2023 ANNUAL REPORT

Mechanics Bank®

Where Relationships Matter

A Letter to Our Shareholders

2023 Annual Report

Dear Shareholders,

2023 was a challenging year for the banking industry. However, Mechanics Bank stayed the course and continued to be one of the most profitable, low-risk banks in the nation. We're proud of our 119-year record of financial stability, which is a testament to our tried-and-true banking principles that never go out of style.

Our success has allowed for further investment in our people, as well as in a host of products, services, and resources designed to build client relationships across California.

For example, we're significantly expanding our Wealth Management division, which has helped our clients prosper since its inception as an independent trust department nearly 60 years ago. Featuring a deep bench of accomplished professionals, we have grown our team and rolled out new offerings in Private Banking, Specialty Asset Management, Trust and Estate Services, Retirement Planning, and Employee Benefit Plan Administration.

Our 112 branches are the lifeblood of Mechanics Bank and always a priority. In 2023, we relocated our facilities in Danville, Indio, Palm Desert and Palm Springs to brand-new offices in "A+" locations. Our commitment to our local California markets is unwavering and these major branch investments will continue into 2024 and beyond.

We continue to lean into the latest technology, with major initiatives underway to improve our loan origination and account opening processes. We also enhanced our online presence, with the newest version of MechanicsBank.com rolling out mid-last year. Our new website features a cleaner and simpler design, faster page loads, and an optimal mobile experience.

Our ability to invest for the future is a result of the discipline we've shown in the past. For over a century, our commitment to our clients and local communities has been unwavering. As a result, today Mechanics Bank has one of the best deposit bases in the country, robust capital levels, exceptional liquidity, and enviable asset quality.

Our goal is to maintain a simple, low-risk balance sheet that generates an exceptional return for you, our Shareholders. We are in a position of strength and I'm excited for the opportunities that lie before us.

With sincere appreciation,

CJ Johnson
Interim President and Chief Executive Officer

Rooted in our Communities

We don't just do business in our communities – we live and work here as well. We're part of the social fabric that makes our communities special and we take great pride in that involvement. That's why we strive to make every community in which we operate better through a commitment to providing our time, talent and resources – a responsibility we've taken seriously since our founding in 1905.

Our ties to the community and our relationships with our clients have laid the foundation for our stability, consistency, and performance, while also creating a legacy of trust, integrity, and exceptional personal service.

RECOGNIZED EXCELLENCE

by Independent Rating Agencies

★★★★★ Superior	"WELL CAPITALIZED"	SUPER PREMIER	★★★ GREEN
Bauer Financial Rating	FDIC Capital Classification	Performing Banks – The Findley Reports, 2023	Veribanc Bank Safety Rating
December 31, 2023 (Highest Possible Rating)	*Veribanc, December 31, 2023 (Highest Possible Rating)*		*December 31, 2023 (Highest Possible Rating)*

Report on the Audit of the Financial Statements

Crowe

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income/(loss), 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, 2023 and 2022, 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, 2023, 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 22, 2024 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Mechanics Bank changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). Our opinion is not modified with respect to this matter.

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

Crowe LLP

Sacramento, California
March 22, 2024

Mechanics Bank
Consolidated Balance Sheets

As of December 31, 2023 and December 31, 2022

	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	**$ 1,457,568,585**	**$ 331,626,636**
Securities available-for-sale, at fair value	**2,343,172,917**	2,666,813,844
Securities held-to-maturity, at amortized cost (fair value of $1,309,248,838 and $1,379,068,661 at December 31, 2023 and 2022, respectively)	**1,542,116,127**	1,647,275,681
Loans held for sale	**440,097**	–
Loan and lease receivables	**10,777,755,586**	12,042,909,887
Allowance for credit losses on loans and leases	**(133,778,314)**	(126,716,184)
Net loan and lease receivables	10,643,977,272	**11,916,193,703**
Other real estate owned	**17,011,275**	113,770
Federal Home Loan Bank stock, at cost	**17,250,000**	17,250,000
Premises and equipment, net	**121,795,012**	127,959,294
Bank owned life insurance	**82,951,119**	102,150,849
Goodwill	**843,304,664**	843,304,664
Other intangible assets, net	**52,210,040**	69,662,660
Right-of-use asset	**55,279,612**	43,643,491
Interest receivable and other assets	**324,718,675**	369,697,343
TOTAL ASSETS	$ 17,501,795,395	**$ 18,135,691,935**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing demand deposits	**$ 6,187,870,291**	$ 7,266,198,915
Interest-bearing transaction accounts	**5,720,504,960**	5,585,218,702
Savings and time deposits	**2,389,767,427**	2,644,332,979
Total deposits	14,298,142,678	**15,495,750,596**
Federal Home Loan Bank Advances	–	260,000,000
Bank Term Funding Program Borrowings	**750,000,000**	–
Subordinated debentures	**24,965,453**	24,925,766
Operating lease liability	**57,735,591**	46,091,824
Interest payable and other liabilities	**135,346,604**	177,644,219
TOTAL LIABILITIES	15,266,190,326	**16,004,412,405**
Commitments and contingencies (Notes 14 and 15)		
SHAREHOLDERS' EQUITY		
Common stock, $50 par value		
Authorized — 300,000 shares		
Issued and outstanding (64,225 and 64,220 shares at December 31, 2023 and 2022, respectively)	**3,211,254**	3,211,004
Additional paid in capital	**2,118,677,282**	2,118,438,192
Retained earnings	**305,510,000**	251,410,107
Accumulated other comprehensive (loss), net of tax	**(191,793,467)**	(241,779,773)
TOTAL SHAREHOLDERS' EQUITY	2,235,605,069	**2,131,279,530**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 17,501,795,395	**$ 18,135,691,935**

Mechanics Bank
Consolidated Statements of Income

For the Years Ended December 31, 2023 and December 31, 2022

	Year Ended December 31, 2023	Year Ended December 31, 2022
INTEREST AND FEE INCOME		
Interest and fees on loans and leases	**$ 602,873,379**	**$ 551,295,964**
Interest on securities available-for-sale:		
U.S. treasury and government agency securities	**48,819,231**	58,938,994
Corporate bonds	**1,644,021**	1,981,742
Interest on held-to-maturity securities:		
U.S. government agency securities	**25,460,363**	27,108,820
Obligations of state and political subdivisions	**619,696**	536,299
Asset backed securities	–	104,504
Interest-bearing cash and other	**39,541,844**	11,105,326
Total interest and fee income	**718,958,534**	**651,071,649**
INTEREST EXPENSE		
Interest on deposits	**119,434,697**	16,271,090
Interest on subordinated debentures	**1,352,187**	1,352,187
Interest on borrowed funds	**34,959,731**	2,214,710
Total interest expense	**155,746,615**	**19,837,987**
Net interest income	**563,211,919**	631,233,661
Provision for credit losses	**2,558,042**	25,431,929
Provision of credit (recapture)/losses on unfunded lending commitments	**(1,808,107)**	1,193,334
Net interest income after provision for credit losses	**562,461,984**	**604,608,398**
NONINTEREST INCOME		
Service charges on deposit accounts	**24,955,134**	25,791,544
Trust fees and commissions	**9,644,395**	9,710,328
Loan servicing income	**1,670,703**	2,827,325
Net losses on investment securities	–	(11,230,194)
Net gains on sale of loans	**23,189**	451,575
Other	**37,933,125**	36,182,878
Total noninterest income	**74,226,546**	**63,733,456**
NONINTEREST EXPENSE		
Salaries and employee benefits	**200,992,054**	205,922,115
Occupancy	**34,258,531**	32,717,399
Equipment	**24,331,695**	24,003,134
Amortization of intangible assets	**17,319,208**	20,666,793
Other	**81,845,891**	82,898,216
Total noninterest expense	**358,747,379**	**366,207,656**
Income before provision for income tax expense	**277,941,151**	302,134,198
PROVISION FOR INCOME TAXES	**76,027,512**	**85,552,515**
NET INCOME	**$ 201,913,639**	**$ 216,581,683**
EARNINGS PER SHARE - Basic and Diluted	**$ 3,143.85**	**$ 3,372.50**
AVERAGE COMMON SHARES OUTSTANDING - Basic and Diluted	**64,225**	**64,220**

See notes to consolidated financial statements

Mechanics Bank
Consolidated Statements of Comprehensive Income/(Loss)

For the Years Ended December 31, 2023 and December 31, 2022

		Year Ended December 31, 2023		Year Ended December 31, 2022
NET INCOME	$	**201,913,639**	$	**216,581,683**
Other comprehensive income/(loss), net of tax:				
Net change in unrealized gain/(loss) on securities available-for-sale, net of tax (expense)/benefit of ($19,532,800) and $99,639,809 for the years ended December 31, 2023 and 2022, respectively.		**48,801,941**		(246,601,700)
Change in defined benefit pension liability obligations, net of tax benefit/(expense) of ($473,938) and ($3,338,243) for the years ended December 31, 2023 and 2022, respectively.		**1,184,365**		8,458,374
Total other comprehensive income/(loss)		**49,986,306**		**(238,143,326)**
COMPREHENSIVE INCOME/(LOSS)	$	**251,899,945**	$	**(21,561,643)**

Mechanics Bank
Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2023 and 2022

					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, 2022	**64,218**	**$3,210,900**	**$ 2,118,336,077**	**$269,866,304**	**$ (1,826,141)**	**$ (1,810,306)**	**$ 2,387,776,834**
Net income	-	-	-	216,581,683	-	-	216,581,683
Issuance of restricted stock	2	104	102,115	-	-	-	102,219
Other comprehensive income/(loss), net of tax	-	-	-	-	(246,601,700)	8,458,374	(238,143,326)
Cash Dividends declared ($3,659.89 per share)	-	-	-	(235,037,880)	-	-	(235,037,880)
Balance, December 31, 2022	**64,220**	**$3,211,004**	**$ 2,118,438,192**	**$ 251,410,107**	**$(248,427,841)**	**$ 6,648,068**	**$ 2,131,279,530**
Adoption of ASU 2016-13	-	-	-	(41,975,502)	-	-	(41,975,502)
Net income	-	-	-	201,913,639	-	-	201,913,639
Issuance of restricted stock	5	250	239,090	-	-	-	239,340
Other comprehensive income/(loss), net of tax	-	-	-	-	48,801,941	1,184,365	49,986,306
Cash Dividends declared ($1,647.93 per share)	-	-	-	(105,838,244)	-	-	(105,838,244)
Balance, December 31, 2023	**64,225**	**$3,211,254**	**$ 2,118,677,282**	**$305,510,000**	**$(199,625,900)**	**$ 7,832,433**	**$ 2,235,605,069**

See notes to consolidated financial statements

Mechanics Bank
Consolidated Statements of Cash Flows

For the Years Ended December 31, 2023 and December 31, 2022

	Year Ended December 31, 2023	Year Ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 201,913,639**	**$ 216,581,683**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans and leases	**2,558,042**	25,431,929
Originations of loans held for sale	**(2,898,467)**	(1,312,170)
Proceeds from sales and principal collected on loans held for sale	**2,481,559**	1,827,150
Net gain on sale of loans	**(23,189)**	(451,575)
Provision of credit (gains)/losses on unfunded lending	**(1,808,107)**	1,193,334
Net amortization of securities	**16,325,075**	23,414,699
Depreciation of premises and equipment	**10,672,354**	10,996,054
Amortization of intangible assets	**17,319,208**	20,666,793
Amortization of discount on subordinated debentures	**39,687**	39,687
Stock based compensation expense	**239,340**	102,219
Net increase in cash surrender value of bank-owned life insurance	**(9,138,017)**	(2,271,987)
Net (gain) loss on sale of securities	**–**	11,230,194
Net (gain) loss on sale and disposal of other real estate owned	**(109,241)**	(149,355)
Net (gain) on sale and disposal of property and equipment	**(605,324)**	119,830
Deferred income tax expense/(benefit)	**13,599,842**	5,343,033
Change in deferred loan (costs) fees	**30,910,043**	36,175,331
Amortization of premiums and discounts on purchased loans	**(8,440,235)**	(9,799,185)
Changes in:		
Interest receivable and other assets	**(14,000,400)**	(12,122,381)
Interest payable and other liabilities	**6,965,654**	(8,833,424)
Net cash provided by operating activities	**266,001,463**	**318,181,859**
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale:		
Purchases	**–**	(73,869,552)
Sales	**–**	574,635,425
Maturities/calls/paydowns	**375,116,380**	716,911,649
Securities held-to-maturity:		
Maturities/calls/paydowns	**103,035,888**	145,644,164
Loan originations and principal collections, net	**1,284,097,960**	(736,508,012)
Purchase of loans	**(132,099,668)**	(391,826,092)
Recoveries of loans charged-off	**19,047,980**	15,236,464
Redemption of Federal Home Loan Bank stocks	**(4,193,300)**	–
Purchase of Federal Home Loan Bank and other bank stocks	**4,193,300**	–
Proceeds from the settlement of bank-owned life insurance	**28,337,747**	107,750
Proceeds from sales of other real estate owned	**223,011**	580,724
Proceeds from sales of loans held for investment	**–**	15,370,650
Proceeds from sales of premises and equipment	**2,494,319**	1,260,881
Purchases of premises and equipment	**(6,866,969)**	(9,485,107)
Net cash used in investing activities	**1,673,386,648**	**258,058,944**

(continued on next page)

Mechanics Bank
Consolidated Statements of Cash Flows (continued)

For the Years Ended December 31, 2023 and December 31, 2022

	Year Ended December 31, 2023	Year Ended December 31, 2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	**(1,197,607,918)**	(1,270,874,221)
Net (decrease) increase in short-term Federal Home Loan Bank advances	**(260,000,000)**	260,000,000
Net change in bank term funding purchased	**750,000,000**	–
Cash dividends paid	**(105,838,244)**	(235,037,880)
Net cash provided by financing activities	**(813,446,162)**	**(1,245,912,101)**
Net increase (decrease) in cash and cash equivalents	**1,125,941,947**	(669,671,298)
Cash and cash equivalents at beginning of period	**331,626,636**	1,001,297,934
Cash and cash equivalents at end of period	**$ 1,457,568,585**	**$ 331,626,636**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest paid	**$ 150,514,168**	$ 19,617,589
Income taxes paid, net of refunds	**58,456,456**	77,255,563
Non-cash disclosures:		
Transfers from available-for-sale to held-to-maturity	**$ –**	$ 1,773,461,859
Transfer from loans to other real estate owned	**17,011,275**	–
Retained earnings impact from CECL adoption	**41,975,502**	–
Lease liabilities arising from obtaining right-of-use assets	**(31,480,748)**	$ (27,263,230)

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 112 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 ceased originating auto loans in February 2023, but continues servicing the portfolio of new and pre-owned retail automobile sales contracts purchased from both franchised and independent automobile dealerships throughout 33 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Iowa, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, North Carolina, North Dakota, Nebraska, Nevada, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming. The Bank has a subsidiary limited liability company (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 19, “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 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 (“HTM”) 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 (“AFS”) 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 measures expected credit losses in accordance with ASC 326, Financial Instruments – Credit Losses, on HTM debt securities on a collective basis by major security type. Accrued interest receivable on HTM debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Nearly all of the mortgage-backed residential securities held by the Bank are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. Management has determined there is a zero loss expectation for HTM debt securities given the nature of the portfolio.

For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met. The security’s amortized cost basis is written down to fair value through income, for debt securities AFS that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors in accordance with ASC 326. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security, If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss limited by the about that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through and allowance for credit losses is recognized in AOCI.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Changes in the allowance for credit losses are recorded as a credit loss expense (or reversal). Losses are charged against the allowance when management believes in the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on AFS debt securities is excluded from the estimate of credit losses.

Managements evaluation of any potential credit losses on the current AFS debt security portfolio is deemed immaterial.

The Bank may periodically reassess the classification of certain investments to determine whether a reclassification should be contemplated. If a transfer is deemed appropriate, the transfer occurs at fair value. For securities reclassified from AFS to HTM, the related unrealized gain or loss included in other comprehensive income remains in other comprehensive income, to be amortized out of other comprehensive income with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. No gains or losses are recorded at the time of transfer.

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.

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.

Bank Term Funding Program (BTFP): On March 12, 2023, the Treasury Department, Federal Reserve and the FDIC jointly announced the Bank Term Funding Program ("BTFP") in an effort to enhance liquidity by allowing institutions to pledge securities or loans as collateral for borrowing. As an eligible U.S. federally insured depository institution, the Bank is eligible to leverage this resource.

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

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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 on Loans Held for Investment: Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected within the allowance for credit losses for loans. The allowance for credit losses, or reserve, is an estimate of expected losses over the lifetime of a loan within the Bank's existing loans held for investment portfolio. The allowance for credit losses for loans held for investment is adjusted by a provision for (reversal of) credit losses, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries.

The credit loss estimation process involves procedures to appropriately consider the unique characteristics of the Bank's loan portfolio segments, which are further disaggregated into loan classes, the level at which credit risk is monitored. The allowance for credit losses for loans not evaluated for specific reserves is calculated using statistical credit factors, including probabilities of default ("PD") and loss given default ("LGD"), to the amortized cost of pools of loan exposures with similar risk characteristics over its contractual life, adjusted for prepayments, to arrive at an estimate of expected credit losses. Economic forecasts are applied over the period management believes it can estimate reasonable and supportable forecasts. Reasonable and supportable forecast periods and reversion assumptions to historical data are credit model specific. Prepayments are estimated by loan type using historical information and adjusted for current and future conditions.

When computing allowance levels, credit loss assumptions are estimated using models that analyze loans according to credit risk ratings, historic loss experience, past due status and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Future factors and forecasts may result in significant changes in the allowance and provision (reversal) for credit losses in those future periods. The allowance for credit losses will primarily reflect estimated losses for pools of loans that share similar risk characteristics, but will also consider individual loans that do not share risk characteristics with other loans.

Collectively Evaluated Loans

In estimating the allowance for credit losses for collectively evaluated loans, segments are derived based on loans pooled by product types and similar risk characteristics or areas of risk concentration. In determining the allowance for credit losses, the Bank utilizes models for loss forecasting for the majority of MB's portfolio. These models ensure that we employ sophisticated methodologies and industry-leading analytics to inform our credit loss estimations accurately. Economic forecasts are a crucial component of our estimation process, applied over a period deemed reasonable and supportable by management. These forecasts, alongside historical data, credit model-specific reversion assumptions and management judgement, inform our credit loss assumptions. The following models are utilized for the Bank's portfolios:

Auto Loans. The Bank uses models which incorporates macroeconomic forecasts and loan level models for estimating probabilities of default and prepayment. While the Bank has access to national data, we use a custom model based on MB internal historical data applying them to a blend of forecast scenarios. Based on the portfolio's composition of loans and their respective credit characteristics and delinquencies, a cash flow schedule of losses is produced providing the expected loss rate for the segment. Model outputs are then back-tested on an ongoing basis to determine adequacy and accuracy on a quarterly basis.

Commercial Real Estate – Non-Owner Occupied CRE and Multifamily Loans. The Bank uses models specific to Non-Owner Occupied CRE and Multifamily loans. The model addresses traditional commercial real estate products dependent on cash flow generated from rents. Based on property information (DSC, LTV), the model generates loan level PD and LGD vectors which are then simulated through various scenario forecasts to calculate an allowance.

Single Family Residential and Home Equity Loans. The Bank uses a model that is specific for use in the Single Family Residential (SFR) and Home Equity portfolios. These portfolios represent traditional residential real estate products dependent on the borrower's ability to service debt. Based on borrower ability to repay and underwriting metrics (FICO, LTV, loan type, geography, origination year, collateral type), the model generates loan level PD, prepayment, and LGD vectors which are then simulated through various scenario forecasts to calculate an allowance. Past due status post-origination is also a key input in

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

the models. Current and future changes in economic conditions, including unemployment rates, home prices, index rates, and mortgage rates, are also considered.

Commercial & Industrial, Commercial Real Estate – Owner Occupied, and Consumer Loans. A C&I loss rate model is utilized for the C&I, CRE Owner Occupied, and Consumer portfolios. The CRE Owner Occupied segment uses the same model as the C&I portfolio because repayment is reliant upon cash flow from associated businesses operating at these properties. The Consumer portfolio is predominately comprised of loans to employees of one C&I borrower/company (all loans are guaranteed by the company). The C&I loss Rate Model considers loan age, credit spread at origination, loan size at origination, regulatory risk rating, loan type, industry sector and macroeconomic factors to determine loan level lifetime expected loss rates.

Qualitative Factors

Estimating the timing and amounts of future losses is subject to significant management judgment as these loss cash flows rely upon estimates such as default rates, loss severities, collateral valuations, the amounts and timing of principal payments (including any expected prepayments) or other factors that are reflective of current or future expected conditions. These estimates, in turn, depend on the duration of current overall economic conditions, industry, borrower, or portfolio specific conditions, the expected outcome of bankruptcy or insolvency proceedings, as well as, in certain circumstances, other economic factors, including the level of current and future real estate prices. All of these estimates and assumptions require significant management judgment and certain assumptions that are highly subjective. Model imprecision also exists in the allowance for credit losses estimation process due to the inherent time lag of available industry information and differences between expected and actual outcomes.

Management considers adjustments for these conditions in its allowance for credit loss estimates qualitatively where they may not be measured directly in its individual or collective assessments, including but not limited to: Control Environment, Economy, Loan Growth, Management & Staffing, Loan Review, Concentrations, Competition- Legal- Regulatory Changes and Other.

Individually Evaluated Loans

When a loan is assigned a substandard non-accrual or worse risk rating grade, the loan subsequently is evaluated on an individual basis and no longer evaluated on a collective basis. The net realizable value of the loan is compared to the appropriate loan basis to determine any allowance for credit losses. The Bank generally considers non-accrual loans to be collateral-dependent. The practical expedient to measure credit losses using the fair value of the collateral has been exercised.

For commercial real estate loans, the fair value of collateral is primarily based on appraisals. For owner occupied real estate loans, underlying properties are occupied by the borrower in its business, and evaluations are based on business operations used to service the debt. For non-owner occupied real estate loans, underlying properties are income-producing and evaluations are based on tenant revenues. For income producing construction and land development loans, appraisals reflect the assumption that properties are completed.

For 1-4 family residential loans that are graded substandard non-accrual, an assessment of value is made using the most recent appraisal on file. If the appraisal on file is older than two years, the latest property tax assessment is used for the assessment of value. The assessment of value is discounted for selling costs and compared against the appropriate basis of the loan to determine if a reserve might be required.

Consumer loans are charged off when they reach 90 days delinquency as a general rule. There are limited cases where the loan is not charged off due to special circumstances and is subject to the collateral review process.

Off-Balance Sheet Credit Exposures, Including Unfunded Loan Commitments

Beyond an ACL to cover estimated expected credit losses in all outstanding loans and leases, the Bank provides for any binding commitments to cover estimated credit losses over the contractual period, including other off-balance sheet obligations such as Letters of Credit (standby), and unused commitments on lines of credits and loans. In order to calculate the Off Balance Sheet Reserve for the collectively evaluated segments, usage rates are supported for the unfunded commitments and then multiplied against the qualitative factor adjusted expected credit loss rate of each pool.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

Purchased Credit Deteriorated (PCD) Loans: The Bank has purchased loans, none of which have experienced more than insignificant credit deterioration since origination.

In those cases, the Bank will consider internal loan grades, delinquency status, collateral value (if secured), and other relevant factors in assessing whether purchased loans are PCD.

PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense.

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 2023 or 2022.

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.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Loan Servicing: The Bank retains servicing for the automobile loans sold through securitizations and flow loan sale agreements throughout 33 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Iowa, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, North Carolina, North Dakota, Nebraska, Nevada, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming. Income received for servicing activities is recorded in the Noninterest Income portion of the Consolidated Statements of Income. As of December 31, 2023 and 2022, there were no serviced automobile loans sold through securitizations and $8.1 million and $19.3 million, respectively, 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.

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 loan balances serviced under these arrangements were $223 million and $251 million as of December 31, 2023 and 2022, 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 Allowance for Credit Losses. 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, 2023 and 2022 the Bank held $17 million and $114 thousand 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 arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that an impairment test should be performed. The Bank has selected December 31, 2023 as the date to perform the annual impairment test. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimated residual values. Amortized intangibles must be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset might not be recoverable. An impairment loss related to intangible assets with finite useful lives is recognized if the carrying amount of the intangible asset is not recoverable and its carrying amount exceeds its fair value. After the impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions and are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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, FRB BTFP borrowings, and the FRB discount window. FHLB borrowings typically carry competitive rates 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.

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 Allowance for Credit Losses 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 Provision of Credit (Recapture)/Losses on Unfunded Lending Commitments 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.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards based on the fair value of these awards at the date of grant. The estimated market price of the Bank's common stock at the date of grant is used for restricted stock awards.

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

Mechanics Bank 2022 Omnibus Incentive Plan ("RSU") provides for the issuance of restricted shares to select officers. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. Fair value for future expense is recalculated at each vesting period. The fair value of the stock is determined using an audited internal valuation. RSU shares vest over a four-year period on the anniversary of the issue date beginning with the issue date. Total shares issuable under the plan are 2,000.

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.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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 exit 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.

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 21, "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.

Accounting Standards Adopted in 2023: On January 1, 2023, the Bank adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities and some-off balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell or does not believe that it is more likely than not, they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $59.1 million, which is presented as a reduction to net loans outstanding, and a decrease in the allowance for credit losses on unfunded loan commitments of $355 thousand which is recorded within Other Liabilities.

The Bank recorded no allowance for credit losses for held to maturity securities. The held to maturity portfolio is mostly comprised of government backed securities and any required allowance was deemed immaterial.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Bank recorded a net decrease to retained earnings of $42.0 million as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded.

The Bank adopted ASC 326 using the prospective transition approach for debt securities for which there was other-than-temporary impairment prior to January 1, 2023. As of the adoption, the amortized cost basis remains the same before and after the effective date of ASC 326. The effective interest rate on these debt securities was not changed. Recoveries of amounts previously written off relating to improvements in cash flows after January 1, 2023 will be recorded in earnings when received.

The Bank adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (PCD) that were previously classified as purchased credit impaired (PCI) and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets were adjusted to reflect the addition of $0 of the allowance for credit losses. The remaining noncredit discount (based on the adjusted amortized cost basis) will be accredited into interest income at the effective interest rate as of January, 2023.

The following table illustrates the impact of ASC 326. There was no recorded allowance for credit losses to held-to maturity or available-for-sale securities upon adoption of the new standard.

	January 1, 2023		
	AS REPORTED UNDER ASC 326	PRE-ASC 326 ADOPTION	IMPACT OF ASC 326 ADOPTION
Assets:			
Loans			
Commercial & Industrial	$ 6,433,188	$ 8,695,157	$ (2,261,969)
Commercial Real Estate	29,266,906	50,810,652	(21,543,746)
Residential Real Estate	9,374,534	15,751,532	(6,376,998)
Auto	137,109,995	46,695,876	90,414,119
Installment	3,662,593	4,762,967	(1,100,374)
Allowance for credit losses on loans	185,847,216	126,716,184	59,131,032
Liabilities:			
Allowance for credit losses on OBS credit exposures	6,121,786	6,476,772	(354,986)

Subsequent Events: The Bank has evaluated subsequent events for recognition or disclosure through March 20, 2024, which is the date that the consolidated financial statements were available to be issued.

In March 2024, the Board of Directors approved a restructure of the Debt Securities portfolio. The Bank anticipates selling approximately $1.9 billion in AFS securities at amortized cost resulting in an estimated $210 million pretax loss. Management plans to reinvest the proceeds from the sale into higher yielding securities.

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, 2023			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities available-for-sale				
U.S. government agency securities	$ 106,972,836	$ -	$ (8,751,357)	$ 98,221,479
Obligations of states and political subdivisions	96,780,752	2,417,584	(914,768)	98,283,568
Mortgage-backed securities – residential	1,713,520,924	10,087	(179,081,375)	1,534,449,636
Mortgage-backed securities – commercial	636,921,072	-	(67,112,725)	569,808,347
Corporate bonds	50,987,260	-	(8,577,373)	42,409,887
Total securities available-for-sale	**$ 2,605,182,844**	**$ 2,427,671**	**$(264,437,598)**	**$2,343,172,917**
	AMORTIZED COST	GROSS UNRECOGNIZED GAINS	GROSS UNRECOGNIZED LOSSES	ESTIMATED FAIR VALUE
Securities held-to-maturity				
Obligations of states and political subdivisions	$ 15,989,198	$ 796,079	$ (23,117)	$ 16,762,160
Mortgage-backed securities – residential	1,215,317,901	-	(185,062,685)	1,030,255,216
Mortgage-backed securities - commercial	310,809,028	-	(48,577,566)	262,231,462
Total securities held-to-maturity	**$ 1,542,116,127**	**$ 796,079**	**$(233,663,368)**	**$ 1,309,248,838**
Total debt securities				**$ 3,652,421,755**

The Bank reassessed classification of certain investments and effective January 1, 2022 the Bank transferred $1,749,995,745 in residential and commercial Mortgage-backed securities from available-for-sale to held-to-maturity securities. The transfer occurred at fair value. The related net unrealized gain/(loss) of ($23,466,114), or ($16,740,022) net of deferred taxes, included in other comprehensive income remained in other comprehensive income. For the years ended December 31, 2023 and 2022, respectively, $2,657,879 and $2,351,516 of the unrealized loss was accreted to interest income as a yield adjustment through earnings over the remaining term of the securities. No gain or loss was recorded at the time of transfer.

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

	December 31, 2022			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Securities available-for-sale				
U.S. government agency securities	$ 106,993,764	$ -	$ (12,088,603)	$ 94,905,161
Obligations of states and political subdivisions	108,373,047	861,086	(2,110,833)	107,123,300
Mortgage-backed securities – residential	2,005,630,617	10	(225,413,049)	1,780,217,578
Mortgage-backed securities – commercial	707,947,240	-	(83,332,102)	624,615,138
Corporate bonds	65,555,965	-	(5,603,298)	59,952,667
Total securities available-for-sale	**$ 2,994,500,633**	**$ 861,096**	**$ (328,547,885)**	**$2,666,813,844**

	AMORTIZED COST	GROSS UNRECOGNIZED GAINS	GROSS UNRECOGNIZED LOSSES	ESTIMATED FAIR VALUE
Securities held-to-maturity				
Obligations of states and political subdivisions	$ 16,535,210	$ 580,557	$ (80,935)	$ 17,034,832
Mortgage-backed securities – residential	1,320,032,750	-	(212,834,262)	1,107,198,488
Asset-backed securities	310,707,721	-	(55,872,380)	254,835,341
Total securities held-to-maturity	**$ 1,647,275,681**	**$ 580,557**	**$ (268,787,577)**	**$ 1,379,068,661**
Total debt securities				**$4,045,882,505**

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, 2023 and 2022 was $8,874,575 and $9,811,501, respectively, of interest and dividends receivable from the Bank’s debt securities. Accrued interest receivable from securities available-for-sale totaled $6,323,288 and $7,125,006 at December 31, 2023 and 2022, respectively. Accrued interest receivable from securities held-to-maturity totaled $2,551,287 and $2,686,496 at December 31, 2023 and 2022, 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 gain/(loss) on investment securities. The Bank realized $0 and $(11,230,194) for the years ended December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

The following table summarizes available-for-sale securities with unrealized and unrecognized losses at December 31, 2023 and December 31, 2022 aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	December 31, 2023					
	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. government agency securities	$ -	$ -	$ 98,221,479	$ 8,751,357	$ 98,221,479	$ 8,751,357
Obligations of states and political subdivisions	352,471	326	32,276,636	914,442	32,629,107	914,768
Mortgage-backed securities – residential	-	-	1,530,407,356	179,081,375	1,530,407,356	179,081,375
Mortgage-backed securities – commercial	-	-	568,804,177	67,112,725	568,804,177	67,112,725
Corporate bonds	-	-	42,443,040	8,577,373	42,443,040	8,577,373
Total securities	**$ 352,471**	**$ 326**	**$2,272,152,688**	**$264,437,272**	**$2,272,505,159**	**$ 264,437,598**
Number of securities with unrealized losses		1		563		564

	December 31, 2022					
	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. government agency securities	$ -	$ -	$ 94,905,161	$ 12,088,603	$ 94,905,161	$ 12,088,603
Obligations of states and political subdivisions	57,980,395	1,623,540	8,045,092	487,293	66,025,487	2,110,833
Mortgage-backed securities – residential	535,424,782	40,735,072	1,244,839,406	184,677,977	1,780,264,188	225,413,049
Mortgage-backed securities – commercial	341,926,612	37,082,385	282,634,289	46,249,717	624,560,901	83,332,102
Corporate bonds	25,865,850	723,268	34,119,970	4,880,030	59,985,820	5,603,298
Total securities	**$ 961,197,639**	**$ 80,164,265**	**$1,664,543,918**	**$248,383,620**	**$2,625,741,557**	**$ 328,547,885**
Number of securities with unrealized losses		397		228		625

The Bank did not record an ACL on the debt securities portfolio at December 31, 2023 or upon the implementation of CECL on January 1, 2023. As of both dates the Bank considers any unrealized loss across the classes of major security-type to be related to fluctuations in market conditions, primarily interest rates, and not reflective of a deterioration in credit quality. The Bank maintains that it has intent and ability to hold these securities until the amortized cost basis of each security is recovered and likewise concluded as of both January 1, 2023 and December 31, 2023 that it was not more likely than not that any of the securities in an unrealized loss position would be required to be sold.

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

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.

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 $1,104,709,031 and $1,073,131,058 at December 31, 2023 and 2022, 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.

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. As of December 31, 2023 there were no past due or nonaccrual available-for-sale or held-to-maturity securities.

Notes to Consolidated Financial Statements

Note 2. Debt Securities (continued)

Contractual maturities of securities as of December 31, 2023 were as follows:

	AMORTIZED COST	ESTIMATED FAIR VALUE
Securities available-for-sale		
Due in one year or less	$ 2,780,836	$ 2,759,162
Due after one year through five years	127,834,801	118,781,800
Due after five years through ten years	44,546,639	35,892,879
Due after ten years	79,578,572	81,481,093
Subtotal	254,740,848	238,914,934
Mortgage-backed securities – residential	1,713,520,924	1,534,449,636
Mortgage-backed securities – commercial	636,921,072	569,808,347
Total securities available-for-sale	**$ 2,605,182,844**	**$ 2,343,172,917**
Securities held-to-maturity		
Due in one year or less	$ 2,044,588	$ 2,045,659
Due after one year through five years	5,088,393	5,100,717
Due after five years through ten years	4,693,161	4,956,110
Due after ten years	4,163,056	4,659,674
Subtotal	15,989,198	16,762,160
Mortgage-backed securities – residential	1,215,317,901	1,030,255,216
Mortgage-backed securities - commercial	310,809,028	262,231,462
Total securities held-to-maturity	**$ 1,542,116,127**	**$ 1,309,248,838**
Total debt securities	**$ 4,147,298,971**	**$ 3,652,421,755**

Note 3. Loans

The loans held for sale portfolio was $440,097 and $0 at December 31, 2023 and 2022, respectively, consisting solely of residential real estate in 2023. There were no impairment charges for the years ended December 31, 2023 and 2022.

The loan and lease receivable portfolio at December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	**December 31, 2022**
Commercial & Industrial	**$ 536,434,597**	$ **578,626,979**
Commercial Real Estate:		
Construction & Land Development	**96,881,157**	107,444,348
Other	**4,938,083,300**	4,814,578,561
Residential Real Estate	**2,197,202,283**	2,270,053,310
Auto	**2,714,606,007**	4,039,148,225
Installment:		
Revolving Plans	**3,211,063**	3,513,137
Other	**291,337,179**	229,545,327
Total loan and lease receivables before allowance for credit losses	**10,777,755,586**	**12,042,909,887**
Allowance for credit losses on loans and leases	**(133,778,314)**	**(126,716,184)**
Net loans and lease receivables	**$ 10,643,977,272**	**$ 11,916,193,703**

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. There were no PPP loans originated and no process fees collected during the years ended December 31, 2023 and 2022. 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, 2023, approximately $6.7 million of PPP loans were forgiven or paid in full and approximately $127 thousand of processing fees were recognized as interest and fees on loans in the consolidated statement of comprehensive income. As of December 31, 2023 and 2022, the Bank had approximately $889 thousand and $7.6 million of PPP loans outstanding, respectively, with related deferred processing fees of approximately $36 thousand and $163 thousand, 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, 2023 and 2022. The allowance for credit losses was under incurred loss methodology prior to January 1, 2023.

December 31, 2023	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Auto	Installment	Total
Allowance for credit losses on loans and leases:						
Beginning balance, prior to adoption of ASC 326	$ 8,695,157	$ 50,810,652	$ 15,751,532	$ 46,695,876	$ 4,762,967	$ 126,716,184
Impact of adopting ASC 326	(2,261,969)	(21,543,746)	(6,376,998)	90,414,118	(1,100,373)	59,131,032
Provision for credit losses	(574,982)	7,346,079	(2,629,202)	(3,660,909)	2,077,056	2,558,042
Loans charged off	(224,069)	(5,244,108)	(18)	(64,299,966)	(3,906,763)	(73,674,924)
Recoveries	171,215	117,418	-	17,903,189	856,158	19,047,980
Total ending allowance balance	**$ 5,805,352**	**$31,486,295**	**$ 6,745,314**	**$ 87,052,308**	**$ 2,689,045**	**$133,778,314**

December 31, 2022	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Auto	Installment	Total
Allowance for loan and lease losses:						
Beginning balance	$ 7,794,045	$ 62,460,003	$ 12,132,540	$ 49,414,719	$ 4,033,044	$ 135,834,351
Provision for loan losses	734,630	(11,649,351)	3,620,184	28,553,301	4,173,165	25,431,929
Loans charged off	-	-	(1,192)	(45,319,371)	(4,465,997)	(49,786,560)
Recoveries	166,482	-	-	14,047,227	1,022,755	15,236,464
Total ending allowance balance	**$ 8,695,157**	**$ 50,810,652**	**$ 15,751,532**	**$ 46,695,876**	**$ 4,762,967**	**$126,716,184**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

Changes in the allowances for credit losses for the years ended December 31, 2023 and 2022:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Allowance for credit losses on loans and leases at the beginning of the year	**$ 126,716,184**	**$ 135,834,351**
Impact of adopting ASC 326	**59,131,032**	-
Provision for credit losses on loans and leases	**2,558,042**	25,431,929
Recoveries on loans and leases previously charged off	**19,047,980**	15,236,464
Loans and leases charged off during the year	**(73,674,924)**	(49,786,560)
Allowance for credit losses on loans and leases at the end of the year	**133,778,314**	**126,716,184**
Allowance for credit losses on unfunded lending commitments at the beginning of the year	**6,476,772**	5,283,438
Impact of adopting ASC 326 Credit loss expense	**(354,986)**	-
Provision of credit (recapture)/losses on unfunded lending commitments	**(1,808,107)**	1,193,334
Allowance for credit losses on unfunded lending commitments at the end of the year	**4,313,679**	**6,476,772**
Total allowances for credit losses on loans, leases and unfunded lending commitments at the end of the year	**$ 138,091,993**	**$ 133,192,956**

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

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

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 incurred loss method as of December 31, 2022. This information is no longer relevant after December 31, 2022 given our adoption of CECL on January 1, 2023.

December 31, 2022	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	8,695,157	50,810,652	15,751,532	46,695,876	4,762,967	126,716,184
Acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending allowance balance	**$ 8,695,157**	**$ 50,810,652**	**$ 15,751,532**	**$ 46,695,876**	**$ 4,762,967**	**$ 126,716,184**
Loans:						
Individually evaluated for impairment	$ 153,342	$ 25,219,740	$ 3,972,283	$ 10,756,503	$ 39,596	$ 40,141,464
Collectively evaluated for impairment	578,473,637	4,896,803,169	2,266,081,027	4,028,391,722	233,018,868	12,002,768,423
Acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending loans balance	**$ 578,626,979**	**$4,922,022,909**	**$2,270,053,310**	**$4,039,148,225**	**$233,058,464**	**$12,042,909,887**

The recorded investment in collectively evaluated for impairment for commercial and industrial as of December 31, 2022 includes $7.6 million 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 as of December 31, 2022. This information is no longer relevant after December 31, 2022 given our adoption of CECL on January 1, 2023.

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance						
Commercial & Industrial	$ 154,420	$ 153,342	$ -	$ 628,338	$ 4,924	$ -
Commercial Real Estate						
Other	25,352,699	25,219,740	-	32,197,215	-	-
Residential Real Estate	3,946,793	3,972,283	-	5,496,475	6,411	-
Auto	10,645,684	10,756,503	-	10,022,071	-	-
Installment						
Other	41,435	39,596	-	44,187	1,295	-
Subtotal	**40,141,031**	**40,141,464**	**-**	**48,388,286**	**12,630**	**-**
With an allowance recorded						
Commercial & Industrial	-	-	-	-	-	-
Commercial Real Estate						
Other	-	-	-	-	-	-
Residential Real Estate	-	-	-	-	-	-
Auto	-	-	-	-	-	-
Installment						
Other	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 40,141,031**	**$ 40,141,464**	**$ -**	**$ 48,388,286**	**$ 12,630**	**$ -**

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 amortized cost in nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of December 31, 2023 and 2022:

December 31, 2023	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due 90 Days or more Still Accruing
Commercial & Industrial	$ 92,285	$ 691,647	$ 141,403
Commercial Real Estate			
Other	24,282,000	24,282,000	-
Residential Real Estate	3,837,296	3,837,296	223
Auto	1,395,824	10,214,445	11
Installment			
Other	10,634	10,634	-
Total	**$ 29,618,039**	**$ 39,036,022**	**$ 141,637**

December 31, 2022	Nonaccrual	Loans Past Due 90 Days or more Still Accruing
Commercial & Industrial	$ 96,843	$ 1,129,749
Commercial Real Estate		
Other	25,219,740	400,000
Residential Real Estate	3,918,084	-
Auto	10,756,503	-
Installment		
Other	1,116	18,673
Total	**$ 39,992,286**	**$ 1,548,422**

The following table presents the amortized cost of collateral-dependent loans by class and collateral type as of December 31, 2023:

December 31, 2023	Auto	Equipment	Farmland	Multifamily	Retail Building	Single Family Residential	Total Loans
Commercial & Industrial	$ 22,750	$ 27,010	$ -	$ -	$ -	$ -	$ 49,760
Commercial Real Estate							
Construction & Land Development	-	-	34,774	-	-	-	34,774
Other	-	-	-	17,255,723	2,288,490	-	19,544,213
Residential Real Estate	-	-	-	-	-	3,629,254	3,629,254
Auto	-	-	-	-	-	-	-
Installment							
Revolving Plans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total	**$ 22,750**	**$ 27,010**	**$ 34,774**	**$ 17,255,723**	**$ 2,288,490**	**$ 3,629,254**	**$ 23,258,001**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The following table presents the aging of the amortized cost in past due loans as of December 31, 2023 and 2022 by class of loans:

December 31, 2023	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	$ 2,334,217	$ 704,985	$ 741,397	$ 3,780,599	$ 532,653,998	$ 536,434,597
Commercial Real Estate						
Construction & Land Development	-	-	-	-	96,881,157	96,881,157
Other	7,719,703	-	17,255,723	24,975,426	4,913,107,874	4,938,083,300
Residential Real Estate	12,508,072	2,071,029	1,099,625	15,678,726	2,181,523,557	2,197,202,283
Auto	77,093,328	19,887,209	8,666,795	105,647,332	2,608,958,675	2,714,606,007
Installment						
Revolving Plans	7,772	11,551	8,395	27,718	3,183,345	3,211,063
Other	1,108,657	271,953	-	1,380,610	289,956,569	291,337,179
Total	**$100,771,749**	**$ 22,946,727**	**$ 27,771,935**	**$151,490,411**	**$10,626,265,175**	**$10,777,755,586**

December 31, 2022	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	$ 2,671,727	$ 439,704	$ 1,118,643	$ 4,230,074	$ 574,396,905	$ 578,626,979
Commercial Real Estate						
Construction & Land Development	485,987	-	371,892	857,879	106,586,469	107,444,348
Other	14,796,494	740,000	17,655,723	33,192,217	4,781,386,344	4,814,578,561
Residential Real Estate	6,428,291	220,200	1,586,330	8,234,821	2,261,818,489	2,270,053,310
Auto	84,547,841	23,013,597	9,416,745	116,978,183	3,922,170,042	4,039,148,225
Installment						
Revolving Plans	372,702	4,021	-	376,723	3,136,764	3,513,487
Other	1,573,969	351,959	19,419	1,945,347	227,599,630	229,544,977
Total	**$110,877,011**	**$ 24,769,481**	**$ 30,168,752**	**$165,815,244**	**$11,877,094,643**	**$12,042,909,887**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The following table presents the amortized cost of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to the amortized cost of each class of financing receivable is also presented below.

December 31, 2023	Principal Forgivness	Payment Delay	Term Extension	Interest Rate Reduction	Combined Term Extension and Principal Forgiveness	Combined Term Extension Interest Rate Reduction	Total Class of Financing Receivable
Commercial & Industrial	$ -	$ 599,362	$ 124,979	$ -	$ -	$ -	0.14%
Commercial Real Estate							
Construction & Land Development	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	0%
Residential Real Estate	-	872,084	209,620	-	-	-	0.05%
Auto	-	-	-	-	-	-	0%
Installment							
Revolving Plans	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	0%
Total	**$ -**	**$ 1,471,446**	**$ 334,599**	**$ -**	**$ -**	**$ -**	**0.02%**

The Bank has committed to lend additional amounts $0 to the borrowers included in the previous table.

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

December 31, 2023	30 - 90 Days	60 - 89 Days	Greater than 89 Days	Total Past Due
Commercial & Industrial	$ -	$ -	$ 599,362	$ 599,362
Commercial Real Estate				
Construction & Land Development	-	-	-	-
Other	-	-	-	-
Residential Real Estate	-	-	-	-
Auto	-	-	-	-
Installment				
Revolving Plans	-	-	-	-
Other	-	-	-	-
Total	**$ -**	**$ -**	**$ 599,362**	**$ 599,362**

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension <months>
Commercial & Industrial	$ -	- %	$ -
Commercial Real Estate	-	-	9
Construction & Land Development	-	-	-
Other	-	-	-
Residential Real Estate	-	-	12
Auto	-	-	-
Installment	-	-	-
Revolving Plans	-	-	-
Other	-	-	-
Total	**$ -**	**$ -**	**21**

The following table presents the amortized cost of loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction
Commercial & Industrial	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-
Construction & Land Development	-	-	-	-
Other	-	-	-	-
Residential Real Estate	-	-	-	-
Auto	-	-	-	-
Installment	-	-	-	-
Revolving Plans	-	-	-	-
Other	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

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 and origination year of loans is as follows.

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Commercial & Industrial							
Risk Rating							
Pass	$ 140,635,875	$ 44,532,083	$ 58,207,489	$ 77,253,061	$ 205,729,040	$ -	$ 526,357,548
Special Mention	-	237,686	157,366	7,402,452	667,699	-	8,465,203
Substandard	28,273	149,937	312,088	1,118,250	3,298	-	1,611,846
Doubtful	-	-	-	-	-	-	-
Total commercial loans	**$140,664,148**	**$ 44,919,706**	**$ 58,676,943**	**$ 85,773,763**	**$206,400,037**	**$ -**	**$536,434,597**
Commercial & Industrial							
Current period gross write offs	$ 15,581	$ 29,815	$ 17,986	$ 24,250	$ 136,437	$ -	$ 224,069

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Commercial Real Estate - Construction							
Risk Rating							
Pass	$ 9,843,116	$ 64,480,509	$ 211,449	$ 19,090,712	$ 3,220,597	$ -	$ 96,846,383
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	34,774	-	-	34,774
Doubtful	-	-	-	-	-	-	-
Total Commercial real estate - construction loans	**$ 9,843,116**	**$ 64,480,509**	**$ 211,449**	**$ 19,125,486**	**$ 3,220,597**	**$ -**	**$ 96,881,157**
Commercial real estate - construction							
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Commercial Real Estate - other							
Risk Rating							
Pass	$ 448,414,820	$1,216,425,216	$ 863,250,552	$ 2,226,816,096	$ 65,064,884	$ -	$ 4,819,971,568
Special Mention	-	-	-	64,692,496	-	-	64,692,496
Substandard	-	-	-	53,419,236	-	-	53,419,236
Doubtful	-	-	-	-	-	-	-
Total Commercial real estate - other loans	**$448,414,820**	**$1,216,425,216**	**$863,250,552**	**$2,344,927,828**	**$ 65,064,884**	**$ -**	**$4,938,083,300**
Commercial real estate - other							
Current period gross write offs	$ -	$ -	$ -	$ 5,244,108	$ -	$ -	$ 5,244,108

The Bank considers the performance of the loan portfolio and its impact on the allowance for credit losses. For residential and consumer loan classes, the Bank also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the amortized cost in residential and consumer loans based upon year of origination.

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Residential Real Estate							
Payment performance							
Performing	$102,167,229	$ 478,304,528	$ 647,364,001	$ 870,246,583	$ 75,331,886	$ 19,950,760	$ 2,193,364,987
Nonperforming	-	76,907	-	2,344,640	961,545	454,204	3,837,296
Total residential real estate loans	**$102,167,229**	**$478,381,435**	**$ 647,364,001**	**$ 872,591,223**	**$76,293,431**	**$ 20,404,964**	**$ 2,197,202,283**
Residential real estate -							
Current period gross write offs	$ -	$ -	$ -	$ 18	$ -	$ -	$ 18

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Auto							
Payment performance							
Performing	$122,435,910	$1,282,489,058	$ 856,962,718	$ 442,503,876	$ -	$ -	$ 2,704,391,562
Nonperforming	187,781	5,011,354	3,479,625	1,535,685	-	-	10,214,445
Total auto loans	**$122,623,691**	**$1,287,500,412**	**$ 860,442,343**	**$444,039,561**	**$ -**	**$ -**	**$2,714,606,007**
Auto							
Current period gross write offs	$ 1,053,907	$ 29,771,110	$ 22,146,349	$ 11,328,600	$ -	$ -	$ 64,299,966

Notes to Consolidated Financial Statements

Note 3. Loans (continued)

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Installment-Revolving							
Payment performance							
Performing	$ -	$ -	$ -	$ -	$ 3,200,429	$ -	$ 3,200,429
Nonperforming	-	-	-	-	10,634	-	10,634
Total installment-revolving loans	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,211,063**	**$ -**	**$ 3,211,063**
Installment-Revolving Current period gross write offs	$ -	$ -	$ -	$ -	$ 27,945	$ -	$ 27,945

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
Installment-Other							
Payment performance							
Performing	$131,225,852	$ 74,882,202	$ 31,513,324	$ 53,715,801	$ -	$ -	$ 291,337,179
Nonperforming	-	-	-	-	-	-	-
Total installment-other loans	**$131,225,852**	**$ 74,882,202**	**$ 31,513,324**	**$ 53,715,801**	**$ -**	**$ -**	**$ 291,337,179**
Installment-Other Current period gross write offs	$ 765,845	$ -	$ 1,054,880	$ 2,058,093	$ -	$ -	$ 3,878,818

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

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & Industrial	$ 572,789,886	$ 2,038,431	$ 3,798,489	$ 173	$ 578,626,979
Commercial Real Estate					
Construction & Land Development	107,072,456	-	371,892	-	107,444,348
Other	4,687,999,658	45,839,339	80,739,564	-	4,814,578,561
Residential Real Estate	2,264,806,603	-	5,246,707	-	2,270,053,310
Auto	3,923,368,104	105,269,278	10,510,843	-	4,039,148,225
Installment					
Revolving Plans	3,510,321	-	2,815	1	3,513,137
Other	229,544,211	-	-	1,116	229,545,327
Total	**$11,789,091,239**	**$ 153,147,048**	**$ 100,670,310**	**$ 1,290**	**$ 12,042,909,887**

Note 3. Loans (continued)

Purchased Credit Deteriorated Loans:

The Bank has purchased loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The bank has no purchased credit deteriorated loans as of 12/31/2023.

	Year Ended December 31, 2023
Purchase price of loans at acquisition	$ -
Allowance for credit losses at acquisition	-
Non-credit discount/(Premium) at acquisition	-
Par value of acquired loans at acquisition	**$ -**

Purchased Credit Impaired Loans and Leases:

The following table presents the outstanding balance and carrying amount of purchase credit impaired loans and leases as of December 31, 2022. This information is no longer relevant after December 31, 2022 given our adoption of CECL on January 1, 2023.

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

	Year Ended December 31, 2022	
Beginning of period	$ 3,562,419	
New loans or leases acquired	-	
Accretion income	(197,065)	
Increase (decrease) in expected cash flows	-	-
Disposals	(3,365,354)	
End of period	**$ -**	

For those PCI loans discussed above, the Bank had no allowance for loan loss adjustments and there were no credit impaired loans during the years ended December 31, 2022.

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, 2023		Year Ended December 31, 2022	
	PURCHASES	SALES	PURCHASES	SALES
Commercial & Industrial	$ -	$ -	$ -	$ -
Residential Real Estate	32,571,420	2,458,370	305,946,567	1,820,262
Auto	-	-	36,724,720	14,315,989
Installment	-	-	-	-
Other	99,528,248	-	49,154,805	-
Total	**$132,099,668**	**$ 2,458,370**	**$391,826,092**	**$ 16,136,251**

The Bank purchased the above loan and lease receivables at a net discount of $945 thousand and net discount of $3.4 million for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023	December 31, 2022
Land	**$ 52,571,044**	$ 53,079,044
Buildings	**67,318,440**	67,883,272
Leasehold improvements	**26,194,623**	28,717,734
Furniture, Fixtures and Equipment	**43,446,100**	57,305,496
Total premises and equipment, at cost	**189,530,207**	206,985,546
Less: Accumulated depreciation	**(67,735,195)**	(79,026,252)
Premises and Equipment, net	**$ 121,795,012**	**$ 127,959,294**

During the years ended December 31, 2023 and 2022, depreciation expense was $10.7 million and $11.0 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 2034 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 $16,773,497 and $16,876,539 for the years ended December 31, 2023 and 2022, respectively. Operating lease expense was deemed the only material component of lease costs for the years ended December 31, 2023 and 2022. The weighted-average lease term in years at December 31, 2023 and 2022 was 5.6 and 5.5, respectively. The weighted-average discount rate for lease liabilities at December 31, 2023 and 2022 was 3.3% and 3.2%, respectively. At December 31, 2023, the approximate minimum future lease payments under noncancellable operating lease agreements were:

2024	$ 12,911,442
2025	11,781,123
2026	9,412,126
2027	8,530,998
2028	6,655,764
Thereafter	9,843,567
Total undiscounted operating lease liability	**59,135,020**
Imputed Interest	**1,399,429**
Total operating lease liability	**$ 57,735,591**

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.

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 $82,951,119 and $102,150,849 as of December 31, 2023 and 2022, 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, 2023 and 2022, the Bank recognized policy income totaling $8,897,204 and $2,226,406, 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, 2023 and 2022, 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 Bank performed an impairment test as of December 31, 2023 at level zero and determined goodwill to have no impairment.

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 5 years as of December 31, 2023. Trade name intangibles have an indefinite life and are not amortized. 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 2 years as of December 31, 2023.

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, 2023 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, 2023 and 2022. Core deposit intangible impairment presented in the following tables was recognized in periods prior to 2019.

As of December 31, 2023 and 2022, 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, 2023	Gross Carrying Value	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
Core deposit intangibles	$ 163,544,866	$ 126,089,150	$ 860,970	$ 36,594,746
Trade name intangibles	17,060,240	-	1,460,240	15,600,000
Client relationship intangible	2,798,410	2,798,410	-	-
Other intangibles	2,579,639	2,564,345	-	15,294
Total	**$ 185,983,155**	**$ 131,451,905**	**$ 2,321,210**	**$ 52,210,040**
December 31, 2022				
Core deposit intangibles	$ 163,544,866	$ 108,968,838	$ 860,970	$ 53,715,058
Trade name intangibles	17,060,240	-	1,460,240	15,600,000
Client relationship intangible	2,798,410	2,498,580	-	299,830
Other intangibles	2,579,639	2,531,867	-	47,772
Total	**$ 185,983,155**	**$ 113,999,285**	**$ 2,321,210**	**$ 69,662,660**

Intangible liabilities consisted of $50 thousand and $184 thousand of lease liabilities as of December 31, 2023 and 2022, respectively. Aggregate amortization of intangible assets and liabilities was $131.5 million and $114.0 million for the years ended December 31, 2023 and 2022, respectively. The following table presents estimated future amortization expenses as of December 31, 2023:

	2024	2025	2026	2027	Thereafter	Total
Estimated future amortization expense	$ 13,654,843	$ 10,152,214	$ 6,836,435	$ 4,223,103	$ 1,743,445	$ 36,610,040

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, 2023 and 2022. 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, 2023 and 2022, the Bank recognized $1,302,724 and $1,078,479, respectively, of income from its investments in FHLB stock.

Note 9. Community Reinvestment Act Investments

The Bank invests in qualified affordable housing projects. At December 31, 2023 and 2022, the balance of the investment for qualified affordable housing projects was $17.8 million and $22.4 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 $1.4 million and $2.1 million as of December 31, 2023 and 2022, respectively. The Bank expects to fulfill these commitments through 2032.

During the years ended December 31, 2023 and 2022, the Bank recognized amortization expense of $3.5 million and $3.8 million, respectively, which were included within Income Tax Expense on the Consolidated Statements of Income. During the years ended December 31, 2023 and 2022, the Bank recognized tax credits and other benefits from its investment in affordable housing tax credits of $3.4 million and $3.3 million, respectively. In 2023, the bank had two investment

Note 9. Community Reinvestment Act Investments (continued)

terminations that occurred and the Bank expects to recognize a tax loss (and related benefit) on the terminations. The tax benefit of $1.8 million will be added to the expected credits of $3.4 million for a total benefit of $5.2 million. In addition, the Bank invests in $59.4 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 either the proportional amortization method, if certain criteria are met, or cost method of accounting and are reflected in Interest Receivable and Other Assets on the Consolidated Balance Sheets.

During the year ended December 31, 2023 and 2022, the Bank recognized dividend income of $2,895,215 and $4,870,491, respectively, which were included within Other Interest 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, 2023 and 2022 are as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Federal:		
Current	$ 41,669,456	$ 57,106,655
Deferred	8,328,606	(207,130)
Total Federal	49,998,062	56,899,525
State:		
Current	20,758,214	23,102,827
Deferred	5,271,236	5,550,163
Total State	26,029,450	28,652,990
Total tax provision	$ 76,027,512	$ 85,552,515

The provision for income taxes for the years ended December 31, 2023 and 2022, 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, 2023	Year Ended December 31, 2022
Federal statutory income tax rate	21.0%	21.0%
State income taxes, net of federal tax benefit	7.4	7.5
Tax exempt income	(0.2)	(0.2)
Bank owned life insurance	(0.7)	(0.1)
LIHTC Investments	(0.5)	(0.2)
Other	0.4	0.3
Effective Tax Rate	27.4%	28.3%

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.

Notes to Consolidated Financial Statements

Note 10. Income Taxes (continued)

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, 2023 and 2022. Deferred tax assets and liabilities at December 31, 2023 and 2022 were as follows:

	December 31, 2023	December 31, 2022
Deferred tax assets:		
Credit losses	$ **39,472,215**	$ 36,220,554
Compensation and benefits	**10,253,870**	15,892,096
State taxes	**4,228,598**	4,741,377
Loan fair value adjustments	**123,418**	1,393,022
Retirement plans	**10,263,341**	11,872,669
Operating lease liabilities	**16,503,141**	13,174,887
Other accrued expenses	**1,147,874**	2,536,064
Capital Loss Carryforward	**2,514,083**	-
Interest Receivable and Other	**1,580,137**	1,561,393
Unrealized loss on available-for-sale securities	**78,752,937**	96,597,043
Total deferred tax asset	**164,839,614**	**183,989,105**
Less: Valuation Allowance	**667,045**	**-**
Deferred Tax asset	**164,172,569**	**183,989,105**
Deferred tax liabilities:		
Operating lease right-of-use asset	**(15,801,124)**	(12,475,055)
Amortizable assets	**(14,819,242)**	(19,726,054)
Non marketable securities	**(1,428,268)**	(1,150,842)
Bank premises & equipment	**(13,131,051)**	(13,142,278)
Deferred loan costs	**(4,679,657)**	(6,431,966)
Other	**(871,249)**	(814,257)
Total deferred tax liability	**(50,730,591)**	**(53,740,452)**
Net deferred tax asset/(liability)	**$ 113,441,978**	**$ 130,248,653**

The Bank recorded no material unrecognized tax benefits for the years ended December 31, 2023 and 2022.

Included in the deferred tax assets are state capital loss carryforwards totaling $8.7 million as of December 31, 2023, which, if used, will expire in 2028. Capital loss carryforwards are utilizable only against future net capital gains.

Management assesses the available positive and negative evidence to estimate whether sufficient taxable income of the appropriate nature will be generated to permit use of the existing deferred tax assets. We believe that it is more likely than not, that the benefit of the state capital loss carryforwards will not be realized in the carryforward period. In recognition of this risk, the Bank has provided a valuation allowance of $0.7 million on the deferred tax assets related to these capital loss carryforwards. If or when they are recognized, the tax benefits related to the reversal of the valuation allowance of the deferred tax assets as of December 31, 2023 will be recognized as a reduction of income tax expense.

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 2020 tax return year and forward. The years open to examination by state and local government authorities varies by jurisdiction.

During 2022, the Bank finalized the State of California exam of the 2019 year with no adjustments. No other examinations are pending.

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 Plans) that supplements the benefits provided under the qualified Retirement Plan. The Supplemental Plans provides additional retirement and death benefits to a discrete group of key executive employees and their designated beneficiaries. The Supplemental Plans is an unfunded obligation of the Bank.

At the end of 2008, participation and benefits in both the Retirement Plan and the Supplemental Plans 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 Plans 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.

In the fourth quarter of 2023, the Bank began the process to terminating the Retirement Plan, which will include settling plan liabilities by offering lump sum distributions to certain plan participants and purchasing annuity contract to cover vested benefits. The Bank expects to complete the termination before the end of 2024.

The following table reflects the funded status, net periodic benefit cost and other information about the Retirement Plan and the Supplemental Plans as of and for the years ended December 31, 2023 and 2022:

	RETIREMENT PLAN		SUPPLEMENTAL PLAN	
	Year Ended December 31, 2023	**Year Ended December 31, 2022**	**Year Ended December 31, 2023**	**Year Ended December 31, 2022**
Change in benefit obligation				
Projected benefit obligation (PBO) at beginning of year	**$ 52,088,616**	$ 72,406,098	**$ 19,938,496**	$ 24,859,708
Service cost	**-**	-	**-**	-
Interest cost	**2,822,115**	2,051,178	**899,600**	591,440
Benefits paid	**(3,383,453)**	(3,324,448)	**(4,808,626)**	(2,443,303)
Actuarial loss (gain)	**1,430,976**	(19,044,212)	**742,197**	(3,069,349)
Projected benefit obligation (PBO) at end of year	**$ 52,958,254**	**$ 52,088,616**	**$ 16,771,667**	**$ 19,938,496**
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 56,191,314**	$ 68,808,106	**$ -**	$ -
Actual return on plan assets	**6,193,383**	(9,292,344)	**-**	-
Employer contribution	**-**	-	**4,808,626**	2,443,303
Benefits paid	**(3,383,453)**	(3,324,448)	**(4,808,626)**	(2,443,303)
Fair value of plan assets at end of year	**$ 59,001,244**	**$ 56,191,314**	**$ -**	**$ -**
Funded status at end of year	**$ 6,042,990**	**$ 4,102,698**	**$ (16,771,667)**	**$ (19,938,496)**
Amounts recognized in consolidated balance sheets				
Other liabilities	**6,042,990**	**4,102,698**	**(16,771,667)**	(19,938,496)
Total amounts recognized	**$ 6,042,990**	**$ 4,102,698**	**$ (16,771,667)**	**$ (19,938,496)**

Notes to Consolidated Financial Statements

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

	RETIREMENT PLAN		SUPPLEMENTAL PLAN	
	Year Ended December 31, 2023	Year Ended December 31, 2022	Year Ended December 31, 2023	Year Ended December 31, 2022
Amounts recognized in accumulated other comprehensive loss (income)				
Net accumulated loss (gain)	**$ (6,493,964)**	$ (5,001,414)	**$ (1,690,884)**	$ (1,270,225)
Total amounts	**$ (6,493,964)**	**$ (5,001,414)**	**$ (1,690,884)**	**$ (1,270,225)**
Accumulated benefit obligation (ABO) at end of year	**$ 52,958,254**	**$ 52,088,616**	**$ 16,771,667**	**$ 19,938,496**
Net periodic benefit cost				
Service cost	**$ -**	$ -	**$ -**	$ -
Interest cost	**2,822,115**	2,051,178	**899,600**	591,440
Expected return on plan assets	**(3,269,857)**	(4,027,936)	**-**	-
Benefits adjustments recognized	**-**	-	**-**	-
Amortization of unrecognized loss	**-**	-	**-**	348
Total net periodic benefit cost	**$ (447,742)**	**$ (1,976,758)**	**$ 899,600**	**$ 591,788**
Other changes in plan assets and benefit obligations recognized in other comprehensive loss				
Net loss	**$ (1,492,550)**	$ (5,723,932)	**$ (420,659)**	$ (3,069,349)
Amortization of loss	**-**	-	**-**	(348)
Total recognized in other comprehensive loss (income)	**$ (1,492,550)**	**$ (5,723,932)**	**$ (420,659)**	**$ (3,069,697)**
Assumptions used in determining net periodic benefit costs				
Beginning of period assumptions for net periodic benefit cost:				
Discount rate	**5.60%**	2.90%	**4.78%-5.60%**	2.38%-2.90%
Expected return on plan assets	**6.00%**	6.00%	**N/A**	N/A
Year end assumptions for reconciliation of funded status:				
Discount rate	**5.35%**	5.60%	**4.68%**	4.78%-5.60%
Expected return on plan	**6.00%**	6.00%	**N/A**	N/A

Notes to Consolidated Financial Statements

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

As of December 31, 2023, 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 $840 thousand for the Supplemental Plans. As of December 31, 2023, there was no deferred prior service cost to be amortized into net periodic benefit cost for either the Retirement Plan or the Supplemental Plans.

The Bank contributed $4,808,626 and $2,443,003 to the Supplemental Executive Retirement Plan during the years ended December 31, 2023 and 2022, respectively, to cover the benefit payments due in those years. Currently, the Bank estimates the contribution amount for 2024 to cover expected annuity payments will be $2,407,642.

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, 2023 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-2021.

Financial disclosures as of December 31, 2023 and December 31, 2022, 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-2021.

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 2023 or 2022.

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, 2023 and 2022:

Plan Assets:	**December 31, 2023**	**December 31, 2022**
Equity securities	– %	67%
Debt securities	**97**	31
Money market instruments and other	**3**	2
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, 2023 and 2022. 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, 2023 and 2022, by asset category, were as follows:

	FAIR VALUE MEASUREMENTS USING			
December 31, 2023	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Plan Assets				
Equity securities				
Common Stocks	$ -	$ -	$ -	$ -
Exchange Traded Funds	-	-	-	-
Debt securities				
U.S. Government Agencies	-	24,484,663	-	24,484,663
Fixed Income Municipal Bonds	-	-	-	-
Fixed Income Corporate Bonds	-	15,614,216	-	15,614,216
Fixed Income Mutual Funds	-	17,099,865	-	17,099,865
Money Market Mutual Funds	1,351,068	-	-	1,351,068
Other	451,432	-	-	451,432
Total Fair Value of Plan Assets	**$ 1,802,500**	**$ 57,198,744**	**$ -**	**$ 59,001,244**

	FAIR VALUE MEASUREMENTS USING			
December 31, 2022	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Plan Assets				
Equity securities				
Common Stocks	$ 31,679,092	$ -	$ -	$ 31,679,092
Exchange Traded Funds	5,873,121	-	-	5,873,121
Debt securities				
U.S. Government Agencies	-	1,967,440	-	1,967,440
Fixed Income Municipal Bonds	-	1,260,628	-	1,260,628
Fixed Income Corporate Bonds	-	12,271,348	-	12,271,348
Fixed Income Mutual Funds	-	1,766,164	-	1,766,164
Money Market Mutual Funds	1,242,004	-	-	1,242,004
Other	131,517	-	-	131,517
Total Fair Value of Plan Assets	**$38,925,734**	**$ 17,265,580**	**$ -**	**$ 56,191,314**

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, 2023 and based on expected employment turnover and actuarially determined life expectancies of participants and beneficiaries:

YEARS	RETIREMENT PLAN	SUPPLEMENTAL PLAN	TOTAL
2024	$ 3,551,857	$ 2,407,642	$ 5,959,499
2025	3,639,589	1,951,697	5,591,286
2026	3,707,613	1,821,788	5,529,401
2027	3,744,954	1,785,229	5,530,183
2028	3,817,219	1,706,978	5,524,197
2029-2033	19,331,118	6,948,030	26,279,148

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 2023 and 2022, 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 $0 in 2023 and $3,500,000 in 2022, which are included in Interest Payable and Other Liabilities on the Consolidated Balance Sheets as of December 31, 2023 and 2022.

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. Expense recognized for the DSRP was $0 and $30,000 during the years ended December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements

Note 12. Derivative Instruments

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 Rabobank. The notional amount of interest rate swaps with loan customers and offsetting swap agreements as of December 31, 2023 and 2022 were $863,476,235 and $1,044,663,748, respectively. The net income on customer swaps for the years ended December 31, 2023 and 2022 were $47,848 and $58,339, 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, 2023 and 2022, fair value of interest rate swap contracts within Interest Receivable and Other Assets were $18,081,488 and $28,063,812 and Interest Payable and Other Liabilities were $15,234,752 and $23,984,144, respectively. Rabobank deposited $18,430,000 in cash collateral with the Bank to secure underlying derivative contracts as of December 31, 2023.

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, 2023 and 2022 can be seen in the following table:

Year ended December 31, 2023	Notational Amount	Fair Value
Included in Interest Receivable and Other assets:		
Interest Rate Lock Commitments	$ -	$ -
Forward Sale Commitments	$ -	$ -
Included in Interest Payable and Other liabilities:		
Interest Rate Lock Commitments	$ -	$ -
Forward Sale Commitments	$ 447,700	$ 8,230

Year ended December 31, 2022	Notational Amount	Fair Value
Included in Interest Receivable and Other assets:		
Interest Rate Lock Commitments	$ -	$ -
Forward Sale Commitments	$ -	$ -
Included in Interest Payable and Other liabilities:		
Interest Rate Lock Commitments	$ -	$ -
Forward Sale Commitments	$ -	$ -

The net income on the mortgage commitments for the years ended December 31, 2023 and 2022 were $0 and $4,387, 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, 2023 and 2022, respectively, there were approximately $116,896 and $120,141 in loans outstanding to directors, executives and their related interests. At December 31, 2023 and 2022, respectively, there were $0 and $0 in unfunded commitments to directors, executives and their related interests. At December 31, 2023 and 2022, respectively, there were approximately $2,111,733 and $2,730,830 in deposit balances from directors, executives and their related interests.

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, 2023. 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, 2023 and 2022 were as follows:

	December 31, 2023	December 31, 2022
Loan commitments	**$ 1,061,254,539**	$ 1,010,371,334
Standby letters of credit	**26,447,952**	53,522,218

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, 2023 and 2022, respectively, the Bank recorded an accrued contingent liability of $425,000 and $350,000.

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, 2023 and 2022 were $404,424,960 and $279,875,263, respectively. At December 31, 2023, the scheduled maturities of time certificates of deposit were as follows:

2024	$ 937,296,433
2025	39,407,621
2026	11,656,299
2027	4,565,600
2028	4,020,247
Thereafter	2,012,088
	$ 998,958,288

The Bank accepts public deposits from various state, city and municipal agencies. Public deposits totaling $1,015,682,412 and $1,005,431,529 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, 2023 and 2022, 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 $1.1 billion and $1.1 billion pledged as collateral as of December 31, 2023 and 2022, respectively.

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, 2023 and 2022, the Bank held trust deposits of $1,529,090 and $2,101,492, respectively, that were in excess of $250,000 and which required securities collateralization.

Notes to Consolidated Financial Statements

Note 18. Borrowing Arrangements

Federal Home Loan Bank (FHLB) Advances

The Bank's FHLB Advances totaled $0 and $260 million for the years ended December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the Bank's investment in capital stock of the FHLB of San Francisco totaled $17.3 million. The Bank had $6.5 billion of loans pledged to the FHLB which permits up to $3.7 billion of additional borrowing capacity as of December 31, 2023.

Subordinated Debentures

As of December 31, 2023 and 2022, the Bank had $25 million and $24.9 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, 2023 and 2022. The subordinated debentures are scheduled to mature on November 15, 2024.

The subordinated debentures at December 31, 2023 and 2022 consisted of the following:

	December 31, 2023		December 31, 2022	
	PRINCIPAL OWED	DISCOUNT	PRINCIPAL OWED	DISCOUNT
Subordinated Debentures	$ 25,000,000	$ 34,547	$ 25,000,000	$ 74,234

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

Federal Reserve Bank Discount Window and Bank Term Funding Program (BTFP)

The Bank has pledged $2.6 billion Auto loans through the Borrower-In-Custody Program and $0.2 billion investment securities to the Federal Reserve Bank Discount Window, which permits $2.1 billion of additional borrowing capacity as of December 31, 2023. In addition to the Federal Reserve Bank Discount Window, the Bank has pledged $2.5 billion par value investment securities to the FRB's Bank Term Funding Program, permitting an additional $2.5 billion borrowing capacity. The BTFP allows for monetization of pledged collateral at par.

As of December 31, 2023, the Bank had $0 in outstanding Discount Window borrowings and $750 million in outstanding BTFP borrowings at a fixed coupon rate of 4.76% maturing on January 15, 2025. Remaining Discount Window and BTFP borrowing capacity amount to $2.1 billion and $1.75 billion respectively.

Note 19. 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 64,225 and 64,220 for the years ended December 31, 2023 and 2022, respectively. As reflected in the Consolidated Statements of Income, the Bank's basic earnings per share were computed to be $3,143.85 and $3,372.50 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022.

Note 19. Shareholders' Equity, Earnings Per Share and Dividend Limitations (continued)

The Federal Deposit Insurance Corporation and the State of California Department of Financial Protection and Innovation regulate the Bank. California banking laws limit each 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, 2023, retained earnings was $306 million, net income for the last three years was $625 million, and distribution made to shareholders during the last three years was $558 million, leaving a dividend distribution limit of $67 million.

Note 20. 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, 2023 and 2022, 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 under-capitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2023, 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.

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, 2023						
Total risk-based capital ratio	**$ 1,721,284,000**	**16.2%**	**$ 1,117,432,470**	**10.50%**	**$ 1,064,221,400**	**10.00%**
Tier 1 risk-based capital ratio	**1,578,208,000**	**14.8%**	**904,588,190**	**8.50%**	**851,377,120**	**8.0%**
Common equity tier 1 capital ratio	**1,578,208,000**	**14.8%**	**744,954,980**	**7.00%**	**691,743,910**	**6.5%**
Tier 1 leverage ratio	**1,578,208,000**	**9.3%**	**712,766,240**	**4.00%**	**890,957,800**	**5.0%**
As of December 31, 2022						
Total risk-based capital ratio	**$ 1,623,046,000**	**13.6%**	**$ 1,256,358,285**	**10.50%**	**$ 1,196,531,700**	**10.00%**
Tier 1 risk-based capital ratio	**1,479,883,000**	**12.4%**	**1,017,051,945**	**8.50%**	**957,225,360**	**8.0%**
Common equity tier 1 capital ratio	**1,479,883,000**	**12.4%**	**837,572,190**	**7.00%**	**777,745,605**	**6.5%**
Tier 1 leverage ratio	**1,479,883,000**	**8.4%**	**739,733,640**	**4.00%**	**924,667,050**	**5.0%**

Notes to Consolidated Financial Statements

Note 21. 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, 2023 and 2022.

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.

Note 21. Fair Value (continued)

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, 2023	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. government agency securities	$ 98,221,479	$ -	$ 98,221,479	$ -
Obligations of states and political subdivisions	98,283,568	-	98,283,568	-
Mortgage-backed securities – residential	1,534,449,636	-	1,534,449,636	-
Mortgage-backed securities – commercial	569,808,347	-	569,808,347	-
Corporate bonds	42,409,887	-	42,409,887	-
Total debt securities available-for-sale	**$ 2,343,172,917**	**$ -**	**$ 2,343,172,917**	**$ -**
Equity securities	$ 15,104,224	$ -	$ 15,104,224	$ -
Derivative assets	$ 18,081,488	$ -	$ 18,081,488	$ -
Derivative liabilities	$ 15,234,752	$ -	$ 15,234,752	$ -

		FAIR VALUE MEASUREMENTS USING		
	DECEMBER 31, 2022	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. government agency securities	$ 94,905,161	$ -	$ 94,905,161	$ -
Obligations of states and political subdivisions	107,123,300	-	107,123,300	-
Mortgage-backed securities – residential	1,780,217,578	-	1,780,217,578	-
Mortgage-backed securities – commercial	624,615,138	-	624,615,138	-
Corporate bonds	59,952,667	-	59,952,667	-
Total debt securities available-for-sale	**$ 2,666,813,844**	**$ -**	**$ 2,666,813,844**	**$ -**
Equity securities	$ 15,016,509	$ -	$ 15,016,509	$ -
Derivative assets	$ 28,063,812	$ -	$ 28,063,812	$ -
Derivative liabilities	$ 23,984,144	$ -	$ 23,984,144	$ -

As of December 31, 2023 and 2022, there were no assets measured at fair value on a recurring basis using significant observable inputs (Level 3).

Notes to Consolidated Financial Statements

Note 21. Fair Value (continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Collateral Dependent Loan and Lease Receivables: The fair value of collateral dependent loan and lease receivables with specific allocations of the allowance for credit 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. Collateral dependent loans with specific allowance allocations of the allowance for credit losses, which are measured for dependency 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. Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the Appraisal Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. 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.

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

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2023 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	$ -	$ -	$ **17,011,275**

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2022 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	$ -	$ -	$ **113,770**

For the years ended December 31, 2023 and 2022 there were no collateral dependent loans with specific allowance allocations of the allowance for credit losses, which are measured for impairment using the fair value of the collateral for collateral dependent loans.

Notes to Consolidated Financial Statements

Note 21. 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, 2023 and 2022 and the methods and assumptions used to evaluate them:

	December 31, 2023		December 31, 2022	
	Estimated Fair Value	**Carrying Value**	Estimated Fair Value	Carrying Value
Assets:				
Cash and cash equivalents	**$ 1,457,568,585**	**$ 1,457,568,585**	$ 331,626,636	$ 331,626,636
Securities available-for-sale	**2,343,172,917**	**2,343,172,917**	2,666,813,844	2,666,813,844
Securities held-to-maturity	**1,309,248,838**	**1,542,116,127**	1,379,068,661	1,647,275,681
Loans held for sale	**440,097**	**440,097**	-	-
Loan and lease receivables, net	**9,952,733,698**	**10,643,977,272**	11,306,672,636	11,916,193,703
FHLB stock	**N/A**	**17,250,000**	N/A	17,250,000
Other real estate owned	**17,011,275**	**17,011,275**	113,770	113,770
Accrued interest receivable	**48,137,667**	**48,137,667**	51,420,701	51,420,701
Equity securities	**15,104,224**	**15,104,224**	15,016,509	15,016,509
Derivative asset	**18,081,488**	**18,081,488**	28,063,812	28,063,812
Liabilities:				
Deposits:				
Noninterest-bearing demand deposits	**(6,187,870,291)**	**(6,187,870,291)**	(7,266,198,915)	(7,266,198,915)
Interest-bearing transaction accounts	**(5,720,504,960)**	**(5,720,504,960)**	(5,585,218,702)	(5,585,218,702)
Savings and time deposits	**(2,376,367,638)**	**(2,389,767,427)**	(2,616,995,195)	(2,644,332,979)
Subordinated debentures	**(24,549,549)**	**(24,965,453)**	(24,661,453)	(24,925,766)
Derivative liabilities	**(15,234,752)**	**(15,234,752)**	(23,984,144)	(23,984,144)
Accrued interest payable on deposits	**(6,248,177)**	**(6,248,177)**	(1,452,404)	(1,452,404)

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 21. 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.

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 $13,299,184,389 and $14,630,514,183 as of December 31, 2023 and 2022 respectively. There were no Level 2 inputs for deposits as of December 31, 2023 and 2022. Level 3 inputs for deposits were $998,958,289 and $865,236,413 as of December 31, 2023 and 2022 respectively.

Accrued interest receivable: The carrying value is a reasonable approximation of fair value. Level 1 inputs for accrued interest receivable were $0 and $0 as of December 31, 2023 and 2022 respectively. Level 2 inputs for accrued interest receivable were $9,585,410 and $10,493,697 as of December 31, 2023 and 2022 respectively. Level 3 inputs for accrued interest receivable were $38,552,257 and $40,927,004 as of December 31, 2023 and 2022 respectively.

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 $957,688 and $183,882 as of December 31, 2023 and 2022 respectively. Level 2 inputs for accrued interest payable were $0 and $588,983 as of December 31, 2023 and 2022 respectively. Level 3 inputs for accrued interest payable were $5,290,489 and $679,539 as of December 31, 2023 and 2022 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 22. 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, 2023	Year Ended December 31, 2022
Noninterest Income in Scope of ASC 606		
Service Charges on Deposit Accounts and Other Deposit Service Fees	**$ 24,955,134**	$ 25,791,544
Trust fees and commissions	**9,644,395**	9,710,328
Gain (loss) on sale of OREO, net	**(109,241)**	(149,355)
Non-interest income subject to ASC 606	**34,490,288**	35,352,517
Non-interest income not subject to ASC 606	**39,736,258**	28,380,939
Total noninterest income	**$ 74,226,546**	**$ 63,733,456**

Board of Directors

Carl B. Webb, Chairman
E. Michael Downer, Vice Chairman
Patricia Cochran, Director
Adrienne Crowe, Director
Douglas Downer, Director
Gerald J. Ford, Director
Kenneth D. Russell, Director
Jon R. Wilcox, Director

Executive Management Team

CJ Johnson, Interim President and Chief Executive Officer
Nathan Duda, Executive Vice President, Chief Financial Officer
Alicia Gagliano, Executive Vice President, Chief Human Resource Officer
Scott A. Givans, Executive Vice President, Chief Credit Officer
Shanna Hansen, Senior Vice President, Director of Retail Banking
Kelly Johnston, Executive Vice President, Director of Wealth Management
Tony Kallingal, Executive Vice President, Chief Banking Officer
David Louis, Senior Vice President, Director of Marketing and Communication
Doug Lutz, Executive Vice President, Chief Commercial Banking Officer
Natalie McCabe, Senior Vice President, Chief Auditor
Randy Melby, Executive Vice President, Chief Risk Officer
Kristie S. Shields, Executive Vice President, Chief Compliance Counsel
Glenn C. Shrader, Executive Vice President, General Counsel
Daniel Watt, Executive Vice President, Director of Mortgage and Consumer Lending

Positions as of March 25, 2024