousands)	
Less than 1 year	$ 3,561,000	$ 3,509,000
Over 1 year through 5 years	23,737,000	22,246,000
Over 5 years through 10 years	8,845,000	8,639,000
Over 10 years	3,013,000	2,885,000
Total debt securities available for sale	39,156,000	37,279,000
Mortgage-backed securities	25,120,000	22,906,000
SBA securities	6,100,000	5,875,000
	$ 70,376,000	$ 66,060,000

Maturities of held-to-maturity securities — The amortized cost and fair value of securities held to maturity by contractual maturity at June 30, 2023 include mortgage-backed securities with an amortized cost and fair value of $4,000.

At June 30, 2023 and 2022, investments with a carrying value of $27,962,000 and $22,879,000, respectively, were pledged as collateral for deposits of public funds, and investments with a carrying value of $7,450,000 and $1,502,000, respectively, were pledged as collateral to secure a line of credit with the Federal Reserve Bank of Kansas City (see Note 7).

The gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2023 and 2022 were as follows:

		Less than 12 Months		12 Months or More		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(rounded to thousands)			
2023:							
Available-for-Sale Securities							
Mortgage-backed securities	62	$ 7,011,000	$ (301,000)	$ 15,895,000	$ (1,913,000)	$ 22,906,000	$ (2,214,000)
Municipal bonds	31	8,301,000	(88,000)	3,360,000	(208,000)	11,661,000	(296,000)
Agency notes	17	1,897,000	(18,000)	13,692,000	(1,213,000)	15,589,000	(1,231,000)
SBA securities	19	3,113,000	(48,000)	1,677,000	(180,000)	4,790,000	(228,000)
U.S. Treasury notes	7	—	—	5,161,000	(381,000)	5,161,000	(381,000)
Total temporarily impaired securities	136	$ 20,322,000	$ (455,000)	$ 39,785,000	$ (3,895,000)	$ 60,107,000	$ (4,350,000)

		Less than 12 Months		12 Months or More		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(rounded to thousands)			
2022:							
Available-for-Sale Securities							
Mortgage-backed securities	54	$ 17,237,000	$ (1,357,000)	$ 2,264,000	$ (343,000)	$ 19,501,000	$ (1,700,000)
Municipal bonds	31	11,881,000	(249,000)	402,000	(78,000)	12,283,000	(327,000)
Agency notes	15	11,386,000	(579,000)	2,643,000	(357,000)	14,029,000	(936,000)
SBA securities	18	814,000	(27,000)	2,095,000	(187,000)	2,909,000	(214,000)
U.S. Treasury notes	7	5,152,000	(411,000)	—	—	5,152,000	(411,000)
Total temporarily impaired securities	125	$ 46,470,000	$ (2,623,000)	$ 7,404,000	$ (965,000)	$ 53,874,000	$ (3,588,000)

The unrealized losses on the Company's investments in municipal bonds, mortgage-backed securities, agency notes, U.S. Treasury notes and SBA securities as of June 30, 2023 and/or 2022 were primarily caused by changes in interest rates and market spreads subsequent to acquisition. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2023.

There were no investments in the Company's held-to-maturity portfolio with gross unrealized losses at June 30, 2023 and 2022.

3. LOANS RECEIVABLE

The following disclosure illustrates the Company's loan portfolio segments and classes. Segments are groupings of similar loans at a level at which the Company has adopted systematic methods for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. The Company's loan portfolio segments are:

Real estate – Real estate loans include various types of loans for which the Company holds liens on real property as collateral. One-to-four family residential real estate lending activity is primarily dependent on the borrowers' ability to pay and the fair value of the underlying collateral. Commercial real estate lending activity is comprised of both owner-occupied and non-owner occupied properties. The primary risks of commercial real estate loans include adverse changes in economic conditions and significant increases in interest rates, which may adversely impact the borrowers' ability to pay as well as material decreases in the value of the real estate securing the loans. The Company primarily originates loans to finance construction of one-to-four family residences, though also finances construction of multifamily residential and commercial and industrial projects. The majority of the Company's residential construction loans are to owners for construction of primary or second residences, are generally collateralized by first liens on the real estate and have fixed interest rates. The inherent risks to construction loans are considered to be due to the completion of the construction project and its timing, the impact on repayment ability from interest rate changes, and the borrowers' availability to obtain permanent financing. However, the Company generally underwrites its construction loans to conforming secondary market standards. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans. Adverse economic conditions may negatively impact the borrowers' ability to complete the project. Additionally, the fair value of the underlying collateral may fluctuate as market conditions change. The Company also originates loans for the acquisition and future development of land for residential and commercial building projects. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

Commercial loans – Commercial loans consist of loans to small and medium-sized business enterprises in a wide variety of industries. The composition of the Bank's commercial loan segment includes, but is not limited to, loans to business enterprises engaged in tourism, restaurant, retail sales, heavy equipment and excavation, and lodging. Commercial loans are generally collateralized by real estate, equipment, and other commercial assets, and are generally further supported by other credit enhancements such as personal guarantees or assignments of life insurance on business principals. Risks in Commercial loans primarily arise due to changes in economic conditions. However, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change.

Consumer and other loans – The Company provides loans to customers, including personal loans and automobile loans. Repayment of these loans is dependent on the borrowers' ability to pay and the fair value of the underlying collateral.

Loans receivable as of June 30 are summarized as follows:

	2023	2022
	(rounded to thousands)	
Loans secured by real estate:		
One-to-four family residences	$ 138,725,000	$ 108,768,000
Commercial real estate	111,099,000	101,135,000
Construction	52,988,000	45,186,000
Land	23,366,000	20,190,000
Total loans secured by real estate	326,178,000	275,279,000
Commercial loans	22,807,000	23,863,000
Consumer and other loans	2,427,000	2,497,000
Total loans	351,412,000	301,639,000
Less:		
Net deferred loan origination fees	2,375,000	2,085,000
Allowance for loan losses	3,030,000	2,714,000
Loans receivable, net	$ 346,007,000	$ 296,840,000

The Company's lending activity occurs primarily within Chaffee, Fremont and Boulder Counties, Colorado. The majority of the loan portfolio consists of loans secured by real estate and commercial loans.

The Company has a systematic process to evaluate individual loans and pools of loans within their portfolio. The Company uses an 8 point loan grading system, with grades 1 through 4 reflecting Pass credits. Grade 5 includes loans with risk characteristics which correlate with the regulatory classification of Other Assets Especially Mentioned (Special Mention). Grade 6 correlates with the regulatory classification of Substandard. Grade 7 correlates to Doubtful and Grade 8 is a Loss. Loans graded 6 – 8 are deemed to be classified loans.

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

Commercial loans are graded on their independent merits and characteristics at the time they are originated. Commercial revolving credit lines are reviewed at a minimum annually and also upon renewal of the operating lines of credit, at which time the grade is updated. All term loans above are reviewed quarterly for grading purposes. The Company's asset classification committee determines the final loan grade on loans. Consumer loans are graded based on delinquency. Current consumer loans receive a grade of Pass.

The loan portfolio showing total non-classified, special mention and classified balances by loan class is summarized below as of June 30:

	Non-Classified	Special Mention	Classified	Total
		(rounded to thousands)		
2023:				
Loans secured by real estate:				
One-to-four family residences	$ 138,572,000	$ —	$ 153,000	$ 138,725,000
Commercial real estate	111,099,000	—	—	111,099,000
Construction	52,988,000	—	—	52,988,000
Land	23,366,000	—	—	23,366,000
Total loans secured by real estate	326,025,000	—	153,000	326,178,000
Commercial loans	21,441,000	—	1,366,000	22,807,000
Consumer and other loans	2,364,000	—	63,000	2,427,000
Total loans	$ 349,830,000	$ —	$ 1,582,000	$ 351,412,000
2022:				
Loans secured by real estate:				
One-to-four family residences	$ 108,768,000	$ —	$ —	$ 108,768,000
Commercial real estate	101,135,000	—	—	101,135,000
Construction	45,186,000	—	—	45,186,000
Land	20,190,000	—	—	20,190,000
Total loans secured by real estate	275,279,000	—	—	275,279,000
Commercial loans	22,282,000	3,000	1,578,000	23,863,000
Consumer and other loans	2,497,000	—	—	2,497,000
Total loans	$ 300,058,000	$ 3,000	$ 1,578,000	$ 301,639,000

The allowance for loan losses (ALLL) is management's estimate of probable losses in the loan portfolio as of the balance sheet date.

The Company estimates its ALLL in accordance with Accounting Standards Codification (ASC) 310 for purposes of evaluating loan impairment on a loan-by-loan basis and ASC 450 for purposes of collectively evaluating loan impairment by grouping loans with common risk characteristics.

Specific Reserves — The Company continuously evaluates its reserve for loan losses to maintain an adequate level to absorb loan losses inherent in the loan portfolio. Reserves on loans identified as Classified or Special Mention are based on discounted expected cash flows using the loan's initial effective interest rate, the market value of the loan or the fair value of the collateral for certain collateral-dependent loans. Loans are considered impaired in accordance with provisions of ASC 310, when it is probable that all amounts due in accordance with the contractual terms will not be collected. Factors contributing to the determination of specific reserves include the financial condition of the borrower, changes in the value of pledged collateral and general economic conditions.

General Reserves — The Company reviews the Non-Classified portfolio of loans in their various class groupings. A combination of loss experience and external loss data is used in determining the appropriate loss factor. The estimate represents the potential unconfirmed losses within the portfolio. In evaluating the adequacy of the ALLL, management considers historical losses as well as other factors including changes in:

- Lending policies and procedures
- National, regional and local economic conditions and business developments
- Nature and volume of portfolio
- Credit concentrations
- Trends in the volume and severity of past-due, non-accrual and identified loans

In assessing the reasonableness of management's assumptions, consideration is given to industry standards and directional consistency of the ALLL. Ratio analysis highlights divergent trends in the relationship of the ALLL to total loans and historical charge-offs. This analysis is used as a supplement to assess the reasonableness of management's assumptions that are not, by themselves, sufficient basis for determining the adequacy of the ALLL. While management utilizes its best judgment and information available, the ultimate adequacy of the ALLL is dependent upon a variety of factors beyond the Company's control, including the performance of the loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. Within the general reserve may be an unallocated component that is judgmentally determined and is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans.

HIGH COUNTRY BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

The changes in the allowance for loan losses were as follows for the years ended June 30, 2023 and 2022 (rounded to thousands):

	Loans Secured by Real Estate							
	One-to-Four Family Residences	Commercial Real Estate	Construction	Land	Commercial	Consumer and Other	Unallocated	Total
Balance July 1, 2021	$ 210,000	$ 857,000	$ 351,000	$ 111,000	$ 925,000	$ 28,000	$ 236,000	$ 2,718,000
Provision (credit) for losses	187,000	(212,000)	271,000	76,000	(102,000)	16,000	(236,000)	—
Charge-offs	—	—	—	—	—	(12,000)	—	(12,000)
Recoveries	8,000	—	—	—	—	—	—	8,000
Balance June 30, 2022	405,000	645,000	622,000	187,000	823,000	32,000	—	2,714,000
Provision (credit) for losses for losses	155,000	81,000	(4,000)	(1,000)	(35,000)	(18,000)	122,000	300,000
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	6,000	—	—	—	—	10,000	—	16,000
Balance June 30, 2023	$ 566,000	$ 726,000	$ 618,000	$ 186,000	$ 788,000	$ 24,000	$ 122,000	$ 3,030,000

The table below presents the allowance for loan losses on the basis of the Company's impairment method as of June 30, 2023 and 2022 (rounded to thousands):

	Loans Secured by Real Estate							
	One-to-Four Family Residences	Commercial Real Estate	Construction	Land	Commercial	Consumer and Other	Unallocated	Total
2023								
Allowance for loan losses:								
Individually evaluated for provision	$ —	$ —	$ —	$ —	$ 579,000	$ —	$ —	$ 579,000
Collectively evaluated for provision	566,000	726,000	618,000	186,000	209,000	24,000	122,000	2,451,000
	$ 566,000	$ 726,000	$ 618,000	$ 186,000	$ 788,000	$ 24,000	$ 122,000	$ 3,030,000
Loans receivable								
Individually evaluated for provision	$ 117,000	$ —	$ —	$ —	$ 1,386,000	$ —	$ —	$ 1,503,000
Collectively evaluated for provision	138,608,000	111,099,000	52,988,000	23,366,000	21,421,000	2,427,000	—	349,909,000
	$ 138,725,000	$ 111,099,000	$ 52,988,000	$ 23,366,000	$ 22,807,000	$ 2,427,000	$ —	$ 351,412,000

	Loans Secured by Real Estate							
	One-to-Four Family Residences	Commercial Real Estate	Construction	Land	Commercial	Consumer and Other	Unallocated	Total
2022								
Allowance for loan losses:								
Individually evaluated for provision	$ —	$ —	$ —	$ —	$ 607,000	$ —	$ —	$ 607,000
Collectively evaluated for provision	405,000	645,000	622,000	187,000	216,000	32,000	—	2,107,000
	$ 405,000	$ 645,000	$ 622,000	$ 187,000	$ 823,000	$ 32,000	$ —	$ 2,714,000
Loans receivable:								
Individually evaluated for provision	$ —	$ 639,000	$ —	$ —	$ 1,495,000	$ —	$ —	$ 2,134,000
Collectively evaluated for provision	108,768,000	100,496,000	45,186,000	20,190,000	22,368,000	2,497,000	—	299,505,000
	$ 108,768,000	$ 101,135,000	$ 45,186,000	$ 20,190,000	$ 23,863,000	$ 2,497,000	$ —	$ 301,639,000

Information on impaired loans is presented in the following table as of and for the years ended June 30, 2023 and 2022:

	Recorded Investment in Impaired Loans	Unpaid Principal Balance	Recorded Investment With Related Allowance	Recorded Investment With No Related Allowance	Average Recorded Investment
			(rounded to thousands)		
2023:					
Real Estate					
One-to-four family residences	$ 117,000	$ 117,000	$ —	$ 117,000	$ 9,000
Commercial real estate	—	—	—	—	196,000
Construction	—	—	—	—	—
Land	—	—	—	—	—
	117,000	117,000	—	117,000	205,000
Commercial	1,386,000	1,592,000	1,366,000	20,000	1,454,000
Consumer and other loans	—	—	—	—	—
Total	$ 1,503,000	$ 1,709,000	$ 1,366,000	$ 137,000	$ 1,659,000
2022:					
Real Estate					
One-to-four family residences	$ —	$ —	$ —	$ —	$ —
Commercial real estate	639,000	693,000	—	639,000	651,000
Construction	—	—	—	—	—
Land	—	—	—	—	—
	639,000	693,000	—	639,000	651,000
Commercial	1,578,000	1,721,000	1,495,000	83,000	1,588,000
Consumer and other loans	—	—	—	—	—
Total	$ 2,217,000	$ 2,414,000	$ 1,495,000	$ 722,000	$ 2,239,000

Information on non-accrual and past due loans is presented in the following table as of June 30, 2023 and 2022:

	2023	2022
	(rounded to thousands)	
Non-accrual loans	$ 1,503,000	$ 1,578,000
Loans 90 days or more delinquent and still accruing	$ —	$ —
Non-performing troubled debt restructuring loans	$ 1,366,000	$ 1,495,000
Performing troubled debt restructuring	$ —	$ 639,000

The segment and class of the Company's non-accrual loans as of June 30, 2023 and 2022 are presented in the following table:

	2023	2022
	(rounded to thousands)	
One-to-four residential real estate	$ 117,000	$ —
Commercial	1,386,000	1,578,000
Total loans on non-accrual status	$ 1,503,000	$ 1,578,000

The following table summarizes the aging of the Company's loan portfolio by segment and class as of June 30, 2023 and 2022:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
2023:			*(rounded to thousands)*			
Real Estate						
One-to-four family residences	$ 148,000	117,000	$ —	$ 265,000	$ 138,460,000	$ 138,725,000
Commercial real estate	—	205,000	—	205,000	110,894,000	111,099,000
Construction	492,000	—	—	492,000	52,496,000	52,988,000
Land	—	—	—	—	23,366,000	23,366,000
	640,000	322,000	—	962,000	325,216,000	326,178,000
Commercial	43,000	1,386,000	—	1,429,000	21,378,000	22,807,000
Consumer and other loans	6,000	—	—	6,000	2,421,000	2,427,000
Total	$ 689,000	$ 1,708,000	$ —	$ 2,397,000	$ 349,015,000	$ 351,412,000
2022:						
Real Estate						
One-to-four family residences	$ —	$ —	$ —	$ —	$ 108,768,000	$ 108,768,000
Commercial	—	—	—	—	101,135,000	101,135,000
Construction	—	—	—	—	45,186,000	45,186,000
Land	—	—	—	—	20,190,000	20,190,000
	—	—	—	—	275,279,000	275,279,000
Commercial	53,000	—	—	53,000	23,810,000	23,863,000
Consumer and other loans	—	—	—	—	2,497,000	2,497,000
Total	$ 53,000	$ —	$ —	$ 53,000	$ 301,586,000	$ 301,639,000

The Bank did not restructure any loans during the year ended June 30, 2023 and one loan during the year ended June 30, 2022 that would meet the parameters of a troubled debt restructuring (TDR). As of June 30, 2023 and 2022, borrowers with loans designated as TDRs amounted to $1,366,000 and $2,134,000, respectively. TDRs held by the Bank with recorded balances of $1,366,000 and $1,495,000 as of June 30, 2023 and 2022, respectively, were designated as nonaccrual as of those dates. The remaining balance of TDRs held by the Bank as of June 30, 2022 met the criteria for accrual status designation. This criteria is a minimum six months of payment performance under existing or modified terms. The Bank had no TDRs that subsequently defaulted in the year ended June 30, 2023.

4. LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The summarized unpaid principal balances of these loans at June 30, 2023 and 2022 were:

	2023	2022
	(rounded to thousands)	
Mortgage loan portfolios serviced for:		
Federal Home Loan Mortgage Corporation (FHLMC)	$ 5,204,000	$ 5,867,000

Loans sold to the Federal Home Loan Mortgage Corporation (FHLMC) are sold without recourse unless the Company did not comply with the requirements or conditions of the purchase document, breached any agreements, made false warranties or representations or failed to provide FHLMC with information that is true, complete and accurate concerning the mortgages. Associated mortgage servicing rights intangible asset has been deemed immaterial and not recognized by the Company in the consolidated financial statements as of June 30, 2023 and 2022.

5. PROPERTY AND EQUIPMENT

Summary classifications of the Company's property and equipment and the related accumulated depreciation at June 30, 2023 and 2022 are presented below:

	2023	2022
	(rounded to thousands)	
Land and improvements	$ 1,408,000	$ 1,408,000
Buildings and improvements	8,420,000	8,261,000
Office furniture and equipment	4,989,000	4,960,000
	14,817,000	14,629,000
Less accumulated depreciation	8,797,000	8,002,000
Net property and equipment, excluding ROU assets	6,020,000	6,627,000
Right of use leased assets, net	606,000	700,000
Net property and equipment	$ 6,626,000	$ 7,327,000
Right of use leased assets	$ 856,000	$ 856,000
Less, accumulated amortization	(250,000)	(156,000)
Right of use leased assets, net	$ 606,000	$ 700,000
Lease liabilities	$ 637,000	$ 723,000
Weighted average remaining lease term (years)	5	6
Weighted average discount rate	1.57%	1.57%

Depreciation expense and right-of-use asset amortization for the years ended June 30, 2023 and 2022 totaled $914,000 and $1,002,000, respectively. The Company leases certain property and equipment from third parties. Right of use (ROU) assets for operating leases are included in property and equipment and lease liabilities are included in accrued income taxes and other liabilities on the Company's consolidated statements of financial condition. As of June 30, 2023 and 2022, the Company recorded a net ROU asset and lease liability for operating leases. At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent and lease incentives, if any.

Scheduled future minimum lease payments as of June 30, 2023 are summarized as follows:

2024	$ 99,000
2025	101,000
2026	103,000
2027	81,000
2028	83,000
Thereafter	207,000
	$ 674,000

During the years ended June 30, 2023 and 2022, the Company recognized operating lease expenses of approximately $193,000 and $193,000, respectively.

6. DEPOSIT ACCOUNTS

Summary classifications of the Company's deposit balances at June 30, 2023 and 2022 are presented below:

	2023	2022
	(rounded to thousands)	
Non-interest-bearing demand deposits	$ 112,393,000	$ 145,055,000
Interest-bearing demand and money market deposits	122,495,000	128,370,000
Savings accounts	97,560,000	106,027,000
Time deposits	41,936,000	33,439,000
	$ 374,384,000	$ 412,891,000

Scheduled maturities of time deposits as of June 30, 2023 are summarized as follows:

2024	$ 29,110,000
2025	5,693,000
2026	2,924,000
2027	2,302,000
2028	1,907,000
	$ 41,936,000

The aggregate amount of time deposits with a minimum denomination exceeding $250,000 at June 30, 2023 and 2022 was $5,776,000 and $2,874,000, respectively.

7. LINES OF CREDIT

The Company has a revolving line of credit agreement with the FHLBank Topeka collateralized by real estate loans (see Note 8).

The Company also has a revolving line of credit agreement with a financial institution in the amount of $5,000,000, with a variable interest rate at the average National Prime Rate as published in the Wall Street Journal plus 0.75% per annum, and expiring on November 30, 2023. Interest payments on advanced amounts are due monthly. The line of credit is secured by all of the shares of the Bank's stock. There was no outstanding balance on the line of credit at June 30, 2023 or June 30, 2022.

The Company also has a revolving line of credit agreement with the Federal Reserve Bank of Kansas City. As of June 30, 2023 and 2022, there was no outstanding balance on the line of credit and approximately $7,000,000 and $1,500,000 were available, respectively, with a variable interest rate (5.25% per annum at June 30, 2023 and 2.50% per annum June 30, 2022). Interest payments are due daily on advanced amounts.

8. FEDERAL HOME LOAN BANK BORROWING

At June 30, 2023 and 2022, the Bank had no term advances from FHLBank Topeka, part of the Federal Home Loan Bank (FHLB) system.

At June 30, 2023 and 2022, the Company has an approved line of credit, with an interest rate at 5.23% and 1.63% per annum, respectively, subject to the maximum amount of credit available to the Company under the FHLB's credit policies. FHLB advance availability is determined quarterly. As of June 30, 2023 there was an outstanding balance of $22,700,000 and as of June 30, 2022, there was no outstanding balance on the line of credit. As of June 30, 2023 and 2022, approximately $111,718,000 and $131,675,000 were available, respectively.

9. INCOME TAXES

The provision for income taxes for the years ended June 30, 2023 and 2022 consists of the following:

	2023	2022
	(rounded to thousands)	
Taxes currently payable	$ 1,130,000	$ 1,572,000
Deferred income taxes	222,000	(251,000)
Total	$ 1,352,000	$ 1,321,000

A reconciliation of the Company's income tax expense, which differs from income tax expense calculated at the federal statutory income tax rate of 21% is presented below:

	2023	2022
Provision for income taxes at statutory rate	$ 1,241,000	$ 1,168,000
Nondeductible/nontaxable income/expenses for tax purposes	(96,000)	(37,000)
State income taxes, net of federal income tax benefit	207,000	190,000
	$ 1,352,000	$ 1,321,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax assets (liabilities) at June 30, 2023 and 2022 are presented below:

	2023	2022
Deferred income tax assets:		
Difference between tax basis and carrying basis of long term incentive plan	$ 308,000	$ 490,000
Unrealized loss on available for sale securities	1,070,000	887,000
Loan loss allowance	469,000	391,000
Foreclosed assets	35,000	35,000
Other	—	181,000
Total deferred income tax assets	1,882,000	1,983,000
Deferred income tax liabilities:		
Difference between tax basis and carrying basis of FHLB stock	(43,000)	(37,000)
Tax depreciation in excess of financial statement amounts	(396,000)	(473,000)
Other	(10,000)	—
Total deferred income tax liabilities	(449,000)	(510,000)
Net deferred income tax asset	$ 1,433,000	$ 1,473,000

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	2023	2022
Net unrealized gain (loss) on available-for-sale securities	$ (4,316,000)	$ (3,579,000)
Tax effect	1,070,000	887,000
Net-of-tax amount	$ (3,246,000)	$ (2,692,000)

11. EARNINGS PER SHARE

Earnings per share (EPS) were computed as follows:

	Income	Weighted Average Shares	Per Share Amount
Year ended June 30, 2023			
Basic earnings per share	$ 4,557,000	954,523	$ 4.77
Effect of dilutive securities			
Company common stock held in subsidiary trust and unvested restricted stock awards	—	69,568	
Diluted earnings per share	$ 4,557,000	1,024,091	$ 4.45

	Income	Weighted Average Shares	Per Share Amount
Year ended June 30, 2022			
Basic earnings per share	$ 4,243,000	957,192	$ 4.43
Effect of dilutive securities			
Company common stock held in subsidiary trust and unvested restricted stock awards	—	75,881	
Diluted earnings per share	$ 4,243,000	1,033,073	$ 4.11

12. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as outlined below. Management believes, as of June 30, 2023, the Bank meets all capital adequacy requirements to which it is subject.

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the Community Bank Leverage Ratio ("CBLR") framework, for qualifying community banking organizations. A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures (excluding derivatives and unconditionally cancelable commitments) of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. It also cannot be an advanced approaches institution. The final rule was effective on January 1, 2020 and the Bank opted into the CBLR framework. CBLR banks are not required to calculate or report risk-based capital and are not be subject to other capital and leverage requirements. A CBLR bank will be deemed to have met the "well capitalized" ratio requirements and be in compliance with the generally applicable capital rule. A CBLR bank that ceases to meet any qualifying criteria in a future period and that has a leverage ratio greater than 8% will be allowed a grace period of two reporting periods to satisfy the CBLR qualifying criteria or comply with the generally applicable capital requirements. A CBLR may opt out of the framework at any time, without restriction, by reverting to the generally applicable risk-based capital rule.

On April 6, 2020, the federal banking agencies jointly acted to implement Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act, which required the agencies to temporarily lower the CBLR to 8.00%. The agencies modified the CBLR framework so that a qualifying banking organization meets the CBLR framework with a leverage ratio of 8.00% as of June 30, 2020 through December 31, 2020, 8.50% for calendar year 2021 and 9.00% thereafter.

The Bank's Tier 1 Capital and CBLR as of June 30, 2023 and 2022 were $42,675,000 and 9.93% and $41,338,000 and 9.18%, respectively.

As of June 30, 2023, the most recent regulatory notification categorized the Bank as well capitalized under the framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's categorization.

The Company's management believes that, under the current regulations, the Bank will continue to meet its minimum capital requirements in the coming year. However, events beyond the control of the Bank, such as increased interest rates or adverse economic conditions, could adversely affect the Bank's financial condition and future earnings and, consequently, the ability of the Bank to meet its future minimum capital requirements.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At June 30, 2023, approximately $5.6 million of retained earnings were available for dividend declaration by the Bank to the Company without prior regulatory approval.

13. BENEFIT PLANS

The Company has adopted one Long-Term Incentive Plan covering its Board of Directors ("Directors"). During the year ended June 30, 2020, the Company merged two previously-adopted Long-Term Incentive Plans covering the Directors, one for which Company contributions and new Director participant entry had ceased and a second for which the Company accrued contributions to Director participant accounts providing the participant continues to be a Director of the Company. Under the terms of the amended merged Plan, prior to distribution, each Director participant's account shall be credited with a rate of return on any amounts previously credited, equal to the highest rate of interest paid by the Company on one-year certificates of deposit, or the rate of return equal to the dividend-adjusted rate of return on the Company's common stock.

Company contributions and returns thereon are credited to participants' accounts on the effective date and thereafter shall be fully vested. Account balances may be paid in cash, or up to ten equal annual installments beginning during the first quarter of the calendar year which next follows the calendar year in which the participant ceases to be a Director for any reason, with subsequent payments being made by the last day of the first quarter of each subsequent calendar year until the participant has received the entire amount of his account. Notwithstanding the foregoing, a participant may elect to have their account paid in a lump sum distribution or in annual payments over a period less than ten years. Any benefits accrued under the plan will be paid from the Company's general assets. The Company has established a trust in order to hold assets with which to pay benefits. Trust assets, which are included in the consolidated statement of financial condition, will be subject to the claims of the Company's and Bank's general creditors. The Company recorded compensation expense (compensation expense credit), including accrued contributions, adjustments to the recorded asset, liability and dividends paid classified as compensation expense to the Plan(s) of $(16,000) and $49,000 for the years ended June 30, 2023 and 2022, respectively.

As part of its conversion to a federal stock savings association in 1997, the Bank established an Employee Stock Ownership Plan (ESOP) to benefit substantially all employees. The ESOP purchased 105,800 shares of common stock of the Company at the time of the conversion. Cash contributions to the ESOP are recorded as compensation expense.

The Company had no loans outstanding to the ESOP as of June 30, 2023 and 2022.

The ESOP shares are as follows as of June 30:

	2023	2022
Allocated shares	71,505	90,805
Unallocated shares	—	—
Total	71,505	90,805

The Company made discretionary cash contributions to the ESOP of $226,000 and $226,000 during the years ended June 30, 2023 and 2022, respectively. The Company is obligated, at the option of each participant to repurchase shares of the ESOP upon the participant's termination or after retirement. The Company obtains a valuation analysis to establish the repurchase price per share and, during the year ended June 30, 2023, the Company's repurchase price was $42.75 per share. Unallocated shares of the ESOP are not included in the computation of basic or diluted earnings per share because those shares are not deemed to be outstanding common stock.

The Company also has a noncontributory 401(k) plan which employees may elect to join after 90 days of employment. Employees may contribute a portion of their compensation up to the IRS annual maximum permissible contribution.

14. STOCK INCENTIVE PLANS

2014 Stock Incentive Plan — In November 2014, Company stockholders approved the High Country Bancorp, Inc. 2014 Stock Incentive Plan (2014 Plan), which provides for the grant of incentive stock options, non-statutory stock options and restricted stock. The Company has 24,565 shares remaining to be awarded under the 2014 Plan.

Unless earlier terminated, the authority to make grants under the 2014 Plan will terminate in 2024 or when no shares remain available for grants and there is no further obligation with respect to any outstanding award. Employees of the Company or one of its subsidiaries or affiliates, and non-employee directors, are eligible to be granted awards under the 2014 Plan. The exercise price for shares under option, or compensation for stock awards, shall be the fair market value as of the date of the grant.

The 2014 Plan is administered by a committee consisting of the entire Board of Directors (the Committee). Subject to the terms and conditions of the 2014 Plan, the Committee is authorized to: select participants; determine the type and number of awards to be granted and the number of shares to which awards will relate; specify times at which awards will be exercisable or settled; set other terms and conditions of such awards; waive or amend any terms, conditions, restrictions or limitations on an award; prescribe forms of award agreements; and make all other determinations which may be necessary or advisable for the administration of the 2014 Plan. Unless otherwise determined by the Committee at the time an award is made, a participant's award(s) under the 2014 Plan will vest in full upon the participant's death or disability. In the event a participant's employment or service is terminated for cause, all unvested awards are forfeited and all unexercised stock options are cancelled.

Stock awards made under the Plan are subject to restriction including non-transferability and forfeiture upon termination of employment or board service. Such restrictions expire proportionately over a required service period. Restricted stock awards have full voting and dividend rights during the restricted period.

Stock Awards — The Company has issued shares of restricted stock to certain officers, directors, and employees which shares vest over a five year period. A summary of non-vested restricted stock outstanding and changes as of and for the years ended June 30 follows:

	2023		2022	
	Shares	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Outstanding at beginning of year	6,600	$ 41.25	17,000	$ 40.03
Granted	14,555	31.98	—	—
Vested	6,285	36.86	8,980	39.91
Forfeited	600	44.62	1,420	35.66
Outstanding at end of year	14,270	$ 33.85	6,600	$ 41.25

As of June 30, 2023 and 2022, there was approximately $368,000 and $272,000, respectively, of total unrecognized compensation cost related to non-vested restricted share-based compensation arrangements, which is expected to be recognized over a weighted average remaining period of approximately 1.9 and 1.2 years, respectively. Share-based compensation expense, net of de-recognition for forfeitures, charged to operations for the years ended June 30, 2023 and 2022 was $243,000 and $233,000, respectively, while the related deferred tax benefit was approximately $58,000 and $55,000 for each year, respectively.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. At June 30, 2023 the Company had commitments to fund loans of $46,770,000 with interest rates from 5.25% to 9.75%, unfunded lines of credit and approved and undisbursed balances of construction loans of $74,275,000, and letters of credit of $5,213,000. The Company makes contractual commitments to extend credit, which are legally binding agreements to lend money to customers at prevailing interest rates for specified periods of time. The credit risk involved in issuing these commitments is essentially the same as that involved in extending loan facilities to customers.

As such, the Company's exposure to credit loss, in the event of non-performance by the counterparty to the financial instrument, is represented by the contractual amount of those instruments. The Company applies the same credit standards used in the lending process when extending these commitments, and periodically reassesses the customers' credit worthiness. Additional risks associated with these commitments arise when they are drawn upon, such as the demands on liquidity that the Bank could experience if a significant portion were drawn down at once. This is considered unlikely, however, as commitments may expire without having been drawn upon.

16. CONCENTRATIONS OF CREDIT RISK

Federal banking regulators have issued guidance using certain criteria to identify institutions that are potentially exposed to commercial real estate concentration risk to include reported loans for construction, land development, and other land loans that represent more than 100% of the institution's total risk-based capital; or total commercial real estate loans representing more than 300% of the institution's total risk-based capital. Although the Bank has a diversified loan portfolio, as of June 30, 2023 and 2022 the Bank's loans secured by commercial real estate, specifically those in the category of construction, land development, and other land loans exceeded 100% of the institution’s total regulatory capital by approximately 56% and 49%, respectively.

The Company originates loans primarily in Chaffee, Fremont and Boulder Counties, Colorado. Any future deterioration in the real estate markets could adversely impact borrowers' ability to repay loans secured by real estate and the value of real estate collateral, thereby increasing the credit risk associated with the loan portfolio. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to repay their loans is dependent upon economic conditions in the market.

17. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(rounded to thousands)		
2023:				
Available-for-sale securities				
Mortgage-backed securities	$ 22,906,000	$ —	$ 22,906,000	$ —
Municipal Bonds	16,529,000	—	16,529,000	—
Agency notes	15,589,000	—	15,589,000	—
SBA securities	5,875,000	—	5,875,000	—
U.S. Treasury notes	5,161,000	—	5,161,000	—
Total assets measured at fair value on a recurring basis	$ 66,060,000	$ —	$ 66,060,000	$ —
2022:				
Available-for-sale securities				
Mortgage-backed securities	$ 21,031,000	$ —	$ 21,031,000	$ —
Municipal Bonds	16,586,000	—	16,586,000	—
Agency notes	15,531,000	—	15,531,000	—
SBA securities	2,954,000	—	2,954,000	—
U.S. Treasury notes	5,152,000	—	5,152,000	—
Total assets measured at fair value on a recurring basis	$ 61,254,000	$ —	$ 61,254,000	$ —

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2023.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company had no available-for-sale securities priced with Level 3 inputs.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(rounded to thousands)		
2023:				
Impaired loans, net of reserves	$ 787,000	$ –	$ –	$ 787 000
2022:				
Impaired loans, net of reserves	$ 888,000	$ –	$ –	$ 888,000

As of June 30, 2023 and 2022, the Company had no liabilities measured at fair value on a recurring or nonrecurring basis.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to the contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal or estimate of value of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Unobservable (Level 3) inputs

The valuation for collateral dependent impaired loans, measured on a non-recurring basis, is determined using market comparable prices for collateral securing the loans, to which a discount is applied. As of June 30, 2023 and 2022, a discount of 40% was applied to derive the fair value for collateral dependent impaired loans.

Fair Value of Financial Instruments

The following tables present the carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value. Receivables and payables due in one year or less, equity securities without readily determinable fair values and deposits with no defined or contractual maturities are excluded.

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(rounded to thousands)			
Financial assets:				
Cash & equivalents	$ 8,615,000	$ 8,615,000	$ 78,395,000	$ 78,395,000
Interest-bearing time deposits	1,244,000	1,244,000	1,244,000	1,244,000
Held-to-maturity securities	4,000	4,000	9,000	9,000
Loans held for sale	110,000	110,000	—	—
Loans receivable, net	346,007,000	321,744,000	296,840,000	284,517,000
Nonmarketable equity securities	1,460,000	1,460,000	809,000	809,000
Financial liabilities:				
Deposits	$374,384,000	$374,057,000	$412,891,000	$412,538,000
FHLBank line of credit borrowing	$ 22,700,000	$ 22,700,000	—	—

Cash and Equivalents – The carrying amounts of cash and equivalents approximate fair values and are Level 1.

Interest-bearing time deposits – The carrying amounts of interest-bearing time deposits approximate fair values and are Level 1.

Held-to-maturity securities – Fair values for mortgage-backed securities are valued by a third party based on quoted market prices for identical or similar assets in active markets. These securities are Level 2.

Loans held for sale – The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics; therefore, are Level 2. Carrying amounts of loans held for sale approximate fair values.

Loans receivable, net – The fair value of unimpaired loans is estimated on an exit price basis incorporating contractual cash flow, estimated prepayments, repricing characteristics and credit loss assumptions. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. The Bank had impaired loans with a recorded investment of $1,366,000 and $1,495,000, respectively, and a specific reserve allocation of $579,000 and $607,000, respectively, at June 30, 2023 and 2022. Loans receivable are Level 3.

Nonmarketable equity securities – Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities and are Level 2.

Deposits – The fair values disclosed for non-term deposits are, by definition, equal to the amount payable on demand at the reporting date. The carrying amounts of variable-rate, fixed-term money market accounts and time deposits approximate their fair values at the reporting date. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits. Deposit liabilities are Level 2.

FHLBank line of credit borrowing – The fair values disclosed for FHLBank line of credit advances are, by definition, equal to the amount payable on demand at the reporting date and are Level 1.

18. OTHER NON-INTEREST EXPENSES

Other non-interest expenses consist of the following at June 30:

	2023	2022
	(rounded to thousands)	
Postage	$ 157,000	$ 160,000
Stationery / supplies	150,000	151,000
Dues and subscriptions	219,000	149,000
Advertising / Promotion	219,000	140,000
Community Support	147,000	142,000
ATM / debit card processing and costs	326,000	240,000
Credit report costs	48,000	129,000
Other	687,000	303,000
Total	$ 1,953,000	$ 1,414,000

19. CONTINGENCIES AND COMMITMENTS

In the normal course of business, the Company is involved in various legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position of the Company.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, the Company has outstanding loans to principal officers and directors and their affiliates amounting to $3,849,000 and $3,137,000 at June 30, 2023 and 2022, respectively. During the year ended June 30, 2023, total principal additions were $1,153,000 and total principal payments were $441,000. During the year ended June 30, 2022, total principal additions were $2,399,000 and total principal payments were $1,376,000.

Deposits from principal officers and directors and their affiliates held by the Company at June 30, 2023 and 2022 amounted to $1,825,000 and $2,221,000, respectively.

21. CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

The following condensed statements summarize the financial position, operating results and cash flows of High Country Bancorp, Inc.:

	2023	2022
	(rounded to thousands)	
CONDENSED BALANCE SHEET		
ASSETS		
Cash and cash equivalents	$ 346,000	$ 85,000
Investment in subsidiaries	39,503,000	38,722,000
Other	571,000	1,076,000
Total assets	$ 40,420,000	$ 39,883,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other liabilities	$ 2,129,000	$ 2,866,000
Stockholders' equity	38,291,000	37,017,000
Total liabilities and stockholders' equity	$ 40,420,000	$ 39,883,000
CONDENSED STATEMENT OF INCOME		
Equity in undistributed net income of subsidiaries	$ 1,336,000	$ 2,921,000
Distributed net income of subsidiaries	3,550,000	1,695,000
Other, net	(329,000)	(373,000)
Net income	$ 4,557,000	$ 4,243,000
CONDENSED STATEMENT OF CASH FLOWS		
Operating activities:		
Net income	$ 4,557,000	$ 4,243,000
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Net income of subsidiaries	(4,886,000)	(4,616,000)
Restricted stock awards earned, net of forfeitures	243,000	233,000
Deferred income taxes	238,000	42,000
Dividends received	3,550,000	1,695,000
Other	(469,000)	(113,000)
Net cash provided by operating activities	3,233,000	1,484,000
Financing activities:		
Common stock repurchased and retired	(1,053,000)	(13,000)
Dividends paid	(1,919,000)	(1,939,000)
Net cash provided by (used in) financing activities	(2,972,000)	(1,952,000)
Net change in cash	261,000	(468,000)
Cash and cash equivalents, beginning of year	85,000	553,000
Cash and cash equivalents, end of year	$ 346,000	$ 85,000

22. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 8, 2023, which is the date the financial statements were available to be issued.

BOARD OF DIRECTORS

Nicole M. Stotler
President and Chief Executive Officer of the Company and the Bank

Timothy R. Glenn
Owner and Funeral Director of Lewis and Glenn Funeral Home

Richard A. Young, CPA
Swartz & Young, P.C.

Pete Cordova
Cordova Law Firm, LLP

Richard Edgington
Pinon Development Corporation
Pinon Real Estate Group, LLC

Thomas Mansheim
Certified Public Accountant

EXECUTIVE OFFICERS

Nicole M. Stotler
President and Chief Executive Officer of the Company and the Bank

Dennis M. Weber
Chief Financial Officer

Sylvia Veltri
Chief Operating Officer

GENERAL INFORMATION

Independent Public Accountants
FORVIS
1801 California Street
Suite 2900
Denver, Colorado 80202

Annual Meeting
The 2023 Annual Meeting of Shareholders will be held on November 3, 2023 at 4:30 p.m. MST
High Country Bank
7360 West US Highway 50
Salida, Colorado 81201

Special Counsel
Otteson Shapiro LLP
7979 E. Tufts Ave.
Suite 1600
Denver, Colorado 80237

Transfer Agent and Registrar
Broadridge Corporate Issuer Solutions, Inc.
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Brentwood, NY 11717
Phone: 855-449-0975
Fax: 215-553-5402
E-mail: shareholder@broadridge.com