2021 ANNUAL REPORT

Mechanics Bank®

Where Relationships Matter

A Letter to Shareholders

2021 Annual Report

Dear Shareholders,

2021 certainly presented its share of unique challenges, including the rise of Covid-19 variants, supply-chain disruptions, tight labor markets and growing inflation. Despite these adversities, the Bank persevered and had an exceptional year.

After setting aside, as a conservative precaution, nearly $85 million in 2020 for future, pandemic-related loan losses, we were pleased to instead achieve record-low loan losses and low levels of delinquent loans across all our portfolios in 2021. By providing extensive relief to our clients through a variety of means, including loan-payment deferrals, interest-only modifications, loan-maturity extensions and participation in the Paycheck Protection Program (PPP) throughout 2020 and 2021, we were able to help our customers withstand the pandemic's initial impact. This assistance, in turn, had a positive impact on our financial performance last year. We do, however, understand that there could be potential lingering effects of the pandemic for the next year or so.

Year-over-year, 2021 pre-tax income significantly improved to approximately $285 million, due in great part to our outstanding loan-loss performance. Additionally, net interest income expanded and non-interest expense decreased, as the operational leverage of our acquisition of Rabobank, N.A. was fully recognized.

Also, the Bank's balance sheet saw strong organic growth and maturation, with loans (excluding PPP) and core deposits each increasing 9% in 2021. To achieve this growth, we originated more than $5 billion in new loan commitments, realizing significant year-over-year growth in nearly all our lending divisions, particularly Mechanics Bank Auto Finance, as well as both Multi-Family and Single-Family Residential lending.

In addition to organically growing the Bank's core deposits on the strengths of our Retail branch network and Commercial Banking teams, we continued to lower our cost of funds, which dropped to 4 basis points at year-end 2021, placing us among the best performing banks in the nation.

Another bright note, our Wealth Management division achieved record revenues, attributable to solid organic growth and a strong equity market.

To support future growth and profitability goals, the Bank also made a number of strategic investments in 2021, often times collaborating with third-party technology providers, to complement our offerings and improve the client experience. Increasingly, our technology platforms will make it even easier for both Retail and Commercial clients to open new accounts and bank with us more efficiently.

The Bank's accomplishments were recognized independently for the second consecutive time, when, earlier this year, Forbes named Mechanics Bank one of America's Best Banks for 2022, based on growth, credit quality and profitability.

With post-pandemic banking fundamentals beginning to normalize, profitable loan growth is a key priority for the Bank in 2022. Overall, the nation's economy is strong and continues to show signs of recovery, even in the face of inflation and global political tensions. If managed prudently, a rising interest rate environment, coupled by our low cost of funds, will augment our overall profitability.

The Bank is prepared to execute on these and other goals from a position of financial soundness and stability. We continue to maintain a strong, healthy and well-capitalized balance sheet with very significant levels of liquidity. In fact, our capital levels far exceed the required minimums to be considered "well-capitalized" in accordance with regulatory standards.

Backed by our capital strength and 117-year operating history is the dedication of our 1,800 employees who selflessly and tirelessly put our clients first every day. Our people deliver with a passion for their craft whether they're working remotely or in the office, and with the unyielding desire to do great things in the communities where they live and work. As a bank, we are excited about further putting our assets to work in our communities, and growing and nurturing our brand as the premier California community bank.

I wish to thank all my Bank colleagues, our clients, our exceptional Board of Directors, and our shareholders for their continued support.

Sincerely,

John W. DeCero
President and Chief Executive Officer

Building Stronger Communities

With 115 branches across the Golden State, our dedicated and friendly professionals are passionate about serving the banking and lending needs of their clients, and about giving back to their communities.

RECOGNIZED EXCELLENCE

by Independent Rating Agencies

★★★★★ **Superior**	**"WELL CAPITALIZED"**	**OUTSTANDING**	★★★ **GREEN**
Bauer Financial Rating	FDIC Capital Classification	2019 Community Reinvestment Act Exam	Veribanc Bank Safety Rating
December 31, 2021 (Highest Possible Rating)	*Veribanc, December 31, 2021 (Highest Possible Rating)*		*December 31, 2021 (Highest Possible Rating)*

Report of Independent Auditors

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
Mechanics Bank
Walnut Creek, California

Opinion
We have audited the consolidated financial statements of Mechanics Bank, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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 Mechanics Bank as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Mechanics Bank's internal control over financial reporting as of December 31, 2021, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 18, 2022 expressed an unmodified opinion.

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 Financial Statements section of our report. We are required to be independent of Mechanics Bank 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 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 Mechanics Bank's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the 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.
- 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 Mechanics Bank'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.

Crowe LLP

Sacramento, California
March 18, 2022

Mechanics Bank
Consolidated Balance Sheets

As of December 31, 2021 and December 31, 2020

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	**$ 1,001,297,934**	**$ 1,171,766,566**
Securities available-for-sale, at fair value	**6,015,201,948**	5,313,700,043
Securities held-to-maturity, at amortized cost (fair value of $49,311,665 and $73,343,953 at December 31, 2021 and 2020, respectively)	**45,447,180**	68,570,752
Loans held for sale	**508,092**	346,615
Loan and lease receivables	**11,005,775,722**	11,123,264,653
Allowance for credit losses on loans and leases	**(135,834,351)**	(129,248,320)
Net loan and lease receivables	**10,869,941,371**	**10,994,016,333**
Other real estate owned	**431,369**	14,486,272
Federal Home Loan Bank stock, at cost	**17,250,000**	17,250,000
Premises and equipment, net	**131,497,608**	154,166,535
Bank owned life insurance	**99,986,612**	97,701,555
Goodwill	**843,304,664**	843,304,664
Other intangible assets, net	**90,774,649**	115,775,253
Right-of-use asset	**34,786,640**	50,022,795
Interest receivable and other assets	**272,432,069**	301,800,282
TOTAL ASSETS	**$ 19,422,860,136**	**$ 19,142,907,665**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing demand deposits	**$ 8,182,587,405**	$ 7,497,472,918
Interest-bearing transaction accounts	**5,914,994,470**	6,211,850,418
Savings and time deposits	**2,669,042,942**	2,637,284,429
Total deposits	**16,766,624,817**	**16,346,607,765**
Securities sold under agreements to repurchase	**–**	3,309,597
Subordinated debentures	**24,886,079**	24,846,391
Operating lease liability	**38,045,900**	53,037,060
Interest payable and other liabilities	**205,526,506**	247,945,774
TOTAL LIABILITIES	**17,035,083,302**	**16,675,746,587**
Commitments and contingencies (Notes 14 and 15)		
SHAREHOLDERS' EQUITY		
Common stock, $50 par value		
Authorized — 300,000 shares		
Issued and outstanding (64,218 shares at December 31, 2021 and 2020)	**3,210,900**	3,210,900
Additional paid in capital	**2,118,336,077**	2,118,336,077
Retained earnings	**269,866,304**	280,847,998
Accumulated other comprehensive (loss)/income, net of tax	**(3,636,447)**	64,766,103
TOTAL SHAREHOLDERS' EQUITY	**2,387,776,834**	**2,467,161,078**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 19,422,860,136**	**$ 19,142,907,665**

 See notes to consolidated financial statements

Mechanics Bank
Consolidated Statements of Income

For the Years Ended December 31, 2021 and December 31, 2020

	Year Ended December 31, 2021	Year Ended December 31, 2020
INTEREST AND FEE INCOME		
Interest and fees on loans and leases	$ 553,867,208	$ 529,953,681
Interest on securities available-for-sale:		
U.S. treasury and government agency securities	68,587,943	72,260,868
Corporate bonds	1,861,124	1,874,807
Interest on held-to-maturity securities:		
U.S. government agency securities	489,934	754,050
Obligations of state and political subdivisions	625,906	972,556
Asset backed securities	328,818	550,694
Other interest income	6,313,521	4,990,774
Total interest and fee income	632,074,454	611,357,430
INTEREST EXPENSE		
Interest on deposits	9,548,126	34,720,957
Interest on subordinated debentures	1,352,187	1,352,187
Interest on borrowed funds	15,725	46,894
Total interest expense	10,916,038	36,120,038
Net interest income	621,158,416	575,237,392
Provision for credit losses on loans and leases	21,220,978	114,744,864
Net interest income after provision for credit losses	599,937,438	460,492,528
NONINTEREST INCOME		
Service charges on deposit accounts	23,563,511	23,574,504
Trust fees and commissions	10,298,481	9,846,480
Loan servicing income	4,928,570	9,468,752
Net gains on sale of loans	263,967	646,002
Other	31,864,089	28,700,290
Total noninterest income	70,918,618	72,236,028
NONINTEREST EXPENSE		
Salaries and employee benefits	221,859,273	229,947,824
Occupancy	35,781,524	42,636,886
Equipment	26,201,054	28,230,196
Amortization of intangible assets	24,282,896	26,923,734
Intangible impairment	–	1,460,240
Recovery of credit losses on unfunded lending commitments	(337,457)	(1,663,072)
Other	77,122,429	103,165,733
Total noninterest expense	384,909,719	430,701,541
Income before provision for income tax expense	285,946,337	102,027,015
PROVISION FOR INCOME TAXES	79,935,409	8,562,586
NET INCOME	$ 206,010,928	$ 93,464,429
EARNINGS PER SHARE - Basic and Diluted	$ 3,207.99	$ 1,455.42
AVERAGE COMMON SHARES OUTSTANDING - Basic and Diluted	64,218	64,218

See notes to consolidated financial statements

Mechanics Bank
Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2021 and December 31, 2020

	Year Ended December 31, 2021	Year Ended December 31, 2020
NET INCOME	**$ 206,010,928**	**$ 93,464,429**
Other comprehensive income, net of tax:		
Net unrealized gains on securities available-for-sale arising during the year, net of tax (expense)/benefit of $30,622,419 and ($32,421,810) for the years ended December 31, 2021 and 2020, respectively.	**(76,213,641)**	80,691,997
Change in defined benefit pension liability obligations, net of tax benefit/(expense) of ($3,138,471) and $1,991,166 for the years ended December 31, 2021 and 2020, respectively.	**7,811,091**	(4,955,658)
Total other comprehensive (loss)/income	**(68,402,550)**	**75,736,339**
COMPREHENSIVE INCOME	**$ 137,608,378**	**$ 169,200,768**

See notes to consolidated financial statements

Mechanics Bank
Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2021 and 2020

					ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET		
	SHARES	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	SECURITIES	DEFINED BENEFIT OBLIGATIONS	TOTAL SHAREHOLDERS' EQUITY
Balance, January 1, 2020	**64,218**	**$3,210,900**	**$ 2,118,336,077**	**$187,383,569**	**$(6,304,497)**	**$ (4,665,739)**	**$ 2,297,960,310**
Net income	-	-	-	93,464,429	-	-	93,464,429
Rights offering, net	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax:	-	-	-	-	80,691,997	(4,955,658)	75,736,339
Cash Dividends declared ($0.00 per share)	-	-	-	-	-	-	-
Balance, December 31, 2020	**64,218**	**$3,210,900**	**$ 2,118,336,077**	**$280,847,998**	**$ 74,387,500**	**$ (9,621,397)**	**$ 2,467,161,078**
Net income	-	-	-	206,010,928	-	-	206,010,928
Other comprehensive (loss) income, net of tax	-	-	-	-	(76,213,641)	7,811,091	(68,402,550)
Cash Dividends declared ($3,379 per share)	-	-	-	(216,992,622)	-	-	(216,992,622)
Balance, December 31, 2021	**64,218**	**$3,210,900**	**$ 2,118,336,077**	**$269,866,304**	**$ (1,826,141)**	**$ (1,810,306)**	**$ 2,387,776,834**

Mechanics Bank
Consolidated Statements of Cash Flows

For the Years Ended December 31, 2021 and December 31, 2020

	Year Ended December 31, 2021	Year Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 206,010,928**	**$ 93,464,429**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans and leases	**21,220,978**	114,744,864
Originations of loans held for sale	**(2,632,520)**	(16,854,210)
Proceeds from sales and principal collected on loans held for sale	**2,549,267**	18,827,936
Net gain on sale of loans	**(263,967)**	(646,002)
Recovery of credit losses on unfunded lending commitments	**(337,457)**	(1,663,072)
Net amortization of securities	**40,507,563**	34,032,688
Depreciation of premises and equipment	**13,924,552**	18,377,152
Amortization of intangible assets	**24,282,896**	26,923,734
Intangible impairment	**–**	1,460,240
Amortization of discount on subordinated debentures	**39,688**	39,687
Net increase in cash surrender value of bank-owned life insurance	**(2,489,266)**	(2,299,486)
Net (gain) loss on sale and disposal of other real estate owned	**(237,421)**	797,169
Net gain on sale and disposal of property and equipment	**(4,135,677)**	(733,628)
Deferred income tax benefit	**(2,070,301)**	(44,450,450)
Change in deferred loan (costs) fees	**(16,871,257)**	4,037,181
Amortization of premiums and discounts on purchased loans	**(13,014,834)**	(20,819,520)
Changes in:		
Interest receivable and other assets	**77,317,350**	(43,796,130)
Interest payable and other liabilities	**(48,544,168)**	31,031,016
Net cash provided by operating activities	**295,256,354**	**212,473,598**
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale:		
Purchases	**(2,098,888,157)**	(2,393,100,107)
Maturities/calls/paydowns	**1,250,144,588**	1,514,956,090
Securities held-to-maturity:		
Maturities/calls/paydowns	**23,021,611**	43,043,416
Loan originations and principal collections, net	**682,667,370**	(493,149,059)
Purchase of loans	**(562,823,038)**	(494,340,350)
Recoveries of loans charged-off	**10,830,829**	7,918,387
Proceeds from the settlement of bank-owned life insurance	**204,209**	171,316
Proceeds from sales of other real estate owned	**14,292,324**	2,626,076
Proceeds from sales of loans held for investment	**2,253,155**	-
Proceeds from sales of premises and equipment	**20,094,789**	2,198,664
Additions to premises and equipment	**(7,237,499)**	(7,895,283)
Net cash used in investing activities	**(665,439,819)**	**(1,817,570,850)**

(continued on next page)

See notes to consolidated financial statements

Mechanics Bank
Consolidated Statements of Cash Flows (continued)

For the Years Ended December 31, 2021 and December 31, 2020

	Year Ended December 31, 2021	Year Ended December 31, 2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	**420,017,052**	1,752,729,221
Net decrease in securities sold under agreements to repurchase	**(3,309,597)**	(21,311,906)
Cash dividends paid	**(216,992,622)**	-
Net cash provided by financing activities	**199,714,833**	**1,731,417,315**
Net (decrease) increase in cash and cash equivalents	**(170,468,632)**	126,320,063
Cash and cash equivalents at beginning of period	**1,171,766,566**	1,045,446,503
Cash and cash equivalents at end of period	**$ 1,001,297,934**	**$ 1,171,766,566**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest paid	**$ 12,051,761**	$ 36,384,792
Income taxes paid, net of refunds	**81,049,752**	56,596,970
Non-cash disclosures:		
Transfers from loans to other real estate owned	**$ –**	$ 15,020,760
Lease liabilities arising from obtaining right-of-use assets	**(3,381,396)**	$ (1,934,344)

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Operations: Mechanics Bank (MB) and subsidiaries (the Bank, we, us and our) is headquartered in Walnut Creek, California. The Bank offers a variety of financial services to meet the banking and financial needs of the communities we serve, with operations conducted through 115 banking branches including locations in Greater San Francisco, Sacramento, Los Angeles and San Diego areas and throughout the Central Valley in California. MacDonald Auxiliary Corporation, Mechanics Real Estate Holdings Inc. and SVB Resolution Holdings, Limited Liability Company are wholly-owned subsidiary corporations whose business purposes are lending, holding deeds of trust securing loans made by the Bank and its subsidiaries and holding real estate and other assets acquired through foreclosure proceedings that are pending sale or liquidation.

The Bank has operated CRB Auto, which is a relationship based, indirect auto lender, as a division of the Bank since 2016. In January 2021, CRB Auto was renamed Mechanics Bank Auto Finance. The name change did not affect the Bank's corporate structure in any way.

The Bank also engages in indirect automobile lending activities including origination, securitization and servicing of new and pre-owned retail automobile sales contracts from both franchised and independent automobile dealerships throughout 27 states: Arizona, California, Colorado, Florida, Georgia, Hawaii, Iowa, Idaho, Illinois, Indiana, Kansas, Kentucky, Minnesota, Missouri, North Carolina, Nebraska, Nevada, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, Washington and Wisconsin. The Bank has a subsidiary limited liability company (LLC), California Republic Funding, LLC, for the special purpose of managing the securitizations.

Mechanics Bank operates under a California state banking charter issued by the California Department of Financial Protection and Innovation, its primary state regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC), which is also the Bank's primary federal regulator.

Basis of Presentation: The consolidated financial statements include the accounts of the Bank and all other entities in which it has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Bank include its wholly-owned subsidiaries. The accounting and reporting policies of the Bank are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the financial services industry. Significant accounting policies followed by the Bank are presented below.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the Bank's consolidated financial position, results of operations or net change in cash or cash equivalents.

Use of Estimates in the Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ.

Recapitalization through the Investment Transaction and Purchase Accounting: On April 30, 2015, (the Transaction Date) pursuant to the terms of the Amended and Restated Offer to Purchase, dated December 15, 2014, as amended, by and among the Bank and EB Acquisition Company LLC, a wholly-owned subsidiary of Ford Financial Fund II, L.P. (the Investor), 13,433 validly tendered shares of the Bank's stock were purchased by the Investor at a price of $26,832 per share (the Investment Transaction). The aggregate consideration paid to the shareholders by the investor for these shares was $360.4 million in cash.

As a result of the Investment Transaction, pursuant to which the Investor acquired and controlled 69.31% of the voting shares of the Bank, the Bank followed the purchase method of accounting as required by ASC 805, *Business Combinations* (ASC 805). As a result of this change in control, the Investor has elected pushdown accounting under ASU 2014-17, *Business Combinations: Pushdown Accounting - a consensus of the Emerging Issues Task Force*.

Purchase accounting requires that the assets purchased, the liabilities assumed, and non-controlling interests all be reported on the acquirer's financial statements at their fair value, with any excess of purchase consideration over the net assets being reported as goodwill. Pushdown accounting requires that the Investor's basis in the financial assets and liabilities be reflected in the Bank's financial statements.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Acquisitions: Effective October 1, 2016 (the CRB Acquisition Date), the Bank completed its acquisition of California Republic Bancorp (CRB) pursuant to the Agreement and Plan of Merger and Reorganization (the CRB Agreement), dated as of April 28, 2016, between Coast Acquisition Corporation (CAC), a wholly-owned subsidiary of Mechanics Bank and into CRB (the CRB Merger), with CRB being the surviving corporation, followed by the merger of CRB with and into MB (the CRB Acquisition), with MB being the surviving corporation.

On February 12, 2018 (the SVB Acquisition Date), Gold Rush Acquisition Corporation (a wholly-owned subsidiary of Ford Financial Fund II, L.P. formed for this sole purpose), Mechanics Bank and Learner Financial Corporation, the bank holding company for Scott Valley Bank (SVB), entered into a definitive agreement for Mechanics Bank to acquire Learner Financial Corporation and its wholly-owned subsidiary, Scott Valley Bank, which acquisition (the SVB Acquisition) was completed and became effective on June 1, 2018.

On March 15, 2019, Mechanics Bank and Rabobank International Holding B.V. ("Rabo"), entered into a definitive agreement for Mechanics Bank to acquire Rabobank, N.A. (RNA), a subsidiary of Rabo, in a strategic business combination (the RNA Acquisition), which became effective on August 31, 2019 (the RNA Acquisition Date). For additional information, refer to Note 20, "Shareholders' Equity, Earnings per Share and Dividend Limitations."

Cash Flows: Cash and cash equivalents include cash on hand, interest-bearing deposits with other financial institutions with original maturities under 90 days, and daily federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, short-term borrowings from securities sold under agreements to repurchase and Federal Home Loan Bank advances.

Debt Securities: Debt securities are classified at the time of purchase as available-for-sale or held-to-maturity. Debt securities classified as held-to-maturity are recorded at amortized cost when management has the intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when management intends that they might be sold before maturity. Securities available-for-sale are carried at fair value. Unrealized holding gains and losses, net of taxes, are reported in Accumulated Other Comprehensive Income or Loss (AOCI) on the Consolidated Balance Sheet.

Accreted discounts and amortized premiums are included in interest income using the level yield method, and realized gains or losses from sales of securities are calculated using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment (OTTI) at least on a semi-annual basis, and more frequently when economic conditions warrant such an evaluation. Investment securities classified as available-for-sale or held-to-maturity are evaluated for OTTI under ASC 320, *Accounting for Certain Investments in Debt and Equity Securities* (ASC 320).

In determining OTTI under the ASC 320 model, management considers the extent and duration of the unrealized loss, the financial condition and near-term prospects of the issuer and whether the market decline was affected by macroeconomic conditions. The Bank assesses whether it intends to sell, or it is more likely than not it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether OTTI exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Equity Securities: Equity securities consist of mutual funds held in trusts associated with deferred compensation plans for former directors and executives. These mutual funds are recorded as equity securities at fair value. Gains and losses are included in noninterest expense.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Federal Home Loan Bank (FHLB): The Bank is a member of the Federal Home Loan Bank system. Member banks are required to own a certain amount of FHLB stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Cash and stock dividends are reported as income when received.

Loans and Leases Held-for-Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Generally the fair value of loans held-for-sale is based on what secondary markets are currently offering for loans with similar characteristics, or based on an agreed upon sales price. A loan's cost basis includes unearned deferred fees and costs, and premiums and discounts. These loans are generally held between 30 to 120 days from their origination date. If a loan has previously been reported as held-for-sale and is reclassified to loans held for investment, it is done so at the lower of cost or fair value. Loans held for sale by the Bank are indirect automobile loans originated between a dealer and third party or mortgage loans pursuant to forward loan sale agreements with Fannie Mae.

Loan and Lease Receivables: Loans and leases that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are recorded at the principal balance outstanding, net of charge-offs, unamortized purchase premiums and discounts and unamortized deferred loan fees and costs. The deferred loan fees and costs, and purchase premiums and discounts are recognized in interest income as an adjustment to yield over the term of loans and leases using the effective interest method. Interest on loans and leases is credited to interest income as earned based on the interest rate applied to principal amounts outstanding. Interest income is accrued on the unpaid principal balance and is discontinued when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that full collection of principal or interest becomes doubtful, regardless of the length of past due status. Generally, loans and leases are placed on nonaccrual status when their payments are past due for 90 days or more. When interest accruals are discontinued, all unpaid accrued interest is reversed against interest income. Interest received on such loans and leases is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. A charge-off is generally recorded at 180 days past due if the unpaid principal balance exceeds the fair value of the collateral less costs to sell. Commercial and industrial loans, commercial real estate loans, and equipment finance leases are subject to a detailed review when 90 days past due to determine accrual status, or when payment is uncertain and a specific consideration is made to put a loan or lease on non-accrual status. Consumer loans, other than those secured by real estate, are typically charged off no later than 180 days past due. Loans and leases are returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan or lease.

Allowances for Credit Losses: The allowance for loan and lease losses (ALLL) is a reserve established through a provision for loan and lease losses charged to expense, and represents management's best estimate of probable losses incurred within the existing loan and lease portfolio as of the balance sheet date. Subsequent recoveries, if any, are credited to the allowance. The Bank performs an analysis of the adequacy of the ALLL at least on a quarterly basis. Management estimates the ALLL balance required using past loan and lease loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions, and other factors.

The ALLL consists of three elements; (i) specific valuation allowances established for probable losses on impaired loans and leases, (ii) quantitative valuation allowances calculated using loss experience for loans and leases with similar characteristics and trends; and (iii) qualitative allowances determined based on environmental and other factors that may be internal or external to the Bank.

A loan or lease is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan or lease agreement. The Bank evaluates all impaired loans and leases individually under the guidance of ASC 310, Receivables, primarily through the evaluation of collateral values and estimated cash flows. Loans for which the terms have been modified by granting a concession that normally would not be provided and where the borrower is experiencing financial difficulties are considered troubled debt restructurings (TDR) and classified as impaired.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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 generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The measured impairment on an impaired loan is charged off to the ALLL or is set up as a specific reserve. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception.

The allowance for credit losses on loans and leases is maintained at a level considered adequate to provide for probable credit losses inherent in the loan and lease portfolio including losses on impaired loans and leases described below. An allowance for off-balance-sheet credit losses is also maintained for unfunded lending commitments, which is included in other liabilities. The Bank performs continuous credit reviews of the loan and lease portfolio and unfunded lending commitments and considers current economic conditions, historical credit loss experience, and other factors in determining the adequacy of the allowance balances. The allowances for credit losses are based on estimates, and ultimate losses may vary from current estimates. As additions to or reversals of the allowances for credit losses become necessary, they are reported in net income in the time periods they become known. Loans or portions of loans are charged off when there is a distinct probability of loss identified. A distinct probability of loss exists when it has been determined that any remaining sources of repayment are not sufficient to cover all outstanding principal. The probable loss is immediately calculated based on the value of the remaining sources of repayment and charged to the allowance for loan losses.

The following portfolio segments have been identified: commercial and industrial, commercial real estate, residential real estate, auto, installment and lease financing.

Commercial & Industrial (C&I) - C&I loans are dependent on the performance of a business enterprise, which can range from a small, sole proprietor operation to large multinational corporations. Downturns in the national and/or local economy can affect a borrower's ability to repay a C&I loan, depending on how the economic change affects the business.

Commercial Real Estate (CRE) - The primary source of repayment for CRE loans is net operating income (NOI) from the property or properties that secure the loan. NOI may be adversely affected by downturns in the national economy and/or local market conditions. CRE loans are inherently somewhat riskier than loans secured by owner-occupied residential real estate in part because the pool of potential buyers for the collateral securing these loans is smaller than buyer pools for single-family homes.

CRE loans often have terms shorter than their amortization periods. This results in large balloon payments being due at maturity. Repayment of the loan typically requires the borrower to either sell or refinance the collateral property to pay off the loan, which can increase the risk of default or non-payment.

Residential real estate - The degree of risk for single family (i.e., 1-4 unit residential) real estate loans is primarily dependent on the loan-to-value ratio and the borrower's debt-to-income ratio.

Borrowers' ability to repay these loans can be affected by economic conditions that impact unemployment rates. Other key economic indicators are closely correlated to the credit quality of these loans, including interest rates and prevailing wages which impact a borrower's ability to repay a residential real estate loan.

Weak economic conditions can indicate that borrowers' capacity to repay these obligations may be deteriorating but in general, these loans are less risky than other real estate-secured loans.

Auto - The Bank identifies internal and external risk factors for auto loans. The internal risk factors, specific to a particular loan or borrower, include but are not limited to loan-to-value, debt-to-income, payment-to-income, consumer credit scores and information specific to the underlying collateral. The external risk factors include but are not limited to historical loss experience, concentrations, current economic conditions, and performance trends. In assessing the risk rating of a particular loan, several factors are considered including an evaluation of historical and current information.

Note 1. Summary of Significant Accounting Policies (continued)

Installment and Lease Financing - The Bank primarily identifies internal risk factors for installment loans and finance leases. Risk factors, specific to a particular loan or borrower, include but are not limited to loan-to-value, debt-to-income, and payment-to-income and consumer credit scores. In addition, for loans that are secured by real collateral, information specific to the underlying collateral is evaluated. In assessing the risk rating of a particular loan, several factors are considered including an evaluation of historical and current information.

Classified Assets: Federal regulations provide for the classification of loans, leases, and other assets, such as debt and equity securities considered to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. When an insured institution classifies problem assets as "loss," it is required to charge off or provide a specific reserve for such amount. The Bank's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by its primary regulator, which may require the establishment of additional general or specific loss allowances.

Troubled Debt Restructurings (TDR): A loan is identified as a TDR when a borrower is experiencing financial difficulties and for economic or legal reasons related to these difficulties, the Bank grants a concession to the borrower in the restructuring that it would not otherwise consider. The concessions may be granted in various forms, including a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness. A restructuring executed at an interest rate that is at market interest rates based on the current credit characteristics of the borrower is not a TDR.

The Bank places consumer loan TDRs, except those that were performing prior to TDR status, on non-accrual status for a minimum period of 6 months. Commercial TDRs are evaluated on a case-by-case basis for determination of whether or not to place on non-accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of 6 months. Generally, TDRs are classified as impaired loans and reported as TDRs for the remaining life of the loan.

Purchased Credit-Impaired Loans (PCI): As part of the acquisitions, some loans were identified with evidence of credit deterioration since origination. Evidence of credit deterioration may include information such as prior loan modification history, lower borrower credit scores and higher LTV ratios. Purchased loans with evidence of credit deterioration where the Bank estimates that it will not receive all contractual payments are accounted for as PCI loans. The excess of the cash flows expected to be collected on PCI loans, measured as of the acquisition dates, over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan or lease using a level yield methodology. The difference between contractually required payments as of the acquisition dates and the cash flows expected to be collected is referred to as the non-accretable difference.

The Bank estimates cash flows expected to be collected over the life of the loan using management's best estimate which is derived using current key assumptions such as default rates, loss severity and payment speeds. If, upon subsequent evaluation, the Bank determines it is probable that the expected cash flows have decreased due to a deterioration of credit, the PCI loan is considered further impaired which will result in a charge to the provision for loan and lease losses and a corresponding increase to the ALLL. If, upon subsequent evaluation, it is probable that there is an increase in expected cash flows, the Bank will reduce any remaining allowance. If there is no remaining allowance, the Bank will recalculate the amount of accretable yield as the excess of the revised expected cash flows over the current carrying value resulting in a reclassification from non-accretable difference to accretable yield. The present value of the expected cash flows for PCI purchased loan pools is

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

determined using the PCI loans' effective interest rate, adjusted for changes in the PCI loans' interest rate indexes. Adjustments in interest rate assumptions and prepayment behavior do not impact the Bank's assessment of credit impairment. The present value of the expected cash flows for PCI loans acquired includes, in addition to the above, an evaluation of the credit worthiness of the borrower.

Loan Securitizations: The securitization process involves the sale of loans to a third-party trustee, which then sells undivided interests to other third-party investors that entitle the investors to specified cash flows generated from the securitized loans. These undivided interests are usually represented by certificates with varying interest rates, are secured by the payments on the loans acquired by the trust, and commonly include senior and subordinated classes. The Bank has no obligation to provide credit support to either the third-party investors or third-party trustee.

Generally, neither third-party investors nor third-party trustees have recourse to the Bank's assets, and neither have the ability to require the Bank to repurchase their securities other than through enforcement of standard representations and warranties. The Bank does make certain representations and warranties concerning the loans, such as lien status, and if the Bank is found to have breached a representation or warranty, the Bank may be required to repurchase the loan from the third-party trustee. The Bank does not guarantee any securities issued by the third-party trustee. As part of the securitization transaction, the Bank represents and warrants certain terms and conditions of the loans sold. To the extent that loans are determined to not meet these criteria, the Bank is required to repurchase such loans from the trust. The Bank did not repurchase any loans in 2021 or 2020.

A transfer of financial assets in which the Bank surrenders control over the assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The carrying value of the assets sold is allocated between the assets sold and the retained interest, if any, based on their relative fair values. For certain transactions, a "true sale" analysis of the treatment of the transfer under state law as if the Bank was a debtor under the bankruptcy code is required. A "true sale" legal analysis includes several legally relevant factors, such as the nature and level of recourse to the transferor and the nature of retained servicing rights. The analytical conclusion as to a "true sale" is not absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law.

Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor's control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted. The Bank is not eligible to become a debtor under the bankruptcy code. Instead, the insolvency of the Bank is generally governed by relevant provisions of the Federal Deposit Insurance Corporation (FDIC) Federal Deposit Insurance Act and the FDIC's regulations. However, the "true sale" legal analysis with respect to the Bank is similar to the "true sale" analysis that would be done if the Bank were subject to the bankruptcy code. Legal opinions regarding legal isolation for the securitizations have been obtained by the Bank. The "true sale" opinion provides reasonable assurance that the purchased assets would not be characterized as the property of the transferring Bank's receivership or conservatorship estate in the event of insolvency.

The third-party trustee establishes special purpose entities to facilitate the sale to investors. The Bank has determined each of these special purpose entities to be a variable interest entity ("VIE"). The Bank does not otherwise have a controlling financial interest in the VIEs. A variable ownership interest fluctuates with the changes in the value of the VIEs underlying assets and liabilities. While through the servicing function the Bank controls the activities that affect the economic performance of the variable interest entities, the Bank has determined that their servicing fees are not a variable interest and the Bank is determined to be neither the primary beneficiary or have a significant variable interest. The fee arrangements paid are both customary and commensurate with the level of effort required for the services provided.

During 2021 and 2020, the Bank did not sell pools of automobile loans through this securitization process. In prior years, the Bank sold pools of automobile loans through this securitization process. In complying with updated credit risk retention requirements, the Bank vertically retained 5% of each tranche which includes 5% of the residual interest certificates. It was determined that the Bank is not deemed to absorb the potential losses or receive the potential benefits of the securitization

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

outside of the 5% retention. The Bank believes the maximum exposure to loss related to the securitization is limited to the residual interest certificates (equity) of which the Bank's 5% interest had a fair value of $1.2 million and $1.667 million as of December 31, 2021 and 2020, respectively. Transaction costs associated with securitization activities are recognized as a component of the gain or loss at time of sale. As the servicer, the Bank is entitled to receive a servicing fee equal to a specified percentage of the outstanding principal balance of the loans. The Bank estimates the cost of servicing these loans approximates the servicing income received, any resulting servicing asset or obligation is insignificant and is not recorded.

Derivative Instruments and Hedging Activities: The Bank purchases indirect automobile loans for sale, which are fixed-rate. The Bank bears the risk of interest rate movements from the time the automobile loan is originated to the time the loan is sold, typically through a securitization. In order to mitigate this risk, the Bank uses interest rate forward agreements to minimize its exposure to interest rate risk during the relevant period. The fair value of these derivative instruments vary with changes in interest rates. Generally, these agreements are entered into by the Bank in amounts which correspond to all, or a portion, of the principal amount of the securitization transactions. The fair value of these forward agreements is designed to respond inversely to the interest rate related fair value changes of the underlying loan contracts. The Bank can effectively lock into its gross interest rate spread at the time of entering into a hedge transaction given this inverse relationship.

The Bank also has interest rate swaps and mortgage loan commitments. These derivatives are recorded on the balance sheet at their fair value and are included in other assets and other liabilities with changes in fair value recorded in noninterest income. The Bank at times may require or provide cash or other collateral to secure derivative obligations at the Bank or correspondent institutions.

For derivatives that do not qualify as cash flow or fair value hedges, gains and losses are recognized immediately in noninterest income.

Some derivatives are designated as cash flow hedges and are recorded at fair value as either assets or liabilities on the Consolidated Balance Sheet, with unrealized holding gains and losses, net of taxes, reported in Accumulated Other Comprehensive Income or Loss on the Consolidated Balance Sheets. Gains and losses relative to these agreements are recognized, in full, at the time of the securitization as an adjustment to the gain or loss on the sale of the auto loans. Any effective portion is recognized in noninterest income during that period if the hedge is less than 100% effective. The Bank enters into these forward agreements with highly-rated counterparties. Credit exposure is limited to those agreements with a positive fair value and only to the extent of the fair value.

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

Loan Servicing: The Bank retains servicing for the automobile loans sold through securitizations and flow loan sale agreements throughout 27 states: Arizona, California, Colorado, Florida, Georgia, Hawaii, Iowa, Idaho, Illinois, Indiana, Kansas, Kentucky, Minnesota, Missouri, North Carolina, Nebraska, Nevada, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, Washington and Wisconsin. Income received for servicing activities is recorded in the Noninterest Income portion of the Consolidated Statements of Income. As of December 31, 2021 and 2020, respectively, the Bank serviced $71.2 million and $199 million in automobile loans sold through securitizations and $38.1 million and $74 million sold through flow loan sale agreements. The Bank estimates the cost of servicing these loans approximates the servicing income received, any resulting servicing asset or obligation is insignificant and is not recorded.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Bank originates loans secured by first or second trust deeds on individual residential properties. Some of the residential mortgage loans are sold, with servicing retained, in the secondary market. The Bank also services participation loans sold to other institutions. Total loans serviced under these arrangements were $306,343,645 and $460,077,084 as of December 31, 2021 and 2020, respectively.

Other Real Estate Owned (OREO): Other real estate owned (OREO), which represents real estate acquired through foreclosure of real estate related loans, is initially recorded at fair value less estimated selling costs of the real estate. This valuation is based on current independent appraisals obtained at the time of acquisition, less costs to sell when acquired, thus establishing a new carrying value. Loan balances in excess of carrying value of the real estate acquired at the date of acquisition are charged to the ALLL. Gains and losses on the sale of OREO are included in Other Noninterest Income on the Consolidated Statements of Income. Any subsequent operating expenses or income of such properties are netted in Other Noninterest Income on the Consolidated Statements of Income. As of December 31, 2021 and 2020 the Bank held $431,369 and $14,486,272 in OREO balances respectively.

Premises and Equipment: Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation. Estimated useful lives of buildings and equipment are from 10 to 40 years and from 3 to 10 years, respectively. Depreciation is computed generally on a straight-line basis. Leasehold improvements are amortized over the shorter of the original lease term or their economic useful lives.

Bank Owned Life Insurance (BOLI): The Bank has purchased life insurance policies on certain key current and former executives. BOLI 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.

Goodwill and Other Intangible Assets: Goodwill represents the excess purchase price of a business over the fair value of the identifiable net assets acquired. Goodwill is not subject to amortization and is evaluated for impairment annually or more frequently in the interim if events occur or circumstances change indicating it would more likely than not result in a reduction of the fair value of a reporting unit below its carrying value. Goodwill is evaluated for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. In Step 1, the fair value of a reporting unit is compared to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired, and it is not necessary to continue to Step 2 of the impairment process. Otherwise, Step 2 is performed where the implied fair value of goodwill is compared to the carrying value of goodwill in the reporting unit. If a reporting unit's carrying value exceeds fair value, the difference is charged to noninterest expense.

Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights, or because the asset is capable of being sold or exchanged either separately or in combination with a related contract, asset or liability. Other intangible assets with finite useful lives are amortized to Noninterest Expense on the Consolidated Statements of Income over their estimated useful lives and are evaluated for impairment whenever events occur or circumstances change indicating the carrying amount of the asset may not be recoverable.

Community Reinvestment Act Investments (CRA): As part of the CRA portfolio, the Bank invests in qualified affordable housing projects. These investments are accounted using the proportional amortization method. These balances are reflected in Interest Receivable and Other Assets on the Consolidated Balance Sheets.

Short-Term Borrowings: The Bank utilizes a variety of sources to raise borrowed funds at competitive rates, including FHLB borrowings and the FRB discount window. FHLB borrowings typically carry rates approximating the London Inter-Bank Offered Rate (LIBOR) for the equivalent term and are secured with investments or high quality loans. Interest is accrued on a monthly basis based on the outstanding borrowings and is included in Interest Expense on the Consolidated Statements of Income.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Off-Balance Sheet Instruments and Reserve for Unfunded Commitments: In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to make loans and commercial letters of credit, and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded in the financial statements when they are funded.

The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal lending commitments. The reserve for unfunded commitments calculation includes factors that are consistent with ALLL methodology for funded loans using expected loss factors and a draw down factor. Changes in the reserve for unfunded commitments are reflected within Interest Payable and Other Liabilities on the Consolidated Balance Sheets and Other Noninterest Expense on the Consolidated Statements of Income.

Impairment of Long-Lived Assets: The Bank reviews its long-lived assets for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

Income Taxes: The Bank's accounting for income taxes is based on an asset and liability approach. The Bank recognizes the amount of taxes payable or refundable for the current year, and recognizes deferred tax assets and liabilities for the future tax consequences for transactions that have been recognized in the Bank's consolidated financial statements or tax returns. The measurement of tax assets and liabilities is based on enacted tax laws and rates. A valuation allowance, if needed, will reduce deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, based upon the technical merits of the position, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Bank recognizes interest and/or penalties related to income tax matters in Provision for Income Taxes on the Consolidated Statements of Income.

Fair Value: The Bank measures certain assets and liabilities on a fair value basis, in accordance with ASC 820, *Fair Value Measurement* (ASC 820). Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of this includes available-for-sale securities. Additionally, fair value may be used on a non-recurring basis to evaluate assets or liabilities for impairment, as required by applicable accounting standards. Examples of these include impaired loans, long-lived assets, OREO, goodwill, and core deposit intangible assets accounted for at the lower of cost or fair value.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants. When observable market prices are not available, fair value is estimated using modeling techniques such as discounted cash flow analysis. These modeling techniques utilize assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Depending on the nature of the asset or liability, the Bank uses various valuation techniques and assumptions when estimating the instrument's fair value. Considerable judgment may be involved in determining the amount that is most representative of fair value.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

To increase consistency and comparability of fair value measures, ASC 820 established a three-level hierarchy to prioritize the inputs used in valuation techniques between observable inputs among (i) observable inputs that reflect quoted prices in active markets; (ii) inputs other than quoted prices with observable market data; and (iii) unobservable data such as the Bank's own data or single dealer non-binding pricing quotes. The Bank assesses the valuation hierarchy for each asset or liability measured at the end of each quarter, and as a result assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Further information regarding the Bank's policies and methodology used to measure fair value is presented in Note 22, "Fair Value."

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and changes in the funded status of the pension plan, which are also recognized as separate components of equity.

Recent Accounting Pronouncements Not Yet Effective: Beginning in January 2023, the Bank will adopt ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) ("ASU 2016-13"), which replaces the incurred loss impairment methodology with a methodology that reflects CECL and requires consideration of a broader range of reasonable and supportable information to estimate expected credit losses. As of December 31, 2021, the Bank is implementing the software required to model the losses associated with the methodology change resulting from the adoption of ASU 2016-13. Throughout 2022, the Bank will implement and parallel test with the current methodology. The measurement of expected credit losses under the CECL model is applicable to financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities and off-balance sheet credit exposures. ASU 2016-13 also requires credit losses relating to AFS debt securities to be recorded through an allowance for credit losses. In addition, ASU 2016-13 modifies the OTTI model for AFS debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality.

In February 2019, the U.S. federal bank regulatory agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a three-year period the Day 1 adverse regulatory capital effects of ASU 2016-13. Additionally, in March 2020, the U.S. federal bank regulatory agencies issued an interim final rule that provides banking organizations an option to delay the estimated CECL impact on regulatory capital for an additional two years for a total transition period of up to five years to provide regulatory relief to banking organizations to better focus on supporting lending to creditworthy households and businesses in light of recent strains on the U.S. economy as a result of the COVID-19 pandemic. The final rule was adopted and became effective in September 2020. As a result, entities have the option to gradually phase in the full effect of CECL on regulatory capital over a five-year transition period.

The one week and two month USD London Interbank Offered Rate ("LIBOR") will be discontinued on December 31, 2021 and all other USD LIBOR (i.e., overnight, one month, three month, six month, and twelve month) will be discontinued on June 30, 2023. To assist entities with the transition away from LIBOR, the Financial Accounting Standards Board ("FASB") has issued accounting guidance to clarify GAAP and provide practical expedients for entities to utilize during the time of transition. We are in the process of evaluating the potential impact the discontinuation of LIBOR will have on our consolidated financial statements. The optional expedients and exceptions provided through this relief are set forth below and were effective immediately; however, certain provisions from this relief are not yet determined due to the fact that LIBOR has not yet been discontinued.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), ("ASU 2020-04") which provided optional guidance, for a limited period of time, to ease the potential burden in accounting for (or recognizing the benefits of) reference rate reform on financial reporting. The amendments in ASU 2020-04 were elective and applied to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. When elected, the optional expedients for contract modifications must be applied consistently for all eligible contracts or eligible transactions within the relevant topic

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

or industry subtopic within the codification that contains the guidance that otherwise would be required to be applied. The amendments in ASU 2020-04 were effective for all entities as of March 12, 2020 and may be applied prospectively to contract modifications made on or before December 31, 2022.

In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848) ("ASU 2021-01"). The amendments in ASU 2021-01 clarified that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in Topic 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this Update to the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The amendments also optionally apply to all entities that designate receive-variable-rate, pay-variable-rate cross-currency interest rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform. The amendments in ASU 2021-01 were effective immediately for all entities. ASU 2021-01 is not expected to have a material effect on our consolidated financial statements.

The Bank has created a cross-functional working group to manage the transition away from LIBOR. This working group is comprised of senior leadership and staff from functional areas that include: finance, treasury, lending, loan servicing, enterprise risk management, information technology, legal, and other internal stakeholders integral to the Bank's transition away from LIBOR. The working group monitors developments related to transition and uncertainty surrounding reference rate reform and guides the Bank's response. The working group is currently reviewing our loan documents and population of financial instruments that reference LIBOR, ensuring that our internal systems are prepared for the transition, and planning the transition process with our customers. While the Company has not yet selected a preferred reference rate as an alternative to LIBOR, recent new loan originations and renewals have been primarily made using indexes including the Prime Rate and Constant Maturity Treasury rates. The Company may also consider the use of other alternative reference rates based on the individual needs of its customers as well as the types of credit being extended.

Subsequent Events: The Bank has evaluated subsequent events for recognition or disclosure through March 18, 2022, which is the date that the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements

Note 2. Debt Securities

The following table presents the amortized cost and fair value of the debt securities portfolio as of the dates indicated:

December 31, 2021	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities available-for-sale				
U.S. treasury securities	$ 55,049,598	$ 232,502	$ -	$ 55,282,100
U.S. government agency securities	137,016,731	107,453	(232,712)	136,891,472
Obligations of states and political subdivisions	50,945,223	1,520,742	-	52,465,965
Mortgage-backed securities – residential	4,121,417,155	20,884,934	(25,995,934)	4,116,306,155
Mortgage-backed securities – commercial	1,571,745,148	18,052,646	(18,170,972)	1,571,626,822
Corporate bonds	81,587,971	1,070,533	(29,070)	82,629,434
Total securities available-for-sale	**$ 6,017,761,826**	**$ 41,868,810**	**$ (44,428,688)**	**$ 6,015,201,948**

	AMORTIZED COST	GROSS UNRECOGNIZED GAINS	GROSS UNRECOGNIZED LOSSES	ESTIMATED FAIR VALUE
Securities held-to-maturity				
Obligations of states and political subdivisions	$ 19,274,558	$ 2,406,867	$ -	$ 21,681,425
Mortgage-backed securities – residential	22,872,128	925,728	-	23,797,856
Asset-backed securities	3,300,494	531,890	-	3,832,384
Total securities held-to-maturity	**$ 45,447,180**	**$ 3,864,485**	**$ -**	**$ 49,311,665**
Total debt securities				**$ 6,064,513,613**

December 31, 2020	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities available-for-sale				
U.S. treasury securities	$ 95,412,017	$ 1,380,333	$ -	$ 96,792,350
U.S. government agency securities	55,089,196	590,753	-	55,679,949
Obligations of states and political subdivisions	62,767,006	2,351,516	-	65,118,522
Mortgage-backed securities – residential	3,387,077,275	55,339,730	(735,393)	3,441,681,612
Mortgage-backed securities – commercial	1,517,225,451	43,998,878	(1,043,359)	1,560,180,970
Corporate bonds	91,852,916	2,422,824	(29,100)	94,246,640
Total securities available-for-sale	**$ 5,209,423,861**	**$ 106,084,034**	**$ (1,807,852)**	**$ 5,313,700,043**

	AMORTIZED COST	GROSS UNRECOGNIZED GAINS	GROSS UNRECOGNIZED LOSSES	ESTIMATED FAIR VALUE
Securities held-to-maturity				
Obligations of states and political subdivisions	$ 22,260,077	$ 2,786,050	$ -	$ 25,046,127
Mortgage-backed securities – residential	36,154,312	1,429,655	-	37,583,967
Asset-backed securities	10,156,363	564,694	(7,198)	10,713,859
Total securities held-to-maturity	**$ 68,570,752**	**$ 4,780,399**	**$ (7,198)**	**$ 73,343,953**
Total debt securities				**$ 5,387,043,996**

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

In addition to the reported fair values of the debt securities reflected above, the Bank is entitled to receive accrued interest and dividends from its securities. Included in Interest Receivable and Other Assets on the Consolidated Balance Sheets as of December 31, 2021 and 2020 was $11,410,819 and $11,130,790, respectively, of interest and dividends receivable from the Bank's debt securities. Accrued interest receivable from securities available-for-sale totaled $11,243,888 and $10,888,995 at December 31, 2021 and 2020, respectively. Accrued interest receivable from securities held-to-maturity totaled $166,931 and $241,795 at December 31, 2021 and 2020, respectively.

In accordance with accounting standards, only the realized gains and losses from securities transactions are included in the Consolidated Statements of Income as Net Gains on Debt Securities. There were no sales for the years ended December 31, 2021 and 2020, respectively.

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2021 and December 31, 2020 aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	December 31, 2021					
	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of securities						
U.S. treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government agency securities	62,245,128	(232,712)	-	-	62,245,128	(232,712)
Obligations of states and political subdivisions	-	-	-	-	-	-
Mortgage-backed securities – residential	2,543,863,461	(21,928,932)	193,845,267	(4,067,002)	2,737,708,728	(25,995,934)
Mortgage-backed securities – commercial	340,963,656	(5,804,955)	277,695,153	(12,366,017)	618,658,809	(18,170,972)
Asset-backed securities	-	-	-	-	-	-
Corporate bonds	19,971,200	(29,170)	-	-	19,971,200	(29,070)
Total securities	**$2,967,043,445**	**$(27,995,669)**	**$471,540,420**	**$ (16,433,019)**	**$3,438,583,865**	**$ (44,428,688)**
Number of securities with unrealized losses		196		53		249

	December 31, 2020					
	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of securities						
U.S. treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government agency securities	-	-	-	-	-	-
Obligations of states and political subdivisions	-	-	-	-	-	-
Mortgage-backed securities – residential	306,366,926	(711,124)	12,423,657	(24,269)	318,790,583	(735,393)
Mortgage-backed securities – commercial	153,150,579	(1,043,359)	-	-	153,150,579	(1,043,359)
Asset-backed securities	521,361	(7,198)	-	-	521,361	(7,198)
Corporate bonds	4,970,900	(29,100)	-	-	4,970,900	(29,100)
Total securities	**$ 465,009,766**	**$ (1,790,781)**	**$ 12,423,657**	**$ (24,269)**	**$ 477,433,423**	**$ (1,815,050)**
Number of securities with unrealized losses		50		6		56

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

The Bank continuously reviews the individual securities held in the portfolio for any impairment of values which may be other-than-temporary. All of the impairment appearing in the securities portfolio valuations is considered to be temporary in 2021 and 2020. As of December 31, 2021 and 2020, the Bank held securities in unrealized loss position with gross fair value of $3,438,583,865 and $477,433,423, respectively, in the available-for-sale category and held-to-maturity categories, which had gross unrealized losses of $44,428,688 and $1,815,050 as of December 31, 2021 and 2020, respectively. These unrealized and unrecognized losses have not been charged to net income and are considered to be temporary impairments of value.

Management has assessed each security with gross unrealized losses included in the above table for other-than-temporary impairment, including credit impairment. The measured impairment in value for the above securities is primarily attributable to changes in short term interest rates, market shifts of the Treasury yield curve, and other variable market and economic conditions. The measured impairment in value for the above securities did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments. As part of the assessment, management evaluated and concluded that it is more likely than not that the Bank will not be required to sell these securities prior to recovery of the amortized cost basis. The Bank has the intent and ability to hold these securities for a period of time sufficient to recover the cost basis. For debt securities, management evaluates, where necessary, whether credit impairment exist by comparing the present value of the expected cash flows to the securities' amortized cost.

U.S. Treasuries and U.S. Government-Sponsored Agency Securities - For the years presented, the unrealized losses on the Bank's investments in U.S. treasuries and government-sponsored agency securities are primarily due to changes in interest rates. These securities have explicit or implicit guarantees from the U.S. government, thus posing no credit losses. Management expects to recover the entire amortized cost basis of these securities.

Obligations of States and Political Subdivisions - For the years presented, the unrealized losses on the Bank's investments in obligations of states and political subdivisions are primarily due to changes in interest rates and not due to credit losses. Management monitors these securities on an ongoing basis and performs an internal analysis which takes into account the impact from market rates movements, severity and duration of the unrealized loss position, viability of the issuer, recent downgrades in ratings, and external credit rating assessments. As a result, management expects to recover the entire amortized cost basis of these securities.

Mortgage-Backed Securities - Residential and Commercial (MBS) - For the years presented, the unrealized losses on the Bank's investments in residential and commercial MBS are primarily due to changes in interest rates. These securities are either implicitly or explicitly guaranteed by the U.S. government, as such management expects to recover the entire amortized cost basis of these securities.

Asset-Backed Securities - For the years presented, the unrealized losses on the Bank's investments in asset-backed securities are due to increases in market rates since the securities were placed in the books and not due to credit losses. In accordance to Regulation AB II, these securities represent the 5% retained portion from recent securitizations. Management expects to continue to receive all contractual payments on these securities.

Corporate Bonds - For the years presented, the unrealized losses on the Bank's investments in corporate bonds are due to slight discount margin variances related to changes in market rates and not due to credit losses. Management monitors these securities on an ongoing basis and performs an internal analysis which includes a review of credit quality, changes in ratings, assessment of regulatory and financial ratios, and general standing versus peer group. Management expects to recover the entire amortized cost basis of these securities.

Securities with a gross carrying value of $1,318,094,822 and $1,472,375,911 at December 31, 2021 and 2020, respectively, were pledged to secure the Bank's obligations for securities sold under agreements to repurchase and to collateralize certain public, trust and bankruptcy deposits as required by law. To meet these various collateral requirements, the Bank was obliged to pledge only $1,002,063,411 and $504,490,163 of securities at December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

Contractual maturities of securities as of December 31, 2021 were as follows:

	AMORTIZED COST	ESTIMATED FAIR VALUE
Securities available-for-sale		
Due in one year or less	$ 106,466,952	$ 106,839,380
Due after one year through five years	106,321,464	107,640,704
Due after five years through ten years	88,314,330	88,564,238
Due after ten years	23,496,777	24,224,649
Subtotal	324,599,523	327,268,971
Mortgage backed securities – residential	4,121,417,155	4,116,306,155
Mortgage backed securities – commercial	1,571,745,148	1,571,626,822
Total securities available-for-sale	**$ 6,017,716,826**	**$ 6,015,201,948**
Securities held-to-maturity		
Due in one year or less	$ -	$ -
Due after one year through five years	8,850,027	9,008,241
Due after five years through ten years	6,102,815	7,083,423
Due after ten years	4,321,716	5,589,759
Subtotal	19,274,558	21,681,425
Mortgage-backed securities – residential	22,872,128	23,797,856
Asset-backed securities	3,300,494	3,832,384
Total securities held-to-maturity	**$ 45,447,180**	**$ 49,311,665**
Total debt securities	**$ 6,063,209,006**	**$ 6,064,513,613**

Note 3. Loans

The loans held for sale portfolio was $508,092 and $346,615 at December 31, 2021 and 2020, respectively, consisting solely of residential real estate in 2021 and 2020. There were no impairment charges for the years ended December 31, 2021 and 2020.

The loan and lease receivable portfolio at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	**December 31, 2020**
Commercial & Industrial	**$ 651,207,613**	$ **1,689,134,015**
Commercial Real Estate:		
Construction & Land Development	**82,028,848**	124,030,000
Other	**4,457,953,848**	4,512,378,340
Residential Real Estate	**2,019,208,815**	1,930,845,681
Auto	**3,540,069,915**	2,624,827,283
Installment:		
Revolving Plans	**3,437,885**	4,642,825
Other	**251,868,798**	237,406,509
Total loan and lease receivables before allowance for credit losses	**11,005,775,722**	**11,123,264,653**
Allowance for credit losses on loans and leases	**(135,834,351)**	**(129,248,320)**
Net loans and lease receivables	**$ 10,869,941,371**	**$ 10,994,016,333**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

SBA Paycheck Protection Program (PPP)

The Bank participated in the SBA Paycheck Protection Program (PPP), which consisted of federally guaranteed loans intended to provide liquidity to small businesses to pay employees, rent, mortgage interest, and utilities. The loans may be forgiven upon certain conditions being met, including the business providing payroll documentation evidencing compliance with the program. The Bank originated approximately $447.8 million and $1.14 billion of PPP loans for the years ended December 31, 2021 and 2020, respectively and collected approximately $20.3 million and $39.9 million of related processing fees from the SBA during the years ended December 31, 2021 and 2020, respectively. Processing fees were deferred and are being recognized as income over the original contractual life of the loan. Upon forgiveness, any remaining deferred processing fee is immediately recognized as income. During the year ended December 31, 2021, approximately $1.49 billion of PPP loans were forgiven or paid in full and approximately $45.5 million of processing fees were recognized as interest and fees on loans in the consolidated statement of comprehensive income. As of December 31, 2021 and 2020, the Bank had approximately $88.5 million and $1.13 billion of PPP loans outstanding, respectively, with related deferred processing fees of approximately $2.0 million and $27.1 million, respectively. PPP loans are included in the commercial and industrial loan class in the table above.

The following table presents the activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2021 and 2020:

December 31, 2021	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Auto	Installment	Total
Allowance for loan and lease losses:						
Beginning balance	$ 6,186,969	$ 63,431,352	$ 11,391,507	$ 44,074,085	$ 4,164,407	$ 129,248,320
Provision for loan losses	1,913,768	(976,171)	645,093	17,037,311	2,600,979	21,220,980
Loans charged off	(782,423)	(22,309)	-	(21,059,139)	(3,601,907)	(25,465,778)
Recoveries	475,731	27,131	95,940	9,362,462	869,565	10,830,829
Total ending allowance balance	**$ 7,794,045**	**$62,460,003**	**$ 12,132,540**	**$ 49,414,719**	**$ 4,033,044**	**$135,834,351**

December 31, 2020	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Auto	Installment	Total
Allowance for loan and lease losses:						
Beginning balance	$ 1,452,354	$ 4,306,403	$ 1,586,430	$ 26,553,914	$ 3,416,315	$ 37,315,416
Provision for loan losses	5,894,334	60,037,913	9,805,077	35,649,893	3,357,647	114,744,864
Loans charged off	(1,258,164)	(912,964)	-	(25,267,495)	(3,291,724)	(30,730,347)
Recoveries	98,445	-	-	7,137,773	682,169	7,918,387
Total ending allowance balance	**$ 6,186,969**	**$63,431,352**	**$ 11,391,507**	**$ 44,074,085**	**$ 4,164,407**	**$129,248,320**

Note 3. Loans (continued)

Changes in the allowances for credit losses for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Allowance for credit losses on loans and leases at the beginning of the year	**$ 129,248,320**	$ **37,315,416**
Provision for credit losses on loans and leases	**21,220,981**	114,744,864
Recoveries on loans and leases previously charged off	**10,830,829**	7,918,387
Loans and leases charged off during the year	**(25,465,778)**	(30,730,347)
Allowance for credit losses on loans and leases at the end of the year	**135,834,351**	**129,248,320**
Allowance for credit losses on unfunded lending commitments at the beginning of the year	**5,620,895**	7,283,967
Recovery of credit losses on unfunded lending commitments	**(337,457)**	(1,663,072)
Allowance for credit losses on unfunded lending commitments at the end of the year	**5,283,438**	**5,620,895**
Total allowances for credit losses on loans, leases and unfunded lending commitments at the end of the year	**$ 141,117,789**	**$ 134,869,215**

The allowance for credit losses on loans and leases is reflected in total assets as an offset to the loan and lease portfolio. The allowance for credit losses on unfunded lending commitments is reflected in total liabilities in the Interest Payable and Other Liabilities on the Consolidated Balance Sheets.

Disclosures related to the recorded investment in loans excludes accrued interest receivable. The recorded investment approximates the unpaid principal balance for these disclosures. For purposes of this disclosure, the unpaid principal balance is grossed up to exclude charge offs.

As part of the Investment Transaction, there was no carryover from the acquired company's ALLL as of April 30, 2015. As part of the Investment transaction, the acquired loans were recorded at fair value and future credit losses were reflected in the loan discount on the acquired loans. As of December 31, 2021, the remaining discount on the acquired loans in the Investment Transaction was $920 thousand, which represented 0.49% of the outstanding unpaid principal balance. As of December 31, 2020, the remaining discount on the acquired loans in the Investment Transaction was $1.2 million, which represented 0.55% of the outstanding unpaid principal balance.

As part of the CRB Acquisition, there was no carryover from the acquired company's ALLL as of the Acquisition Date. As part of the Acquisition, the acquired loans were recorded at fair value on the date of the Acquisition and future credit losses were reflected as a reduction in the net premium recognized on the acquired loans. As of December 31, 2021, the remaining net discount on the acquired loans in the CRB Acquisition was $84 thousand, which represented 0.05% of the outstanding unpaid principal balance. As of December 31, 2020, the remaining net premium on the acquired loans in the CRB Acquisition was $1.6 million, which represented 0.53% of the outstanding unpaid principal balance.

As part of the SVB Acquisition, there was no carryover from the acquired company's ALLL as of the Acquisition Date. As part of the Acquisition, the acquired loans were recorded at fair value on the date of the Acquisition and future credit losses were reflected as a reduction in the net premium recognized on the acquired loans. As of December 31, 2021, the remaining net discount on the acquired loans in the SVB Acquisition was $1.3 million, which represented 1.25% of the outstanding unpaid principal balance. As of December 31, 2020, the remaining net discount on the acquired loans in the SVB Acquisition was $3 million, which represented 1.73% of the outstanding unpaid principal balance.

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

As part of the RNA Acquisition, there was no carryover from the acquired company's ALLL as of the Acquisition Date. As part of the Acquisition, the acquired loans were recorded at fair value on the date of the RNA Acquisition and future credit losses were reflected as a reduction in the net premium recognized on the acquired loans. As of December 31, 2021, the remaining discount on the acquired loans in the RNA Acquisition was $4.9 million, which represented 0.19% of the outstanding unpaid principal balance of $2.6 billion. As of December 31, 2020, the remaining discount on the acquired loans in the RNA Acquisition was $9.1 million, which represented 0.25% of the outstanding unpaid principal balance of $3.7 billion.

The required allowance at December 31, 2021 on the acquired loans exceeded the remaining discounts, resulting in an additional allowance for loan losses of $47.9 million for the year ended December 31, 2021 and $50.3 million for the year ended December 31, 2020.

The following table presents the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and is based on the impairment method as of December 31, 2021 and 2020:

December 31, 2021	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Auto	Installment	Total
Allowance for loan and lease losses						
Ending allowance balance attributable to loans						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	7,794,045	62,460,003	12,132,540	49,414,719	4,033,044	135,834,351
Acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending allowance balance	**$ 7,794,045**	**$ 62,460,003**	**$ 12,132,540**	**$ 49,414,719**	**$ 4,033,044**	**$ 135,834,351**
Loans:						
Individually evaluated for impairment	$ 406,874	$ 27,438,496	$ 7,782,758	$ 6,536,011	$ 41,629	$ 42,205,768
Collectively evaluated for impairment	650,800,739	4,512,544,200	2,010,801,820	3,533,019,789	255,265,054	10,962,431,602
Acquired with deteriorated credit quality	-	-	624,237	514,115	-	1,138,352
Total ending loans balance	**$ 651,207,613**	**$4,539,982,696**	**$2,019,208,815**	**$3,540,069,915**	**$255,306,683**	**$ 11,005,775,722**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

December 31, 2020	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Auto	Installment	Total
Allowance for loan and lease losses						
Ending allowance balance attributable to loans						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	6,186,969	63,431,352	11,391,507	44,074,085	4,164,407	129,248,320
Acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending allowance balance	**$ 6,186,969**	**$ 63,431,352**	**$ 11,391,507**	**$ 44,074,085**	**$ 4,164,407**	**$ 129,248,320**
Loans:						
Individually evaluated for impairment	$ 4,714,028	$ 15,324,672	$ 12,713,686	$ 5,945,846	$ 163,788	$ 38,862,020
Collectively evaluated for impairment	1,684,419,987	4,621,083,668	1,917,514,423	2,617,939,981	241,885,546	11,082,843,605
Acquired with deteriorated credit quality	-	-	617,572	941,456	-	1,559,028
Total ending loans balance	**$1,689,134,015**	**$4,636,408,340**	**$1,930,845,681**	**$2,624,827,283**	**$ 242,049,334**	**$11,123,264,653**

The recorded investment in collectively evaluated for impairment for commercial and industrial as of December 31, 2021 and 2020 includes $88.5 million and $1.1 billion, respectively, of PPP loans for which no ALLL is allocated due to SBA guaranty.

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The following table presents information related to impaired loans by class of loans as of December 31, 2021 and 2020:

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded						
Commercial & Industrial	$ 416,462	$ 406,874	$ -	$ 1,430,392	$ 15,551	$ -
Commercial Real Estate						
Other	27,599,195	27,438,496	-	35,238,496	-	-
Residential Real Estate	7,714,258	7,782,758	-	10,201,953	747	-
Auto	6,663,355	6,536,011	-	6,031,150	-	-
Installment						
Other	43,013	41,630	-	69,699	1,471	-
Subtotal	**42,436,283**	**42,205,769**	**-**	**52,971,690**	**17,769**	**-**
With an allowance recorded						
Commercial & Industrial	-	-	-	-	-	-
Commercial Real Estate						
Other	-	-	-	-	-	-
Residential Real Estate	-	-	-	-	-	-
Auto	-	-	-	-	-	-
Installment						
Other	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 42,436,283**	**$ 42,205,769**	**$ -**	**$ 52,971,690**	**$ 17,769**	**$ -**

December 31, 2020	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded						
Commercial & Industrial	$ 6,746,723	$ 4,714,028	$ -	$ 7,990,122	$ 36,872	$ -
Commercial Real Estate						
Other	23,076,809	15,324,672	-	17,687,480	-	-
Residential Real Estate	15,517,555	12,713,686	-	13,481,154	24,748	-
Auto	5,906,902	5,945,846	-	5,673,820	41,367	-
Installment						
Other	198,756	163,788	-	126,234	-	-
Subtotal	**51,446,745**	**38,862,020**	**-**	**44,958,810**	**102,987**	**-**
With an allowance recorded						
Commercial & Industrial	-	-	-	-	-	-
Commercial Real Estate						
Other	-	-	-	-	-	-
Residential Real Estate	-	-	-	-	-	-
Auto	-	-	-	-	-	-
Installment						
Other	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 51,446,745**	**$ 38,862,020**	**$ -**	**$ 44,958,810**	**$ 102,987**	**$ -**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

Nonaccrual loans and loans past due 90 days or more and still accruing include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of December 31, 2021 and 2020:

December 31, 2021	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ 244,611	$ 5,746,295
Commercial Real Estate		
Other	27,438,497	-
Residential Real Estate	7,774,653	-
Auto	6,536,011	23,016
Installment		
Other	3,606	27,359
Total	**$ 41,997,378**	**$ 5,796,670**

December 31, 2020	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & Industrial	$ 4,255,556	$ 445,316
Commercial Real Estate		
Other	14,991,294	-
Residential Real Estate	12,068,065	624,596
Auto	5,945,846	14,168
Installment		
Other	164,405	23,942
Total	**$ 37,425,166**	**$ 1,108,022**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021 and 2020 by class of loans:

December 31, 2021	30-59 Days Past Due	60–89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Commercial & Industrial	$ 1,068,311	$ 1,395,253	$ 5,796,771	$ 8,260,335	$ 642,947,278	$ 651,207,613
Commercial Real Estate						
Construction & Land Development	151,512	-	176,610	328,122	81,770,726	82,028,848
Other	24,599,933	-	18,794,739	43,394,672	4,414,559,176	4,457,953,848
Residential Real Estate	2,698,026	1,482,909	2,539,831	6,720,766	2,012,488,049	2,019,208,815
Auto	52,764,229	14,517,239	5,746,820	73,028,288	3,467,041,627	3,540,069,915
Installment						
Revolving Plans	4,890	966	2,257	8,113	3,429,772	3,437,885
Other	1,436,890	493,009	27,355	1,957,254	249,911,544	251,868,798
Total	**$ 82,723,791**	**$ 17,889,376**	**$ 33,084,383**	**$133,697,550**	**$10,872,078,172**	**$11,005,775,722**

December 31, 2020	30-59 Days Past Due	60–89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Commercial & Industrial	$ 5,744,371	$ 1,192,714	$ 1,149,698	$ 8,086,783	$ 1,681,047,232	$ 1,689,134,015
Commercial Real Estate						
Construction & Land Development	243,999	-	176,610	420,609	123,609,391	124,030,000
Other	4,238,379	14,757,889	514,237	19,510,505	4,492,867,835	4,512,378,340
Residential Real Estate	16,993,244	2,539,664	6,823,898	26,356,806	1,904,488,875	1,930,845,681
Auto	35,923,145	11,092,233	5,029,306	52,044,684	2,572,782,599	2,624,827,283
Installment						
Revolving Plans	10,397	30,858	68,967	110,222	4,532,603	4,642,825
Other	1,143,557	353,994	68,069	1,565,620	235,840,889	237,406,509
Total	**$ 64,297,092**	**$ 29,967,352**	**$ 13,830,785**	**$108,095,229**	**$11,015,169,424**	**$11,123,264,653**

Troubled Debt Restructurings:

As of December 31, 2021 and 2020, the Bank had a recorded investment in trouble debt restructurings of $617,696 and $2,698,693, respectively, and the Bank allocated no allowance for credit losses to these loans. As of December 31, 2021 and 2020, the Bank had commitments to lend additional amounts of $3,180 and $11,032, respectively to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructuring. The modifications of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a state rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The following table presents loans by class modified as troubled debt restructuring that occurred during the years ended December 31, 2021 and 2020:

December 31, 2021	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial & Industrial	2	$ 55,275	$ 55,275
Commercial Real Estate	-	-	-
Other	-	-	-
Residential Real Estate	3	168,371	168,371
Total	**5**	**$ 223,646**	**$ 223,646**

December 31, 2020	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial & Industrial	13	$ 1,272,621	$ 1,272,621
Commercial Real Estate	3	780,797	780,797
Other	1	47,085	47,085
Residential Real Estate	4	336,999	335,393
Total	**21**	**$ 2,437,502**	**$ 2,435,896**

During the years ended December 31, 2021 and 2020, the Bank recorded no additional allowance for loan losses related to the troubled debt restructurings described above. There were no charge-offs related to these loans during the years shown. During the years ended December 31, 2021 and 2020, there were no loans that had been modified as troubled debt restructurings for which there was a payment default within twelve months following the modification.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

During the years ended December 31, 2021 and 2020, loans totaling approximately $1.275 billion and $2.0 million, respectively, were amended to allow for the deferment of principal payments, and in some cases interest, generally for periods of three months. These restructurings were not treated as TDRs in accordance with Section 4013 of the CARES Act. As of December 31, 2021 and 2020, active deferrals were $9 million and $169 million, respectively. The remaining loans were current with respect to regularly scheduled principal and interest payments.

Credit Quality Indicators:

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends and other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans regardless of balances. This analysis is performed on a quarterly basis.

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The Bank uses the following definitions for risk ratings:

> **Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
>
> **Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
>
> **Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above are considered to be pass rated loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & Industrial	$ 641,674,034	$ 3,122,105	$ 6,411,009	$ 465	$ 651,207,613
Commercial Real Estate					
Construction &					
Land Development	81,810,681	-	218,167	-	82,028,848
Other	4,315,755,748	91,548,965	50,649,135	-	4,457,953,848
Residential Real Estate	2,010,174,950	439,971	8,593,888	6	2,019,208,815
Auto	3,467,189,164	66,493,111	6,387,089	551	3,540,069,915
Installment					
Revolving Plans	3,435,247	-	2,057	581	3,437,885
Other	251,866,082	-	2,701	15	251,868,798
Total	**$10,771,905,906**	**$ 161,604,152**	**$ 72,264,046**	**$ 1,618**	**$11,005,775,722**

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & Industrial	$ 1,673,291,476	$ 3,057,285	$ 12,785,254	$ -	$ 1,689,134,015
Commercial Real Estate					
Construction &					
Land Development	123,319,089	-	710,911	-	124,030,000
Other	4,425,958,596	51,323,674	35,096,070	-	4,512,378,340
Residential Real Estate	1,913,520,858	294,482	17,030,341	-	1,930,845,681
Auto	2,572,982,574	45,950,601	5,780,648	113,460	2,624,827,283
Installment					
Revolving Plans	4,533,347	-	109,478	-	4,642,825
Other	237,328,983	13,544	63,982	-	237,406,509
Total	**$10,950,934,923**	**$ 100,639,586**	**$ 71,576,684**	**$ 113,460**	**$11,123,264,653**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

Purchased Credit Impaired Loans and Leases:

The Bank has acquired loans and leases through business acquisitions in which there was, at the Acquisition date, evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected. The following table presents the outstanding balance and carrying amount of purchase credit impaired loans and leases as of December 31, 2021 and 2020.

	December 31, 2021		December 31, 2020	
	OUTSTANDING PRINCIPAL BALANCE	CARRYING AMOUNT	OUTSTANDING PRINCIPAL BALANCE	CARRYING AMOUNT
Commercial & Industrial	$ -	$ -	$ 160,271	$ -
Commercial Real Estate				
Other	-	-	-	-
Residential Real Estate	2,283,571	624,237	2,389,818	617,572
Auto	202,563	514,115	650,953	941,456
Installment				
Other	-	-	-	-
Total	**$ 2,486,134**	**$ 1,138,352**	**$ 3,201,042**	**$ 1,559,028**

The following table presents a summary of accretable yield, or income expected to be collected:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Beginning of period	$ 3,801,009	$ 4,107,512
New loans or leases acquired	-	-
Accretion income	(238,590)	(306,503)
Increase (decrease) in expected cash flows	-	-
Disposals	-	-
End of period	**$ 3,562,419**	**$ 3,801,009**

For those PCI loans discussed above, the Bank had no allowance for loan loss adjustments during the years ended December 31, 2021 and 2020. There were no credit impaired loans and leases acquired during the years ended December 31, 2021 and 2020.

Loan Purchases and Sales

The following table presents loan and lease receivables purchased and/or sold by portfolio segment, excluding loans acquired in business combinations and purchased credit-impaired loans and leases for the periods indicated:

	Year Ended December 31, 2021		Year Ended December 31, 2020	
	PURCHASES	SALES	PURCHASES	SALES
Commercial & Industrial	$ -	$ -	$ -	$ -
Residential Real Estate	388,423,003	2,471,042	247,474,056	18,275,449
Auto	38,836,574	2,066,422	145,007,952	-
Installment	-	-	-	-
Other	135,563,461	-	101,858,342	-
Total	**$562,823,038**	**$ 4,537,464**	**$494,340,350**	**$ 18,275,449**

The Bank purchased the above loan and lease receivables at a net premium of $5.9 million and net discount of $1.97 million for the years ended December 31, 2021 and 2020, respectively. For the purchased loan and lease receivables disclosed above, the Bank did not incur any specific allowances for credit losses during the periods indicated. As part of loan and lease receivables sold for the year ended December 31, 2021 and 2020, there were no loans sold as part of securitizations.

Notes to Consolidated Financial Statements

Note 4. Premises and Equipment, Net

The following table presents the Bank's premises and equipment at cost and accumulated depreciation as of the following dates:

	December 31, 2021	December 31, 2020
Land	$ **52,476,000**	$ 59,582,774
Buildings	**68,016,308**	78,882,393
Leasehold improvements	**30,068,230**	32,141,390
Furniture, Fixtures and Equipment	**67,630,870**	90,481,046
Total premises and equipment, at cost	**218,191,408**	261,087,603
Less: Accumulated depreciation	**(86,693,800)**	(106,921,068)
Premises and Equipment, net	**$ 131,497,608**	**$ 154,166,535**

During the years ended December 31, 2021 and 2020, depreciation expense was $13.9 million and $18.4 million, respectively and are presented within Noninterest Expense on the Consolidated Statements of Income.

Note 5. Leases

The Bank leases certain premises. The Bank has entered into various operating leases for its branches and operating facilities. These operating leases expire at dates through 2033 and generally contain renewal options for periods of five to ten years. These leases include provisions for periodic rent increases as well as payment by the lessee of certain operating expenses. The Bank includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. In addition, the Bank has elected to account for any non-lease component in its real estate leases as part of the associated lease components.

Leases are classified as operating or finance leases at lease commencement date. Lease expense for operating leases and short term leases is recognized over a straight line basis over the lease term. Right-of-use assets represent the right to use the underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right of use assets and lease obligations are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Bank uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The Bank's incremental borrowing rate is based on the FHLB advance rate, adjusted for the lease term and other factors.

The Bank's leases are all operating leases and are reported separately as Right-of-use asset and Operating lease liabilities, reported on the Consolidated Balance Sheets. The total annual base rental expense included in Occupancy Expense in the Consolidated Statements of Income was $16,956,590 and $18,185,601 for the years ended December 31, 2021 and 2020, respectively. Operating lease expense was deemed the only material component of lease costs for the years ended December 31, 2021 and 2020. The weighted-average lease term in years at December 31, 2021 and 2020 was 4.2 and 4.2, respectively. The weighted-average discount rate for lease liabilities at December 31, 2021 and 2020 was 3.14% and 3.07%, respectively. At December 31, 2021, the approximate minimum future lease payments under noncancellable operating lease agreements were:

2022	$ 14,139,575
2023	9,449,690
2024	5,433,044
2025	3,926,480
2026	2,634,522
Thereafter	4,382,205
Total undiscounted operating lease liability	**39,965,516**
Imputed Interest	**1,919,616**
Total operating lease liability	**$ 38,045,900**

Notes to Consolidated Financial Statements

Note 5. Leases (continued)

In addition, the Bank provides customer financing of automobiles and equipment pursuant to operating lease contracts. The original acquisition cost of leased assets is reported net of accumulated depreciation within Interest Receivable and Other Assets on the Consolidated Balance Sheets. Rental income earned from operating leases is reflected in Other Noninterest Income and depreciation expense is reflected in Other Noninterest Expense on the Consolidated Statements of Income. As of December 31, 2021 and 2020, the Bank held $0 of operating lease assets, net of accumulated depreciation. For the years ended December 31, 2021 and 2020, the Bank earned $0 and $1,541, respectively, of operating lease rental income, and incurred $0 and $11,996, respectively, of depreciation expense from operating lease assets.

Note 6. Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key officers and directors in connection with its supplemental executive retirement plans and other employee fringe benefit plans. Investments in bank owned life insurance policies totaled $99,986,612 and $97,701,555 as of December 31, 2021 and 2020, respectively. This carrying value includes both the Bank's original premiums invested in the life insurance policies and the accumulated accretion of policy income since the inception of the policies. Income recognized on these life insurance policies is reported in the Other Noninterest Income portion of the Consolidated Statements of Income. For the years ended December 31, 2021 and 2020, the Bank recognized policy income totaling $2,501,249 and $2,917,872, respectively, related to changes in cash surrender value of the policies and any gains resulting from the redemption of death benefits. The Bank intends to hold these insurance policies for the remaining lives of the insureds and it expects to recover these values from the death benefits payable by the insurance companies that issued the policies.

Note 7. Goodwill and Intangibles

At December 31, 2021 and 2020, the Bank had goodwill of $843.3 million. The goodwill is a result of the Acquisitions and the Investment Transaction discussed in Note 1, "Summary of Significant Accounting Policies". The RNA acquisition resulted in the addition of $513.2 million in goodwill during the year ended December 31, 2019.

Core deposit intangibles are amortized over their useful lives ranging from 9-10 years using the sum of years digits. The weighted average remaining amortization period for core deposit intangibles was approximately 7 years as of December 31, 2021. Trade name intangibles have an indefinite life and are not amortized. Client relationship intangibles are amortized on a straight-line basis over 7 years. The weighted average remaining amortization period for client relationship intangibles is approximately 2 years as of December 31, 2021. The lease intangible is amortized over the remaining term of each individual lease using the straight-line method. The remaining term of the leases with an intangible asset range from 1-4 years as of December 31, 2021.

Core deposit intangibles are tested for impairment on at least an annual basis. The Bank evaluated the percentage change in core deposits associated with the acquisitions discussed in Note 1, "Summary of Significant Accounting Policies" from acquisition date to December 31, 2021 versus the life to date amortization percentage of the core deposit intangible related to those core deposits. No impairment was recognized on the core deposit intangible for years ended December 31, 2021 and 2020. Core deposit intangible impairment presented in the following tables was recognized in periods prior to 2019.

As of December 31, 2021 and 2020, the trade name intangible was determined to have impairment of $1,460,240. The trade name for CRB Auto was written off due to the re-branding of the unit to Mechanics Bank Auto Finance, effective January 1, 2021.

Notes to Consolidated Financial Statements

Note 7. Goodwill and Intangibles (continued)

The following table presents a summary of other intangible assets as of the periods indicated:

December 31, 2021	Gross Carrying Value	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
Core deposit intangibles	$ 163,544,866	$ 88,371,587	$ 860,970	$ 74,312,309
Trade name intangibles	17,060,240	-	1,460,240	15,600,000
Client relationship intangible	2,798,410	2,098,808	-	699,602
Other intangibles	2,579,639	2,416,901	-	162,738
Total	**$ 185,983,155**	**$ 92,887,296**	**$ 2,321,210**	**$ 90,774,649**
December 31, 2020				
Core deposit intangibles	$ 163,544,866	$ 64,297,397	$ 860,970	$ 98,386,499
Trade name intangibles	17,060,240	-	1,460,240	15,600,000
Client relationship intangible	2,798,410	1,699,035	-	1,099,375
Other intangibles	2,579,639	1,890,260	-	689,379
Total	**$ 185,983,155**	**$ 67,886,692**	**$ 2,321,210**	**$ 115,775,253**

Intangible liabilities consisted of $629 thousand and $1.2 million of lease liabilities as of the years ended December 31, 2021 and 2020, respectively. Aggregate amortization of intangible assets and liabilities was $92.9 million and $28.4 million for the years ended December 31, 2021 and 2020, respectively. The following table presents estimated future amortization expenses as of December 31, 2021:

	2022	2023	2024	2025	Thereafter	Total
Estimated future amortization expense	$ 21,111,989	$ 17,452,620	$ 13,462,237	$ 9,876,965	$ 13,270,838	$ 75,174,649

Note 8. FHLB Stock

The Bank has purchased stock in the Federal Home Loan Bank of San Francisco to qualify for membership benefits and financial services. Pursuant to the FHLB Guide to the Credit Program, the FHLB also requires the Bank to purchase additional FHLB stock investments, which partially collateralize its borrowings from the FHLB. The fair value of the stock is not determinable, as the stock is restricted in terms of its marketability. The Bank owns FHLB stock with a carrying amount of $17,250,000 as of December 31, 2021 and 2020. FHLB stock is classified as a restricted security and is periodically evaluated for impairment based on ultimate recovery of par value. Dividends on this stock investment are reported in Other Interest Income on the Consolidated Statements of Income. For the years ended December 31, 2021 and 2020, the Bank recognized $990,927 and $950,053, respectively, of income from its investments in FHLB stock.

Note 9. Community Reinvestment Act Investments

With the RNA Acquisition, the Bank invests in qualified affordable housing projects. At December 31, 2021 and 2020, the balance of the investment for qualified affordable housing projects was $25.5 million and $25.6 million, respectively. These balances are reflected in Interest Receivable and Other Assets on the Consolidated Balance Sheets. Remaining unfunded commitments related to the investments in qualified affordable housing projects totaled $2.4 million and $5.5 million as of December 31, 2021 and 2020, respectively. The Bank expects to fulfill these commitments through 2032.

During the years ended December 31, 2021 and 2020, the Bank recognized amortization expense of $4.5 million and $3.7 million, respectively, which were included within Income Tax Expense on the Consolidated Statements of Income. During the years ended December 31, 2021 and 2020, the Bank recognized tax credits and other benefits from its investment in affordable housing tax credits of $3.3 million and $3.0 million, respectively. In addition, with the RNA Acquisition, the Bank invests

Note 9. Community Reinvestment Act Investments (continued)

in $60.9 million of other Community Reinvestment Act ("CRA") Investments. The majority of these CRA investments represent investments in small to mid-sized businesses throughout California. The Bank accounts for these CRA investments using the cost method of accounting and are reflected in Interest Receivable and Other Assets on the Consolidated Balance Sheets. During the year ended December 31, 2021 and 2020, the Bank recognized dividend income of $3,171,700 and $945,174, respectively, which were included within Other Interest and Dividend Income in the Consolidated Statements of Income.

Note 10. Income Taxes

The components of the provision for income taxes for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Federal:		
Current	**$ 63,365,306**	$ 40,237,543
Deferred	**(10,057,772)**	(18,056,373)
Total Federal	**53,307,534**	22,181,170
State:		
Current	**18,640,404**	12,775,493
Deferred	**7,987,471**	(26,394,077)
Total State	**26,627,875**	(13,618,584)
Total tax provision	**$ 79,935,409**	**$ 8,562,586**

The provision for income taxes for the years ended December 31, 2021 and 2020, differs from the amounts that would be computed by applying the statutory federal income tax rate of 21%. The Bank's effective tax rate and the statutory federal income tax rate are reconciled as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Federal statutory income tax rate	**21.0%**	21.0%
State income taxes, net of federal tax benefit	**7.4**	8.1
Tax exempt income	**(0.1)**	(0.5)
Bank owned life insurance	**(0.2)**	(0.6)
ASC 740-10 reserve	**-**	(0.6)
LIHTC Investments	**(0.3)**	(0.1)
Acquired tax credit carryovers	**-**	(18.7)
Other	**0.2**	(0.2)
Effective Tax Rate	**28.0%**	**8.4%**

The effective tax rates differ from the federal statutory tax rate as a result of state taxes for which the Bank is liable, as well as permanent differences between amounts reported for financial statement purposes and taxable income. Pursuant to the stock purchase agreement between the Bank and Rabobank International Holding B.V., the amount of the cash consideration paid by the Bank upon the completion of the acquisition of RNA was determined based on RNA's estimated balance sheet and resulting tangible book value on the closing date, subject to customary purchase price adjustments. In addition, the stock purchase agreement contained a process for resolving disputes about the calculation of the closing balance sheet. In the event negotiations for a resolution should fail, the agreement required the parties to submit any matters which remain in dispute to an independent nationally recognized accounting firm, selected by a specified mechanism, to make its determination. A

Notes to Consolidated Financial Statements

Note 10. Income Taxes (continued)

number of disputed items not resolved by the specified date were submitted to an independent accounting firm. The largest item of disagreement was with the calculation of the value of a deferred tax asset generated by RNA relating to tax credits. The accounting firm so selected notified the parties of its determinations. As a result of the foregoing, the effective tax rate for 2020 reflects the resolution of the state tax credits previously pending arbitration acquired in connection with the RNA acquisition and related recognition.

Temporary differences between the amounts reported in the financial statements and tax bases of assets and liabilities result in deferred taxes. The net deferred taxes are reported in Interest Receivable and Other Assets in the Consolidated Balance Sheets as of December 31, 2021 and 2020. Deferred tax assets and liabilities at December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Credit losses	$ **38,934,200**	$ 37,046,446
Compensation and benefits	**16,418,072**	10,600,085
State taxes	**4,706,251**	2,500,353
Loan fair value adjustments	**3,044,764**	4,727,618
Retirement plans	**16,686,620**	20,537,430
Operating lease liabilities	**10,906,750**	15,202,012
Other accrued expenses	**2,574,305**	2,387,192
Other real estate owned	**100,739**	569,056
State Tax Credit Carryovers	**3,963,973**	12,887,114
Interest Receivable and Other	**1,462,213**	7,011,134
Total deferred tax asset	**98,797,887**	**113,468,440**
Deferred tax liabilities:		
Marketable Securities	**(2,213,140)**	(33,018,974)
Operating lease right-of-use asset	**(9,970,895)**	(14,338,034)
Amortizable assets	**(25,644,678)**	(32,588,172)
Non marketable securities	**(1,011,909)**	(1,111,560)
Bank premises & equipment	**(12,724,574)**	(15,017,502)
Deferred loan costs	**(5,494,960)**	(4,204,859)
Deferred income	**(488,835)**	(1,634,467)
Other	**(967,585)**	(827,811)
Total deferred tax liability	$ **(58,516,576)**	**$ (102,741,379)**
Net deferred tax asset/(liability)	$ **40,281,311**	**$ 10,727,061**

The Bank recorded no material unrecognized tax benefits for the years ended December 31, 2021 and 2020. The remaining liability for income taxes associated with uncertain tax positions at December 31, 2020 was recognized in 2021 as a result of a lapse of the statute of limitations.

The Bank and its subsidiaries are subject to U.S. federal income tax as well as income tax in various state jurisdictions. The Bank's federal income tax returns are open and subject to examination from the 2018 tax return year and forward. The years open to examination by state and local government authorities varies by jurisdiction.

The State of California has notified the Bank of its intention to examine the Bank's 2019 filing. No material adjustments are expected to arise as a result.

Notes to Consolidated Financial Statements

Note 11. Retirement Benefit and Profit Sharing Plans

The Bank's qualified retirement plan (Retirement Plan) is a noncontributory defined benefit retirement plan, which generally provides for the payment of a monthly pension to employee participants upon their reaching normal retirement at age 65. The Retirement Plan also allows for the payment of joint and survivor pension benefits and early retirement benefits at substantially reduced amounts. The pension benefit of the Retirement Plan vests after five years of accredited employee service. The pension benefit amount is determined according to a percentage formula, which considers an employee's total number of years of accredited service at the time of their eventual retirement, and also the average annual compensation paid to the employee during a five-year period, as defined in the plan. This Retirement Plan has been established under a qualified pension trust. The Bank uses a December 31 measurement date.

The Bank has also implemented a non-qualified defined benefit retirement plan (Supplemental Plan) that supplements the benefits provided under the qualified Retirement Plan. The Supplemental Plan provides additional retirement and death benefits to a discrete group of key executive employees and their designated beneficiaries. The Supplemental Plan is an unfunded obligation of the Bank.

At the end of 2008, participation and benefits in both the Retirement Plan and the Supplemental Plan were frozen. All current and certain former employees who were participants in the Retirement Plan, who had at least one year of accredited service, and who had not yet vested in their benefits from the plan, became 100% vested at the end of 2008. All current participants of the Supplemental Plan employed by the Bank at the end of 2008, who had at least one year of accredited service, and who had not yet vested in their benefits, also became 100% vested at the end of 2008. At the end of 2008 the benefits of certain employees participating in the Supplemental Plan were settled.

The following table reflects the funded status, net periodic benefit cost and other information about the Retirement Plan and the Supplemental Plan as of and for the years ended December 31, 2021 and 2020:

	RETIREMENT PLAN		SUPPLEMENTAL PLAN	
	Year Ended December 31, 2021	**Year Ended December 31, 2020**	**Year Ended December 31, 2021**	**Year Ended December 31, 2020**
Change in benefit obligation				
Projected benefit obligation (PBO) at beginning of year	**$ 76,335,871**	$ 68,377,720	**$ 7,908,454**	$ 7,781,012
Service cost	**-**	-	**-**	-
Interest cost	**1,905,059**	2,271,409	**193,848**	254,308
Benefits paid	**(3,246,929)**	(3,225,562)	**(471,661)**	(471,661)
Actuarial loss (gain)	**(2,587,903)**	8,912,304	**(194,678)**	344,795
Projected benefit obligation (PBO) at end of year	**$ 72,406,098**	**$ 76,335,871**	**$ 7,435,963**	**$ 7,908,454**
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 61,315,012**	$ 56,818,351	**$ -**	$ -
Actual return on plan assets	**10,740,023**	7,722,223	**-**	-
Employer contribution	**-**	-	**471,661**	471,661
Benefits paid	**(3,246,929)**	(3,225,562)	**(471,661)**	(471,661)
Fair value of plan assets at end of year	**$ 68,808,106**	**$ 61,315,012**	**$ -**	**$ -**
Funded status at end of year	**$ (3,597,992)**	**$ (15,020,859)**	**$ (7,435,963)**	**$ (7,908,454)**
Amounts recognized in consolidated balance sheets				
Other liabilities	**(3,597,992)**	(15,020,859)	**(7,435,963)**	(7,908,454)
Total amounts recognized	**$ (3,597,992)**	**$ (15,020,859)**	**$ (7,435,963)**	**$ (7,908,454)**

Notes to Consolidated Financial Statements

Note 11. Retirement Benefit and Profit Sharing Plans (continued)

	RETIREMENT PLAN		SUPPLEMENTAL PLAN	
	Year Ended December 31, 2021	**Year Ended December 31, 2020**	**Year Ended December 31, 2021**	**Year Ended December 31, 2020**
Amounts recognized in accumulated other comprehensive loss (income)				
Net accumulated loss (gain)	**$ 722,518**	$ 10,689,875	**$ 82,630**	$ 277,308
Total amounts recognized	**$ 722,518**	**$ 10,689,875**	**$ 82,630**	**$ 277,308**
Accumulated benefit obligation (ABO) at end of year	**$ 72,409,098**	**$ 68,377,720**	**$ 7,435,963**	**$ 7,781,012**
Net periodic benefit cost				
Service cost	**$ -**	$ -	**$ -**	$ -
Interest cost	**1,905,059**	2,271,409	**193,848**	254,308
Expected return on plan assets	**(3,581,240)**	(3,314,807)	**-**	-
Benefits adjustments recognized	-	-	**-**	-
Amortization of unrecognized loss	**220,671**	-	**-**	-
Total net periodic benefit cost	**$ (1,455,510)**	**$ (1,043,398)**	**$ 193,848**	**$ 254,308**
Other changes in plan assets and benefit obligations recognized in other comprehensive loss				
Net loss	**$ (9,746,686)**	$ 4,504,888	**$ (194,678)**	$ 344,795
Amortization of loss	**-**	-	**-**	-
Total recognized in other comprehensive loss (income)	**$ (9,746,686)**	**$ 4,504,888**	**$ (194,678)**	**$ 344,795**
Assumptions used in determining net periodic benefit costs				
Beginning of period assumptions for net periodic benefit cost:				
Discount rate	**2.55%**	3.40%	**2.55%**	3.40%
Expected return on plan assets	**6.00%**	6.00%	**N/A**	N/A
Year end assumptions for reconciliation of funded status:				
Discount rate	**2.90%**	2.55%	**2.55%**	2.55%
Expected return on plan assets	**6.00%**	6.00%	**N/A**	N/A

Note 11. Retirement Benefit and Profit Sharing Plans (continued)

As of December 31, 2021, the estimated net loss that will be amortized from Accumulated Other Comprehensive Income or Loss on the Consolidated Balance Sheets into net periodic benefit cost during the next fiscal year was estimated to be $0 for the Retirement Plan and the Supplemental Plan. As of December 31, 2021, there was no deferred prior service cost to be amortized into net periodic benefit cost for either the Retirement Plan or the Supplemental Plan.

The Bank contributed $471,661 to the Supplemental Executive Retirement Plan during the years ended December 31, 2021 and 2020, respectively, to cover the benefit payments due in those years. Currently, the Bank estimates the contribution amount for 2022 to cover expected annuity payments will be $624,735.

Net periodic benefit cost for the year ended December 31, 2019 was based on the RP-2014 white collar mortality table, projected back to 2006 using scale MP-2014 and projected generationally from that time with a modified version of scale MP-2018, grading down over 10 years to an ultimate improvement rate of 1.20% per year. Net periodic benefit cost for the year ended December 31, 2021 was based on the Pri-2012 separate employee and retiree tables with contingent survivor adjustments for exiting survivors and white collar adjustments with projected future improvements using a modified version of scale MP-2019.

Financial disclosures as of December 31, 2021 and December 31, 2020, are based on the Pri-2012 separate employee and retiree tables with contingent survivor adjustments for exiting survivors and white collar adjustments with projected future improvements using a modified version of scale MP-2019.

The assets of the Retirement Plan are carried in a separate qualified pension trust which is not recorded in the Consolidated Balance Sheets of the Bank.

The Bank's current funding policy is to contribute annually to the qualified Retirement Plan, no less than the minimum funding requirements prescribed by ERISA. The Bank was not required to contribute to the Retirement Plan in 2021 or 2020.

The long-term expected rate of return on Retirement Plan assets is estimated based on the expected future returns and historic returns that the Retirement Plan trust assets earned in the last twenty years.

The following table summarizes the composition of the Retirement Plan trust assets as of December 31, 2021 and 2020:

Plan Assets:	**December 31, 2021**	**December 31, 2020**
Equity securities	**69%**	68%
Debt securities	**29**	31
Money market instruments and other	**2**	1
Total	**100%**	**100%**

The investment policy of the Retirement Plan is to continuously allocate plan assets in a prudent, diversified and flexible manner among various asset classes to achieve an acceptable long-term total rate of return in line with broader financial market experience while taking into consideration return opportunities and potential risks presented by the overall economy and financial markets.

The Retirement Plan assets reflected in the tables below are the fair values of the plan assets as of the respective reporting dates shown at December 31, 2021 and 2020. Fair value is generally the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. The fair value of all equity securities has been determined based upon quoted market prices at the close of market trading on nationally recognized securities exchanges (Level 1) on the report date. The fair value of all debt securities has been determined at the close of market trading on the report date, utilizing matrix pricing, which is a mathematical technique widely used in the financial industry to value debt securities without relying exclusively on quoted prices for specific securities (Level 2). The fair value of money market instruments and other assets was the cash value for the financial instruments or other accounts as of the close of the market on the report date (Level 1). The Retirement Plan did not hold any assets on the respective report dates that were not traded in established markets, requiring alternative fair value determinations utilizing significant unobservable inputs (Level 3).

Notes to Consolidated Financial Statements

Note 11. Retirement Benefit and Profit Sharing Plans (continued)

The fair value of the Retirement Plan assets at December 31, 2021 and 2020, by asset category, were as follows:

	FAIR VALUE MEASUREMENTS USING			
December 31, 2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Plan Assets				
Equity securities				
Common Stocks	$ 36,346,510	$ -	$ -	$ 36,346,510
Exchange Traded Funds	11,073,053	-	-	11,073,053
Debt securities				
U.S. Government Agencies	-	-	-	-
Fixed Income Municipal Bonds	-	1,418,544	-	1,418,544
Fixed Income Corporate Bonds	-	14,557,296	-	14,557,296
Fixed Income Mutual Funds	-	3,751,852	-	3,751,852
Money Market Mutual Funds	1,542,751	-	-	1,542,751
Other	118,100	-	-	118,100
Total Fair Value of Plan Assets	**$49,080,414**	**$ 19,727,692**	**$ -**	**$ 68,808,106**

	FAIR VALUE MEASUREMENTS USING			
December 31, 2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Plan Assets				
Equity securities				
Common Stocks	$ 30,326,934	$ -	$ -	$ 30,326,934
Exchange Traded Funds	11,358,656	-	-	11,358,656
Debt securities				
U.S. Government Agencies	-	610,488	-	610,488
Fixed Income Municipal Bonds	-	1,442,157	-	1,442,157
Fixed Income Corporate Bonds	-	14,591,423	-	14,591,423
Fixed Income Mutual Funds	-	2,526,835	-	2,526,835
Money Market Mutual Funds	316,677	-	-	316,677
Other	141,842	-	-	141,842
Total Fair Value of Plan Assets	**$42,144,109**	**$ 19,170,903**	**$ -**	**$ 61,315,012**

Notes to Consolidated Financial Statements

Note 11. Retirement Benefit and Profit Sharing Plans (continued)

The following pension benefits and reserves for death benefits are expected to be paid in future years based upon the benefits and life insurance commitments of the two plans as of December 31, 2021 and based on expected employment turnover and actuarially determined life expectancies of participants and beneficiaries:

YEARS	RETIREMENT PLAN	SUPPLEMENTAL PLAN	TOTAL
2022	$ 3,351,670	$ 624,735	$ 3,976,405
2023	3,405,373	627,446	4,032,819
2024	3,533,925	631,859	4,165,784
2025	3,633,776	628,181	4,261,957
2026	3,701,113	621,489	4,322,602
2027-2031	19,240,776	2,819,545	22,060,321

The Bank also sponsors a profit sharing plan covering substantially all of its employees (Profit Sharing Plan). The Profit Sharing Plan is a qualified defined contribution plan that contains a cash or deferred arrangement (CODA) authorized under section 401(k) of the Internal Revenue Code. The Bank may make profit sharing contributions to this plan at the discretion of the Board of Directors of the Bank. The Board may terminate the plan at any time. The employee participants also have the option of contributing directly to their individual participant accounts a percentage of their pre-tax wage compensation through salary deductions. In addition to its profit sharing contributions (if any), the Bank also provides a company match of individual employee contributions. For both 2021 and 2020, the company match was up to 3.5% of individual employee participant pay. The Bank also accrued benefit costs attributable to the company matching contribution, totaling $5,000,000 in 2021 and $5,200,000 in 2020, which are included in Interest Payable and Other Liabilities on the Consolidated Balance Sheets as of December 31, 2021 and 2020.

The Bank has established a supplemental income and retirement plan for a key director (DSRP) of the Bank. This DSRP provides for the payment of a lifetime annual pension benefit to the director beginning in 2007 upon his retirement from the Board of Directors. The DSRP also provides for the payment of a death benefit to the director's designated beneficiary. Pursuant to accounting rules, the Bank has recognized in Interest Payable and Other Liabilities on its Consolidated Balance Sheets the discounted present value of the DSRP benefit obligation, totaling $300,000 as of December 31, 2021 and 2020. Expense recognized for the DSRP was $30,000 during the years ended December 31, 2021 and 2020.

The Bank sponsors non-qualified, unfunded deferred compensation plans for a discrete group of key executives. In addition, as part of the RNA Acquisition and the SVB Acquisition, the Bank acquired nonqualified, unfunded deferred compensation plans for former directors and key officers. Eligible participants are allowed to make elective payroll deferrals from their current wages and other short term incentive compensation to save for retirement or other planned expenditures. Participants are fully vested in their elective payroll deferrals, although plan liabilities remain an unfunded obligation of the Bank. For the years ended December 31, 2021 and 2020, respectively, participants elected to make net payroll deferrals totaling $405,897 and $457,952. As of December 31, 2021 and 2020, the Bank had accrued liabilities of $17,256,658 and $16,641,428, respectively, on its Consolidated Balance Sheets for the current market value of its obligations due to participants. For the years ended December 31, 2021 and 2020, the Bank recognized $1,039,686 and $1,254,833 of net valuation gains (losses), respectively, from the operation of the deferred compensation plan that is included in Salaries and Employee Benefits Expense on the Bank's Consolidated Statements of Income.

As part of the RNA Acquisition and the SVB Acquisition, the Bank acquired various unfunded salary continuation plans for certain key executives and officers. Benefits under the plans are payable for a period of 10 to 20 years after retirement or death. The Bank expenses annually an amount sufficient to accrue the present value of the expected benefits to be paid to the participants upon their retirement or fully vested date. As of December 31, 2021 and 2020 respectively, a liability (reduced by benefit payments) of $17,110,126 and $18,974,367 has been accrued by the Bank. Expense under these plans recognized in the Salaries and Employee Benefits Expense portion of the Consolidated Statements of Income totaled $291,243 and $588,146 for the years ended December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements

Note 12. Derivative Instruments

With the RNA Acquisition, the Bank enters into interest rate swaps with loan customers. The specific terms of the interest rate swap agreements are tied to the terms of the underlying loan agreements. To avoid increasing internal interest rate risk as a result of these business activities, the Bank enters into offsetting swap agreements with a subsidiary of Rabo. The notional amount of interest rate swaps with loan customers and offsetting swap agreements as of December 31, 2021 and 2020 were $1,699,343,958 and $2,179,321,928, respectively. The net income on customer swaps for the years ended December 31, 2021 and 2020 were $349,988 and $296,226, respectively, which are reported in Noninterest Income on the Consolidated Statements of Income. The Bank's customer related interest rate swaps do not qualify for hedge accounting treatment.

Fair value of interest rate swap contracts are reported within Interest Receivable and Other Assets and Interest Payable and Other Liabilities on the balance sheet. As of December 31, 2021 and 2020, fair value of interest rate swap contracts within Interest Receivable and Other Assets were $36,248,810 and $81,409,852 and Interest Payable and Other Liabilities were $29,305,124 and $71,281,702, respectively. The Bank deposited $29,240,000 in cash collateral to Rabo to secure underlying derivative contracts as of December 31, 2021.

As a part of its mortgage origination process, the Bank enters into contracts that qualify as derivatives, including forward sale commitments and interest rate lock commitments. The notional amount of mortgage commitments and fair value included in the Consolidated Balance Sheets at December 31, 2021 and 2020 can be seen in the following table:

Year ended December 31, 2021	Notational Amount		Fair Value	
Included in Interest Receivable and Other assets:				
Interest Rate Lock Commitments	$	915,000	$	1,657
Forward Sale Commitments	$	-	$	-
Included in Interest Payable and Other liabilities:				
Interest Rate Lock Commitments	$	-	$	-
Forward Sale Commitments	$	1,424,000	$	17,603

Year ended December 31, 2020	Notational Amount		Fair Value	
Included in Interest Receivable and Other assets:				
Interest Rate Lock Commitments	$	759,000	$	2,473
Forward Sale Commitments	$	-	$	-
Included in Interest Payable and Other liabilities:				
Interest Rate Lock Commitments	$	-	$	-
Forward Sale Commitments	$	-	$	-

The expense on the mortgage commitments for the years ended December 31, 2021 and 2020 were $0 and $9,379, respectively, which are reported in Noninterest Income on the Consolidated Statements of Income.

Notes to Consolidated Financial Statements

Note 13. Related Party Transactions

The Bank, in the ordinary course of business, has loan and deposit transactions with directors, executives and shareholders. At December 31, 2021 and 2020, respectively, there were approximately $123,243 and $126,209 in loans outstanding to directors, executives and their related interests. At December 31, 2021 and 2020, respectively, there were $0 and $1,000 in unfunded commitments to directors, executives and their related interests. At December 31, 2021 and 2020, respectively, there were approximately $2,039,011 and $2,811,119 in deposit balances from directors, executives and their related interests.

Effective September 1, 2019, the Bank entered into a Bank Services Agreement with GJF Financial Management II, LLC ("GJF Management"), an affiliate of Gerald J. Ford, a current director of the Bank. GJF Management serves as the management company to Ford Financial Fund II, L.P. and Ford Financial Fund III, L.P., which collectively own 81% of our common stock as of December 31, 2021. The Bank is the sole portfolio company of Ford Financial Fund II, L.P. and Ford Financial Fund III, L.P. Further, Mr. Webb, Chairman of the Board of the Bank, and Mr. Russell, a director and the former interim Chief Executive Officer of the Bank, are employed by GJF Management. Pursuant to the Bank Services Agreement, GJF Management provides certain services to the Bank, including, among others, accounting, tax, investment management, legal, regulatory, strategic planning, capital management, budgeting and other oversight. These services are provided to the Bank at a cost of $10.0 million annually (pro rata for any partial years). Either party may terminate this agreement upon thirty days' prior notice to the other. We also agreed to indemnify and hold harmless GJF Management for its performance or provision of these services, except for gross negligence and willful misconduct.

Note 14. Commitments

The Bank makes commitments to extend credit in the normal course of business to meet the financial needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The Bank's exposure to credit loss is the contract amount of the commitment in the event of nonperformance by the borrower. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and real property.

The Bank also issues standby letters of credit, which are unconditional commitments to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support construction, bonds, private borrowing arrangements, and similar transactions. Most of these guarantees are one to three year commitments and are not expected to be drawn on. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral as deemed necessary, as described above.

The contract amounts of commitments not reflected on the Consolidated Balance Sheets at December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Loan commitments	**$ 945,869,882**	$ 1,052,820,531
Standby letters of credit	**45,731,345**	52,434,735

Notes to Consolidated Financial Statements

Note 15. Contingencies

The Bank is occasionally named as a defendant in or threatened with claims and legal actions arising in the ordinary course of business. The outcomes of claims and legal actions brought against the Bank are subject to many uncertainties. The Bank establishes accruals for such matters when a loss is probable and the amount of the loss can be reasonably estimated. For claims and legal actions where it is not reasonably possible that a loss may be incurred, or where the Bank is not currently able to estimate the reasonably possible loss or range of loss, the Bank does not establish an accrual. As of December 31, 2021 and 2020, the Bank did not have any amounts accrued in potential legal settlement liabilities.

In March 2020, the World Health Organization declared the outbreak of COVID-19 pandemic. The COVID-19 pandemic continued to have an impact on our operations as of December 31, 2021, and the Bank expects that the virus will continue to have an impact on the business, financial condition, and results of operations of the Bank and its customers. However, the related financial impact and duration cannot be reasonably estimated at this time. Measures taken by the U.S. Government and State of California to contain the virus have affected economic activity. If COVID-19 continues to adversely affect our own business operations or adversely affects the ability of our borrowers to satisfy their obligations, the demand for our loans, or leads to a significant or prolonged impact on global markets or economic growth, our financial conditions and results of operations could be adversely affected. Material adverse effects may include all or a combination of losses in operations, higher provisions for credit losses and valuation impairments on the Bank's investments, loans, and deferred tax assets. We will continue to follow the various federal, state and local government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our employees.

Additionally, financial markets may be adversely affected by the impact of the current military conflict between Russia and Ukraine and related geopolitical events.

Note 16. Significant Concentration

The Bank grants commercial & industrial, commercial real estate, residential real estate and consumer loans to customers principally in the state of California. Substantial portions of the Bank's loans are real estate and automobile related. The Bank's automobile customers are spread throughout the United States.

Note 17. Deposits

The aggregate amount of time certificates of deposits that meet or exceed the FDIC Insurance limit of $250,000 as of December 31, 2021 and 2020 were $253,321,727 and $359,295,625, respectively. At December 31, 2021, the scheduled maturities of time certificates of deposit were as follows:

2022	$ 756,546,406
2023	103,469,669
2024	19,449,351
2025	14,029,408
2026	7,919,726
Thereafter	2,400,218
	$ 903,814,778

The Bank accepts public deposits from various state, city and municipal agencies. Public deposits totaling $869,675,176 and $726,485,752 are included in demand deposits, interest bearing transaction accounts, savings accounts and time certificates of deposit as presented in the Consolidated Balance Sheets at December 31, 2021 and 2020, respectively. As required by law, the Bank pledges marketable securities as collateral for its public deposits in quantities of not less than 110% of the Bank's deposit obligations for these public funds. The Bank had $1.3 billion and $1.5 billion pledged as collateral as of December 31, 2021 and 2020, respectively.

Note 17. Deposits (continued)

The Bank accepts deposits from its Investment Management and Trust Department for the benefit of certain trust customers. In accordance with state trust regulations, the Bank is required to secure any trust deposits that are in excess of the $250,000 FDIC insurance limits by pledging marketable securities equal to those excess deposit balances. As of December 31, 2021 and 2020, the Bank held trust deposits of $559,694 and $829,506, respectively, that were in excess of $250,000 and which required securities collateralization.

Note 18. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase (REPO) generally mature within one business day from the transaction date and are recorded at the amount of cash received in connection with the transaction. The Bank grants its customers a security interest in marketable securities, which are pledged as collateral in an amount equal or in excess of the Bank's obligations. As of December 31, 2021, the Bank held four U.S. Government Agency securities with a total market value of $20,951,658 as REPO collateral. These quasi government debt securities are considered to be of very high credit quality with readily available market values. To ensure that the market value of the underlying collateral remains sufficient, the collateral is valued daily and if required the Bank may post additional collateral or return collateral pledged when appropriate. The Bank's obligations for REPO transactions totaled $0 and $3,309,597 as of December 31, 2021 and 2020, respectively. Interest rates paid on REPO transactions ranged from 0.01% to 0.15% for the years ended December 31, 2021 and 2020, depending upon the tier size of individual customer account balances.

Note 19. Borrowing Arrangements

Federal Home Loan Bank (FHLB) Advances

The Bank did not have FHLB Advances as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, the Bank's investment in capital stock of the FHLB of San Francisco totaled $17.3 million. The Bank had $5.7 billion of loans pledged to the FHLB which permits up to $3.8 billion of additional borrowing capacity as of December 31, 2021. The Bank also pledged $56.8 million of investment securities and $0 of loans to the Federal Reserve Bank discount window, which permits another $57.4 million of borrowing capacity as of December 31, 2021.

Subordinated Debentures

As of December 31, 2021 and 2020, the Bank had $24.9 million and $24.8 million of subordinated debentures (net of unamortized discount) outstanding, respectively, at a fixed coupon rate of 5.25% with an investment grade rating, resulting in $1.4 million of interest expense for the years ended December 31, 2021 and 2020. The subordinated debentures are scheduled to mature on November 15, 2024. The subordinated debentures qualify as Tier 2 capital for the Bank.

The subordinated debentures at December 31, 2021 and 2020 consisted of the following:

	December 31, 2021		December 31, 2020	
	PRINCIPAL OWED	DISCOUNT	PRINCIPAL OWED	DISCOUNT
Subordinated Debentures	$ 25,000,000	$ 113,921	$ 25,000,000	$ 153,609

Payments for subordinated debentures are interest only with $25 million in principal due at maturity in the year 2024.

Notes to Consolidated Financial Statements

Note 20. Shareholders' Equity, Earnings Per Share and Dividend Limitations

During August 2019, the Bank issued 33,294 shares of its voting common stock and 3,376 of its nonvoting common stock. The Bank issued 30,313 shares of its voting common stock in an underwritten rights offering for gross proceeds of approximately $1.2 billion, net of offering costs of $6.9 million. In addition, as part of the consideration due for the acquisition of Rabobank, N.A. ("RNA"), the Bank issued 2,981 shares of its voting and 3,376 shares of its nonvoting common stock to Rabobank International Holding B.V. The only consideration the Bank received for the issuance of the 6,357 shares was the acquisition of RNA, not cash.

Basic earnings per share are computed by dividing net income by weighted average shares outstanding. Average shares outstanding were 64,218 for the years ended December 31, 2021 and 2020, respectively. As reflected in the Consolidated Statements of Income, the Bank's basic earnings per share were computed to be $3,208 and $1,455 for the years ended December 31, 2021 and 2020, respectively.

Diluted earnings per share are computed by dividing net income by the weighted average shares outstanding including the dilutive effects of potential common shares (e.g. stock options). The Bank has no potentially dilutive common shares. Therefore, diluted earnings per share are equal to basic earnings per share for the years ended December 31, 2021 and 2020.

The Federal Deposit Insurance Corporation and the State of California Department of Financial Protection and Innovation regulate the Bank. California banking laws limit cash dividends to the lesser of retained earnings or net income for the last three years, net of any distributions made to shareholders during such period. At December 31, 2021, an aggregate of $270 million of retained earnings was available for the payment of future dividends or distributions under this restriction.

Note 21. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The net unrealized gain or loss on available for sale securities is excluded from regulatory capital. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2021 and 2020, the Bank met all capital adequacy requirements to which it was then subject. Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition.

If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2021, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Notes to Consolidated Financial Statements

Note 21. Regulatory Matters (continued)

The following table presents the regulatory capital amounts and ratios (inclusive of capital 2.5% conservation buffer) for the Bank as of the dates indicated:

	AMOUNT		MINIMUM CAPITAL REQUIREMENTS		MINIMUM REQUIRED TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2021						
Total risk-based capital ratio	**$ 1,634,222,000**	**14.3%**	**$ 1,201,052,370**	**10.5%**	**$ 1,143,859,400**	**10.0%**
Tier 1 risk-based capital ratio	**1,478,173,000**	**12.9%**	**972,280,490**	**8.5%**	**915,087,520**	**8.0%**
Common equity tier 1 capital ratio	**1,478,173,000**	**12.9%**	**800,701,580**	**7.0%**	**743,508,610**	**6.5%**
Tier 1 leverage ratio	**1,478,173,000**	**8.11%**	**765,466,040**	**4.0%**	**956,832,550**	**5.0%**
As of December 31, 2020						
Total risk-based capital ratio	$ 1,624,096,000	15.2%	$ 1,122,765,210	10.5%	$ 1,069,300,200	10.0%
Tier 1 risk-based capital ratio	1,465,573,000	13.7%	908,905,170	8.5%	855,440,160	8.0%
Common equity tier 1 capital ratio	1,465,573,000	13.7%	748,510,140	7.0%	695,045,130	6.5%
Tier 1 leverage ratio	1,465,573,000	8.3%	746,356,800	4.0%	932,946,000	5.0%

Note 22. Fair Value

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

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

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

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

The Bank used the following methods and significant assumptions to estimate fair value in accordance with ASC 820-10.

Assets and Liabilities Measured on a Recurring Basis

Debt Securities Available-for-Sale: The fair values of U.S. treasury securities and equity securities are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Bank employs an independent pricing service that utilizes matrix pricing to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments. The Bank employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. Level 2 securities include U.S. government agency securities, mortgage backed securities - residential and commercial - and corporate bonds. When a market is illiquid or there is a lack of transparency around the inputs to valuation, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. The Bank had no securities available-for-sale classified as Level 3 at December 31, 2021 and 2020.

Notes to Consolidated Financial Statements

Note 22. Fair Value (continued)

Derivative Instruments: Derivatives instruments include interest rate swaps and forward loan sales. Valuation for the swaps is calculated using key valuation inputs, including the LIBOR swap curve, volatility curve, reset rates and updates to swap notional amounts. These instruments are classified as Level 2 in the fair value hierarchy. Valuation for the forward loan sales is the difference between the market value at the end of the month and the contract price. The fair value is based on the market value as indicated by Fannie Mae (the Bank's purchaser) as of month end resulting in a Level 2 recurring basis classification.

The following table presents the Bank's Financial Assets and Liabilities measured at fair value on a recurring basis as of the dates indicated:

		FAIR VALUE MEASUREMENTS USING		
	DECEMBER 31, 2021	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Debt securities available-for-sale:				
U.S. treasury securities	$ 55,282,100	$ 55,282,100	$ -	$ -
U.S. government agency securities	136,891,472	-	136,891,472	-
Obligations of states and political subdivisions	52,465,965	-	52,465,965	-
Mortgage backed securities – residential	4,116,306,155	-	4,116,306,155	-
Mortgage backed securities – commercial	1,571,626,821	-	1,571,626,821	-
Corporate bonds	82,629,435	-	82,629,435	-
Total debt securities available-for-sale	**$ 6,015,201,948**	**$ 55,282,100**	**$ 5,959,919,848**	**$ -**
Equity securities	$ 12,625,947	$ 12,625,947	$ -	$ -
Derivative assets	$ 36,248,810	$ -	$ 36,248,810	$ -
Derivative liabilities	$ 29,305,124	$ -	$ 29,305,124	$ -

		FAIR VALUE MEASUREMENTS USING		
	DECEMBER 31, 2020	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Debt securities available-for-sale:				
U.S. treasury securities	$ 96,792,350	$ 96,792,350	$ -	$ -
U.S. government agency securities	55,679,949	-	55,679,949	-
Obligations of states and political subdivisions	65,118,522	-	65,118,522	-
Mortgage backed securities – residential	3,441,681,612	-	3,441,681,612	-
Mortgage backed securities – commercial	1,560,180,970	-	1,560,180,970	-
Corporate bonds	94,246,640	-	94,246,640	-
Total debt securities available-for-sale	**$ 5,313,700,043**	**$ 96,792,350**	**$ 5,216,907,693**	**$ -**
Equity securities	$ 12,334,266	$ 12,334,266	$ -	$ -
Derivative assets	$ 81,409,852	$ -	$ 81,409,852	$ -
Derivative liabilities	$ 71,281,702	$ -	$ 71,281,702	$ -

As of December 31, 2021 and 2020, there were no assets measured at fair value on a recurring basis using significant observable inputs (Level 3).

Note 22. Fair Value (continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Impaired Loans and Leases: The fair value of impaired loan and lease receivables with specific allocations of the allowance for loan and lease losses based on collateral values is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans with specific allowance allocations of the allowance for loan losses, which are measured for impairment using the fair value of the collateral for collateral dependent loans.

Other real estate owned: Non-recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of the carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property or internal evaluations based on comparable sales, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less cost to sell, an impairment loss is recognized. Management also considers inputs regarding market trends or other relevant factors and selling and commission costs.

As of the years ended December 31, 2021 and 2020 there were no impaired loans with specific loss allocations.

The following table presents the Bank's Financial Assets and Liabilities measured at fair value on a non-recurring basis as of the dates indicated:

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2021 USING		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Other Real Estate Owned	$ -	$ -	$ 431,369

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2020 USING		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Other Real Estate Owned	$ -	$ -	$ 14,486,272

For the years ended December 31, 2021 and 2020 there were no impaired loans with specific allowance allocations of the allowance for loan losses, which are measured for impairment using the fair value of the collateral for collateral dependent loans.

Notes to Consolidated Financial Statements

Note 22. Fair Value (continued)

The following is a summary of the estimated fair value and carrying value of the Bank's financial instruments as of December 31, 2021 and 2020 and the methods and assumptions used to evaluate them:

	December 31, 2021		December 31, 2020	
	Estimated Fair Value	**Carrying Value**	Estimated Fair Value	Carrying Value
Assets:				
Cash and cash equivalents	**$ 1,001,297,934**	**$ 1,001,297,934**	$ 1,171,766,566	$ 1,171,766,566
Securities available-for-sale	**6,015,201,948**	**6,015,201,948**	5,313,700,043	5,313,700,043
Securities held-to-maturity	**49,311,664**	**45,447,180**	73,343,953	68,570,752
Loans held for sale	**508,092**	**508,092**	346,615	346,615
Loan and lease receivables, net	**10,858,515,472**	**10,869,941,371**	11,338,541,744	10,994,016,333
FHLB stock	**N/A**	**17,250,000**	N/A	17,250,000
Other real estate owned	**431,369**	**431,369**	14,486,272	14,486,272
Accrued interest receivable	**45,295,430**	**45,295,430**	49,792,454	49,792,454
Equity securities	**12,625,947**	**12,625,947**	12,334,266	12,334,266
Derivative asset	**36,248,810**	**36,248,810**	81,409,852	81,409,852
Liabilities:				
Deposits:				
Noninterest-bearing demand deposits	**(8,182,587,405)**	**(8,182,587,405)**	(7,497,472,918)	(7,497,472,918)
Interest-bearing transaction accounts	**(5,914,994,470)**	**(5,914,994,470)**	(6,211,850,418)	(6,211,850,418)
Savings and time deposits	**(2,666,285,820)**	**(2,669,042,942)**	(2,637,284,429)	(2,637,284,429)
Securities sold under agreements to repurchase	**$ -**	**$ -**	$ (3,309,663)	$ (3,309,597)
Subordinated debentures	**(25,733,498)**	**(24,866,079)**	(26,191,091)	(24,846,391)
Derivative liabilities	**(29,305,124)**	**(29,305,124)**	(71,281,702)	(71,281,702)
Accrued interest payable	**(1,435,755)**	**(1,435,755)**	(2,611,166)	(2,611,166)

Cash and cash equivalents: For these short-term instruments, the carrying value is a reasonable approximation of fair value. Level 1 inputs were utilized to determine fair value of cash and cash equivalents.

Securities: Fair value of securities is determined by reference to quoted market prices, if available. Fair value of securities was determined pursuant to the fair value measurements hierarchy, utilizing either Level 1, 2 or 3 valuation inputs. Level 1 and Level 2 inputs were utilized to determine fair value of all security investments disclosed previously.

Loans held for sale: The carrying amount for loans held for sale reflects the lower of cost of market, including deferred loan fees and costs. The fair value of the loans held for sale was derived from quoted market prices of loans with similar terms or actual prices at which loans were committed for sale. Level 2 inputs were utilized to determine fair value of loans held for sale. For 1-4 Family SFR loans held for sale, carrying value approximates fair value. This population of loans is typically sold within 30 days of origination and is immaterial in nature.

Loan and lease receivables, net: In accordance with ASU 2016-01, the fair value of loan and lease receivables presented utilizes the exit price notion (that is, not a forced liquidation or distressed sale). The calculation of fair value for loans and leases incorporates the following elements: contractual cash flows, prepayment cash flows, discount spreads and credit loss valuation estimates. Contractual cash flow is a stream of principal and interest payments and future repricings that are agreed upon by a party and counterparty at the time of an instrument's origination. Prepayment cash flow is any principal payment not considered a contractual cash flow payment (e.g. curtailment or payoff). Discount spreads are offsets from a market benchmark yield curve that are used when calculating the fair market value of a financial instrument. The Bank's allowance for credit losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for credit quality of certain loans in the portfolio. Level 3 inputs were utilized to determine fair value of loan and lease receivables, net.

Note 22. Fair Value (continued)

FHLB stock: FHLB stock is recorded at cost. Ownership of FHLB stock is restricted to member banks, and purchases and sales of these securities are at par value with the issuer. Determination of the fair value of FHLB stock is not practicable due to restrictions placed on its transferability.

Other real estate owned: Non-recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of the carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property or internal evaluations based on comparable sales. In cases where the carrying amount exceeds the fair value, less cost to sell, an impairment loss is recognized. Management also considers inputs regarding market trends or other relevant factors and selling and commission costs.

Derivative instruments: Valuation for the swaps is calculated using key valuation inputs, including the LIBOR swap curve, volatility curve, reset rates and updates to swap notional amounts. These instruments are classified as Level 2 in the fair value hierarchy.

Deposits: The fair value of fixed rate certificates of deposit have been estimated by discounting all future cash flows of certificates using the current rate at which similar certificates are being offered to depositors for the same average life of the portfolio. All other deposits are either noninterest-bearing or are tied to competitive money market deposit rates and are assumed to be due or able to be repriced on demand. For these deposits, the carrying amount is a reasonable estimate of fair value. Level 1 inputs for deposits were $15,862,810,038 and $15,182,452,207 as of December 31, 2021 and 2020 respectively. There were no Level 2 inputs for deposits as of December 31, 2021 and 2020. Level 3 inputs for deposits were $903,814,778 and $1,164,155,558 as of December 31, 2021 and 2020 respectively.

Accrued interest receivable: The carrying value is a reasonable approximation of fair value. Level 1 inputs for accrued interest receivable were $380,078 and $619,691 as of December 31, 2021 and 2020 respectively. Level 2 inputs for accrued interest receivable were $12,301,361 and $12,034,931 as of December 31, 2021 and 2020 respectively. Level 3 inputs for accrued interest receivable were $32,613,991 and $37,137,832 as of December 31, 2021 and 2020 respectively.

Securities sold under agreements to repurchase: Securities sold under agreements to repurchase and demand notes issued to the U.S. Treasury are either due on demand or within a few days, therefore, carrying amounts are a reasonable estimate of fair value. Level 2 inputs were utilized to determine fair value of securities sold under agreements to repurchase.

Subordinated debentures: The fair value of subordinated debentures is estimated using discounted cash flow analysis based on the current borrowing rates for similar types of borrowing arrangements. The carrying value is a reasonable approximation of fair value. Level 3 inputs were utilized to determine fair value of subordinated debentures.

Accrued interest payable: The carrying value is a reasonable approximation of fair value. Level 1 inputs for accrued interest payable were $24,652 and $590,649 as of December 31, 2021 and 2020 respectively. Level 2 inputs for accrued interest payable were $1,014,696 and $1,217,525 as of December 31, 2021 and 2020 respectively. Level 3 inputs for accrued interest payable were $232,345 and $638,930 as of December 31, 2021 and 2020 respectively.

Commitments to extend credit and standby and trade letters of credit: The fair value of these commitments is not a significant amount and is not disclosed.

Notes to Consolidated Financial Statements

Note 23. Revenue from Contracts with Customers

All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income. A description of the Bank's revenue streams accounted for under ASC 606 are as follows:

Service Charges on Deposit Accounts and Other Deposit Service Fees: The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. Other deposit service fees are recognized at the point in time that the transaction occurs or the services provided.

Merchant Processing Services, ATM processing and Debit Card Fees: ATM processing fees are recognized at the point in time that the transaction occurs or the services provided. The Bank earns interchange fees from cardholder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Trust Fees: The Bank earns trust fees from its contracts with trust customers to manage assets for investment services. These fees are primarily earned over time as the Bank provides the contracted monthly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Other related services provided, which are based on a fixed fee schedule, are recognized when the services are rendered.

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. The Bank does not finance the sale of OREO.

The following is a summary of the revenue from contracts with customers in the scope of ASC 606 that is recognized within Noninterest Income:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Noninterest Income in Scope of ASC 606		
Service Charges on Deposit Accounts and Other Deposit Services	**$ 23,563,511**	$ 23,574,504
Trust fees and commissions	**10,298,481**	9,846,480
Gain (loss) on sale of OREO, net	**238,472**	704,521
Non-interest income subject to ASC 606	**34,100,464**	28,700,290
Non-interest income not subject to ASC 606	**36,818,154**	38,110,523
Total noninterest income	**$ 70,918,618**	**$ 72,236,028**

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Patricia Cochran, Director
Adrienne Crowe, Director
John W. DeCero, Director
Douglas Downer, Director
Gerald J. Ford, Director
Meheriar Hasan, Director
Kenneth D. Russell, Director
Jon R. Wilcox, Director

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Raulin J. Butler, Executive Vice President, Director of Retail Banking
Nathan Duda, Executive Vice President, Chief Financial Officer
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Tony Kallingal, Executive Vice President, Chief Banking Officer
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Positions as of March 21, 2022