C O N S O L I D A T E D   F I N A N C I A L   S T A T E M E N T S

Bci Financial Group, Inc. and Subsidiaries
Years Ended December 31, 2022 and 2021
With Report of Independent Auditors

Bci Financial Group, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

Contents

KPMG LLP
Brickell City Center, Suite 1200
78 SW 7 Street
Miami, FL 33130

Independent Auditors' Report

The Board of Directors and Stockholder
Bci Financial Group, Inc.:

Opinion

We have audited the consolidated financial statements of Bci Financial Group, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the Company's ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

Miami, Florida
March 31, 2023

Bci Financial Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	December 31 2022	December 31 2021
Assets		
Cash and due from banks	$ 189,647	$ 137,658
Interest bearing balances with financial institutions	245,466	1,179,664
Cash and cash equivalents	435,113	1,317,322
Securities available for sale, at fair value	3,855,785	4,482,751
Securities held to maturity (fair value of $2,462,056 and $1,464,061, respectively)	2,830,209	1,490,516
Equity securities, at fair value	36,550	30,500
Loans held for sale, at fair value	48,380	68,300
Loans and leases	16,646,805	13,341,102
Allowance for credit losses	(138,815)	(129,543)
Loans and leases, net	16,507,990	13,211,559
Premises, equipment, and software, net	91,087	92,544
Other real estate owned and repossessed assets	–	1,183
Operating lease equipment, net	209,303	193,245
Federal Home Loan Bank and Federal Reserve Bank stock	163,920	95,637
Accrued interest receivable	89,967	71,821
Bank-owned life insurance	515,137	502,136
Goodwill	92,606	108,623
Intangible assets, net	45,714	62,358
Mortgage servicing rights, net	490	2,249
Deferred tax assets, net	192,214	57,727
Other assets	153,395	138,908
Total assets	$ 25,267,860	$ 21,927,379
Liabilities and Stockholder's Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 6,623,772	$ 7,392,601
Interest bearing	13,628,087	11,012,847
Total deposits	20,251,859	18,405,448
Federal funds purchased and securities sold under agreements to repurchase	57,291	100,510
Federal Home Loan Bank advances	2,525,000	1,100,000
Other borrowings	10,730	10,852
Other liabilities	375,277	84,452
Total liabilities	23,220,157	19,701,262
Commitments and contingencies *(Note 15)*		
Stockholder's equity:		
Common stock, par value $1; 927,345,444 shares authorized, issued, and outstanding	927,345	927,345
Additional paid-in capital	589,132	589,132
Retained earnings	1,022,485	753,560
Accumulated other comprehensive loss, net	(492,837)	(45,645)
Total stockholder's equity attributable to Bci Financial Group, Inc.	2,046,125	2,224,392
Noncontrolling interest	1,578	1,725
Total stockholder's equity	2,047,703	2,226,117
Total liabilities and stockholder's equity	$ 25,267,860	$ 21,927,379

See accompanying notes to consolidated financial statements.

Bci Financial Group, Inc. and Subsidiaries

Consolidated Statements of Income

(In Thousands)

	Year Ended December 31 2022	2021
Interest and dividend income:		
Interest and fees on loans and leases	$ 644,644	$ 499,058
Interest on securities	119,284	68,652
Dividend on securities	7,082	2,993
Other earning assets	5,389	1,813
Total interest income	776,399	572,516
Interest expense:		
Deposits	113,185	34,870
Short-term borrowings	35,904	944
Long-term debt	533	9,980
Total interest expense	149,622	45,794
Net interest income	626,777	526,722
Provision for (reversal of) credit losses	17,595	(7,000)
Net interest income after provision for (reversal of) credit losses	609,182	533,722
Non-interest income:		
Service charges on deposit accounts	31,874	27,963
Swap fee income	7,532	1,456
Credit valuation adjustment	3,759	3,102
Other service charges and fees	4,606	4,308
Trust and wealth management fees	2,995	1,601
Gain on sale of loans, net	3,591	5,217
(Loss) gain on sale of securities, net	(296)	3,966
Bank-owned life insurance income	13,001	12,853
Loan servicing	3,838	4,596
Lease financing	24,523	19,513
Other	414	819
Total non-interest income	95,837	85,394
Non-interest expenses:		
Salaries and employee benefits	180,851	168,267
Occupancy, net	19,585	18,652
Furniture and equipment	9,394	8,084
Depreciation – lease equipment	18,160	15,597
Amortization of intangible assets	16,838	18,642
Amortization of goodwill	16,016	16,168
Technology and data processing	24,977	22,641
Professional services	13,137	9,463
Advertising and marketing	7,622	3,717
Federal Deposit Insurance Corporation insurance assessment	7,608	5,410
Loss on early swap termination	–	4,188
Other	28,142	21,720
Total non-interest expenses	342,330	312,549
Income before income tax expense	362,689	306,568
Income tax expense	89,398	63,419
Net income	273,291	243,149
Net income attributable to noncontrolling interest	212	188
Net income attributable to Bci Financial Group, Inc.	$ 273,079	$ 242,961

See accompanying notes to consolidated financial statements.

Bci Financial Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(In Thousands)

	Year Ended December 31 2022	2021
Net income	$ 273,291	$ 243,149
Other comprehensive loss, net of tax:		
Net unrealized losses on securities available for sale:		
Net unrealized losses arising during the period on securities available for sale, net of taxes of $156,284 and $31,115	(477,172)	(97,325)
Reclassification adjustment for net losses (gains) on sales of securities available for sale, included in net income, net of taxes of $(73) and $961	223	(3,005)
Net change in net unrealized losses on securities available for sale, net of tax	(476,949)	(100,330)
Net unrealized gains on derivative instruments designated as cash flow hedges:		
Net unrealized gains arising during the period on derivatives designated as hedging instruments, net of taxes of $(10,396) and $(4,460)	31,775	13,951
Reclassification adjustment for net (gains) losses on derivative instruments included in net income, net of taxes of $933 and $(362)	(2,851)	1,133
Net change in net unrealized gains on derivative instruments, net of tax	28,924	15,084
Net unrealized gains (losses) on securities available for sale transferred to held to maturity:		
Net unrealized losses arising during the period on securities available for sale transferred to held to maturity, net of taxes of $– and $1,529	–	(4,783)
Reclassification adjustment for interest income on securities held to maturity, net of taxes of $(273) and $(181)	833	569
Net change in net unrealized gains (losses) on securities available for sale transferred to held to maturity	833	(4,214)
Other comprehensive loss, net of tax	(447,192)	(89,460)
Comprehensive (loss) income attributable to Bci Financial Group, Inc.	(173,901)	153,689
Comprehensive (loss) income attributable to noncontrolling interest	(147)	127
Comprehensive (loss) income	$ (174,048)	$ 153,816

See accompanying notes to consolidated financial statements.

Bci Financial Group, Inc. and Subsidiaries

Consolidated Statements of Stockholder's Equity
(In Thousands, Except Share Data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Bci Financial Group, Inc. Stockholder's Equity	Noncontrolling Interest	Total Stockholder's Equity
	Shares	Amount						
Balance at December 31, 2020	927,345,444	$ 927,345	$ 589,132	$ 510,599	$ 43,815	$ 2,070,891	$ 1,598	$ 2,072,489
Net income	–	–	–	242,961	–	242,961	188	243,149
Other comprehensive loss, net of tax	–	–	–	–	(89,460)	(89,460)	(61)	(89,521)
Balance at December 31, 2021	927,345,444	927,345	589,132	753,560	(45,645)	2,224,392	1,725	2,226,117
Cumulative effect of adoption of accounting principle, net of tax	–	–	–	(4,154)	–	(4,154)	–	(4,154)
Net income	–	–	–	273,079	–	273,079	212	273,291
Other comprehensive loss, net of tax	–	–	–	–	(447,192)	(447,192)	(359)	(447,551)
Balance at December 31, 2022	927,345,444	$ 927,345	$ 589,132	$ 1,022,485	$ (492,837)	$ 2,046,125	$ 1,578	$ 2,047,703

See accompanying notes to consolidated financial statements.

Bci Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31 2022	2021
Operating activities		
Net income	$ 273,291	$ 243,149
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,621	59,399
Provision for (reversal of) credit losses and off-balance-sheet commitments	17,745	(6,147)
Deferred income tax expense (benefit)	13,417	(1,358)
Loss (gain) on sale of securities, net	296	(3,966)
Unrealized loss on equity securities	3,976	909
(Gain) loss on sale of premises and equipment and operating lease equipment	(153)	363
Gain on sale of other real estate owned	(125)	(232)
Gain on settlements of bank-owned life insurance	–	(2,690)
Gain on sale of loans and leases, net	(3,424)	(5,217)
Net amortization of premiums of securities	10,599	18,434
Amortization of premium on other borrowings	(122)	(121)
Net accretion on loan discount	(4,627)	(6,136)
Net accretion of deferred loan and lease fees	(22,235)	(8,620)
Proceeds from sales of loans held for sale	105,834	227,360
Originations of loans held for sale	(82,490)	(245,069)
Increase in cash surrender value of bank-owned life insurance	(13,001)	(10,713)
Changes in operating assets and liabilities:		
Accrued interest receivable	(18,146)	7,220
Other assets	98,553	66,643
Other liabilities	201,205	(77,829)
Net cash provided by operating activities	642,214	255,379
Investing activities		
Proceeds from maturities, calls, and repayments of securities available for sale	549,191	901,136
Proceeds from sales of securities available for sale	94,290	318,503
Principal repayments and maturities of securities held to maturity	190,834	16,394
Purchases of securities available for sale	(662,973)	(2,386,014)
Purchases of securities held to maturity	(1,528,614)	(1,017,944)
Purchases of equity securities	(10,026)	–
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock	(280,733)	–
Proceeds from redemption of Federal Home Loan Bank and Federal Reserve Bank stock	212,450	15,430
Net increase in loans and leases	(3,278,481)	(917,078)
Purchases of bank premises, equipment, and software	(5,435)	(5,146)
Proceeds from sale of premises, equipment, and software	3,270	8,501
Proceeds from sale of other real estate owned	1,308	7,262
Purchases of operating lease equipment	(37,696)	(38,362)
Proceeds from bank-owned life insurance surrender and settlement	–	4,642
Purchases of bank-owned life insurance	–	(115,000)
Net cash used in investing activities	(4,752,615)	(3,207,676)
Financing activities		
Net change in deposits	1,846,411	3,444,606
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(43,219)	(14,683)
Net increase (decrease) in short-term borrowings	2,175,000	(100,000)
Repayments of long-term borrowings	(750,000)	–
Net cash provided by financing activities	3,228,192	3,329,923
Net decrease (increase) in cash and cash equivalents	(882,209)	377,626
Cash and cash equivalents at beginning of year	1,317,322	939,696
Cash and cash equivalents at end of year	$ 435,113	$ 1,317,322
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest	$ 131,510	$ 47,077
Income taxes	6,047	124,952
Noncash investing and financing activities:		
Transfer of securities from available for sale to held to maturity	–	453,998
Real estate property collateralizing loans acquired through foreclosure	–	2,248

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Business Operations

Bci Financial Group, Inc. (the Company), a wholly owned subsidiary of Banco de Crédito e Inversiones, S.A. (Bci) through its direct subsidiary, City National Bank of Florida (the Bank), is engaged in the general commercial banking business and provides a variety of related financial products and services through its branches and offices in Miami-Dade, Sarasota, Collier, Brevard, St. Lucie, Broward, Palm Beach, Hillsborough, and Orange counties in Florida.

The Company also provides lease financing services through the Bank's wholly owned subsidiary, Bci Capital, Inc., with offices in Connecticut, Florida, Georgia, Maryland, New York, North Carolina, Oregon, Pennsylvania, South Carolina, Texas, and Virginia.

Basis of Presentation

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. Generally Accepted Accounting Principles (GAAP) and general practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the financial position and results of operations of the Company and its consolidated subsidiaries after elimination of all intercompany accounts and transactions.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the respective consolidated balance sheets and reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates.

Estimates that are particularly susceptible for significant change relate to the determination of the allowance for credit losses (ACL), fair value measurements including the fair value of financial instruments, valuation of goodwill and intangible assets, income taxes, and contingent liabilities.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks with maturities of 90 days or less at purchase date and interest-bearing balances with financial institutions with maturities of 90 days or less at purchase date.

Debt Securities

Debt securities are classified as held to maturity or available for sale.

Held to Maturity Debt Securities – Debt securities for which the Company has the intent and ability to hold to maturity are reported at amortized cost.

Available for Sale Debt Securities – Debt securities which are not classified as held to maturity are classified as available for sale. Available for sale debt securities are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholder's equity in accumulated other comprehensive income.

Premiums and discounts are amortized or accreted using the effective interest rate method over the life of the debt security, except for callable debt securities purchased with a premium. Premiums on callable debt securities are amortized to the earliest call date (as opposed to the life of the security).

The specific identification method is used to determine gains and losses on the sale of debt securities that are recorded on the trade date.

The Company's policy on the ACL related to debt securities is discussed below in the section titled "Allowance for Credit Losses."

Equity Securities

Investments in equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

1. Summary of Significant Accounting Policies (continued)

Loans Held for Sale

Loans held for sale consist of residential real estate loans originated for sale in the secondary market. The Company has elected to account for newly originated loans classified as held for sale under the fair value option. The change in fair value of loans held for sale is recorded as a component of gain on sale of loans in the Company's consolidated statements of income.

Loans and Leases

Loans

Loans are reported at amortized cost, net of the ACL. Interest income is accrued based on the principal amount outstanding. Non-refundable loan origination fees, net of direct costs or originating or acquiring loans, as we as purchase premiums and discounts, are deferred and recognized as adjustments to yield over the contractual lives of the related loans using the interest method which results in a constant effective yield.

Nonaccrual and Past Due

Loans are considered nonaccrual if the principal or interest payments are 90 days past due (unless the credit is sufficiently collateralized and in the process of renewal or collection) or if the Company's analysis of the borrower's credit risk necessitates a nonaccrual classification.

When a loan is placed on nonaccrual status, the accrual of interest as well as the amortization or accretion of unamortized net deferred fees or costs for originated loans as well as any discounts or premiums for purchased loans is suspended. Additionally, all accrued but uncollected interest is reversed through interest income. The Company generally applies the cost recovery method while a loan is in nonaccrual status, that is, any cash received while a loan is in nonaccrual status is first applied against the principal until the loan has been collected in full. Any additional cash received is recognized as interest income. If, however, the remaining recorded investment is deemed fully collectible, the interest is accounted for using the cash-basis method.

Loans are disclosed as past due when contractually required principal or interest payments have not been made on the due date.

1. Summary of Significant Accounting Policies (continued)

Troubled Debt Restructuring (TDR)

A loan modification is classified as a TDR if the borrower is experiencing financial difficulty and the Company has granted a concession to the borrower. The Company makes concessions to assist borrowers as well as mitigate the amount of loan losses. Concessions primarily provided to borrowers include interest rate reductions to below market rates given the borrower's risk characteristics, principal and/or previously accrued interest extinguishment, and extension of the loan maturity date. Short term modifications (three months or less) or insignificant delays in principal or interest are not considered concessions by the Company and those modifications are not classified at TDRs.

If there has been a sustained period of performance (typically six months or greater) after the modification, the TDR may be classified as an accruing loan. A loan may no longer be classified as a TDR if the customer is no longer experiencing financial difficulty and the interest rate has been changed to a market rate and no principal was forgiven.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law on March 27, 2020, as amended by the 2021 Consolidated Appropriations Act provides the Company relief from applying TDR accounting to COVID-19 related modifications made from March 1, 2020 to the earlier of 60 days after the end of the COVID-19 national emergency or January 1, 2022. Modifications that are not eligible for the relief from TDR accounting under the CARES Act can consider the interagency statement issued by the federal banking regulators on April 7, 2020 (*Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus*, the 'Interagency Statement'). TDR relief is granted via the Interagency Statement for short-term modifications (six months or less) where the borrower is current at the date of the modification program.

1. Summary of Significant Accounting Policies (continued)

Leases

The Company is a lessor and has direct financing leases, leveraged leases, and operating leases. Directing financing leases and leveraged leases are recorded as part of the loan balance. These leases are recorded as follows:

- Direct financing leases are recorded at the sum of all minimum lease payments receivable plus the estimated residual value of the leased property less unearned income. Unearned lease income is recognized in interest income over the life of the lease using a level-yield method. The Company reviews the lease residual for potential impairment.

- Leveraged leases are a form of direct financing leases. Leveraged leases are recorded net of related non-recourse debt. Thus, leveraged leases are recorded at the sum of all minimum lease payments receivable plus the estimated residual value of the leased property less nonrecourse debt payments and less unearned income. Interest income is recorded by applying the leveraged lease's estimated rate of return to the net investment in the lease. The return earned is due in part to the income tax treatment. The Company reviews the lease residual value for potential impairment.

- Operating lease equipment is recorded at cost less accumulated depreciation. Operating lease rental income is recognized on a straight-line basis over the lease term. Depreciation expense considers the residual value and is recorded on a straight-line basis over the estimated useful life of the leased asset. Impairment loss is recognized if the carrying amount of the lease asset is greater than fair value and it not recoverable (i.e., exceeds the sum of the undiscounted cash flows expected from the lease payments receivable and the residual value).

Allowance for Credit Losses

Debt Securities

The Company reviews its debt securities for credit loss impairment at the individual security level on at least a quarterly basis. A security is impaired if its fair value is less than its amortized cost basis. A decline in fair value below amortized cost basis represents a credit loss impairment to the extent the Company does not expect to recover the amortized cost basis of the security. Impairment related to credit losses is recorded through the ACL to the extent fair value is less than the amortized cost basis. Declines in fair value that have not been recorded through the ACL are recorded through other comprehensive income, net of applicable taxes for available for sale debt securities.

1. Summary of Significant Accounting Policies (continued)

In assessing whether an impairment is credit loss related, the Company compares the present value of cash flows expected to be collected to the security's amortized cost basis. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists, and an ACL is recorded. The Company discounts expected cash flows at effective interest rate implicit in the security at the purchase date, adjusted for expected prepayments. In developing estimates about cash flows expected to be collected and determining whether a credit loss exists, the Company considers information about past events, current conditions, and reasonable and supportable forecasts. Factors and information that the Company uses is making assessments include, but are not necessarily limited to, the following:

- The extent to which fair value is less than amortized cost;
- Adverse conditions specifically related to the security, an industry or geographic area;
- Changes in the financial condition of the issuer or underlying loan obligors;
- The payment structure and remaining payment terms of the security, including levels of subordination or over-collateralization;
- Failure of the issuer to make scheduled payments;
- Changes in credit ratings;
- Relevant market data;
- Estimated prepayments, defaults, and the value and performance of underlying collateral at the individual security level.

Timely payment of principal and interest on securities issued by the U.S. Government, U.S. government agencies and U.S. government sponsored entities is explicitly or implicitly guaranteed by the U. S. government. Therefore, the Company expects to recover the amortized cost basis of these securities.

If the Company intends to sell a security in an unrealized loss position, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, any allowance for credit losses will be written off and the amortized cost basis will be written down to the debt security's fair value at the reporting date with any incremental impairment reported in earnings.

Debt securities will be charged off to the extent that there is no reasonable expectation of recovery of amortized cost basis. Debt securities will be placed on non-accrual status if the Company does not reasonably expect to receive interest payments in the future and interest accrued will be reversed against interest income. Securities will be returned to accrual status only when collection of interest is reasonably assured.

1. Summary of Significant Accounting Policies (continued)

Loans

The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The ACL is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected. Amortized cost basis includes unpaid principal balance, unamortized premiums or discounts and deferred fees and costs, net of amounts previously charged off.

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Determining the amount of the ACL is complex and requires extensive judgment by management about matters that are inherently uncertain. Re-evaluation of the ACL estimate in future periods, considering changes in composition and characteristics of the loan portfolio, changes in the reasonable and supportable forecast and other factors then prevailing may result in material changes in the amount of the ACL and credit loss expense in those future periods.

Loans are charged off against the ACL in the period in which they are deemed uncollectible, and recoveries are credited to the ACL when received. Expected recoveries on loans previously charged off and expected to be charged-off, not to exceed the aggregate of amounts previously charged-off and expected to be charged-off, are included in the ACL estimate. For loans secured by residential real estate, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off at no later than 180 days delinquency. Additionally, any outstanding balance in excess of fair value of collateral less cost to sell is charged off (i) within 60 days of receipt of notification of filing from the bankruptcy court, (ii) within 60 days of determination of loss if all borrowers are deceased or (iii) within 90 days of discovery of fraudulent activity. Other consumer loans are typically charged off at 120 days or 180 days delinquency, if secured or unsecured, respectively. Commercial loans are charged off when, in management's judgment, they are considered to be uncollectible.

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type, industry, geography, internal risk rating, credit characteristics such as credit scores or collateral values, and historical or expected credit loss patterns. For loans that do not share similar risk characteristics with other loans such as collateral dependent loans and TDRs, expected credit losses are estimated on an individual basis.

1. Summary of Significant Accounting Policies (continued)

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. Expected prepayments are generally estimated based on the Company's historical experience. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a TDR will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

For most portfolio segments and subsegments, including residential loans, and most commercial and commercial real estate loans, expected losses are estimated using econometric models. The models employ a factor-based methodology, leveraging data sets containing extensive historical loss and recovery information by industry, geography, product type, collateral type and obligor characteristics, to estimate probability of default (PD) and loss given default (LGD). Measures of PD for commercial loans incorporate current conditions through market cycle or credit cycle adjustments. For residential loans, the models consider original FICO and delinquency rates. PDs and LGDs are then conditioned on the reasonable and supportable economic forecast. Projected PDs and LGDs, determined based on pool level characteristics, are applied to estimated exposure at default, considering the contractual term and payment structure of loans, adjusted for expected prepayments, to generate estimates of expected loss. The ACL estimate incorporates a reasonable and supportable economic forecast using externally developed macroeconomic scenarios applied in the models. The forecasts of future economic conditions are over a period that has been deemed reasonable and supportable, and in periods where it can no longer develop reasonable and supportable forecasts, the Company reverts to historical PDs to estimate losses over the remaining life of the loans, calculated on a straight-line basis over one year.

A single economic scenario or a probability weighted blend of economic scenarios may be used. The models ingest numerous national, regional and MSA level variables and data points.

Qualitative Factors

Quantitative models have certain inherent limitations with respect to estimating expected losses. These limitations may be more prevalent in times of rapidly changing economic conditions and forecasts. Qualitative adjustments are made to the ACL when, based on management's judgment, there are factors impacting expected credit losses not taken into account by the quantitative calculations. Potential qualitative adjustments are categorized as follows:

- Changes in national, regional, and local economic conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.

1. Summary of Significant Accounting Policies (continued)

- Changes in nature and volume of the portfolio and in the terms of loans.
- Changes in the experience, ability, and depth of lending management and other relevant staff.
- Changes in the volume and severity of past due loans, non-accrual loans, and adversely classified or graded loans.
- Changes in the quality of the Company's loan review system.
- Changes in the value of underlying collateral for non-collateral-dependent loans.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of other external factors, such as competition and legal and regulatory requirements on the level of estimate credit losses in the Company's existing portfolio.
- Other qualitative factors that are likely to cause estimated credit losses associated with the Company's existing portfolio to differ from historical loss experience.

Collateral Dependent Loans

Collateral dependent loans are defined as those for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not typically share similar risk characteristics with other loans and expected credit losses are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. The Company selected certain practical expedients such that estimates of expected credit losses for collateral dependent loans, whether or not foreclosure is probable, are based on the fair value of the collateral, adjusted for selling costs when repayment depends on sale of the collateral.

Troubled Debt Restructurings

For TDRs or loans for which there is a reasonable expectation that a TDR will be executed that are not collateral dependent, as a result of the nature of the concessions, the effect is best captured by using a discounted cash flow method. Accordingly, the credit loss estimate is determined by comparing the net present value of expected cash flows to the amortized cost of the loans. Expected cash flows are discounted at the loan's original effective interest rate for fixed rate loans and at the rate as it changes over the life of the loan for variable rate loans.

1. Summary of Significant Accounting Policies (continued)

Off-balance Sheet Credit Exposures

Expected credit losses related to off-balance sheet credit exposures are estimated over the contractual period for which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. Expected credit losses are estimated using essentially the same methodologies employed to estimate expected credit losses on the amortized cost basis of loans, taking into consideration the likelihood and amount of additional amounts expected to be funded over the terms of the commitments. The liability for credit losses on off-balance sheet credit exposures is presented within other liabilities on the consolidated balance sheets, distinct from the ACL. Adjustments to the liability are included in the provision for credit losses.

Derivative Financial Instruments

Derivatives are recorded at fair value net of variation margin payments in the consolidated balance sheets as either other assets or other liabilities. Unless hedge accounting is met, the subsequent changes in the derivative's fair value are recognized in the consolidated statements of income.

The Company enters into master netting agreements with counterparties and in certain situations requires collateral from the counterparty. Most of the Company's derivative transactions are subject to mandatory clearing through a central clearinghouse. For derivatives cleared through a central clearinghouse, the variation margin payments are legally characterized as settlement of the derivative transaction and thus there is no fair value recognized in the consolidated balance sheets.

Interest Rate Swaps Designated as Hedging Instruments

The Company enters into interest rate swap transactions to manage cash flows changes related to interest rate risk exposure. For interest rate swaps designated as hedging instruments, the relationship between the hedge instrument and the hedged item, the hedge risk management objective, and hedge strategy are all formally documented at inception.

At inception of the hedge, an assessment to determine the effectiveness of the derivative in offsetting changes in expected future cash flows of the hedged item in the current period as well as in future periods is documented. The Company then continues to assess on an ongoing basis whether the derivative is highly effective in offsetting changes in cash flows of the hedged item.

1. Summary of Significant Accounting Policies (continued)

The effective portion of the change in fair value of the derivative is reported in accumulated other comprehensive income (loss). Amounts recognized in accumulated other comprehensive income (loss) are recognized in earnings when the related cash flows from the hedged items impact earnings. The Company records the amount recognized in earnings from the cash flow hedge derivative in the same consolidated statements of income line item as the amount recognized in earnings for the hedged item.

If the hedge is terminated or is no longer highly effective, hedge accounting is discontinued prospectively. The gain or loss is amortized into earnings over the period that the forecasted hedged item impacts earnings. If the forecasted transaction is no longer probable, the gain or loss is immediately included in earnings.

Interest Rate Swaps Not Designated as Hedging Instruments

The Company does not use derivative instruments to speculate. The Company enters into interest rate swaps to facilitate the risk management strategies of certain commercial banking clients related to exposure of interest rate fluctuations. Interest rate swaps that are not designated as hedging instruments are recorded as other assets and other liabilities in the consolidated balance sheets with gains and losses related to the change in fair value recognized in credit valuation adjustment in the consolidated statements of income during the period in which the change in fair value occurred.

Mortgage Banking

The Company enters into interest rate lock agreements related to expected funding of fixed-rate mortgage loans as well as forward commitments to sell fixed-rate mortgage loans. The interest rate lock commitments and the forward commitments are reported at fair value in other assets and other liabilities in the consolidated balance sheets and movements in fair value are recorded in the consolidated statements of income as gain on sale of loans.

Goodwill

Goodwill is measured as any excess of the acquisition-date amounts of the consideration transferred over the acquisition-date amounts of the net identifiable assets acquired in a business acquisition. Goodwill is tested for impairment at the reporting unit level. The Company has assigned all goodwill to one reporting unit that represents the total banking operations.

1. Summary of Significant Accounting Policies (continued)

The Company has elected the accounting alternative for the subsequent measurement of goodwill. Under the election, goodwill is amortized on a straight-line basis over 10 years. The Company evaluates the remaining useful lives of goodwill each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The Company tests goodwill for impairment annually and more frequently if indicators of impairment exist. Impairment exists when the carrying amount of a reporting unit, including goodwill, exceeds its fair value. The fair value of the Company's single reporting unit is based on valuation techniques that a market participant may use such as estimated discounted cash flows and observable average price-to-tangible book value and price-to-earnings multiples of similar banks. An optional qualitative assessment permits the Company to assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is required to perform the quantitative impairment test. If it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company does not need to perform the quantitative impairment test. No impairment was identified in 2022 or 2021.

Intangible Assets

The Company's intangible assets primarily consist of core deposit premiums arising from business acquisitions. The core deposit premiums are finite-lived intangible assets that are amortized over their useful lives using the straight-line method.

Finite-lived intangible assets are reviewed for impairment when indicators of impairment are present. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. No impairment to the intangible assets has been identified in 2022 or 2021.

As part of the acquisition of the Bank, a trade name intangible asset was recognized. The trade name intangible asset was determined to have an indefinite life thus is not amortized until its useful life is determined to be finite. The Company reviews the useful life of an indefinite-lived intangible asset each reporting period to determine whether events and circumstances continue to support the indefinite useful life classification.

When the Company determines that the life of an intangible asset is no longer indefinite, the intangible asset will then be tested for impairment in the same manner as other indefinite-lived intangible assets.

1. Summary of Significant Accounting Policies (continued)

Mortgage Servicing Rights

The Company recognizes the right to service mortgage loans as separate assets when servicing is contractually separated from the underlying loans by sale with servicing rights retained. The Company evaluates whether the benefits of servicing obtained from the contract are greater or less than adequate compensation for performing the servicing. As the benefits of servicing were greater than adequate compensation, the Company recognized a mortgage servicing asset at fair value. The asset is then amortized over the period of estimated net servicing income. The Company also evaluates the mortgage servicing asset for impairment based on fair value at each reporting date. The amount by which the carrying amount of servicing asset by class exceeds the fair value is recognized as an impairment.

Transfers of Financial Assets

Transfers of financial assets in which the Company has surrendered control are accounted for as sales. Control is considered to be surrendered when 1) the assets have been isolated from the Company, 2) the transferee obtains the rights to pledge or exchange the transferred assets, and 3) the Company does not maintain effective control over the transferred assets. If the sale criteria are not met, the transferred assets are retained in the Company's consolidated balance sheet and the proceeds from the transaction are recognized as a liability. If the sale criteria are met, the transferred assets are derecognized from the consolidated balance sheet and a gain or loss is recognized.

Federal Home Loan Bank and Federal Reserve Bank Stock

The Company has ownership in Federal Home Loan Bank (FHLB) of Atlanta and Federal Reserve Bank (FRB) stock. In order to be a member in the FHLB or FRB system, investment in stock is required. As the ownership is restricted to member institutions, FHLB and FRB stock do not have readily determinable fair values and have no quoted market values. All transactions take place at par value with the FHLB and FRB as the only purchaser. Thus, the Company carries FHLB and FRB stock at cost (par value). The Company determines whether these investments are impaired based on the Company's assessment of the recoverability of the cost (par value).

1. Summary of Significant Accounting Policies (continued)

Bank-Owned Life Insurance

The Company purchases life insurance on selected officers and employees. The Company is the owner of the policies and thus, the cash surrender value of the policies is included in total assets. Increases in the cash surrender value are reported as income in the consolidated statements of income. The cash surrender value accumulation on bank-owned life insurance is permanently tax deferred if the policy is held to the insured individual's death while meeting other certain conditions.

Premises, Equipment, and Software

Premises, equipment, and software are recognized at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method. The estimated useful lives used to depreciate or amortize the cost of the assets are:

Buildings	39 years
Leasehold improvements[1]	3-30 years
Furniture and equipment	5-10 years
Software	3-5 years

[1] Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful life of the asset.

The asset's cost and applicable accumulated depreciation or amortization is derecognized from the consolidated balance sheets when the asset is sold, retired or disposed. Any applicable gain or loss is recognized in the consolidated statements of income.

Maintenance and repairs of premises and equipment are expensed as incurred.

Other Real Estate Owned and Repossessed Assets

Other real estate owned and repossessed assets consists of properties acquired through foreclosure and repossessed assets (non-real estate assets acquired in partial or full loan settlement). The assets are classified as held-for-sale and thus are recorded at fair value less cost to sell on the date of foreclosure or repossession. At the time of foreclosure or repossession, any write-down to fair value is recorded to the ACL. Subsequent to the date of foreclosure or repossession, assets are held at the lower of cost or fair value.

Any subsequent losses resulting from additional valuation allowances due to further declines in fair value are reported in other noninterest expense.

1. Summary of Significant Accounting Policies (continued)

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Federal funds purchased represent unsecured funding arrangements between participants in the Federal Reserve system to assist banks with meeting their regulatory cash reserve requirements. For securities sold under agreements to repurchase, the Company maintains effective control over the transferred securities, resulting in a secured borrowing with a pledge of collateral. The Company recognizes cash received, together with a liability for the obligation to return it to the transferee. Declines in the fair value of the collateral would require the Company to increase the amounts of securities pledged.

Contingent Liabilities

Contingent liabilities arise in the ordinary course of business including those related to pending litigation. When information indicates that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated, a loss is accrued.

Due to the preliminary nature of legal matters, the Company may in certain instances be unable to estimate a reasonably possible loss. Quarterly, the Company re-assesses all legal matters and updates, when needed, any estimate of contingent liabilities.

Legal Costs

Legal costs related to litigation such as attorney fees are expensed as incurred.

Income Taxes

The Company files U.S. federal tax returns and various state tax returns. The provision for income taxes reflects the income in the consolidated financial statements, rather than the income reported on the Company's income tax return.

Deferred tax assets and liabilities are recognized for the future tax effect attributable to differences between the financial statements amount of assets and liabilities and the tax basis amount of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in years in which temporary differences are expected to be recovered or settled. If a recovery or settlement is considered more-likely-than-not, a valuation allowance is recognized for the deferred tax asset. In the period that a tax rate change is enacted, the effect of the tax rate change on a deferred tax asset or liability is recognized as income or expense.

1. Summary of Significant Accounting Policies (continued)

The Company accrues tax liabilities for uncertain income tax positions based on current assumptions for regarding the ultimate anticipated outcome. If the related tax benefits are not more likely than not of being sustained upon examination, the Company will accrue a tax liability or reduce a deferred tax asset.

The Company recognizes interest and penalties related to income tax matters in income tax expense.

Recently Adopted Accounting Standards

Current Expected Credit Losses (CECL) - On January 1, 2022 the Company adopted *Accounting Standard Update* (ASU) *2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which replaces the incurred loss methodology with an expected loss methodology. Subsequently, the Financial Accounting Standards Board (FASB) issued multiple amendments including ASU *2019-04, Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments;* ASU 2019-05, *Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief;* ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates;* ASU 2019-11*, Codification Improvements to Topic 326, Financial Instruments — Credit Losses*; and ASU 2020-03, *Codification Improvements to Financial Instruments* (collectively referred to as adoption of ASC 326). The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, available for sale securities, and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments and standby letters of credit. The measurement of current expected credit losses is based on relevant information, including historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 updated the accounting for available-for-sale debt securities such that credit losses are recognized through an allowance for credit losses, which permits recovery of previously recognized credit losses if circumstances change. The maximum credit loss remains the difference between amortized cost and fair value.

1. Summary of Significant Accounting Policies (continued)

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Prospective implementation is required for debt securities for which an other-than-temporary-impairment (OTTI) had been previously recognized. The following table illustrates the impact of the adoption of ASC 326:

	As of January 1, 2022		
	Pre-ASC 326 Adoption	**As reported under ASC 326 Adoption**	**Impact of ASC 326 Adoption**
		(In Thousands)	
Assets			
Allowance for loan and lease losses on loans and leases held for investment	$ (129,543)	$ (130,432)	$ (889)
Net deferred tax asset	57,727	59,057	1,330
Liabilities			
Liability for unfunded commitments	3,440	8,035	4,595
Equity			
Retained earnings	$ 797,797	$ 793,643	$ (4,154)

In connection with the adoption of ASC 326, changes were made to portfolio segments to align with the CECL allowance methodology.

Leases - In December 2018, the FASB issued amendments to new guidance issued in February 2016 for the recognition and measurement of all leases. The amendments address certain lessor's issues associated with: (i) sales taxes and other similar taxes collected from lessees, (ii) certain lessor costs, and (iii) recognition of variable payments for contracts with lease and nonlease components. The new guidance on leases issued in February 2016 requires lessees to recognize a right-of-use asset (ROUA) and a lease liability for most leases within the scope of the guidance. There were no significant changes to the guidance for lessors. The Company adopted this standard on January 1, 2022 using the modified retrospective transition approach. Upon adoption of this standard, the Company recorded an ROUA and a lease liability of $83.6 million and $92.5 million, respectively.

1. Summary of Significant Accounting Policies (continued)

The Company determines if an arrangement is or contains a lease at the inception of the contract. Operating lease ROUAs and liabilities are recognized at the inception date based on the present value of lease payments over the lease term. At lease inception, when the rate implicit in each lease is not readily available, the Company is required to apply an incremental borrowing rate to calculate the ROUA and lease liability. The incremental borrowing rate is based on factors including the lease term and various market rates. Additionally, the Company also considers lease renewal options reasonably certain of exercise for purposes of determining the lease term.

The new leasing standard provides several optional expedients in transition. The Company elected certain practical expedients, which allows the Company to not reassess prior conclusions on lease classification, embedded leases and initial indirect costs. The Company elected to exclude short-term leases up to 12 months from the recognition of right-of-use assets and lease liabilities. Additionally, the Company elected to separate lease and non-lease cost and accounts for them separately.

Income Taxes – In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 including those related to the methodology for calculating income taxes in an interim period and the reflection of enacted changes in tax laws or rates. The Company adopted ASU 2019-12 and its related amendments on January 1, 2022 for its annual reporting.

Recently Issued Accounting Standards Not Yet Adopted

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326)*: *Troubled Debt Restructurings and Vintage Disclosures* which amended ASC 310-40 to eliminate the recognition and measurement guidance for a troubled debt restructuring for creditors that have adopted CECL. The ASU will require the Company to make enhanced disclosures about loan modifications for borrowers experiencing financial difficulty as well as disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. For entities that have adopted CECL, the guidance is effective for fiscal years beginning after December 15, 2022, and interim periods therein. Although early adoption is permitted for entities that have adopted CECL, the Company has elected not to early adopt ASU 2022-02. The Company is still in the process of evaluating the impact of ASU 2022-02 and has not made a determination as to the expected impact to the Company.

1. Summary of Significant Accounting Policies (continued)

Subsequent Events

Subsequent events have been evaluated through the date the consolidated financial statements were available to be issued on March 31, 2023. The Company has not identified any events that would require disclosure or have a material impact on the financial position, results of operations or cash flows of the Company as of and for the year ended December 31, 2022.

2. Securities

Investment securities include available for sale debt securities, held to maturity debt securities, and equity securities.

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of available for sale debt securities and held to maturity debt securities:

Investment Debt Securities Outstanding	December 31, 2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for sale debt securities:				
U.S. government agency securities	$ 1,904,412	$ –	$ (334,800)	$ 1,569,612
Mortgage-backed securities issued by U.S. government sponsored enterprises	2,415,784	622	(365,654)	2,050,752
U.S. Treasury securities	27,922	–	(1,025)	26,897
Corporate debt securities and other	217,837	–	(9,313)	208,524
Total available for sale debt securities	4,565,955	622	(710,792)	3,855,785
Held to maturity debt securities:				
U.S. government agency securities	25,000	–	(6,622)	18,378
Mortgage-backed securities issued by U.S. government sponsored enterprises	2,804,209	544	(362,075)	2,442,678
Corporate debt securities and other	1,000	–	–	1,000
Total held to maturity debt securities	2,830,209	544	(368,697)	2,462,056
Total investment debt securities	$ 7,396,164	$ 1,166	$ (1,079,489)	$ 6,317,841

2. Securities (continued)

Investment Debt Securities Outstanding	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available for sale debt securities:				
U.S. government agency securities	$ 2,140,174	$ 7,231	$ (46,570)	$ 2,100,835
Mortgage-backed securities issued by U.S. government sponsored enterprises	2,204,637	6,220	(47,323)	2,163,534
Corporate debt securities and other	214,460	3,922	–	218,382
Total available for sale debt securities	4,559,271	17,373	(93,893)	4,482,751
Held to maturity debt securities:				
U.S. government agency securities	25,000	–	(377)	24,623
Mortgage-backed securities issued by U.S. government sponsored enterprises	1,464,516	459	(26,537)	1,438,438
Corporate debt securities and other	1,000	–	–	1,000
Total held to maturity debt securities	1,490,516	459	(26,914)	1,464,061
Total investment debt securities	$ 6,049,787	$ 17,832	$ (120,807)	$ 5,946,812

Securities having a carrying value of $1.1 billion and $169.4 million at December 31, 2022 and 2021, respectively, were pledged as collateral to secure certain public deposits, repurchase agreements, or for other purposes.

2. Securities (continued)

At December 31, 2022 and 2021, the Company held equity securities at an aggregate fair value of $36.6 million and $30.5 million. Equity securities are composed of mutual funds. Equity securities are carried at fair value with changes in fair value reported in net income.

The amortized cost and fair value of debt securities at December 31, 2022 by contractual maturity are detailed below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Available for Sale Debt Securities		Held to Maturity Debt Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due after one year through five years	$ 179,484	$ 170,632	$ 34,599	$ 31,484
Due after five years through ten years	395,200	351,127	769,007	630,800
Due after ten years	3,991,271	3,334,026	2,026,603	1,799,772
Total debt securities	$ 4,565,955	$ 3,855,785	$ 2,830,209	$ 2,462,056

Proceeds from sales, gross gains, and gross losses on sales of investment available for sale debt securities for the years ended December 31, 2022, and 2021 are presented below. The specific identification method is used to reclassify gains and losses out of other comprehensive income at the time of sale.

	2022	2021
	(In Thousands)	
Proceeds from sale of available for sale debt securities	$ 94,290	$ 318,503
Gross realized gains from available for sale debt securities	75	5,538
Gross realized losses from available for sale debt securities	(371)	(1,572)
(Losses) gains on sale of investment debt securities, net	(296)	3,966
Unrealized losses on equity securities recognized in earnings	(3,976)	(909)
(Losses) gains on investment debt securities and investment equity securities, net	$ (4,272)	$ 3,057

2. Securities (continued)

The following tables present the fair value and amount by which amortized cost exceeds fair value for investment securities in unrealized loss positions and the length of time the securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

	2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Available for sale debt securities:						
U.S. government agency securities	$ 271,327	$ (23,655)	$1,298,285	$ (311,145)	$1,569,612	$ (334,800)
Mortgage-backed securities issued by U.S. government sponsored enterprises	408,388	(27,356)	1,383,304	(338,298)	1,791,692	(365,654)
U.S. Treasury securities	26,897	(1,025)	–	–	26,897	(1,025)
Corporate debt securities and other	185,344	(7,572)	23,180	(1,741)	208,524	(9,313)
Total available for sale debt securities	$ 891,956	$ (59,608)	$2,704,769	$ (651,184)	$3,596,725	$ (710,792)

	2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Held to maturity debt securities:						
U.S. government agency securities	$ –	$ –	$ 18,378	$ (6,622)	$ 18,378	$ (6,622)
Mortgage-backed securities issued by U.S. government sponsored enterprises	1,287,778	(110,313)	1,043,991	(251,762)	2,331,769	(362,075)
Total held to maturity debt securities	$1,287,778	$ (110,313)	$1,062,369	$ (258,384)	$ 2,350,147	$ (368,697)

	2021					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Available for sale debt securities:						
U.S. government agency securities	$1,455,566	$ (37,966)	$ 189,311	$ (8,604)	$1,644,877	$ (46,570)
Mortgage-backed securities issued by U.S. government sponsored enterprises	1,463,656	(33,311)	357,150	(14,012)	1,820,806	(47,323)
Total available for sale debt securities	$2,919,222	$ (71,277)	$ 546,461	$ (22,616)	$3,465,683	$ (93,893)

2. Securities (continued)

	2021					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Held to maturity debt securities:						
U.S. government agency securities	$ 24,623	$ (377)	$ –	$ –	$ 24,623	$ (377)
Mortgage-backed securities issued by U.S. government sponsored enterprises	1,327,821	(26,537)	–	–	1,327,821	(26,537)
Total held to maturity debt securities	$1,352,444	$ (26,914)	$ –	$ –	$ 1,352,444	$ (26,914)

At December 31, 2022, 135 available for sale debt securities were in an unrealized loss position for less than twelve months and 175 were in an unrealized loss position for twelve months or greater. Of the available for sale debt securities in an unrealized loss position for less than twelve months, 65 were U.S. government agency securities, 52 were mortgage-backed securities issued by U.S. government sponsored enterprises, 17 were corporate debt securities and other, and 1 was a U.S. Treasury security. Of the available for sale debt securities in an unrealized loss position for twelve months or greater, 87 were U.S. government agency securities, 87 were mortgage-backed securities issued by U.S. government sponsored enterprises, and 1 was a corporate debt security.

At December 31, 2022, 71 held to maturity debt securities were in an unrealized loss position for less than twelve months and 70 were in an unrealized loss position for twelve months or greater. All held to maturity debt securities in an unrealized loss position for twelve months or greater were mortgage-backed securities issued by U.S. government sponsored enterprises. Of the held to maturity debt securities in an unrealized loss position for twelve months or greater, 1 was a U.S. government agency security and 69 were mortgage-backed securities issued by U.S. government sponsored enterprises.

At December 31, 2021, 136 available for sale debt securities were in an unrealized loss position for less than twelve months and 27 were in an unrealized loss position for twelve months or greater. Of the available for sale debt securities in an unrealized loss position for less than twelve months, 70 were U.S. government agency securities and 66 were mortgage-backed securities issued by U.S. government sponsored enterprises. Of the available for sale debt securities in an unrealized loss position for twelve months or greater, 9 were U.S. government agency securities and 18 were mortgage-backed securities issued by U.S. government sponsored enterprises.

At December 31, 2021, 70 held to maturity debt securities were in an unrealized loss position for less than twelve months. Of the available for sale debt securities in an unrealized loss position for less than twelve months, 1 was a U.S. government agency security and 69 were mortgage-backed securities issued by U.S. government sponsored enterprises.

2. Securities (continued)

The Company monitors its debt securities for credit loss impairment on an individual security basis. No securities were determined to be credit loss impaired during the years ended December 31, 2022, and 2021. At December 31, 2022, the Company did not intend to sell securities that were in an unrealized loss position and it was not more likely than not that the Company would be required to sell these securities before recovery of the amortized cost basis, which may be at maturity. In making this determination, the Company considered its current and projected liquidity position, its investment policy as to permissible holdings and concentrations limits, regulatory requirements, and other relevant factors. The Company concluded that there was no credit loss impairment as the unrealized losses were generally attributable to rising interest rates.

During the year ended December 31, 2021, approximately $454.0 million in available for sale securities were transferred to the held to maturity category. The unrealized holding losses at the date of transfer were approximately $6.3 million and are being amortized over the remaining life of the securities as an adjustment of yield. There were no transfers of available for sale securities during the year ended December 31, 2022.

3. Loans and Leases and Allowance for Credit Losses

After adoption of ASC 326, changes have been made to the classes of financing receivables to better differentiate credit characteristics. The commercial real estate class of financing receivable was disaggregated into commercial real estate owner occupied and commercial real estate non-owner occupied. The construction and land portfolio segment was aggregated with the commercial real estate portfolio segment to better align to the new ACL models. Reporting periods after January 1, 2022 are presented in accordance with ASC 326, and prior period amounts continue to be reported in accordance with previously applicable GAAP and have not been reclassified to conform to the current financial statement presentation.

Loans and leases by class of financing receivable are as follows:

	December 31, 2022
	(*In Thousands*)
Commercial real estate:	
Commercial real estate owner occupied	$ 1,565,749
Commercial real estate non-owner occupied	6,395,481
Construction and land	1,182,362
Total commercial real estate	9,143,592
Commercial and other business loans	3,646,024
Commercial leases	352,746
Residential real estate	3,395,284
Consumer other	109,159
Total	$ 16,646,805

3. Loans and Leases Allowance for Credit Losses (continued)

	December 31, 2021
	(In Thousands)
Real estate:	
Commercial	$ 6,171,517
Residential	2,341,444
Construction and land	815,619
Total real estate	9,328,580
Commercial and other business loans	3,541,059
Commercial leases	399,541
Consumer	71,922
Total	$ 13,341,102

The above tables include net deferred fees, which includes unearned and unamortized costs and fees of $5.8 million and $23.2 million at December 31, 2022 and 2021, respectively. The above tables also include unamortized discounts related to purchased loans of $10.8 million and $15.5 million at December 31, 2022 and 2021, respectively. Additionally, the above tables exclude accrued interest receivable on loans totaling $71.9 million and $58.7 million as of December 31, 2022 and 2021, respectively. Accrued interest receivable on loans was excluded from the estimate of expected credit losses at December 31, 2022.

The carrying value of loans pledged as collateral for borrowings was $8.0 billion and $5.7 billion as of December 31, 2022 and 2021, respectively.

Credit Quality Indicators

Loans and leases are assessed for credit risk and assigned internal risk ratings based on various characteristics, such as the borrower's cash flow, collateral, and leverage. Internal risk ratings are considered the most meaningful indicator of credit quality. Loans and leases are monitored for changes in credit quality on an ongoing basis. Commercial real estate loans over $2 million are reevaluated at least annually for proper classification in conjunction with our review of property and borrower financial information, while all loans are re-evaluated for proper risk grading as new information such as payment patterns, collateral condition and other relevant information comes to our attention. Below are the definitions of the Company's internally risk ratings:

Pass – loans and leases that are performing with minimal to average credit risk.

3. Loans and Allowance for Credit Losses (continued)

Special Mention – loans and leases that are performing but exhibit potential weaknesses and thus the Company has identified them for monitoring as repayment may deteriorate in the future.

Substandard – loans and leases that have defined weakness (either in borrower specific conditions or in the borrower's underlying collateral, if applicable) and the Company will sustain loss if the weaknesses are not addressed.

Doubtful – loans and leases with similar weaknesses as substandard loans but the probability of loss is high and the Company believes that the underlying collateral value or the source of repayment is not sufficient to recover the outstanding balance of the loan.

Management considers original FICO scores to be the most meaningful indicator of the credit quality of residential and other consumer loans.

The following tables present credit quality indicators by class of financing receivable by origination year with balances presented on an amortized cost basis:

	2022	2021	2020	Prior	Revolving Loans	Total
Commercial real estate						
Commercial real estate owner occupied:						
Pass	$ 228,462	$ 240,954	$ 247,280	$ 737,408	$ 94,760	$ 1,549,044
Special mention	–	8,070	–	6,467	–	14,537
Substandard	923	405	–	840	–	2,168
Total commercial real estate owner occupied	$ 229,565	$ 249,429	$ 247,280	$ 744,715	$ 94,760	$ 1,565,749
Commercial real estate non-owner occupied:						
Pass	$ 1,591,711	$ 1,155,895	$ 170,284	$ 2,136,373	$ 1,243,283	$ 6,297,546
Special mention	–	–	–	72,730	–	72,730
Substandard	–	–	–	25,204	1	25,505
Total commercial real estate non-owner occupied	$ 1,591,711	$ 1,155,895	$ 170,284	$ 2,234,307	$ 1,243,284	$ 6,395,481

3. Loans and Allowance for Credit Losses (continued)

	2022	2021	2020	Prior	Revolving Loans	Total
Construction and land:						
Pass	$ 213,481	$ 104,206	$ 5,560	$ 19,716	$ 837,659	$ 1,180,982
Special mention	–	–	–	1,380	–	1,380
Total construction and land	$ 213,481	$ 104,206	$ 5,560	$ 21,096	$ 837,659	$ 1,182,362
Total commercial real estate:						
Pass	$ 2,034,194	$ 1,501,055	$ 423,124	$ 2,893,497	$ 2,175,702	$ 9,027,572
Special mention	–	8,070	–	80,577	–	88,647
Substandard	923	405	–	26,044	1	27,373
Total commercial real estate	$ 2,035,117	$ 1,509,530	$ 423,124	$ 3,000,118	$ 2,175,703	$ 9,143,592
Commercial and other business loans:						
Pass	$ 805,581	$ 465,120	$ 284,176	$ 588,403	$ 1,445,604	$ 3,588,884
Special mention	–	–	24,767	2,886	10,310	37,963
Substandard	–	78	12,713	5,648	738	19,177
Total commercial and other business loans	$ 805,581	$ 465,198	$ 321,656	$ 596,937	$ 1,456,652	$ 3,646,024
Commercial leases:						
Pass	$ 64,966	$ 94,123	$ 33,304	$ 160,353	$ –	$ 352,746

The following table presents the residential real estate loans, by original FICO scores:

	2022	2021	2020	Prior	Revolving Loans	Total
780 or greater	$ 319,033	$ 239,232	$ 34,549	$ 164,476	$ 41,724	$ 799,013
770-779	732,849	454,956	83,950	442,982	87,169	1,801,906
620-699	174,279	90,106	27,539	139,931	31,889	463,744
619 or less	73,003	74,804	24,042	68,510	90,262	330,621
	$ 1,299,164	$ 859,098	$ 170,080	$ 815,899	$ 251,044	$ 3,395,284

The following table presents the consumer other loans, by original FICO scores:

	2022	2021	2020	Prior	Revolving Loans	Total
780 or greater	$ –	$ 17	$ 71	$ 373	$ 8,785	$ 9,246
770-779	9,152	5,443	314	148	34,634	49,691
620-699	14	17	1,211	670	3,048	4,960
619 or less	–	19	–	189	45,054	45,262
	$ 9,166	$ 5,496	$ 1,596	$ 1,380	$ 91,521	$ 109,159

3. Loans and Allowance for Credit Losses (continued)

Past Due and Nonaccrual Loans and Leases

The below tables present the past due status of loans and leases by class of financing receivable with balances presented on an amortized cost basis:

	December 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Amortized Cost	Amortized Cost of Loans 90 Days Past Due and Accruing
				(In Thousands)			
Commercial real estate:							
Commercial real estate owner occupied	$ 4,680	$ 337	$ 296	$ 5,313	$ 1,560,436	$ 1,565,749	$ –
Commercial real estate non-owner occupied	–	935	392	1,327	6,394,154	6,395,481	–
Construction and land	2,063	1,377	1,380	4,820	1,177,542	1,182,362	–
Total commercial real estate	6,743	2,649	2,068	11,460	9,132,132	9,143,592	–
Commercial and other business loans	4,164	2,855	12,442	19,461	3,626,563	3,646,024	–
Commercial leases	–	–	–	–	352,746	352,746	–
Residential real estate	14,939	742	22,672	38,353	3,356,931	3,395,284	–
Consumer other	653	–	–	653	108,506	109,159	–
Total	$ 26,499	$ 6,245	$ 37,182	$ 69,926	$ 16,576,879	$ 16,646,805	$ –

	December 31, 2021										
	Accruing					Non-Accruing					
	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Accruing	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Non-Accruing	Total Loans
						(In Thousands)					
Real estate:											
Commercial	$ 6,142,815	$ 1,408	$ 1,255	$ –	$ 6,145,478	$ 11,345	$ –	$ –	5,347	$ 16,692	$ 6,162,170
Residential	2,298,710	20,226	8,668	–	2,327,604	4,339	178	133	18,537	23,187	2,350,791
Construction and land	815,619	–	–	–	815,619	–	–	–	–	–	815,619
Total real estate	9,257,144	21,634	9,923	–	9,288,701	15,684	178	133	23,884	39,879	9,328,580
Commercial and other business loans	3,486,458	10,102	27,009	–	3,523,569	15,047	95	2	2,346	17,490	3,541,059
Commercial leases	398,991	–	–	–	398,991	–	–	–	550	550	399,541
Consumer	71,690	–	122	–	71,812	110	–	–	–	110	71,922
Total	$13,214,283	$ 31,736	$ 37,054	$ –	$13,283,073	$ 30,841	$ 273	$ 135	$ 26,780	$ 58,029	$13,341,102

3. Loans and Allowance for Credit Losses (continued)

The following table presents information on the Company's nonaccrual loans by class of financing receivable:

	December 31, 2022	
	Amortized Cost of Nonaccrual Loans	Amortized Cost of Nonaccrual Loans With No Related Allowance for Credit Losses
Commercial real estate:		
Commercial real estate owner occupied	$ 1,360	$ 1,360
Commercial real estate non-owner occupied	392	392
Construction and land	1,380	1,380
Total commercial real estate	3,132	3,132
Commercial and other business loans	18,769	12,103
Residential real estate	24,368	23,283
Total	$ 46,269	$ 38,518

The Company did not recognize any interest income on non-accrual loans during the year ended December 31, 2022.

3. Loans and Allowance for Credit Losses (continued)

Allowance for Credit Losses

On January 1, 2022, the Company adopted ASC 326. The balance at December 31, 2021 and for the year ended December 31, 2021 were recognized using an incurred loss methodology. Refer to Note 1, *Summary of Significant Accounting Policies*, for further detail on the Company's allowance for credit losses.

The following tables present disaggregated activity in the allowance for credit losses for the year ended December 31, 2022 and in the allowance for loan and lease loss for the year ended December 31, 2021 by portfolio segment:

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction and Land	Commercial and Other Business Loans	Commercial Leases	Residential Real Estate	Consumer Other	Total
Year ended December 31, 2022								
Beginning balance – December 31, 2021	$ 14,202	$ 52,305	$ 8,169	$ 28,421	$ 2,504	$ 22,398	$ 1,544	$ 129,543
Adoption of ASC 326[1]	3,205	(21,016)	(4,716)	14,454	3,519	3,323	2,120	889
Balance at January 1, 2022	17,407	31,289	3,453	42,875	6,023	25,721	3,664	130,432
Charge-offs	–	–	(80)	(1,640)	–	(163)	–	(1,883)
Recoveries	46	26	2	298	–	179	–	551
Provision for credit losses	(7,140)	7,260	(1,782)	(10,581)	(49)	21,567	440	9,715
Ending balance – December 31, 2022	$ 10,313	$ 38,575	$ 1,593	$ 30,952	$ 5,974	$ 47,304	$ 4,104	$ 138,815

1 As a result of the accounting guidance adopted in 2022, the increase in the allowance for credit losses, net of tax, was recognized as a cumulative-effect adjustment to retained earnings as of January 1, 2022.

Provision for credit losses on off-balance sheet credit exposures was $7.9 million during the year ended December 31, 2022.

There is no allowance for credit losses related to Small Business Association Paycheck Protection Program loans given the government guarantee. The increase in the allowance for credit losses from January 1, 2022, the date of initial adoption of ASC 326, to December 31, 2022, primarily related to the change in the Company's reasonable and supportable forecast due to economic uncertainty, along with substantial growth in the loan portfolio.

3. Loans and Allowance for Credit Losses (continued)

Collateral Dependent Loans

Loans and leases are deemed collateral dependent when repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The following table illustrates the amortized cost basis of collateral dependent loans and leases.

	December 31, 2022		
	Amortized Cost	Extent to Which Collateral Secures the Loan and Lease	Type of collateral
	(In Thousands)		
Commercial real estate:			
Commercial real estate owner occupied	$ 1,360	$ 1,360	Commercial real estate
Commercial real estate non-owner occupied	392	392	Commercial real estate
Construction and land	1,380	1,380	Residential or commercial real estate
Total commercial real estate	3,132	3,132	
Residential real estate	25,488	25,431	Residential real estate
Consumer other	274	274	Other
Total collateral dependent loans	$ 28,894	$ 28,837	

During the years ended December 31, 2022 and 2021, there have been no significant changes to the extent to which collateral secured loans deemed as collateral dependent.

3. Loans and Allowance for Credit Losses (continued)

Troubled Debt Restructuring

A restructuring of a loan or lease constitutes a troubled debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a more-than-insignificant concession to the borrower that it would not otherwise consider.

Management judgement is required when assessing whether a borrower is experiencing financial difficulty and whether a concession has been granted due to the subjective nature of the assessment. As a result of COVID-19, both the CARES Act, as extended by the Consolidated Appropriations Act, and the Interagency guidance permit financial institutions to suspend assessment of TDR designation and related requirements under GAAP for certain modifications that would otherwise be considered a TDR. COVID-19 related modifications on loans that were not more than 30 days past due at December 31, 2019, made between March 1, 2020, and the earlier of 60 days after the date of the termination of the national emergency or January 1, 2022 are eligible. The Company has elected to apply the temporary suspension of TDR requirements through December 31, 2021. The relief provided by the CARES Act expired on January 1, 2022.

The Company did not have any commitment to lend on TDR loans as of December 31, 2022 and 2021. There were no loans considered TDRs that defaulted during the years ended December 31, 2022 and 2021.

Typical modifications include interest-only payments for a specified period and maturity extensions of 6-18 months, on average.

The following tables present loans, by class of financing receivable, that were classified as TDRs during the years ended December 31, 2022 and 2021:

	December 31, 2022	
	Number of Contracts	Recorded Investment
	(In Thousands Except Number of Contracts)	
Commercial and other business loans	13	$ 9,140
Residential real estate	2	275
Consumer other	17	1,451
Total loans and leases	32	$ 10,866

3. Loans and Allowance for Credit Losses (continued)

	December 31, 2021	
	Number of Contracts	**Recorded Investment**
	(In Thousands Except Number of Contracts)	
Real estate:		
Commercial	1	$ 1,033
Residential	26	6,592
Construction and land	–	–
Total real estate	27	7,625
Commercial and other business loans	22	6,043
Commercial leases	–	–
Consumer	4	304
Total impaired loans	53	$ 13,972

The ACL related to loans classified as TDRs at December 31, 2022 was $1.7 million. The allowance for loan and lease losses for loans classified as TDRs at December 31, 2021 was $4.7 million.

3. Loans and Allowance for Credit Losses (continued)

Disclosures Required Prior to the Adoption of ASC 326

The following table presents information on the Company's impaired loans by class of financing receivable at December 31, 2021:

	December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(*In Thousands*)	
With no related allowance recorded			
Real estate:			
Commercial	$ 10,976	$ 10,993	$ –
Residential	26,884	26,873	–
Construction and land	–	–	–
Total real estate	37,860	37,866	–
Commercial and other business loans	2,267	2,277	–
Commercial leases			
Consumer	293	304	–
Total impaired loans with no allowance recorded	40,420	40,447	–
With related allowance recorded			
Real estate:			
Commercial	1,655	1,703	809
Residential	329	330	96
Construction and land	–	–	–
Total real estate	1,984	2,033	905
Commercial and other business loans	15,822	15,830	11,492
Commercial leases			
Consumer	558	556	35
Total impaired loans with allowance recorded	18,364	18,419	12,432
Total			
Real estate:			
Commercial	12,631	12,696	809
Residential	27,213	27,203	96
Construction and land	–	–	–
Total real estate	39,844	39,899	905
Commercial and other business loans	18,089	18,107	11,492
Commercial leases	–	–	–
Consumer	851	860	35
Total impaired loans	$ 58,784	$ 58,866	$ 12,432

3. Loans and Allowance for Credit Losses (continued)

The following table presents the average recorded investment and interest income recognized for the Company's impaired loans by class of financing receivable:

	December 31, 2021	
	Average Recorded Investment	Interest Income Recognized
	(*In Thousands*)	
Real estate:		
Commercial	$ 14,944	$ 568
Residential	37,671	547
Construction and land	7,752	454
Total real estate	60,367	1,569
Commercial and other business loans	21,334	1,716
Commercial leases	308	–
Consumer	3,985	25
Total impaired loans	$ 85,994	$ 3,310

4. Leases

The information below provides a summary of the Company's leasing activities as a lessor and a lessee.

Lessor

Direct Financing and Leveraged Leases

The Company's lease portfolio includes commercial financing lease receivables that consist of direct financing and leveraged leases of commercial equipment. Direct financing lease transfer substantially all of the benefits and risks related to equipment ownership, and are carried at the sum of all the minimum lease payments receivable plus the estimated residual values of the leased assets less unearned income. If direct finance leases have non-recourse debt associated with them, they are further classified as leveraged leases. Leveraged leases are carried at the sum of all minimum lease payments receivable, net of non-recourse debt, plus estimated residual values less unearned income. Unearned income is recognized over the lease term using the level-yield method.

4. Leases (continued)

The components of the net investment in direct finance and leveraged leases are as follows:

	December 31 2022	2021
	(In Thousands)	
Commercial leases:		
Direct financing		
Lease payments receivable	$ 247,695	$ 284,802
Estimated residual value of leased assets	59,813	76,622
Initial direct costs, net	4,973	6,221
Unearned income	(32,116)	(39,542)
Investment in direct financings	280,365	328,103
Leveraged leases:		
Lease payments receivable	72,840	75,029
Estimated residual value of leased assets	10,928	2,759
Unearned income	(11,387)	(6,349)
Investment in leveraged leases	72,381	71,439
Total investment in leases	$ 352,746	$ 399,542

Pretax income from leveraged leases amounted to $2.5 million and $3.3 million and the related income tax expense was $0.6 million and $0.8 million for the years ended December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Company had approximately $1.9 million and $2.5 million, respectively, of accumulated allowance for uncollected minimum lease payments.

The Company periodically reviews residual values associated with its leasing portfolio. During 2022 and 2021, the Company did not recognize any residual value write-downs related to commercial leases.

4. Leases (continued)

At December 31, 2022, the minimum future lease payments to be received from lease financings were as follows:

	Minimum Lease Payments
	(In Thousands)
Year ending December 31:	
2023	$ 87,651
2024	65,028
2025	53,981
2026	46,475
2027	31,895
Thereafter	57,288
Total	$ 342,318

Operating Lease Equipment

The Company's investments in operating leases represent assets such as railcars and other equipment. The following table presents investments in operating leases at December 31:

	2022	2021
	(In Thousands)	
Railcars	$ 102,722	$ 103,103
Other equipment	164,083	132,444
Accumulated depreciation	(57,502)	(42,302)
Investments in operating leases, net	$ 209,303	$ 193,245

Depreciation expense for operating lease equipment was approximately $18.2 million and $15.6 million for the years ended December 31, 2022 and 2021, respectively, and is included in depreciation – lease equipment in the consolidated statements of income.

4. Leases (continued)

The following table presents the minimum future rental payments due from customers for operating leases at December 31, 2022:

	Future Rental Payments[1]
	(In Thousands)
Year ending December 31:	
2023	$ 22,817
2024	20,023
2025	16,239
2026	12,992
2027	5,016
Thereafter	8,706
Total	$ 85,793

[1] Excludes variable rentals calculated on asset usage levels, releasing rentals, and expected sales proceeds from remarketing equipment at lease expiration.

The Company did not receive any contingent rental income during the years ended December 31, 2022 and 2021.

Lessee

The Company leases branches, office space and a small amount of equipment under operating leases with remaining terms ranging from one to 30 years, some of which include extension options. As of December 31, 2022, ROUAs and lease liabilities were approximately $73.1 million and $81.6 million, respectively. ROUAs and lease liabilities are included in other assets and other liabilities, respectively, in the accompanying consolidated balance sheets.

The following table presents lease costs for the year ended December 31, 2022:

(in thousands)	
Lease cost	
Operating lease cost	$ 11,756
Variable lease cost	536
Sublease income	(1,328)
Total lease cost	$ 10,964

Short-term lease costs were immaterial for the year ended December 31, 2022.

4. Leases (continued)

Additional information related to leases as of and for the year ended December 31, 2022:

(in thousands, except weighted average data)

Operating cash flows from operating leases	$ 10,385
Operating lease liabilities recognized upon adoption of ASC 842	$ 83,267
Weighted average remaining lease term for operating leases	12.7 years
Weighted average discount rate for operating leases	2.13 %

The following table presents a maturity analysis and reconciliation of the undiscounted cash flows to the total operating lease liabilities as of December 31, 2022:

(in thousands) Year ending December 31,	
2023	$ 11,735
2024	11,018
2025	10,633
2026	10,000
2027	9,298
Thereafter	46,172
Total minimum payments required	98,856
Less: implied interest	(17,207)
Total lease obligations	$ 81,649

Under the terms of certain leases, the Company is required to pay its share of real estate taxes and the cost of maintenance. Total rent expense on operating leases for the years ended December 31, 2022 and 2021 was $12.3 million and $10.8 million, respectively, recognized in occupancy in the consolidated statements of income.

5. Derivative Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Cash Flow Hedges: Interest rate swaps with notional amounts totaling $300 million at December 31, 2022 and 2021 were designated as cash flow hedges of certain fixed rate prepayable loans. Interest rate swaps with notional amounts totaling $675 million at December 31, 2022 and 2021 were designated as cash flow hedges of certain FHLB advances. The hedges were determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining term of the swaps.

Derivatives Not Designated As Hedges: The Company also enters into interest rate swaps with its commercial loan clients. The notional amounts of interest rate swaps with its commercial loan clients at December 31, 2022 and 2021 were $1.5 billion and $1.3 billion, respectively. The Company enters into corresponding offsetting derivatives with third parties. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

Mortgage Banking Derivatives: Commitments to fund certain mortgage loans (interest rate lock commitments) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships.

5. Derivative Instruments (continued)

	December 31, 2022			December 31, 2021		
		Fair Value			Fair Value	
	Notional Amount	Derivative Asset [1]	Derivative Liabilities[2]	Notional Amount	Derivative Asset [1]	Derivative Liabilities[2]
			(In Thousands)			
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate contracts	$ 975,000	$ –	$ –	$ 975,000	$ 26,691	$ 4,962
Total derivatives designated as hedging instruments		$ –	$ –		$ 26,691	$ 4,962
Derivatives not designated as hedging instruments:						
Interest rate contracts	$ 1,487,488	$ 52,961	$ 83,821	$ 1,252,437	$ 35,767	$ 9,652
Mortgage derivatives – interest rate lock commitments	7,309	56	–	11,516	177	–
Mortgage derivatives – forward commitments to sell mortgage loans	14,500	89	–	14,825	–	9
Total derivatives not designated as hedging instruments		$ 53,106	$ 83,821		$ 35,944	$ 9,661

(1) Derivative assets are recorded in other assets in the consolidated balance sheets.

(2) Derivative liabilities are recorded in other liabilities in the consolidated balance sheets.

At December 31, 2022, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is through 2030.

The following table presents the effect of hedging derivative instruments on the consolidated statements of income and the total amounts for the respective line item affected for the years ended December 31, 2022 and 2021:

	2022	2021
	(In Thousands)	
Total amounts presented in the consolidated statement of income in interest income	$ 626,777	$ 499,058
Gain on cash flow hedging relationships:		
Interest rate contracts	38,421	19,640
Realized (losses) gains reclassified from AOCI into interest income	(2,195)	1,129
Realized gains (losses) reclassified from AOCI into interest expense	5,979	(2,624)
Pre-tax income recognized on cash flow hedges	$ 42,205	$ 18,145

5. Derivative Instruments (continued)

The pre-tax effect of changes in fair value from derivative instruments not designated as hedging instruments on the consolidated statements of income for the years ended December 31, 2022 and 2021 is presented below.

Derivatives not Designated as Hedging Instruments	Location in Consolidated Statements of Income	Gain (Loss) Recognized in Consolidated Statements of Income 2022	2021
		(In Thousands)	
Interest rate contracts	Credit valuation adjustment	$ 3,759	$ 3,102
Mortgage derivatives – interest rate lock commitments	Gain on sale of loans, net	9	91
Mortgage derivatives – forward commitments to sell mortgage loans	Gain on sale of loans, net	(121)	(1,020)
Total derivatives not designated as hedging instruments		$ 3,647	$ 2,173

Credit Risk-Related Contingent Features—The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. At December 31, 2022 and 2021, the Company did not have any derivatives that were in a liability position related to those agreements.

6. Premises, Equipment, and Software

Premises, equipment, and software at December 31, 2022 and 2021 consist of the following:

	Useful Life	2022	2021
		(In Thousands)	
Land		$ 26,368	$ 26,368
Buildings	39 years	31,487	31,120
Leasehold improvements	3–30 years	21,287	15,662
Furniture and equipment	5–10 years	20,276	18,543
Software	3–5 years	31,299	27,878
Construction in progress		4,509	5,307
Total premises, equipment, and software		135,226	124,878
Less: accumulated depreciation and amortization		(44,139)	(32,334)
Total premises, equipment, and software, net		$ 91,087	$ 92,544

Depreciation and amortization expense was $10.8 million and $9.5 million for the years ended December 31, 2022 and 2021, respectively, of which amortization expense for computer software was $5.8 million and $4.5 million for the years ended December 31, 2022 and 2021, respectively.

7. Goodwill and Other Intangible Assets

In accordance with GAAP, the Company performs an annual goodwill impairment test. The test is required to be performed annually or more frequently if events or circumstances indicate a potential impairment may exist. The Company compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Company has a single reporting unit. A quantitative assessment of goodwill was performed where the estimated fair value of the reporting unit, utilizing a combination of an income-based discounted cash flow approach and market-based approach, was compared to the reporting unit's carrying amount. The income-based discounted cash flow approach includes internal forecasts, growth rates, and discount rates. The market approach was based on a comparison of certain financial metrics of the Company to public company peers. Based on the results of the quantitative assessment, the fair value of the reporting unit exceeded the carrying value. Thus, no goodwill impairment was recorded in 2022 or 2021.

7. Goodwill and Other Intangible Assets (continued)

Goodwill at December 31, 2022 and 2021 is summarized as follows:

	2022	2021
	(In Thousands)	
Goodwill	$ 162,467	$ 162,467
Accumulated amortization	(69,861)	(53,844)
Goodwill, net	$ 92,606	$ 108,623

As of December 31, 2022, the estimated aggregated goodwill amortization expense is expected to be:

Year ending December 31:	Amortization
	(In Thousands)
2023	$ 16,016
2024	16,016
2025	15,964
2026	15,701
2027	15,701
Thereafter	13,208
	$ 92,606

Core deposit intangible assets are subject to an amortization period of a six to twelve years using a straight-line method. The core deposit intangible is being amortized over a weighted average life of 7 years. The City National Bank of Florida trade name intangible asset is an indefinite lived asset not subject to amortization. The following tables present intangible assets included in the consolidated balance sheets:

	2022			2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(In Thousands)			
Core deposit intangibles	$ 124,890	$ (99,401)	$ 25,489	$ 124,890	$ (82,845)	$ 42,045
Trade name	18,000	–	18,000	18,000	–	18,000
Other (leasehold interest)	4,310	(2,085)	2,225	4,310	(1,997)	2,313
Total	$ 147,200	$ (101,486)	$ 45,714	$ 147,200	$ (84,842)	$ 62,358

7. Goodwill and Other Intangible Assets (continued)

At December 31, 2022, the estimated aggregated amortization expense is expected to be:

Year ending December 31:	Amortization (In Thousands)
2023	$ 14,501
2024	5,988
2025	2,327
2026	1,981
2027	710
Thereafter	2,207
	$ 27,714

Core deposit intangible amortization expense was $16.6 million and $18.1 million for the years ended December 31, 2022 and 2021, respectively.

8. Deposits

The Company's deposits are comprised of the following at December 31, 2022 and 2021:

	2022	2021
	(In Thousands)	
Non-interest bearing	$ 6,623,772	$ 7,392,601
Interest bearing:		
Savings	318,071	318,675
Checking	2,543,572	2,713,717
Money market	7,304,070	7,291,210
Certificates of deposit	3,462,374	689,245
Total interest bearing	13,628,087	11,012,847
Total deposits	$ 20,251,859	$ 18,405,448

The aggregate amount of time deposits (including certificates of deposit) with balances $250,000 or more at December 31, 2022 and 2021 are $3.4 billion and $509.7 million, respectively.

Included in deposits at December 31, 2022 and 2021 are brokered deposits of $2.6 billion and $24.4 million, respectively.

8. Deposits (continued)

Interest expense on deposits is comprised of the following for the years ended December 31, 2022 and 2021:

	2022	2021
	(In Thousands)	
Savings	$ 1,085	$ 370
Checking	16,552	6,320
Money market	66,853	21,746
Certificates of deposit	28,695	6,434
	$ 113,185	$ 34,870

The scheduled maturities of time deposits (including certificates of deposit) at December 31, 2022 are:

	(In Thousands)
Year ending December 31:	
2023	$ 3,420,872
2024	21,648
2025	13,593
2026	2,268
2027	3,719
Thereafter	274
Total time deposits (including certificates of deposit)	$ 3,462,374

At December 31, 2022 and 2021, the Company had $5.1 million and $5.0 million, respectively, of deposit accounts in overdraft status classified as loans.

9. Borrowings

Federal Home Loan Bank (FHLB) Advances

The Bank is a member of the FHLB of Atlanta and has access to term financing from the FHLB. The following table presents information about outstanding borrowings at December 31, 2022 and 2021:

	Interest Rate	Maturity	2022	2021
			(In Thousands)	
Short-term FHLB advances:				
FHLB advances	Fixed, 4.22% to 4.26%; weighted average 4.24%	January 2023	$ 2,525,000	$ –
FHLB advances	Fixed, 0.18%	January 2022	–	350,000
Long-term FHLB advances:				
FHLB advances, convertible	Fixed/variable, 0.84% to 1.17%; weighted average 0.97%	July 2029	–	500,000
FHLB advances, convertible	Fixed/variable, 0.63%	August 2029	–	250,000
Total long-term FHLB advances			–	750,000
Total FHLB advances			$ 2,525,000	$ 1,100,000

The FHLB advance conversion options are Bermudan (at regular stated intervals until maturity). They are subject to conversion at quarterly intervals by the FHLB at predetermined dates which are January 2022 for the FHLB advances due in July 2029 and February 2022 for the FHLB advances due in August 2029. Both were called and paid off during the year ended December 31, 2022. The FHLB advances are subject to a prepayment fee.

9. Borrowings (continued)

FHLB advances are secured by specifically identified designated eligible assets. Eligibility is defined by the guidelines of the FHLB. At December 31, 2022 and 2021, FHLB advances outstanding were secured by commercial real estate, residential and multifamily mortgages totaling approximately $4.9 billion and $2.8 billion, respectively.

At December 31, 2022, the Company had available borrowing capacity at the FHLB of approximately $1.0 billion and unused borrowing capacity at the FRB of $2.3 billion.

Other Borrowings

On October 9, 2020, the Company acquired $10.0 million of 6.5% fixed rate senior debt as part of the Company's acquisition of Executive National Bank. The senior debt was issued on January 7, 2019 by Executive National Bank and matures on January 7, 2029. On the acquisition date, the Company recognized the senior debt at fair value, which was approximately $11.0 million. The fair value premium mark is amortized over the remaining term of the senior debt.

At December 31, 2022, all contractual annual principal payments on long-term borrowings are due in 2029.

10. Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Federal funds purchased and securities sold under agreements to repurchase generally mature within three days from the transaction date but may have maturities as long as 90 days.

Information concerning federal funds purchased and securities sold under agreements to repurchase is presented below:

	December 31	
	2022	**2021**
	(In Thousands)	
Federal funds purchased		
At year-end:		
Amount	$ –	$ –
Rate	–	–
Average for the year:		
Amount	113	97
Rate	3.10%	0.41%
Maximum month end balance:		
Amount	400	427
Securities sold under agreements to repurchase		
At year-end:		
Amount	57,291	100,510
Weighted average rate	0.94%	0.14%
Average for the year:		
Amount	74,977	91,198
Rate	0.27%	0.17%
Maximum month end balance:		
Amount	97,980	135,828

For securities sold under agreements to repurchase, the Company maintains effective control over the transferred securities, resulting in a secured borrowing with a pledge of collateral. The Company recognizes cash received, together with a liability (federal funds purchased and securities sold under agreements to repurchase) for the obligation to return it to the transferee. Repurchase agreements are subject to terms and conditions of master repurchase agreements between the Company and the client or counterparty. If the Company has the right to sell or repledge the collateral, the Company presents those securities in its consolidated balance sheet separately as securities pledged to creditors as collateral from other assets not encumbered.

10. Federal Funds Purchased and Securities Sold Under Agreements to Repurchase (continued)

Due to the short maturity dates of securities sold under agreements to repurchase and the nature of collateral involved, the risks associated with these transactions are considered minimal. The value of the collateral approximates the value of the payable. Declines in the fair value of the collateral would require the Company to increase the amounts of securities pledged. The Company monitors the fair value of the underlying securities on a daily basis. The securities pledged by the Company is represented within the available for sale debt securities portfolio in the consolidated balance sheets.

The collateral type and remaining maturity for securities sold under agreements to repurchase at December 31, 2022 and 2021 are presented below.

	December 31, 2022			
	Overnight and Continuous	**Up to 30 Days**	**More than 30 Days**	**Total**
Securities sold under agreements to repurchase:				
U.S. government agency securities	$ 52,741	$ –	$ –	$ 52,741
Mortgage-backed securities issued by U.S. Government sponsored enterprises	4,550	–	–	4,550
Total securities sold under agreements to repurchase	$ 57,291	$ –	$ –	$ 57,291

	December 31, 2021			
	Overnight and Continuous	**Up to 30 Days**	**More than 30 Days**	**Total**
Securities sold under agreements to repurchase:				
U.S. government agency securities	$ 32,882	$ –	$ –	$ 32,882
Mortgage-backed securities issued by U.S. Government sponsored enterprises	67,628	–	–	67,628
Total securities sold under agreements to repurchase	$ 100,510	$ –	$ –	$ 100,510

11. Accumulated Other Comprehensive Income (AOCI)

Accumulated other comprehensive income (loss) is reported as a component of stockholder's equity and can include, among other things, unrealized gains and losses on securities available for sale and derivative instruments that are designated as, and qualify as, cash flow hedges. The reclassification for gains (losses) included in net income is recorded in gain on sale of securities, net, interest expense on long-term debt, and interest and fees on loans and leases in the consolidated statements of income.

The following table provides the changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended December 31, 2022 and 2021.

	Net Unrealized Gains (Losses) on Investment Securities Available for Sale	Net Unrealized Gains (Losses) on Derivative Instruments	Net Unrealized Gains (Losses) on Securities Transferred from Available for Sale to Held to Maturity	Change in Other	Total
Balance at December 31, 2020	$ 42,458	$ 1,434	$ –	$ (77)	$ 43,815
Other comprehensive income (loss) before reclassifications	(97,325)	13,951	(4,783)	–	(88,157)
Amounts reclassified from accumulated other comprehensive income (loss)	(3,005)	1,133	569	–	(1,303)
Net comprehensive income (loss)	(100,330)	15,084	(4,214)	–	(89,460)
Balance at December 31, 2021	(57,872)	16,518	(4,214)	(77)	(45,645)
Other comprehensive income (loss) before reclassifications	(477,172)	31,775	–	–	(445,397)
Amounts reclassified from accumulated other comprehensive income (loss)	223	(2,851)	833	–	(1,795)
Net comprehensive income (loss)	(476,949)	28,924	833	–	(447,192)
Balance at December 31, 2022	$ (534,821)	$ 45,442	$ (3,381)	$ (77)	$ (492,837)

11. Accumulated Other Comprehensive Income (AOCI) (continued)

The table below presents the reclassifications out of accumulated other comprehensive income, net of tax:

AOCI Component	Years Ended December 31 2022	2021	Income Statements Line Item Affected
Held to maturity securities:			
Realized losses on held to maturity securities	$ 1,106	$ 750	Interest on securities
Tax benefit	(273)	(181)	Income tax expense
Total	833	569	Net income
Available for sale securities:			
Realized losses (gains) on securities available for sale	296	(3,966)	Gain on sale of securities, net
Tax (benefit) expense	(73)	961	Income tax expense
Total	223	(3,005)	Net income
Cash flow hedges:			
Realized (gains) losses on cash flow hedges for borrowings	(5,979)	2,624	Interest expense on long-term debt
Realized losses (gains) on cash flow hedges for loans	2,195	(1,129)	Interest on loans and leases
Tax expense (benefit)	933	(362)	Income tax expense
Total	(2,851)	1,133	Net income
Total reclassification from AOCI	$ (1,795)	$ (1,303)	

12. Income Taxes

The Company's income tax expense for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
	(In Thousands)	
Current:		
Federal	$ 59,363	$ 55,345
State	16,618	9,432
Total current	75,981	64,777
Deferred:		
Federal	10,269	16,593
State	3,148	(17,951)
Total deferred	13,417	(1,358)
Income tax expense	$ 89,398	$ 63,419

The effective tax rates for 2022 and 2021 differ from the statutory federal rate of 21% primarily as a result of state income taxes, non-taxable income, and nondeductible expenses.

12. Income Taxes (continued)

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The components of deferred tax assets (liabilities) at December 31, 2022 and 2021 are as follows:

	2022	2021
	(In Thousands)	
Deferred tax assets:		
Net operating losses	$ 36,233	$ 41,749
Allowance for credit losses	38,354	32,164
Operating lease liabilities	20,139	–
Goodwill and intangible assets	13,504	22,205
Employee benefits	18,366	9,168
Other	1,619	10,594
Total deferred tax assets	128,215	115,880
Deferred tax liabilities:		
Other	(2,112)	–
Right-of-use operating lease assets	(18,027)	–
Depreciation of lease assets	(77,226)	(72,943)
Total deferred tax liabilities	(97,365)	(72,943)
Net deferred tax assets before unrealized depreciation of securities available for sale and derivatives designated as cash flow hedges	30,850	42,937
Unrealized depreciation of securities available for sale	176,194	33,424
Unrealized gains on derivatives designated as cash flow hedges	(14,830)	(18,634)
Net deferred tax assets	$ 192,214	$ 57,727

12. Income Taxes (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not, based on an evaluation of both positive and negative evidence as defined in FASB Accounting Standards Codification ASC 740, *Income Taxes*, (ASC 740) that some portion or all of the deferred tax assets will not be realized. Although management believes that these deferred tax assets will ultimately be realized, it must recognize that such realization is dependent on the generation of future taxable income during the periods in which temporary differences are deductible. Under ASC 740, management must consider the scheduled reversal of deferred tax assets, projected future taxable income, tax planning strategies, and whether the Company is in a three-year cumulative loss position in making this assessment. Management evaluated all available evidence, both positive and negative, and based on consideration of the evidence, which included earnings/loss history and anticipated future pretax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, management concluded that it was more likely than not that its net deferred tax assets would be realized at December 31, 2022 and 2021.

The Company's gross net operating losses of approximately $144.7 million of federal net operating losses and approximately $131.0 million of state of Florida net operating losses at December 31, 2022, will begin to expire at the end of 2030. Due to the 2015 acquisition of the Company by Bci, the Company's utilization of its acquisition-related net operating loss carryforward has been limited under Internal Revenue Code section 382 to approximately $26.7 million per year.

The Company accounts for uncertainty in income taxes by recognizing in its consolidated financial statements the tax effects of a position only if it is more likely than not to be sustained based solely on its technical merits; otherwise, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. As of December 31, 2022, the Company has recorded a reserve related to $17.9 million in previously unrecognized tax benefits, primarily related to amended federal and state returns. The Company intends to file and pay the related income taxes due during 2023 for tax years 2019, 2020 and 2021.

The Company includes interest and penalties related to income taxes in the income tax provision. The consolidated statement of income includes $700 thousand and $450 thousand of expense for penalties and interest for the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Company has recorded accrued liabilities within other liabilities of $1.2 million and $450 thousand, respectively, in the consolidated balance sheets.

12. Income Taxes (continued)

The Company and its subsidiaries file a consolidated federal income tax return as well as combined and standalone state and local income tax returns. During 2022, the federal income tax audit of tax years 2016 through 2018 was completed with no material amounts due or receivable in excess of the Company's previously accrued liability. The federal tax returns for years 2018 through 2021 remain subject to examination in the U.S. Federal jurisdiction. State tax returns for years 2016 through 2021 remain subject to examination by certain states.

At December 31, 2022, and 2021, the Company has a tax (payable) prepayment of approximately $(19.7) million and $52.8 million, respectively, which is included in other liabilities and other assets, respectively, in the consolidated balance sheets.

13. Stock Appreciation Rights and Employee Benefits

Under the Company's Phantom Equity Value Appreciation Plan, Phantom Equity Value Appreciation Rights (PEVARs) are granted to employees. Each PEVAR represents a right of the holder to receive an amount in cash equal to the excess of the fair market value of a share of the Company's common stock on the exercise date over the exercise price. The fair value of common stock is estimated annually through an independent valuation by a third-party service provider. PEVARs vest after four years, and the holders can exercise PEVARs in Q1 2023, Q1 2024, or Q1 2025. Upon exercise, they will be settled in cash.

In 2019 and 2021, the Company granted PEVARs to selected executives. The Company recognizes compensation expense on a straight-line basis over the service period. The service period for the unexercised PEVAR continues throughout 2022 as the rights are initially able to be exercised in January 2023.

The fair value of the PEVARs are re-measured each reporting period until settlement and changes in fair value are charged to compensation expense as the PEVARs vest over the service period, which is generally a 4-year period beginning on the vesting commencement date.

The Company estimates the fair value of each PEVAR granted using the Black-Scholes-Merton option approach. Expected volatility is based on historical periods generally commensurate with the estimated terms of the options. The Company uses historical data to estimate option exercise and termination patterns. The expected term of PEVARs granted is derived from the weighted-average period of time that options granted are expected to be outstanding. The Company bases the risk-free interest rate on the Treasury note rate with a term comparable to that of the estimated term of the options.

13. Stock Appreciation Rights and Employee Benefits (continued)

For the years ended December 31, 2022 and 2021, compensation expense of $25.1 million and $32.4 million has been included in salaries and employee benefits in the consolidated statements of income for the PEVARs.

The following table presents the assumptions used in PEVARs outstanding during the years ended December 31, 2022 and 2021:

	Number of PEVARs	Weighted Average Exercise Price per PEVAR
PEVARs outstanding January 1, 2022	44,154	$ 1,260.07
PEVARs granted	–	–
PEVARs forfeited	–	–
PEVARs exercised	–	–
PEVARs outstanding December 31, 2022	44,154	1,236.16
PEVARs vested at December 31, 2022	–	–

	Number of PEVARs	Weighted Average Exercise Price per PEVAR
PEVARs outstanding January 1, 2021	46,538	$ 684.66
PEVARs granted	30,908	685.29
PEVARs forfeited	(2,384)	684.66
PEVARs exercised	(30,908)	1,111.74
PEVARs outstanding December 31, 2021	44,154	1,260.07
PEVARs vested at December 31, 2021	–	–

13. Stock Appreciation Rights and Employee Benefits (continued)

The fair value of PEVARs granted was estimated using the following weighted-average assumptions:

	Year ended December 31, 2022	Year ended December 31, 2021
Expected term (in years)	1.86	2.67
Expected volatility	35%	38.7%
Risk-free interest rate	4.19%	0.98%

The Company has a Medium Term Cash Compensation Plan (Cash Compensation Plan) payable to certain employees of the Company which vests based on service and performance conditions. Under the Cash Compensation Plan, each participant is provided a target payout based upon the achievement of net income and return on equity (ROE) goals set in 2019 for a three-year period, which ended on December 31, 2021. The first half of the compensation was paid out in Q1 2021 with the remaining to be paid out in Q1 2023. For the years ended December 31, 2022 and 2021, compensation expense of $4.5 million and $3.4 million, respectively, has been included in salaries and employee benefits in the consolidated statements of income for the Cash Compensation Plan.

401(k) Plan

The Company offers a defined contribution benefit plan, the Retirement Savings and Retirement Savings Plan (401(k) Plan). The 401(k) Plan gives eligible employees the option to contribute up to 100% of their pre-tax base salary through salary deductions under Section 401(k) of the Internal Revenue Code. Employees are eligible to participate in the 401(k) Plan when they meet the minimum age requirement of 21 years old and have completed three months of service. All contributions to the 401(k) Plan are invested in accordance with participant elections among a variety of investment options.

The Company matches 100% of the first 5% of the employee's contribution, not to exceed the applicable limitations prescribed by the Internal Revenue Code. In addition, the Company may make discretionary contributions from current or accumulated profits. The Company's contributions to the 401(k) Plan amounted to approximately $4.9 million and $4.0 million for the years ended December 31, 2022 and 2021, respectively.

14. Fair Value Measurements

The objective of a fair value measurement is to determine the price at which an orderly transaction would take place between market participants under the market conditions that exist at the measurement date. Fair value is the price to sell an asset or transfer a liability and therefore represents an exit price, not an entry price. The Company measures certain assets and liabilities at fair value either at a recurring or non-recurring basis in the consolidated balance sheets.

GAAP establishes a fair value hierarchy to prioritize the inputs used to measure fair value, based on the relative reliability of those inputs. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy is as follows:

- Level 1 – The valuation is based on quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity can access at the measurement date.

- Level 2 – The valuation is based on inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly.

- Level 3 – The valuation is based on model based techniques that use one or more unobservable inputs. These unobservable inputs reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability.

Assets and liabilities may change levels within the fair value hierarchy. There were no transfers between levels of the fair value hierarchy of assets and liabilities required to be measured at fair value on a recurring basis during the twelve months ended December 31, 2022 and 2021.

14. Fair Value Measurements (continued)

Assets and Liabilities Required to be Measured at Fair Value on a Recurring Basis

The following tables provide the fair value for assets and liabilities required to be measured at fair value on a recurring basis in the consolidated balance sheets by fair value hierarchy level.

	December 31, 2022			
	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)			
Assets				
Loans held for sale	$ 48,380	$ –	$ 48,380	$ –
Available for sale debt securities:				
U.S. government agency securities	1,569,612	–	1,569,612	–
Mortgage-backed securities issued by U.S. government sponsored enterprises	2,050,752	–	2,050,752	–
U.S. Treasury securities	26,897	26,897	–	–
Corporate debt securities and other	208,524	–	208,524	–
Total available for sale debt securities	$ 3,855,785	$ 26,897	$ 3,828,888	$ –
Equity securities	36,550	36,550	–	–
Derivative assets:				
Interest rate swap	$ 52,961	$ –	$ 52,961	$ –
Mortgage banking derivatives	145	–	145	–
Total derivative assets	$ 53,106	$ –	$ 53,106	$ –
Liabilities				
Derivative liabilities:				
Interest rate swap	$ 83,821	$ –	$ 83,821	$ –

14. Fair Value Measurements (continued)

	December 31, 2021			
	Fair Value	Level 1	Level 2	Level 3
	(In Thousands)			
Assets				
Loans held for sale	$ 68,300	$ –	$ 68,300	$ –
Available for sale debt securities:				
U.S. government agency securities	2,100,835	–	2,100,835	–
Mortgage-backed securities issued by U.S. government sponsored enterprises	2,163,534	–	2,163,534	–
Corporate debt securities and other	218,382	–	218,382	–
Total available for sale debt securities	$ 4,482,751	$ –	$ 4,482,751	$ –
Equity securities	30,500	30,500	–	–
Derivative assets:				
Interest rate swap	$ 62,458	$ –	$ 62,458	$ –
Mortgage banking derivatives	177	–	177	–
Total derivative assets	$ 62,635	$ –	$ 62,635	$ –
Liabilities				
Derivative liabilities:				
Interest rate swap	14,614	–	14,614	–
Mortgage banking derivatives	9	–	9	–
Total derivative liabilities	$ 14,623	$ –	$ 14,623	$ –

The following describes the valuation techniques the Company uses to measure certain financial assets and liabilities at fair value on a recurring basis in the consolidated balance sheets.

Loans Held for Sale

Loans held for sale are recognized at fair value. These loans consist of residential loans that the Company has originated with the intent to sell in the secondary market. The fair value is based on the price that the secondary market is offering for similar loans using observable market data.

14. Fair Value Measurements (continued)

Available for Sale Debt Securities

The Company's available for sale debt security portfolio is primarily comprised of instruments that are not quoted on an exchange, but may be traded in active markets. The fair value is based on quoted prices in active markets or market prices for similar debt securities obtained from dealer market participants or external pricing services. The Company does not hold any available for sale debt securities where there is little market activity, and the Company does not use any unobservable market inputs to measure the fair value.

The Company uses a third-party vendor for its debt security portfolio. The Company validates third party valuations using Bloomberg Valuation Services. At December 31, 2022 and 2021 there were no material differences identified as part of the validation process.

Equity Securities

The Company's equity securities consist primarily of mutual funds. The fair value is based on unadjusted quoted market prices in active exchange markets and are classified in Level 1 of the fair value hierarchy.

Derivatives

The Company primarily enters into interest rate swaps (see Note 5, *Derivatives*, for further information on the derivatives held). The derivative transactions are executed in the dealer market and fair value is based on market quotes obtain from counterparties. The market quotes use market observable inputs like LIBOR and SOFR. Thus, derivatives are categorized as Level 2. The fair value of derivatives consider non-performance risk as valuation of derivate assets considers counterparty credit risk and the valuation of derivative liabilities considers own credit risk.

The Company also has mortgage banking derivatives consisting of interest rate lock commitments and forward contracts related to mortgage loans held for sale. The mortgage banking derivatives are classified as Level 2 of the fair value hierarchy as the fair value is based on prices from third party investors which are observable inputs.

The Company has contracted a third-party vendor to provide valuations for interest rate swap derivatives. The Company validates the third-party valuations using Bloomberg Valuation Service derivative pricing. No material differences were identified during the validation at December 31, 2022 and 2021.

14. Fair Value Measurements (continued)

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following table provides the fair value for assets and liabilities required to be measured at fair value on a non-recurring basis in the consolidated balance sheets by fair value hierarchy level.

	December 31, 2022			Fair Value Adjustment for the Year Ended December 31, 2022	Location in the Consolidated Statement of Income
	Level 1	Level 2	Level 3		
	(In Thousands)				
Collateral dependent loans	–	–	6,981	1,014	Provision for (reversal of) credit losses

	December 31, 2021			Fair Value Adjustment for the Year Ended December 31, 2021	Location in the Consolidated Statement of Income
	Level 1	Level 2	Level 3		
	(In Thousands)				
Collateral dependent loans	–	–	5,932	12,432	Provision for (reversal of) credit losses
Other real estate owned and repossessed assets	–	–	1,183	178	Other non-interest expenses

Collateral Dependent Loans

The carrying amount of collateral dependent loans is typically based on the fair value of the underlying collateral. The Company uses third party appraisals to assist in measuring expected credit losses on collateral dependent loans. These appraisals generally use the market or income approach valuation technique and use market observable data to formulate an opinion of the fair value of the loan's collateral.

14. Fair Value Measurements (continued)

Other Real Estate Owned and Repossessed Assets

When the loan is foreclosed and the asset is classified as other real estate owned or repossessed asset, a fair value is calculated primarily based on third party appraisals. The Company plans to ultimately sell all real estate owned and repossessed assets, and thus the fair value incorporates an estimated cost to sell. Quarterly, the Company assesses real estate owned and records a lower of cost or market. The fair value is measured using the current appraised value of the property. If a current appraisal is not available or if there is outdated market information, the fair value is measured using the lower value of the most recent appraised value, a broker price opinion, or a current listing price.

15. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company enters into financial instruments to meet the financing needs of its customers including commitment to extend credit and standby letters of credit. These financial instruments have credit risk in excess of the amount recognized in the consolidated balance sheets.

At December 31, 2022 and 2021, the contractual amounts for the following financial instruments with off-balance sheet risk are:

	2022	2021
	(In Thousands)	
Commitments to extend credit	$ 2,958,862	$ 1,908,559
Standby letters of credit	147,238	94,562

The commitments to extend credit are disclosed net of participation sold to other institutions. All fees received are deferred and amortized on a straight-line basis over the term of the commitment. Unearned fees were approximately $0.3 million at December 31, 2022 and 2021. The Company had no overdraft protection commitments at December 31, 2022 and 2021.

15. Commitments and Contingencies (continued)

Commitments to Extend Credit

Commitments to extend credit are legally binding agreements to lend funds to a customer. Certain commitments are subject to conditions including covenants regarding financial performance. The Company is obligated to lend to a customer as long as there is no violation of any condition established in the contract. The Company has similar policies to assess a customer's credit for a commitment to extend credit as for a loan. That is, the Company evaluates each customer's credit worthiness and the amount of collateral to be obtained on a case-by-case basis.

As many commitments are expected to expire without being drawn, the total contractual commitment amount does not necessarily represent future cash flows the Company will distribute to customers.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. The standby letters of credit are typically contingent on the failure of the customer to perform according to the terms of the contract with the third-party. If a customer fails to make their contractual obligation to the third-party, the Company is obligated to make payment. The Company primarily issues letter of credit related to construction customers. In those instances, the Company will guarantee the performance that a borrower completes construction to terms of the contract to a municipality where the construction is taking place. Standby letters of credit have expiration dates ranging from one to three years.

The Company is exposed to credit risk as the Company is obligated to make payment if the customer defaults. If the customer fails to perform, the Company may seek recourse through liquidation of any underlying collateral. At December 31, 2022 and 2021, standby letters of credit of approximately $47.5 million and $54.6 million, respectively, were secured by collateral (primarily cash and marketable securities).

The maximum future payments guaranteed by the Company through standby letters of credit is equal to the contractual amount of the obligation.

15. Commitments and Contingencies (continued)

Legal Proceedings

The Company is subject to various legal proceedings, claims and disputes where the Company is involved as a plaintiff or defendant that arise in the normal course of business. The Company is also exposed to litigation risk related to the prior business activities of banks acquired through business acquisitions. The Company examines and considers each legal matter and in situations whether the Company determines that a legal matter presents a loss contingency that is both probable and reasonably estimable, the Company establishes a liability. If the loss is probable and the range of possible loss outcomes is the best estimate available, regulatory GAAP requires a liability be established at the low end of the range. The Company reassess the liability for litigation matters each quarter.

In the opinion of management, based upon the advice of legal counsel, the ultimate disposition of all pending and threatened legal action (either individually or in the aggregate) will not have a material effect on the Company's consolidated financial statements.

The Company intends to pursue all available defenses to legal matters, but will consider other alternatives, including settlement, in situations whether there is an opportunity to resolve the legal matter on terms that the management considers are favorable. The Company maintains insurance legal coverage, which may be available to cover legal fees, or potential losses that may be incurred with certain legal matters.

Self-Insured Health Benefits Plan

The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The company maintains a reserve for incurred but not reported medical claims and claim development. The reserve is an estimate based on historical experience and other assumptions, some of which are subjective. The Company will adjust its self-insured medical benefits reserve as the Company's loss experience changes due to medical inflation, changes in the number of plan participants and an aging employee base.

16. Regulatory Matters

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

At December 31, 2022 and 2021, the most recent regulatory notification categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized", the Bank must maintain ratios as set forth in the following table. Management believes that no events or changes have occurred subsequent to December 31, 2022 that would change this designation.

The following tables present actual and required regulatory capital information at December 31, 2022 and 2021 for the Company and the Bank under the current capital rules.

	2022					
	Actual		Minimum Requirement for Capital Adequacy		To Be Well Capitalized Under Prompt Corrective Action Provisions[1]	
	Amount *(In Thousands)*	Ratio	Amount *(In Thousands)*	Ratio	Amount *(In Thousands)*	Ratio
The Company:						
Tier I capital to average assets	$ 2,361,028	9.3%	$ 1,011,772	4.0%	N/A	N/A
Common equity tier 1 capital to risk-weighted assets	2,361,028	12.8%	827,052	4.5%	N/A	N/A
Tier I capital to risk-weighted assets	2,361,028	12.8%	1,102,736	6.0%	N/A	N/A
Total capital to risk-weighted assets	$ 2,515,910	13.7%	$ 1,470,315	8.0%	N/A	N/A
City National Bank of Florida:						
Tier I capital to average assets	$ 2,358,754	9.3%	$ 1,011,998	4.0%	$ 1,264,998	5.0%
Common equity tier 1 capital to risk-weighted assets	2,358,754	12.8%	827,049	4.5%	1,194,626	6.5%
Tier I capital to risk-weighted assets	2,358,754	12.8%	1,102,732	6.0%	1,470,309	8.0%
Total capital to risk-weighted assets	$ 2,513,636	13.7%	$ 1,470,309	8.0%	$ 1,837,886	10.0%

16. Regulatory Matters (continued)

	2021					
	Actual		Minimum Requirement for Capital Adequacy		To Be Well Capitalized Under Prompt Corrective Action Provisions[1]	
	Amount *(In Thousands)*	Ratio	Amount *(In Thousands)*	Ratio	Amount *(In Thousands)*	Ratio
The Company:						
Tier I capital to average assets	$ 2,053,940	9.7%	$ 846,188	4.0%	N/A	N/A
Common equity tier 1 capital to risk-weighted assets	2,053,940	14.1%	654,326	4.5%	N/A	N/A
Tier I capital to risk-weighted assets	2,053,940	14.1%	872,435	6.0%	N/A	N/A
Total capital to risk-weighted assets	$ 2,186,923	15.0%	$ 1,163,247	8.0%	N/A	N/A
City National Bank of Florida:						
Tier I capital to average assets	$ 2,053,000	9.7%	$ 846,394	4.0%	$ 1,057,993	5.0%
Common equity tier 1 capital to risk-weighted assets	2,053,000	14.1%	654,267	4.5%	945,053	6.5%
Tier I capital to risk-weighted assets	2,053,000	14.1%	872,356	6.0%	1,163,142	8.0%
Total capital to risk-weighted assets	$ 2,186,000	15.0%	$ 1,163,157	8.0%	$ 1,453,946	10.0%

[1]The prompt corrective action provisions are applicable at the Bank only.

Federal and state banking laws and regulations restrict the amount of dividends the Bank may distribute to the Company without prior regulatory approval. Dividends paid by City National Bank are subject to approval by Board of Directors. Additionally, a capital conservation buffer of 2.5% above each of the minimum capital ratio requirements (Common Equity Tier 1 capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, and total capital to risk-weighted assets) must be met to avoid limitations on the ability of the Company (as a banking holdings company) and the Bank to pay dividends, repurchase shares, or pay discretionary bonuses.

17. Related-Party Transactions

Banco de Crédito e Inversiones, S.A.

In the normal course of business, the Company conducts transactions with Bci. The Company's policy requires that these transactions occur at prevailing market rates and the transactions are compliant with United States banking regulation.

The Company subleases a portion of its Brickell office to Bci Miami Branch, an office of Bci. The sublease fees the Company receives from Bci Miami Branch are included as a reduction to occupancy expense. The Company recorded approximately $1.1 million and $1.7 million for the years ended December 31, 2022 and 2021, respectively, related to sublease transactions with Bci Miami Branch.

17. Related-Party Transactions (continued)

The Company has a referral agreement with Bci Securities, Inc., a subsidiary of Bci. The referral fees the Company receives are recorded in trust and wealth management fees in the consolidated statements of income. The Company recorded approximately $568 thousand and $364 thousand for the years ended December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Company has a deposit from Bci Miami Branch totaling $251 million and $250 million, respectively. The terms of the deposit are substantially the same terms as those received in the normal course of business with an unrelated person.

At December 31, 2022 and 2021, the Company had $927 million of common stock issued and outstanding to Bci.

Other Related-Party Transactions

In the ordinary course of business, the Company has and expects to continue to conduct routine banking business with related parties, including its directors and executive officers.

The Company makes loans and has deposits with certain of its directors and executive officers. All of these loans and deposit transactions were made on substantially the same terms including interest rates and collateral requirements, for comparable transactions with unrelated persons. At December 31, 2022 and 2021, the aggregate amount of direct loans outstanding to directors and executive officers was $1.8 million and $3.6 million, respectively. There were no indirect loans made to related parties. There were no related party loans that were in nonaccrual status, past due, or restructured.

The aggregate amount of deposits from directors and executive officers were $12.1 million and $42.8 million at December 31, 2022 and 2021, respectively. The terms of the deposits were substantially the same terms as those received in the normal course of business with an unrelated person.