FINEMARK HOLDINGS, INC.

Audited Consolidated Financial Statements

At December 31, 2022 and 2021 and for the Years then Ended

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

The Board of Directors and Stockholders
FineMark Holdings, Inc.
Fort Myers, Florida:

Opinion

We have audited the accompanying consolidated financial statements of FineMark Holdings, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive (loss) income, shareholders' 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 consolidated 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 accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 GAAP, 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 a period of one year subsequent to the date of this report.

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A Registered Public Accounting Firm

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 16, 2023 expressed an unmodified opinion.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 16, 2023

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

($ in thousands, except share amounts)

	December 31,	
Assets	**2022**	**2021**
Cash and due from banks	$ 18,374	261,751
Debt securities available for sale	1,020,612	898,711
Debt securities held to maturity (fair value of $81,750 in 2022 and $79,973 in 2021)	93,369	79,517
Loans, net of allowance for loan losses of $23,168 in 2022 and $20,283 in 2021	2,228,236	1,996,362
Federal Home Loan Bank stock	13,859	11,326
Federal Reserve Bank stock	6,277	5,481
Premises and equipment, net	41,009	42,287
Operating lease right-of-use assets	12,825	11,207
Accrued interest receivable	10,220	7,215
Deferred tax asset	29,955	4,916
Bank-owned life insurance	72,138	50,862
Other assets	7,496	7,563
Total assets	$ 3,554,370	3,377,198
Liabilities and Shareholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	652,671	521,459
Savings, NOW and money-market deposits	2,122,561	2,151,635
Time deposits	43,259	61,026
Total deposits	2,818,491	2,734,120
Official checks	13,312	9,420
Other borrowings	118,444	1,873
Federal Home Loan Bank advances	286,100	264,016
Operating lease liabilities	12,900	11,311
Subordinated debt	33,545	40,919
Other liabilities	11,271	10,477
Total liabilities	3,294,063	3,072,136
Commitments and contingencies (notes 13 and 20)		
Shareholders' equity:		
Common stock, $.01 par value 50,000,000 shares authorized, 11,773,050 and 11,603,781 shares issued and outstanding in 2022 and 2021	118	116
Additional paid-in capital	210,953	205,907
Retained earnings	127,514	105,147
Accumulated other comprehensive loss	(78,278)	(6,108)
Total shareholders' equity	260,307	305,062
Total liabilities and shareholders' equity	$ 3,554,370	3,377,198

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

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
($ in thousands, except per share amounts)

	Year Ended December 31, 2022	2021
Interest income:		
Loans	$ 77,511	68,073
Debt securities	14,979	10,181
Dividends on Federal Home Loan Bank stock	443	484
Other	359	201
Total interest income	93,292	78,939
Interest expense:		
Deposits	13,924	4,317
Federal Home Loan Bank advances	6,382	7,404
Subordinated debt	2,062	2,506
Other borrowings	1,031	23
Total interest expense	23,399	14,250
Net interest income	69,893	64,689
Provision for loan losses	2,445	31
Net interest income after provision for loan losses	67,448	64,658
Noninterest income:		
Trust fees	26,617	26,638
Income from bank-owned life insurance	1,810	899
Income from solar farms	320	318
Gain on sale of debt securities available for sale	-	902
Gain (loss) on extinguishment of debt	2,349	(1,199)
Gain on termination of swap agreement	-	1,212
Other fees and service charges	1,658	1,169
Total noninterest income	32,754	29,939
Noninterest expenses:		
Salaries and employee benefits	45,445	38,894
Occupancy	8,020	6,535
Information systems	5,964	6,318
Professional fees	2,247	1,761
Marketing and business development	2,080	1,563
Regulatory assessments	1,700	1,599
Other	5,915	5,538
Total noninterest expense	71,371	62,208
Earnings before income taxes	28,831	32,389
Income taxes	6,464	7,362
Net earnings	$ 22,367	25,027
Weighted average common shares outstanding - basic (in thousands)	11,734	10,318
Weighted average common shares outstanding - diluted (in thousands)	11,848	10,483
Per share information: Basic earnings per common share	$ 1.91	2.43
Diluted earnings per common share	$ 1.89	2.39

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

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income
($ in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net Earnings	$ 22,367	$ 25,027
Other comprehensive loss:		
Unrealized holding loss on debt securities available for sale	(96,672)	(19,304)
Reclassification adjustment for gains realized in earnings	-	(902)
Net change in unrealized loss on debt securities available for sale	(96,672)	(20,206)
Unrealized holding gain on cash flow hedges	-	2,348
Reclassification adjustment for gains realized in earnings	-	(1,212)
Net changes in cash flow hedges	-	1,136
Total other comprehensive loss before income tax effect	(96,672)	(19,070)
Income tax effect	24,502	4,744
Total other comprehensive loss	(72,170)	(14,326)
Comprehensive (loss) income	$ (49,803)	10,701

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

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2022 and 2021
($ in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive (Loss) Income	Total Shareholders' Equity
Balance at December 31, 2020	8,955,427	$ 90	122,629	80,120	8,218	211,057
Stock-based compensation	13,440	-	2,237	-	-	2,237
Net earnings	-	-	-	25,027	-	25,027
Change in unrealized gain on debt securities available for sale, net of tax	-	-	-	-	(15,184)	(15,184)
Change in unrealized loss on cash flow hedges, net of tax	-	-	-	-	858	858
Stock units vested	67,586	-	-	-	-	-
Proceeds from exercise of stock options	67,328	1	1,131	-	-	1,132
Proceeds from issuance of common stock, net of offering costs	2,500,000	25	79,910	-	-	79,935
Balance at December 31, 2021	11,603,781	116	205,907	105,147	(6,108)	305,062
Stock-based compensation	14,625	-	3,638	-	-	3,638
Net earnings	-	-	-	22,367	-	22,367
Change in unrealized loss on debt securities available for sale, net of tax	-	-	-	-	(72,170)	(72,170)
Stock units vested	56,129	-	-	-	-	-
Proceeds from exercise of stock options	98,515	2	1,408	-	-	1,410
Balance at December 31, 2022	11,773,050	$ 118	210,953	127,514	(78,278)	260,307

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

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

($ in thousands)

	Year Ended December 31, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 22,367	25,027
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,375	1,644
Provision for loan losses	2,445	31
Amortization of deferred loan fees and costs	691	722
Amortization of premiums and discounts on debt securities	2,092	2,143
Amortization of subordinated debt issuance costs	126	207
Gain on sale of debt securities available for sale	-	(902)
(Gain) loss on extinguishment of debt	(2,349)	1,199
(Increase) decrease in accrued interest receivable	(3,005)	389
Decrease (increase) in other assets	67	(598)
Decrease in operating lease liabilities	(1,745)	(1,494)
Amortization of operating lease right-of-use assets	1,716	1,423
Deferred income taxes	(537)	(374)
Income from bank-owned life insurance	(1,810)	(899)
Increase in other liabilities	794	737
Increase in official checks	3,892	3,537
Stock-based compensation	3,638	2,237
Net cash provided by operating activities	30,757	35,029
Cash flows from investing activities:		
Net increase in loans	(235,010)	(146,822)
Purchase of premises and equipment, net	(1,097)	(2,628)
Debt securities available for sale:		
Purchases	(277,530)	(502,985)
Proceeds from sales	-	17,202
Proceeds from principal repayments	23,634	33,423
Proceeds from maturities and calls	33,365	121,509
Debt securities held to maturity:		
Purchases	(17,373)	(20,095)
Proceeds from principal repayments	2,848	4,400
Proceeds from maturities and calls	539	1,012
Purchase of bank-owned life insurance	(20,000)	(15,000)
Bank-owned life insurance proceeds	534	-
(Purchase) redemption of Federal Home Loan Bank stock	(2,533)	4,829
Purchase of Federal Reserve Bank stock	(796)	(1,084)
Net cash used in investing activities	(493,419)	(506,239)
Cash flows from financing activities:		
Net increase in deposits	84,371	509,166
Net increase (decrease) in other borrowings	116,571	(3,739)
Net proceeds (repayment) from Federal Home Loan Bank advances	24,433	(71,054)
Redemption/prepayment of subordinated debt	(7,500)	(10,400)
Proceeds from issuance of common stock, net of offering costs	-	79,935
Proceeds from exercise of stock options	1,410	1,132
Net cash provided by financing activities	219,285	505,040
Net (decrease) increase in cash and due from banks	(243,377)	33,830
Cash and due from banks at beginning of year	261,751	227,921
Cash and due from banks at end of year	$ 18,374	261,751

(continued)

FINEMARK HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued
($ in thousands)

	Year Ended December 31, 2022	2021
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 23,452	14,663
Income taxes	$ 7,962	7,862
Noncash transactions:		
Accumulated other comprehensive loss, net change in unrealized loss on debt securities available for sale, net of tax	$ (72,170)	(15,184)
Accumulated other comprehensive loss, fair value adjustment on cash flow hedges, net of tax	$ -	858
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	$ 3,334	4,956

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

(1) Summary of Significant Accounting Policies

Organization. FineMark Holdings, Inc. (the "Holding Company") was incorporated on May 31, 2006 and owns 100% of the outstanding common stock of FineMark National Bank & Trust (the "Bank") (collectively, the "Company"). The Holding Company's stock is traded on the OTCQX, under the symbol FNBT. The Holding Company's primary activity is the operation of the Bank. The Bank is a nationally-chartered commercial bank and trust company. The Bank offers a variety of banking and financial services to individual and corporate clients through its fourteen banking offices located in Lee, Collier and Palm Beach County, Florida, Maricopa County, Arizona, and Berkeley County, South Carolina. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank also has a trust department which offers investment management, trust administration, estate planning and financial planning services. In 2017, the Bank formed FineMark Solar, LLC ("Solar"), a South Carolina Limited Liability Company. The purpose of Solar is to own solar farms located in South Carolina. The Bank owns 100% of Solar which operates twelve solar farms that generate renewable energy that is sold to local electric companies. In 2018, the Bank formed 8695, LLC, which was created in connection with the acquisition and construction of the Bank's headquarters.

Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through February 16, 2023, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Holding Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The following summarizes the more significant of these policies and practices.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Revenue Recognition. The majority of the Company's revenues come from interest income and financial assets, including loans, securities, derivatives, bank owned life insurance, gain on sales of debt securities available for sale, and the gain on termination of swap agreements, which are outside the scope of the accounting guidance with respect to revenue from contracts with customers. The Company's services that fall within this guidance are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer.

(continued)

(1) Summary of Significant Accounting Policies, Continued
Revenue Recognition, continued.

The Company's revenue recognition accounting policies for trust fees, income from solar farms, and service charges on deposit accounts are as follows:

Trust Fees. The Company earns wealth management fees from its contracts with trust customers to provide trustee, custodian, and investment management services. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the average market value of assets under management ("AUM") at month-end. AUM fees are earned as a percentage of the client's AUM. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date.

Solar Farms. The income is recognized monthly based on the quantity of electric energy generated and provided to local electric companies. The Company satisfies its performance obligations as the energy is generated.

Service Charges on Deposit Accounts. Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, debit card interchange fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Cash and Due from Banks. The Bank may be required by law or regulation to maintain cash reserves with the Federal Reserve Bank, in accounts with other banks or cash in the vault. The required reserve is predominately based upon the level of demand deposit accounts average balances. At December 31, 2022 and 2021, the Bank did not have a reserve requirement as the Federal Reserve Board lowered the reserve requirements to zero for all depository institutions.

Debt Securities. Debt Securities ("Securities") may be classified as either trading, held-to-maturity or available-for-sale. Trading securities are held principally for resale and recorded at fair value. Unrealized gains and losses on trading securities are included immediately in earnings. Securities held-to-maturity are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Securities available-for-sale consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gain and loss on available-for-sale securities, net of tax are excluded from earnings and reported in accumulated other comprehensive loss. Gain and loss on the sale of securities available-for-sale are recorded on the trade date and are determined using the specific-identification method. Premiums and discounts on securities are recognized in interest income using the interest method over the period to expected maturity or call date.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Loans. Loans are carried at the principal amount outstanding, adjusted by partial charge-offs and net of unamortized deferred loan origination fees and costs. Interest income is accrued on a level yield basis based upon principal amounts outstanding, except for loans on nonaccrual status. Deferred loan origination fees and costs are amortized as an adjustment to yield over the term of the related loans.

Loans, with the exception of certain well-secured loans that are in the process of collection, are placed on nonaccrual status and interest recognition is suspended when such loans are 90 days or more overdue with respect to principal and/or interest, or sooner if considered appropriate by management. Well-secured loans are permitted to remain on accrual status provided that full collection of principal and interest is assured and the loan is in the process of collection. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. When loans are placed on nonaccrual status, interest previously accrued but not collected is reversed against current period income. Subsequent interest payments received on nonaccrual loans are applied to the outstanding principal balance of the loan or recognized as interest income depending on management’s assessment of the ultimate collectability of the loan. Loans are removed from nonaccrual status when they have been current as to principal and interest for a six month period, the borrower has demonstrated an ability to comply with repayment terms, and when, in management’s opinion, the loans are considered to be fully collectible.

Loans are considered to be troubled debt restructurings (“TDRs”) when the Company has granted concessions to a borrower due to the borrower’s financial condition that it otherwise would not have considered. The concessions may include modifications of the terms of the debt such as a deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring of a loan in lieu of aggressively enforcing the collection of the loan may benefit the Company by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management’s assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accrual status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans are evaluated on an individual basis and include nonaccrual loans and loans restructured in a troubled debt restructuring. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses. The allowance for loan losses represents the amount which, in management's judgment, will be adequate to absorb loan losses inherent in the loan portfolio as of the consolidated balance sheet date. The adequacy of the allowance is determined by management's evaluation of the loan portfolio on a regular basis based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. This evaluation requires estimates that are susceptible to significant revision as more information becomes available. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2022 or 2021.

The allowance consists of specific and general components. The specific component affects the gross value of the reserve for loans that are considered impaired. For such loans, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

The historical loss component of the allowance is determined by the Company's recognized losses by portfolio segment over the preceding four years. This is supplemented by the risks for each loan portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability, and lack of confidence in the economy.

The loss experience is adjusted for the following qualitative factors, changes in: lending policies and procedures, regional and local economic and business conditions, the nature and volume of the loan portfolio, experience level of lending management and staff, volume and severity of past due loans, the quality of loan review, the value of underlying collateral, as well as the existence of credit concentrations and changes in levels of concentration, the effect of external factors such as competition and legal and regulatory requirements, economic conditions, and other trends or uncertainties that could affect management's estimate of probable losses.

Premises and Equipment. Land is carried at cost. Building, leasehold improvements, furniture, fixtures, solar farms, equipment, data processing equipment, and software are carried at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful life of each type of asset or lease term, if shorter.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Leases. The Company has committed to rent premises used in its business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception. The Company recognizes operating lease right-of-use assets ("ROU") and operating lease liabilities based on the present value of the future minimum lease payments at the lease commencement date. Lease agreements that have lease and non-lease components, are accounted for as a single lease component. Lease expense is recognized on a straight-line basis over the lease term. ROU assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments arising from the lease.

The Company's leases do not provide an implicit interest rate, therefore the Company uses its incremental borrowing rates commensurate with the underlying lease terms to determine the present value of operating lease liabilities. Variable lease components, such as consumer price index adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities.

***Bank-Owned Life Insurance* ("BOLI").** The investment in BOLI represents the cash surrender value of life insurance policies on the lives of certain employees who have provided positive consent allowing the Company to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income taxes.

Trust Assets. Client assets, totaling $5.9 billion and $6.2 billion at December 31, 2022 and 2021 respectively, are not included in the consolidated balance sheets as such, these items are not assets of the Company.

Interest-Rate Swap Agreements. The Company may use interest-rate swap agreements to hedge various exposures or to modify interest rate characteristics of various financial instruments. The Company utilizes interest-rate swap agreements as part of its asset/liability management strategy to help manage its interest-rate risk position. Interest-rate swaps are contracts in which a series of interest payments are exchanged over a prescribed time period.

The notional amounts of the interest-rate swap are correlated to match the underlying asset or liability and do not represent the amount 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.

The Company determines cash flow hedges effectiveness at the inception of the derivative contract based on the Company's intentions and belief as to the likely effectiveness as a hedge. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive loss and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

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(1) Summary of Significant Accounting Policies, Continued

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

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive loss are amortized into income over the same periods in which the hedged transactions will affect income. There were no interest rate swap agreements at December 31, 2022 and 2021.

Comprehensive (Loss) Income. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and fair value adjustments on cash flow hedges, are reported as a separate component of the equity section of the consolidated balance sheet, such items along with net earnings, are components of comprehensive (loss) income. The tax effects of the items included in accumulated other comprehensive loss are released as each individual item matures, is sold, or disposed of.

The components of accumulated other comprehensive loss are as follows ($ in thousands):

	At December 31,	
	2022	2021
Unrealized loss on debt securities available for sale	$ (104,853)	(8,181)
Income tax benefit benefit	26,575	2,073
Accumulated other comprehensive loss	$ (78,278)	(6,108)

Transfer of Financial Assets. Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the

(continued)

(1) Summary of Significant Accounting Policies, Continued

Transfer of Financial Assets, continued. Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

Income Taxes. There are two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company follows accounting guidance relating to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. As of December 31, 2022 and 2021, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements. GAAP defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

The following describes valuation methodologies used for assets measured at fair value:

Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and certain mortgage products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

Derivative Contracts. Exchange-traded derivatives are valued using quoted prices and are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Company's derivative positions are valued by third-parties using their models and confirmed by the Company. Since the model inputs can be observed in a liquid market and the models do not require significant judgement, such derivatives contracts are classified within Level 2 of the fair value hierarchy. The Company's interest-rate swap contracts (designated as cash flow hedges) are classified within Level 2. Derivative contracts that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, continued.

Impaired Loans. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans are classified as Level 3.

Off-Balance Sheet Instruments. In the ordinary course of business the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unused lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Fair Value of Financial Instruments. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Cash and Due from Banks. The carrying amount of cash and due from banks represents fair value.

Debt Securities. Fair values for securities are based on the framework for measuring fair value.

Loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank Stock. As a requirement of membership, the Company must own a minimum amount of Federal Home Loan Bank ("FHLB") stock, calculated periodically based primarily on its level of borrowing from the FHLB. No market exists for the shares and therefore, they are carried at cost. The Company monitors its investment to determine if impairment exists. Based on the capital adequacy and the liquidity position of the FHLB, the Company believes there is no impairment related to the carrying amount of FHLB stock as of December 31, 2022 and 2021.

Federal Reserve Bank Stock. The stock is not publicly traded and the estimated fair value is based on its redemption value.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates fair value.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, continued.

Deposit Liabilities. The fair values disclosed for demand, NOW, money-market and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits.

Other Borrowings. The carrying amount of other borrowings approximates fair value.

Federal Home Loan Bank Advances. Fair values for FHLB advances are estimated using discounted cash flow analysis based on current borrowing rates of the FHLB.

Subordinated Debt. The fair value of the subordinated debt is estimated using discounted cash flow analysis based on the current rate of similar debt.

Off-Balance-Sheet Instruments. Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Fees received are taken into income over the life of the commitment.

Marketing. The Company expenses all marketing as incurred.

Stock-Based Compensation. The Company expenses the fair value of any stock-based compensation. The Company recognizes stock-based compensation in salaries and employee benefits for officers and employees and in other expense for directors in the consolidated statements of earnings. The expense is recognized over the vesting period.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Earnings Per Share. Earnings per share ("EPS") has been computed on the basis of the weighted-average number of shares of common stock outstanding. In 2022 and 2021, outstanding stock options and unvested restricted stock units are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method ($ in thousands, except per share amounts):

	2022			2021		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
Year Ended December 31:						
Basic EPS:						
Net earnings available to common shareholders	$22,367	11,734,491	$1.91	$25,027	10,318,041	$2.43
Effect of dilutive securities-						
Incremental shares from restricted stock units and assumed conversion of options		113,275			164,822	
Diluted EPS:						
Net earnings available to common shareholders	$22,367	11,847,766	$1.89	$25,027	10,482,863	$2.39

Recent Pronouncements. Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)" was issued in June 2016. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgement to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other consolidated financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements.

Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU was effective on January 1, 2023. The Company currently estimates the impact on the allowance for loan losses will not be significant. In addition, the Company expects to recognize a liability for unfunded commitments of approximately $50,000 upon adoption. The impact of adoption will not be significant to the Company's regulatory capital. The Company will not elect to phase-in, over a three-year period, the standard's initial impact on regulatory capital as permitted by the regulatory transition rules. The Company will finalize the adoption during the first quarter of 2023. The Company plans to adopt the guidance prospectively with a cumulative adjustment to retained earnings.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, continued.

Reference Rate Reform. In 2020, the Board issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The objective of the guidance in Topic 848 is to provide temporary relief during the transition period. The Board included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. At the time that Update 2020-04 was issued, the UK Financial Conduct Authority (FCA) had established its intent that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after December 31, 2021. As a result, the sunset provision was set for December 31, 2022—12 months after the expected cessation date of all currencies and tenors of LIBOR. In March 2021, the FCA announced that the intended cessation date of the overnight 1-, 3-, 6-, and 12-month tenors of USD LIBOR would be June 30, 2023, which is beyond the current sunset date of Topic 848. Because the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, the amendments in ASU 2022-06 issued in December 2022, defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company does not expect this standard to have a material impact on its consolidated financial statements.

(continued)

(2) Debt Securities

The carrying amount of securities and their fair values are as follows ($ in thousands):

Securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2022:				
U.S. Government agency securities	$ 444,278	—	(43,835)	400,443
Mortgage-backed securities	59,146	—	(9,059)	50,087
Collateralized mortgage obligations	50,985	—	(5,437)	45,548
U.S. Treasuries	265,809	—	(11,721)	254,088
Taxable municipal securities	305,247	—	(34,801)	270,446
Total	$ 1,125,465	—	(104,853)	1,020,612
At December 31, 2021:				
U.S. Government agency securities	379,215	61	(7,009)	372,267
Corporate debt securities	6,001	52	—	6,053
Mortgage-backed securities	69,822	408	(1,230)	69,000
Collateralized mortgage obligations	63,348	654	(526)	63,476
U.S. Treasuries	69,197	1	(41)	69,157
Taxable municipal securities	319,309	2,185	(2,736)	318,758
Total	$ 906,892	3,361	(11,542)	898,711
Securities held to maturity				
At December 31, 2022:				
U.S. Government agency securities	21,155	—	(3,510)	17,645
Mortgage-backed securities	35,443	—	(5,278)	30,165
Collateralized mortgage obligations	4,564	—	(314)	4,250
Taxable municipal securities	32,207	—	(2,517)	29,690
Total	$ 93,369	—	(11,619)	81,750
At December 31, 2021:				
U.S. Government agency securities	21,338	—	(489)	20,849
Mortgage-backed securities	20,831	33	(315)	20,549
Collateralized mortgage obligations	4,577	321	—	4,898
Taxable municipal securities	32,771	1,103	(197)	33,677
Total	$ 79,517	1,457	(1,001)	79,973

(continued)

(2) Debt Securities, Continued

Available-for-sale securities measured at fair value on a recurring basis are summarized below ($ in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022:				
U.S. Government agency securities	$ 400,443	—	400,443	—
Mortgage-backed securities	50,087	—	50,087	—
Collateralized mortgage obligations	45,548	—	45,548	—
U.S. Treasuries	254,088	254,088	—	—
Taxable municipal securities	270,446	—	270,446	—
Total	$ 1,020,612	254,088	766,524	—
December 31, 2021:				
U.S. Government agency securities	372,267	—	372,267	—
Corporate debt securities	6,053	—	6,053	—
Mortgage-backed securities	69,000	—	69,000	—
Collateralized mortgage obligations	63,476	—	63,476	—
U.S. Treasuries	69,157	69,157	—	
Taxable municipal securities	318,758	—	318,758	—
Total	$ 898,711	69,157	829,554	—

During the years ended December 31, 2022 and 2021, no securities were transferred in or out of Level 3.

(continued)

(2) Debt Securities, Continued

The scheduled maturities of securities at December 31, 2022 are as follows ($ in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 133,602	131,204	2,285	2,251
Due from one to five years	771,939	703,590	29,229	26,808
Due from five to ten years	91,598	75,772	21,155	17,645
Due in over ten years	18,195	14,411	693	631
Mortgage-backed securities	59,146	50,087	35,443	30,165
Collateralized mortgage obligations	50,985	45,548	4,564	4,250
Total	$ 1,125,465	1,020,612	93,369	81,750

The following summarized sales of securities available for sale ($ in thousands):

	Year Ended December 31,	
	2022	2021
Proceeds from sales of securities	$ —	17,202
Gross gains from sale of securities	$ —	902

(continued)

(2) Debt Securities, Continued

Securities with gross unrealized losses, aggregated by length of time that individual securities have been in a continuous loss position, are as follows ($ in thousands):

	Less Than Twelve Months		More Than Twelve Months	
Securities available for sale				
December 31, 2022:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	$ 4,576	67,407	39,259	333,036
Mortgage-backed securities	946	9,600	8,113	40,480
Collateralized mortgage obligations	1,050	17,390	4,387	28,158
U.S. Treasuries	2,303	93,001	9,418	161,087
Taxable Municipal securities	6,340	49,355	28,461	219,891
Total	$ 15,215	236,753	89,638	782,652
December 31, 2021:				
U.S. Government agency securities	5,818	312,640	1,191	42,548
Mortgage-backed securities	1,131	50,011	99	2,239
Collateralized mortgage obligations	237	19,109	289	7,347
U.S. Treasuries	41	59,145	—	—
Taxable Municipal securities	2,653	212,081	83	1,917
Total	$ 9,880	652,986	1,662	54,051
Securities held to maturity				
December 31, 2022:				
U.S. Government agency securities	—	—	3,510	17,645
Mortgage-backed securities	2,313	16,296	2,965	13,869
Collateralized mortgage obligations	314	4,250	—	—
Taxable Municipal securities	1,148	19,948	1,369	9,742
Total	$ 3,775	40,494	7,844	41,256
December 31, 2021:				
U.S. Government agency securities	489	20,849	—	—
Mortgage-backed securities	202	15,309	113	3,393
Taxable Municipal securities	197	10,946	—	—
Total	$ 888	47,104	113	3,393

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(continued)

(2) Debt Securities, Continued

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, there was an unrealized loss on three hundred and eighty-nine debt securities available for sale. At December 31, 2021, there was an unrealized loss on two hundred and twenty-four securities available for sale. All unrealized losses were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At December 31, 2022 and 2021, securities with a fair value of $409.40 million and $270.10 million, respectively, were pledged to secure repurchase agreements, State of Florida deposits and trust operations.

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(3) Loans

A significant portion of the loan portfolio is concentrated among borrowers in Southwest Florida, Palm Beach, Florida, Scottsdale, Arizona, and Charleston, South Carolina and a substantial portion of the portfolio is collateralized by real estate in these areas. In general, the ability of single-family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in the Company's market areas.

The components of loans by segment and class are as follows ($ in thousands):

	At December 31,	
	2022	**2021**
Real estate mortgage:		
Commercial real estate	$ 280,256	260,971
Residential real estate	1,349,599	1,216,256
Construction and land development	254,078	210,657
Total real estate mortgage	1,883,933	1,687,884
Commercial	174,790	164,282
Personal	190,120	162,690
Total loans	2,248,843	2,014,856
Add (subtract):		
Deferred loan costs, net	2,561	1,789
Allowance for loan losses	(23,168)	(20,283)
Loans, net	$ 2,228,236	1,996,362

(continued)

(3) Loans, Continued

The Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's board of directors. The portfolio segments identified by the Company are as follows:

Real Estate Mortgage. Real estate mortgage loans are typically segmented into three classes: Commercial real estate, Residential real estate and Construction and land development. Commercial real estate loans are secured by the subject property and are approved based on standards which include, among other factors, loan to value limits, cash flow coverage and the general creditworthiness of the obligors. Residential real estate loans are approved based on repayment capacity and source, value of the underlying property, credit history and stability of the borrower. Construction and land development loans are to borrowers to finance the construction of owner occupied and leased properties. These loans are categorized as construction and land loans during the construction period, later converting to commercial or residential real estate loans after the construction is complete and amortization of the loan begins. Construction and land development loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Construction and land development loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Construction and land loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, cost estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land development loans are extended for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

Commercial. Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Company takes as collateral a security interest in any available real estate, equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets. Commerical loans also consist of Paycheck Protection Program ("PPP") loans which are fully guaranteed by the Small Business Administration.

Personal. Personal loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. The Company also offers home improvement loans, lines of credit, personal loans, personal investment account secured loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Personal loans are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Personal loans are made at fixed and variable interest rates and may be made on terms of up to ten years. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(continued)

(3) Loans, Continued

The allowance is an estimate, and ultimate losses may vary from management's estimate. Changes in the estimate are recorded in the results of operations in the period in which they become known, along with provisions for estimated losses incurred during that period.

An analysis of the change in the allowance for loan losses follows ($ in thousands):

	Real Estate Mortgage	Commercial	Personal	Total
Year ended December 31, 2022:				
Beginning balance	$ 17,597	1,579	1,107	20,283
Provision (credit) for loan losses	2,496	(228)	177	2,445
Recoveries (charge-offs)	—	452	(12)	440
Ending balance	20,093	1,803	1,272	23,168
Individually evaluated for impairment:				
Recorded investment	$ 1,036	—	—	1,036
Balance in allowance for loan losses	$ —	—	—	—
Collectively evaluated for impairment:				
Recorded investment	1,882,897	174,790	190,120	2,247,807
Balance in allowance for loan losses	$ 20,093	1,803	1,272	23,168
Year Ended December 31, 2021:				
Beginning balance	17,147	2,529	1,106	20,782
Provision (credit) for loan losses	450	(420)	1	31
Charge-offs, net	—	(530)	—	(530)
Ending balance	$ 17,597	1,579	1,107	20,283
Individually evaluated for impairment:				
Recorded investment	$ 1,038	—	5	1,043
Balance in allowance for loan losses	$ —	—	—	—
Collectively evaluated for impairment:				
Recorded investment	$ 1,686,846	164,282	162,685	2,013,813
Balance in allowance for loan losses	$ 17,597	1,579	1,107	20,283

(continued)

(3) Loans, Continued

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention over $50,000 are reviewed regularly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, most commercial and commercial real estate loans over $1,000,000 are reviewed annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will determine the appropriate loan grade.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become 90 days past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

(continued)

(3) Loans, Continued

Doubtful – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is being written off as a basically worthless asset even though partial recovery may be effected in the future.

The following summarizes the loan credit quality ($ in thousands):

	Real Estate Mortgage					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial	Personal	Total
At December 31, 2022:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	280,256	1,346,792	254,078	174,760	190,120	2,246,006
Special Mention	—	289	—	—	—	289
Substandard	—	2,518	—	30	—	2,548
Total	$ 280,256	1,349,599	254,078	174,790	190,120	2,248,843
At December 31, 2021:						
Credit Risk Profile by Internally Assigned Grade:						
Pass	255,971	1,207,585	210,657	162,567	162,652	1,999,432
Special Mention	5,000	6,765	—	1,689	33	13,487
Substandard	—	1,906	—	26	5	1,937
Total	$ 260,971	1,216,256	210,657	164,282	162,690	2,014,856

(continued)

(3) Loans, Continued

Age analysis of past-due loans is as follows ($ in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2022:							
Real estate mortgage:							
Commercial real estate	$ —	—	—	—	280,256	—	280,256
Residential real estate	2,350	499	1,038	3,887	1,344,982	730	1,349,599
Construction and land development	—	240	—	240	253,838	—	254,078
Commercial	—	—	—	—	174,790	—	174,790
Personal	392	—	—	392	189,728	—	190,120
Total	$ 2,742	739	1,038	4,519	2,243,594	730	2,248,843
At December 31, 2021:							
Real estate mortgage:							
Commercial real estate	—	—	—	—	260,971	—	260,971
Residential real estate	220	—	—	220	1,215,312	724	1,216,256
Construction and land development	—	—	—	—	210,657	—	210,657
Commercial	—	—	—	—	164,282	—	164,282
Personal	—	—	—	—	162,685	5	162,690
Total	$ 220	—	—	220	2,013,907	729	2,014,856

(continued)

(3) Loans, Continued

Impaired loans are loans for which management considers it probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreements. Impaired loans also include loans restructured in a troubled debt restructuring ("TDR's").

The following summarizes the amount of impaired loans ($ in thousands):

	With No Related Allowance Recorded		With Related Allowance Recorded			Total		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Allowance
At December 31, 2022:								
Real estate mortgage -								
Residential real estate	$ 1,036	1,278	—	—	—	1,036	1,278	—
At December 31, 2021:								
Real estate mortgage -								
Residential real estate	1,038	1,251	—	—	—	1,038	1,251	—
Personal	5	6	—	—	—	5	6	—
Total	$ 1,043	1,257	—	—	—	1,043	1,257	—

(continued)

(3) Loans, Continued

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows ($ in thousands):

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2022:			
Real estate mortgage -			
Residential real estate	$ 1,016	12	41
Personal	3	—	—
Total	$ 1,019	12	41
Year Ended December 31, 2021:			
Real estate mortgage:			
Residential real estate	$ 1,558	64	88
Commercial real estate	245	19	19
Personal	6	—	—
Total	$ 1,809	83	107

There were no TDR's executed during the years ended December 31, 2022 or 2021.

(continued)

(3) Loans, Continued

Impaired collateral-dependent loans are carried at fair value when the current collateral value is lower than the carrying value of the loan. Those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows ($ in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Gains Recorded During the Year
At December 31, 2022:						
Residential real estate	$ 474	—	—	474	160	—
At December 31, 2021:						
Residential real estate	$ 500	—	—	500	160	(4)

In September 2022, Hurricane Ian made landfall in southwest Florida. The Company continues to assist clients and associates as they navigate the challenges from this historic storm. Efforts undertaken to date include: 1) financial assistance for associates impacted by the storm; 2) staffing resource reallocation to support southwest Florida operations; 3) waived fees; and 4) loan forbearance for impacted commercial and residential clients. A total of 36 loans totaling $24.5 million entered into forbearance agreements, and all of them are currently performing under the original terms as of December 31, 2022, with the exception of 1 loan with a balance of $499,000.

(4) Premises and Equipment

A summary of premises and equipment follows ($ in thousands):

	At December 31, 2022	At December 31, 2021
Land	$ 6,103	7,733
Building	21,830	26,448
Construction in process	224	1,103
Leasehold Improvements	8,200	5,303
Furniture, fixtures, solar farms and equipment	18,016	15,263
Data processing equipment and software	2,836	2,839
Total, at cost	57,209	58,689
Less accumulated depreciation and amortization	(16,200)	(16,402)
Premises and equipment, net	$ 41,009	42,287

(continued)

(5) Leases

The Company leases various locations to conduct operations. Lease expiration dates range from 2 years to 25 years, with renewal options on certain leases of 2 years to 25 years.

The components of lease expense and other lease information are as follows ($ in thousands):

	Year Ended December 31, 2022		Year Ended December 31, 2021
Operating Lease Expense Recognized	$	2,017	1,589
Cash paid for amounts included in measurement of operating lease liabilities	$	1,916	1,668

	At December 31, 2022		At December 31, 2021
Operating lease right-of-use assets	$	12,825	11,207
Operating lease liabilities	$	12,900	11,311
Weighted-average remaining lease term		7.6 years	7.3 years
Weighted-average discount term		2.40 %	2.00 %

	At December 31, 2022	
2023	$	2,079
2024		2,052
2025		1,888
2026		1,682
2027		1,148
Thereafter		5,676
Total future minimum lease payments		14,525
Less imputed interest		(1,625)
Total operating lease liabilities	$	12,900

(continued)

(6) Bank-Owned Life Insurance

Bank-Owned Life Insurance ("BOLI") amounted to $72,138,000 and $50,862,000 at December 31, 2022 and 2021, respectively. BOLI provides a means to mitigate increasing employee benefit costs. The Company expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The purchase of the life insurance policies result in an interest sensitive asset on the consolidated balance sheets that provides monthly tax-free income to the Company. BOLI is invested in the "general account" and a "separate account" of quality insurance companies. All carriers were rated "A++" or better by A.M. Best and "Aa2" or better by Moody's at December 31, 2022 and 2021. BOLI is included in the consolidated balance sheets at its cash surrender value. Increases in BOLI's cash surrender value are reported as a component of noninterest income in the consolidated statements of earnings.

(7) Deposits

The aggregate amount of time deposits with a denomination of $250,000 or more was approximately $27.8 million and $40.7 million at December 31, 2022 and 2021, respectively. A schedule of maturities of time deposits at December 31, 2022 follows ($ in thousands):

Year Ending December 31,	Amount
2023	$ 36,790
2024	4,034
2025	997
2026	1,271
2027	167
	$ 43,259

(8) Other Borrowings

The Company enters into repurchase agreements with customers. These agreements require the Company to pledge securities as collateral for the balance in the accounts. At December 31, 2022 and 2021, the balance totaled $1,444,000 and $1,873,000 respectively, and the Company had pledged securities as collateral for these agreements with a carrying value of $1,446,000 and $1,876,000 respectively.

At December 31, 2022, the Company had $50 million available under an unsecured federal funds purchase facility and $20 million available under a secured revolving line of credit. The Company also has a line of credit with the Federal Reserve Bank ("FRB") under which the Company may draw up to $344.6 million. The line is secured by $528.6 million in loans. There was $117 million outstanding as of December 31, 2022, and no borrowings outstanding as of December 31, 2021 in connection with the federal funds line of credit with the FRB.

(continued)

(9) Shareholders' Equity

Stock Repurchase Plan. The Company's Stock Repurchase Plan authorizes the repurchase of up to $15.0 million of the Company's outstanding common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. As of December 31, 2022 and 2021, 64,661 shares had been repurchased under the Stock Repurchase Plan, totaling $1.6 million, at an average price of $24.82.

(10) Federal Home Loan Bank Advances and Other Available Credit

A summary of FHLB advances follows ($ in thousands):

Maturing in the Year Ending December 31,	Fixed or Variable Rate	Weighted-Average Interest Rate	At December 31, 2022	At December 31, 2021
2022	Fixed	2.38%	$ —	3,016
2023	Variable	4.57%	116,100	—
2023	Fixed	3.47%	115,000	65,000
2024	Fixed	2.73%	45,000	147,000
2025	Fixed	3.31%	10,000	30,000
2026	Fixed	2.07%	—	19,000
			$ 286,100	264,016

The Company has entered into a collateral agreement with the FHLB which consists of a blanket lien on qualifying real estate loans. As of December 31, 2022 and 2021, the Company had remaining available borrowing capacity of $418.7 million and $417.9 million, respectively.

The Company had secured Standby Letters of Credit of $30 million with the FHLB that were used to collateralize Qualified Public Deposits of $61,163,000 with the State of Florida as of December 31, 2021. During the second quarter 2022, the Standby Letters of Credit were terminated. As of December 31, 2022, securities with a fair value of $17,886,000 were pledged to secure Qualified Public Deposits of $30,606,000.

In 2022 and 2021, the Company prepaid certain FHLB advances with a total carrying amount of $141 million and $70.0 million, respectively, and recorded a gain (loss) on extinguishment of debt of $2,349,000 and ($799,000), respectively. The gains (losses) resulted from the difference in interest rates between the current market rate and the interest rate on the debt obligations.

(continued)

(11) Subordinated Debt

In 2018 the Company issued $30,000,000 face value of subordinated debt (the "2018 Subordinated Debt") due June 30, 2028. The 2018 Subordinated Debt has a fixed annual interest rate of 5.875% until June 30, 2023, at which time the rate will become an annual floating rate equal to three-month LIBOR, determined quarterly, plus 297 basis points. Interest is payable in arrears on March 31, June 30, September 30 and December 31, of each year through the maturity date, unless redeemed. The Company may, at its option, beginning June 29, 2023, and on any scheduled interest payment date thereafter, redeem the 2018 Subordinated Debt, in whole or in part, at 100% of the principal amount of the Subordinated Debt plus any accrued and unpaid interest. In May 2021, $10,000,000 of the 2018 Subordinated Debt was prepaid, which was accompanied with a prepayment penalty of $400,000. In September 2022, $7,500,000 of the 2018 Subordinated Debt was redeemed, along with accrued interest of $75,885. As of December 31, 2022, $12,500,000 was left to redeem.

In 2020, the Company issued $21,300,000 face value of subordinated debt due November 30, 2030, (the "2020 Subordinated Debt"). The 2020 Subordinated Debt has a fixed annual interest rate of 4.25% until November 30, 2025, at which time the rate will become an annual floating rate equal to three-month Secured Overnight Financing ("SOFR"), determined quarterly, plus 400.6 basis points. Interest is payable in arrears semi-annually on May 31 and November 30 of each year through November 30, 2025, then quarterly until the maturity date, unless redeemed. The Company may, at its option, beginning November 30, 2025, and on any scheduled interest payment date thereafter, redeem the 2020 Subordinated Debt, in whole or in part, at 100% of the principal amount of the 2020 Subordinated Debt plus accrued and unpaid interest.

The 2020 and 2018 Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The 2020 and 2018 Subordinated Debt is subject to certain affirmative and negative covenants and at December 31, 2022, the Company was in compliance with the covenants.

The following summarized the 2020 and 2018 Subordinated Debt during the years end December 31, 2022 and 2021, ($ in thousands).

Subordinated debt at December 31, 2020	$	50,712
Prepayment of subordinated debt		(10,000)
Amortization of issuance expenses		207
Subordinated debt at December 31, 2021	$	40,919
Redemption of subordinated debt		(7,500)
Amortization of issuance expenses		126
Subordinated debt at December 31, 2022	$	33,545

(continued)

(12) Income Taxes

The components of the income taxes are as follows ($ in thousands):

	Year Ended December 31, 2022	Year Ended December 31, 2021
Current:		
Federal	$ 5,887	6,651
State	1,114	1,085
Total current	7,001	7,736
Deferred:		
Federal	(441)	(219)
State	(96)	(155)
Total deferred	(537)	(374)
Income tax expense	$ 6,464	7,362

The reasons for the difference between the statutory Federal income tax rate of 21% and the effective tax rates are summarized as follows ($ in thousands):

	2022 Amount	2022 % of Pretax Earnings	2021 Amount	2021 % of Pretax Earnings
Income taxes at statutory rate	$ 6,055	21.0 %	6,802	21.0 %
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	804	2.8	735	2.3
Share-based compensation	(41)	(0.1)	37	0.1
Tax-exempt income	(380)	(1.3)	(245)	(0.8)
Other, net	26	—	33	0.1
Income tax expense	$ 6,464	22.4 %	7,362	22.7 %

(continued)

(12) Income Taxes, Continued

Tax effects of temporary differences that give rise to the deferred tax assets and liabilities are as follows ($ in thousands):

	At December 31, 2022	At December 31, 2021
Deferred tax assets:		
Allowance for loan losses	$ 5,872	5,141
Organizational and start-up costs	—	1
Share-based compensation	634	445
Operating lease liabilities	3,270	2,867
Unrealized loss on securities available for sale	26,575	2,073
Deferred tax assets	36,351	10,527
Deferred tax liabilities:		
Prepaid expenses	(351)	(277)
Premises and equipment	(1,838)	(1,655)
Deferred loan costs	(957)	(839)
Operating lease right-of-use assets	(3,250)	(2,840)
Deferred tax liabilities	(6,396)	(5,611)
Net deferred tax asset	$ 29,955	4,916

The Company's Federal and state income tax returns filed prior to 2019 are no longer subject to examination by the respective taxing authorities.

(13) Financial Instruments with off-Balance Sheet Credit Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, unused lines of credit, and standby letters of credit and may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

(continued)

(13) Financial Instruments with off-Balance Sheet Credit Risk, Continued

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and normally generate a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each borrower's creditworthiness is evaluated on a case-by-case basis the same as other extensions of credit.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Company is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to one year. At December 31, 2022 and 2021, there was no liability to beneficiaries resulting from standby letters of credit. At December 31, 2022, a substantial portion of the standby letters of credit were supported by pledged collateral. Should the Company be required to make payments to the beneficiary, repayment from the customer to the Company is required.

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2022, follows ($ in thousands):

Commitments to extend credit	$ 212,472
Unused lines of credit	$ 518,214
Standby letters of credit	$ 498

(continued)

(14) Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments, are as follows ($ in thousands):

		At December 31,			
		2022		2021	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and due from banks	1	$ 18,374	18,374	261,751	261,751
Securities available for sale	1,2	1,020,612	1,020,612	898,711	898,711
Securities held to maturity	2	93,369	81,750	79,517	79,973
Loans, net	3	2,228,236	2,126,331	1,996,362	1,994,849
Federal Home Loan Bank stock	3	13,859	13,859	11,326	11,326
Federal Reserve Bank stock	3	6,277	6,277	5,481	5,481
Accrued interest receivable	3	10,220	10,220	7,215	7,215
Financial liabilities:					
Deposits	3	2,818,491	2,817,411	2,734,120	2,734,579
Other borrowings	3	118,444	118,444	1,873	1,873
Federal Home Loan Bank advances	3	286,100	283,156	264,016	256,138
Subordinated debt, net	3	33,545	29,216	40,919	42,399
Off-balance sheet financial instruments	3	—	—	—	—

(continued)

(15) Derivative Financial Instruments

Interest-Rate Swap Agreement

During the second quarter of 2020, the Company entered into two separate interest-rate swap agreements (the "Swaps"), with notional amounts of $25 million and $100 million, respectively. The Swaps were designated as cash flow hedges of the trust money market deposit accounts that are indexed to the 3-Month LIBOR. The Swaps were determined to be highly effective since inception and therefore no amount of ineffectiveness has been included in net earnings. The Swaps were terminated during the 4th quarter of 2021. The Company recognized a gain on termination of $1,212,000.

The Company was exposed to credit related losses in the event of nonperformance by the counterparties to the Swaps. In addition, the Company required collateral from counterparties in the form of cash deposits or other marketable securities in the event that the fair value of the contracts were positive and such fair value for all positions with counterparty exceeds the credit support thresholds specified by the underlying agreements. Conversely, the Company was required to post cash deposits as collateral, in the event the fair value of the contracts were negative and were below the credit support thresholds ($ in thousands):

	Year ended December 31, 2021
Weighted-average pay rate	0.56%
Weighted-average receive rate	0.21%
Net interest expense	$374

(16) Employee Benefit Plan

The Company has a 401 (k) plan (the "Plan") which is available to all employees electing to participate after meeting certain length-of-service requirements. The Company matches up to 5% of employee's salaries, which amounted to approximately $1,226,000 and $901,000 for the years ended December 31, 2022 and 2021, respectively.

(continued)

(17) Stock-Based Compensation Plans

The 2019 Omnibus Incentive plan (the "2019 Plan") was approved by shareholders on April 25, 2019. Under the 2019 Plan, the maximum number of shares of common stock to be issued is 1,000,000, of which 476,412 remain available for grant as of December 31, 2022. The 2019 Plan permits the granting of stock options and other equity incentives to employees, directors or consultants of the Company.

The 2007 Stock Incentive Plan (the "2007 Plan") was amended and restated and approved by the shareholders in April 2015. Under the plan, 1,813,100 shares (amended) have been reserved for the granting of stock options or restricted stock awards. The 2007 Plan permits the granting of stock options and other equity incentives to employees, directors and affiliates. As part of the 2019 Plan approval, no future awards will be issued under the 2007 Plan.

The exercise price of each stock option may not be less than the fair market value of the Company's common stock on the date of grant, and options shall have a term of no more than ten years. Stock options are designated as either non-qualified or incentive stock options. In general, the stock options price is payable in cash. The fair value of stock options on the date of grant is estimated using the Black-Scholes Option-Pricing Model.

In 2022 and 2021, $405,000 and $372,000 of compensation expense was recognized. At December 31, 2022, there was $656,000 of unrecognized compensation expense related to the nonvested stock options granted under this plan. The remaining cost is expected to be recognized over the next 2.03 years. A summary of the stock option activity under the 2019 and 2007 Plans are as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2020	481,917	$ 19.97	
Granted	132,150	31.74	
Forfeited	(14,687)	(28.06)	
Exercised	(51,078)	(10.33)	
Outstanding at December 31, 2021	548,302	23.35	
Forfeited	(17,862)	(25.93)	
Exercised	(97,765)	(12.42)	
Outstanding at December 31, 2022	432,675	$ 25.72	5.49 years
Exercisable at December 31, 2022	328,275	$ 24.21	4.70 years

(continued)

(17) Stock-Based Compensation Plans, Continued

The fair value of each option granted during 2021 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	0.97%
Dividend yield	—
Expected stock volatility	23.68%
Expected life in years	6.25
Current stock price	\$31.74
Exercise price	\$31.74
Per share grant-date fair value of options issued during the year	\$8.14

The expected life was based upon the weighted-average-life of the award. Expected volatility is based on historical volatility of similar financial institutions. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield assumption is based on the Company's history and expectation of dividend payment.

On April 25, 2013, the Company adopted a Non-Qualified Stock Option Plan and made 150,000 options available. All stock options must be granted at a price not less than the fair market value of the common stock on the date of grant. Stock options cliff vest after a four year period. At December 31, 2022, 13,000 shares remain available for grant. All options expire ten years from the date of grant. At December 31, 2022 and 2021, there was no unrecognized compensation expense. A summary of stock option activity under this plan is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding and exercisable at December 31, 2021	113,300	\$14.55	
Exercised	(750)	(14.95)	
Outstanding and exercisable at December 31, 2022	112,550	\$14.54	1.08 years

(continued)

(17) Stock-Based Compensation Plans, continued

The Company issued under the 2019 Plan, restricted stock units that vest over 36 to 60 months. At December 31, 2022, there was $6,958,000 of total unrecognized compensation expense related to restricted stock units, which will be recognized over the next 2.32 years. In 2022 and 2021, $2,708,000 and $1,430,000, respectively, of compensation expense was recognized with a related income tax benefit of $687,000 and $362,000 for 2022 and 2021, respectively. A summary of the restricted stock unit activity under the 2019 and 2007 Plans are as follows:

	Number of Grants		Price	Fair Value (in thousands)
Outstanding at December 31, 2020	131,692	$	26.16	3,445
Granted	129,378		31.15	4,031
Forfeited	(4,805)		(30.21)	(145)
Vested and issued	(67,586)		(25.93)	(1,752)
Outstanding at December 31, 2021	188,679		29.57	5,579
Granted	145,940		35.76	5,219
Forfeited	(5,220)		(33.12)	(173)
Vested and issued	(56,129)		(28.98)	(1,627)
Outstanding at December 31, 2022	273,270	$	32.93	8,998

The Company issued stock-based compensation to directors totaling $525,000 and $435,000, during the years ended December 31, 2022 and 2021, respectively. Total shares issued to directors for services was 14,625 and 13,440, during the years ended December 31, 2022 and 2021, respectively.

(continued)

(18) Related Party Transactions

The Company has had transactions in the ordinary course of business, including deposits, loans, trust relationships and other transactions, such as lease agreements, furniture purchases and acquisition of insurance products, with certain of its directors and executive officers and their related interests. All transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features when granted. Similar transactions may be expected to take place in the ordinary course of business in the future.

The following summarizes these transactions ($ in thousands):

	At or for the Year Ended December 31,	
	2022	**2021**
Loans:		
Beginning balance	$ 31,622	32,553
Additions	5,201	2,616
Repayments	(4,808)	(3,547)
Ending balance	$ 32,015	31,622
Deposits at end of year	$ 14,229	29,156
Trust accounts under administration	$ 169,392	195,474

(continued)

(19) Regulatory Matters

The Bank and the Company are subject to various regulatory capital requirements, administered by the 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 Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The net unrealized gain or loss on securities available for sale is not included in computing regulatory capital.

The Bank is subject to the capital conservation buffer rules which places limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2022, the Bank's capital conservation buffer exceeds the minimum requirements.

As of December 31, 2022, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2022, that the Company and the Bank meet all capital adequacy requirements to which it is subject. The Company's and the Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

(continued)

(19) Regulatory Matters, continued

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2022:						
Common equity tier 1 capital ratio						
Bank	$ 351,348	17.67 %	$ 89,460	4.50 %	$ 129,220	6.50 %
Total Capital to Risk-Weighted Assets-						
Bank	374,516	18.84	159,040	8.00	198,800	10.00
Tier I Capital to Risk-Weighted Assets-						
Bank	351,348	17.67	119,280	6.00	159,040	8.00
Tier I Capital to Average Assets-						
Bank	351,348	9.72	144,559	4.00	180,699	5.00
Common equity tier 1 capital ratio						
Company	338,585	17.01	89,552	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-						
Company	395,298	19.86	159,203	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-						
Company	338,585	17.01	119,403	6.00	N/A	N/A
Tier I Capital to Average Assets-						
Company	338,585	9.36	144,640	4.00	N/A	N/A
As of December 31, 2021:						
Common equity tier 1 capital ratio						
Bank	$ 303,168	16.82 %	$ 81,094	4.50 %	$ 117,136	6.50
Total Capital to Risk-Weighted Assets-						
Bank	323,451	17.95	144,168	8.00	180,210	10.00
Tier I Capital to Risk-Weighted Assets-						
Bank	303,168	16.82	108,126	6.00	144,168	8.00
Tier I Capital to Average Assets-						
Bank	303,168	9.49	127,808	4.00	159,760	5.00
Common equity tier 1 capital ratio						
Company	311,170	17.24	81,213	4.50	N/A	N/A
Total Capital to Risk-Weighted Assets-						
Company	372,372	20.63	144,379	8.00	N/A	N/A
Tier I Capital to Risk-Weighted Assets-						
Company	311,170	17.24	108,284	6.00	N/A	N/A
Tier I Capital to Average Assets-						
Company	311,170	9.73	127,913	4.00	N/A	N/A

(continued)

(20) Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, none have occurred through December 31, 2022, that will have a material effect on the Company's consolidated financial statements.

(21) Parent Company Only Financial Information

The Holding Company's unconsolidated financial information is as follows ($ in thousands):

Condensed Balance Sheets

	At December 31,	
Assets	**2022**	**2021**
Cash and due from banks	$ 19,237	46,532
Other assets	2,043	2,642
Investment in subsidiaries	273,069	297,060
Total assets	$ 294,349	346,234
Liabilities and Shareholders' Equity		
Accounts payable	497	253
Subordinated debt	33,545	40,919
Shareholders' equity	260,307	305,062
Total liabilities and shareholders' equity	$ 294,349	346,234

(continued)

(21) Parent Company Only Financial Information, Continued

Condensed Statements of Shareholders' Equity

	Year Ended December 31, 2022	2021
Shareholders beginning balance	$ 305,062	211,057
Net earnings	22,367	25,027
Stock-based compensation	3,113	1,802
Proceeds from issuance of common stock, net of offering costs	525	80,370
Proceeds from exercise of stock options	1,410	1,132
Change in accumulated other comprehensive loss	(72,170)	(14,326)
Shareholders ending balance	$ 260,307	305,062

Condensed Statements of Earnings

	Year Ended December 31, 2022	2021
Revenue	$ 8	11
Expenses	(2,207)	(3,224)
Loss before earnings of subsidiaries	(2,199)	(3,213)
Earnings of subsidiaries	24,566	28,240
Net earnings	$ 22,367	25,027

(continued)

(21) Parent Company Only Financial Information, Continued

Condensed Statements of Cash Flows

	Year Ended December 31, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 22,367	25,027
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiaries	(24,566)	(28,240)
Loss on extinguishment of debt	—	400
Decrease in other assets	599	716
Increase (decrease) in accounts payable	244	(80)
Amortization of subordinated debt issuance costs	126	207
Net cash used in operating activities	(1,230)	(1,970)
Cash flows from investing activities:		
Capital infusion to subsidiaries	(20,500)	(25,500)
Net cash used in investing activities	(20,500)	(25,500)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	525	80,370
Proceeds from exercise of stock options	1,410	1,132
Redemption/prepayment of subordinated debt	(7,500)	(10,400)
Net cash (used) provided by financing activities	(5,565)	71,102
Net (decrease) increase in cash	(27,295)	43,632
Cash at beginning of year	46,532	2,900
Cash at end of year	$ 19,237	46,532
Noncash transactions:		
Accumulated other comprehensive loss, net change in unrealized loss on debt securities available for sale, net of tax	$ (72,170)	(15,184)
Accumulated other comprehensive loss, fair value adjustment on cash flow hedges, net of tax	$ —	858
Stock-based compensation expense of subsidiaries	$ 3,638	2,237