

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2023

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-13661

STOCK YARDS BANCORP, INC.

STOCK YARDS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky

(State or other jurisdiction of incorporation or organization)

61-1137529

(I.R.S. Employer Identification No.)

1040 East Main Street, Louisville, Kentucky

(Address of principal executive offices)

40206

(Zip Code)

Registrant's telephone number, including area code: (502) 582-2571

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	SYBT	The NASDAQ Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The number of shares outstanding of the registrant's Common Stock, no par value, as of April 28, 2023, was 29,323,011.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The acronyms and abbreviations identified in alphabetical order below are used throughout this Report on Form 10-Q:

Acronym or Term	Definition	Acronym or Term	Definition	Acronym or Term	Definition
ACH	Automatic Clearing House	EVP	Executive Vice President	NIM	Net Interest Margin (FTE)
AFS	Available for Sale	FASB	Financial Accounting Standards Board	NPV	Net Present Value
APIC	Additional paid-in capital	FDIC	Federal Deposit Insurance Corporation	Net Interest Spread	Net Interest Spread (FTE)
ACL	Allowance for Credit Losses	FFP	Federal Funds Purchased	NM	Not Meaningful
AOCI	Accumulated Other Comprehensive Income	FFS	Federal Funds Sold	OAEM	Other Assets Especially Mentioned
ASC	Accounting Standards Codification	FFTR	Federal Funds Target Rate	OREO	Other Real Estate Owned
ASU	Accounting Standards Update	FHA	Federal Housing Authority	PPP	SBA Paycheck Protection Program
ATM	Automated Teller Machine	FHC	Financial Holding Company	PV	Present Value
AUM	Assets Under Management	FHLB	Federal Home Loan Bank of Cincinnati	PCD	Purchased Credit Deteriorated
Bancorp / the Company	Stock Yards Bancorp, Inc.	FHLMC	Federal Home Loan Mortgage Corporation	PD	Probability of Default
Bank / SYB	Stock Yards Bank & Trust Company	FICA	Federal Insurance Contributions Act	Prime	The Wall Street Journal Prime Interest Rate
BOLI	Bank Owned Life Insurance	FNMA	Federal National Mortgage Association	Provision	Provision for Credit Losses
BP	Basis Point - 1/100th of one percent	FRB	Federal Reserve Bank	PSU	Performance Stock Unit
C&D	Construction and Development	FTE	Fully Tax Equivalent	ROA	Return on Average Assets
Captive	SYB Insurance Company, Inc.	GAAP	United States Generally Accepted Accounting Principles	ROE	Return on Average Equity
C&I	Commercial and Industrial	GLBA	Gramm-Leach-Bliley Act	RSA	Restricted Stock Award
CB	Commonwealth Bancshares, Inc. and Commonwealth Bank & Trust Company	GNMA	Government National Mortgage Association	RSU	Restricted Stock Unit
CD	Certificate of Deposit	HELOC	Home Equity Line of Credit	SAB	Staff Accounting Bulletin
CDI	Core Deposit Intangible	HTM	Held to Maturity	SAR	Stock Appreciation Right
CECL	Current Expected Credit Loss (ASC-326)	ITM	Interactive Teller Machine	SBA	Small Business Administration
CEO	Chief Executive Officer	KB	Kentucky Bancshares, Inc. and Kentucky Bank	SEC	Securities and Exchange Commission
CFO	Chief Financial Officer	KSB	King Bancorp, Inc. and King Southern Bank	SOFR	Secured Overnight Financing Right
CLI	Customer List Intangible	LGD	Loss Given Default	SSUAR	Securities Sold Under Agreements to Repurchase
CRA	Community Reinvestment Act	LFA	Landmark Financial Advisors, LLC	SVP	Senior Vice President
CRE	Commercial Real Estate	LIBOR	London Interbank Offered Rate	TBA	To Be Announced
DCF	Discounted Cash Flow	Loans	Loans and Leases	TBOC	The Bank Oldham County
DTA	Deferred Tax Asset	MBS	Mortgage Backed Securities	TCE	Tangible Common Equity
DTL	Deferred Tax Liability	MSA	Metropolitan Statistical Area	TDR	Troubled Debt Restructuring
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act	MSRs	Mortgage Servicing Rights	TPS	Trust Preferred Securities
EPS	Earnings Per Share	NASDAQ	The NASDAQ Stock Market, LLC	VA	U.S. Department of Veterans Affairs
ETR	Effective Tax Rate	NCI	Non-controlling Interest	WM&T	Wealth Management and Trust

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2023 (unaudited) and December 31, 2022 *(in thousands, except share data)*

	March 31, 2023	December 31, 2022
Assets		
Cash and due from banks	\$ 87,922	\$ 82,515
Federal funds sold and interest bearing due from banks	229,076	84,852
Total cash and cash equivalents	316,998	167,367
Mortgage loans held for sale, at fair value	6,397	2,606
Available for sale debt securities (amortized cost of \$1,266,356 in 2023 and \$1,297,977 in 2022, respectively)	1,131,852	1,144,617
Held to maturity debt securities (fair value of \$433,900 in 2023 and \$431,833 in 2022, respectively)	468,751	473,217
Federal Home Loan Bank stock, at cost	23,226	10,928
Loans	5,243,104	5,205,918
Allowance for credit losses on loans	75,673	73,531
Net loans	5,167,431	5,132,387
Premises and equipment, net	100,761	101,612
Premises held for sale	3,246	2,644
Bank owned life insurance	85,223	84,674
Accrued interest receivable	20,561	22,157
Goodwill	194,074	194,074
Core deposit intangibles	14,196	14,958
Customer list intangibles	9,614	10,032
Other assets	125,318	134,988
Total assets	\$ 7,667,648	\$ 7,496,261
Liabilities		
Deposits:		
Non-interest bearing	\$ 1,845,302	\$ 1,950,198
Interest bearing	4,511,893	4,441,054
Total deposits	6,357,195	6,391,252
Securities sold under agreements to repurchase	104,578	133,342
Federal funds purchased	14,745	8,789
Subordinated debentures	26,442	26,343
Federal Home Loan Bank advances	275,000	50,000
Accrued interest payable	1,029	660
Other liabilities	94,291	125,443
Total liabilities	6,873,280	6,735,829
Commitments and contingent liabilities (Footnote 13)		
Stockholders' equity		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, no par value. Authorized 40,000,000 shares; issued and outstanding 29,324,000 and 29,259,000 shares in 2023 and 2022, respectively	58,582	58,367
Additional paid-in capital	382,391	377,703
Retained earnings	454,338	439,898
Accumulated other comprehensive loss	(100,943)	(115,536)
Total stockholders' equity	794,368	760,432
Total liabilities and equity	\$ 7,667,648	\$ 7,496,261

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)
For the three months ended March 31, 2023 and 2022 *(in thousands, except per share data)*

	Three months ended March 31,	
	2023	2022
Interest income:		
Loans, including fees	\$ 68,787	\$ 44,743
Federal funds sold and interest bearing due from banks	1,581	282
Mortgage loans held for sale	41	24
Federal Home Loan Bank stock	165	54
Investment securities:		
Taxable	8,446	4,680
Tax-exempt	447	201
Total interest income	79,467	49,984
Interest expense:		
Deposits	13,499	1,171
Securities sold under agreements to repurchase	456	17
Federal funds purchased and other short-term borrowings	177	3
Subordinated debentures	1,734	33
Federal Home Loan Bank advances	529	—
Total interest expense	16,395	1,224
Net interest income	63,072	48,760
Provision for credit losses	2,625	2,279
Net interest income after provision expense	60,447	46,481
Non-interest income:		
Wealth management and trust services	9,527	8,243
Deposit service charges	2,149	1,863
Debit and credit card income	4,482	4,119
Treasury management fees	2,318	1,904
Mortgage banking income	1,038	1,003
Net investment product sales commissions and fees	754	607
Bank owned life insurance	549	266
Gain (loss) on sale of premises and equipment	(2)	—
Other	1,232	1,198
Total non-interest income	22,047	19,203
Non-interest expenses:		
Compensation	21,896	17,969
Employee benefits	5,053	4,539
Net occupancy and equipment	3,899	3,025
Technology and communication	4,251	3,419
Debit and credit card processing	1,419	1,337
Marketing and business development	1,095	772
Postage, printing and supplies	874	733
Legal and professional	797	650
FDIC insurance	1,135	645
Amortization of investments in tax credit partnerships	323	88
Capital and deposit based taxes	639	518
Merger expenses	—	19,500
Intangible amortization	1,180	713
Other	2,753	2,389
Total non-interest expenses	45,314	56,297
Income before income tax expense	37,180	9,387
Income tax expense	8,132	1,445
Net income	29,048	7,942
Less income attributed to non-controlling interest	—	36
Net income available to stockholders	\$ 29,048	\$ 7,906
Net income per common share - basic	\$ 1.00	\$ 0.29
Net income per common share - diluted	\$ 0.99	\$ 0.29
Weighted average outstanding shares		
Basic	29,178	27,230
Diluted	29,365	27,485

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)**For the three months ended March 31, 2023 and 2022** *(in thousands)*

	Three months ended March 31,	
	2023	2022
Net income	\$ 29,048	\$ 7,942
Other comprehensive income (loss):		
Change in unrealized gain (loss) on AFS debt securities	18,859	(65,379)
Change in fair value of derivatives used in cash flow hedge	494	—
Total other comprehensive income (loss), before income tax effect	19,353	(65,379)
Tax effect	4,760	(15,720)
Total other comprehensive income (loss), net of tax	14,593	(49,659)
Comprehensive income (loss)	43,641	(41,717)
Less comprehensive income attributed to non-controlling interest	—	36
Comprehensive income (loss) available to stockholders	<u>\$ 43,641</u>	<u>\$ (41,753)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

For the three months ended March 31, 2023 and 2022 (in thousands, except per share data)

	Common stock		Additional	Retained	Accumulated	Total
	Shares	Amount	paid-in	earnings	other	stockholders'
	outstanding		capital		comprehensive	equity
					income (loss)	
Balance, January 1, 2023	29,259	\$ 58,367	\$ 377,703	\$ 439,898	\$ (115,536)	\$ 760,432
Activity for three months ended March 31, 2023:						
Net income	—	—	—	29,048	—	29,048
Other comprehensive income	—	—	—	—	14,593	14,593
Stock compensation expense	—	—	1,152	—	—	1,152
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations	66	217	3,557	(6,143)	—	(2,369)
Cash dividends declared, \$0.29 per share	—	—	—	(8,489)	—	(8,489)
Shares cancelled	(1)	(2)	(21)	24	—	1
Balance, March 31, 2023	<u>29,324</u>	<u>\$ 58,582</u>	<u>\$ 382,391</u>	<u>\$ 454,338</u>	<u>\$ (100,943)</u>	<u>\$ 794,368</u>

	Common stock		Additional	Retained	Accumulated	Total	Non-controlling	Total
	Shares	Amount	paid-in	earnings	other	stockholders'	interest	equity
	outstanding		capital		comprehensive	equity		
					loss			
Balance, January 1, 2022	26,596	\$ 49,501	\$ 243,107	\$ 391,201	\$ (7,940)	\$ 675,869	\$ -	\$ 675,869
Activity for three months ended March 31, 2022:								
Net income	—	—	—	7,906	—	7,906	36	7,942
Other comprehensive loss	—	—	—	—	(49,659)	(49,659)	—	(49,659)
Stock compensation expense	—	—	991	—	—	991	—	991
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations	65	216	3,451	(6,011)	—	(2,344)	—	(2,344)
Stock issued for Commonwealth acquisition	2,564	8,539	125,286	—	—	133,825	—	133,825
Non-controlling interest of acquired entity	—	—	—	—	—	—	3,094	3,094
Cash dividends declared, \$0.28 per share	—	—	—	(8,172)	—	(8,172)	—	(8,172)
Shares cancelled	(5)	(18)	(280)	25	—	(273)	—	(273)
Distributions to non-controlling interest	—	—	—	—	—	—	(53)	(53)
Balance, March 31, 2022	<u>29,220</u>	<u>\$ 58,238</u>	<u>\$ 372,555</u>	<u>\$ 384,949</u>	<u>\$ (57,599)</u>	<u>\$ 758,143</u>	<u>\$ 3,077</u>	<u>\$ 761,220</u>

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2023 and 2022 (in thousands)

	2023	2022
Cash flows from operating activities:		
Net income	\$ 29,048	\$ 7,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,625	2,279
Depreciation, amortization and accretion, net	5,879	4,038
Deferred income tax expense	2,261	1,231
Gain on sale of mortgage loans held for sale	(215)	(92)
Origination of mortgage loans held for sale	(24,683)	(35,829)
Proceeds from sale of mortgage loans held for sale	21,107	38,771
Bank owned life insurance income	(549)	(266)
Loss on the disposal of premises and equipment	2	—
Stock compensation expense	1,152	991
Excess tax expense (benefit) from share-based compensation arrangements	493	(643)
Net change in accrued interest receivable and other assets	3,659	6,404
Net change in accrued interest payable and other liabilities	(31,017)	(21,306)
Net cash provided by operating activities	9,762	3,520
Cash flows from investing activities:		
Purchases of available for sale debt securities	—	(21,970)
Proceeds from sales of acquired available for sale debt securities	—	2,111
Proceeds from maturities and paydowns of available for sale debt securities	30,681	44,741
Purchases of held to maturity debt securities	—	(459,183)
Proceeds from maturities and paydowns of held to maturity debt securities	4,504	96,302
Purchases of Federal Home Loan Bank stock	(12,298)	—
Net change in non-PPP loans	(47,277)	(115,277)
Net change in PPP loans	9,036	69,373
Purchases of premises and equipment	(1,831)	(946)
Proceeds from sale or disposal of premises and equipment	103	—
Other investment activities	(255)	—
Proceeds from sales of other real estate owned	—	56
Cash from acquisition, net of cash paid	—	349,456
Net cash (used in) provided by investing activities	(17,337)	(35,337)
Cash flows from financing activities:		
Net change in deposits	(34,057)	(162,533)
Net change in securities sold under agreements to repurchase and federal funds purchased	(22,808)	(994)
Proceeds from Federal Home Loan Bank advances	700,000	—
Repayments of Federal Home Loan Bank advances	(475,000)	—
Repayment of acquired line of credit	—	(3,200)
Share repurchases related to compensation plans	(2,368)	(2,617)
Cash disbursements to non-controlling interest	—	(53)
Cash dividends paid	(8,561)	(8,287)
Net cash (used in) provided by financing activities	157,206	(177,684)
Net change in cash and cash equivalents	149,631	(209,501)
Beginning cash and cash equivalents	167,367	961,192
Ending cash and cash equivalents	\$ 316,998	\$ 751,691

(continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

For the three months ended March 31,

	2023	2022
Supplemental cash flow information:		
Interest paid	\$ 16,026	\$ 1,187
Income taxes paid, net of refunds	—	—
Cash paid for operating lease liabilities	1,071	853
Supplemental non-cash activity:		
Unfunded commitments in tax credit investments	\$ 6,262	\$ 3,131
Dividends payable to stockholders	158	159
Premises and equipment transferred to premises held for sale	715	—
Liabilities assumed in conjunction with acquisitions:		
Fair value of assets acquired	\$ -	\$ 1,403,509
Cash paid in acquisition	—	30,994
Common stock issued in acquisition	—	133,825
Non-controlling interest of acquired entity	—	3,094
Total consideration paid	—	167,913
Liabilities assumed	<u>\$ -</u>	<u>\$ 1,235,596</u>

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**(1) Summary of Significant Accounting Policies**

The accompanying condensed consolidated financial statements include the accounts of Stock Yards Bancorp, Inc. and its wholly-owned subsidiaries. The condensed consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, all adjustments necessary to present fairly the financial position and the result of operations for the interim periods have been made. All such adjustments are of a normal, recurring nature and all intercompany accounts and transactions have been eliminated.

To prepare the condensed consolidated financial statements, management must make estimates and assumptions that require difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates are susceptible to material changes as a result of changes in facts and circumstances. Actual results could differ significantly from those estimates, and the results of operations for the three month period ended March 31, 2023 do not necessarily indicate the results that Bancorp will achieve for the year ended December 31, 2023, or any other interim period.

The condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the rules and regulations for Form 10-Q as adopted by the SEC. Accordingly, the condensed consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with Bancorp's most recent Annual Report on Form 10-K, which contain the latest audited consolidated financial statements and notes thereto.

Reclassifications – Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on previously reported prior periods' net income or shareholders' equity.

Adoption of New Accounting Guidance – Bancorp continually monitors potential accounting pronouncements and evaluates the impact that adoption of new guidance will have on the Company's condensed consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *“Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for TDRs in ASC 310-40, *“Receivables – Troubled Debt Restructurings by Creditors”* for entities that have adopted the CECL model introduced by ASU 2016-13, *“Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.”* ASU 2022-02 also requires that public business entities disclose current-period gross charge offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *“Financial Instruments – Credit Losses – Measured at Amortized Cost.”* This guidance is effective for fiscal years beginning after December 15, 2022 and Bancorp's adoption of this guidance did not have a material impact on the condensed consolidated financial statements

Accounting Standards Updates – Generally, if an issued but not yet effective ASU with an expected immaterial impact to Bancorp has been disclosed in prior SEC filings, it will not be re-disclosed.

In March 2023, the FASB issued ASU 2023-02, *“Investments Equity Method and Join Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.”* These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the of the tax credit program from which the related income tax credits are receiving. This guidance is effective for reporting entities for fiscal years beginning after December 15, 2023. Early adoption is permitted. ASU 2023-02 is not expected to have a material impact on the consolidated financial statements.

(2) Bank Acquisition

Commonwealth Bancshares, Inc.

On March 7, 2022, Bancorp completed its acquisition of Commonwealth Bancshares, Inc. in a combined stock and cash transaction for total consideration of \$168 million. Bancorp acquired 15 retail branches, including nine in Jefferson County, four in Shelby County, and two in Northern Kentucky.

The following table provides a summary of the fair value of the assets acquired and liabilities assumed by Bancorp as of the acquisition date, the previously reported preliminary fair value adjustments necessary to adjust those acquired assets and assumed liabilities to fair value, final provisional period adjustments to those previously reported preliminary values, and the final fair values of those assets and liabilities as recorded by Bancorp.

	As Recorded	Fair Value	Classification	Provisional Period	As Recorded
(in thousands)	By CB	Adjustments	Adjustments	Adjustments (1)	by Bancorp
		(1)	(2)		
Assets acquired:					
Cash and due from banks	\$ 380,450	\$ —	\$ —	\$ —	\$ 380,450
Mortgage loans held for sale	3,559	—	—	—	3,559
Available for sale debt securities	247,209	(416)	a (161,819)	—	84,974
Held to maturity debt securities (2)	—	—	a 161,819	—	161,819
Federal Home Loan Bank stock, at cost	4,436	—	—	—	4,436
Loans	645,551	(13,147)	b —	—	632,404
Allowance for credits losses on loans	(16,102)	6,152	c —	—	(9,950)
Net loans	629,449	(6,995)	—	—	622,454
Premises and equipment, net	28,784	4,009	d —	—	32,793
Accrued interest receivable	1,973	—	—	—	1,973
Goodwill	5,412	(5,412)	e —	—	—
Core deposit intangible	—	12,724	f —	—	12,724
Customer list intangibles	—	14,360	g —	—	14,360
Mortgage servicing rights	9,387	3,289	h —	—	12,676
Deferred income taxes, net	—	(3,727)	i —	—	(3,727)
Other assets	9,389	(1,065)	j —	—	8,324
Total assets acquired	<u>\$ 1,320,048</u>	<u>\$ 16,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,336,815</u>
Liabilities assumed:					
Deposits:					
Non-interest bearing	\$ 302,098	\$ —	\$ —	\$ —	\$ 302,098
Interest bearing	818,334	371	k —	—	818,705
Total deposits	1,120,432	371	—	—	1,120,803
SSUAR	66,220	—	—	—	66,220
Subordinated debentures	26,806	(794)	l —	—	26,012
Line of credit	3,200	—	—	—	3,200
Accrued interest payable	243	—	—	—	243
Other liabilities	17,822	1,296	m —	—	19,118
Total liabilities assumed	<u>1,234,723</u>	<u>873</u>	<u>—</u>	<u>—</u>	<u>1,235,596</u>
Net assets acquired	<u>\$ 85,325</u>	<u>\$ 15,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,219</u>
Consideration for common stock					\$ 133,825
Cash consideration paid					30,994
Non-controlling interest of acquired entity					3,094
Total consideration					<u>\$ 167,913</u>
Goodwill					<u>\$ 66,694</u>

(1) See the following page for explanations of individual fair value/provisional period adjustments.

(2) As of acquisition date, securities with a fair value of \$162 million were classified by Bancorp as HTM.

Explanation of fair value/provisional period adjustments:

- a. Adjustment to investment securities based on Bancorp's evaluation of the acquired portfolio.
- b. Adjustments to loans to reflect estimated fair value adjustments, including the following:

(in thousands)

Fair value adjustment - acquired non PCD loans	\$	(9,216)
Fair value adjustment - acquired PCD loans		(4,094)
Eliminate unrecognized loan fees on acquired loans and fair value hedge		163
Net loan fair value adjustments	\$	<u>(13,147)</u>

- c. The net adjustment to ACL for loans includes the following:

(in thousands)

Reversal of historical CB ACL for loans	\$	(16,102)
Estimate of lifetime credit losses for PCD loans		9,950
Net change in ACL for loans	\$	<u>(6,152)</u>

- d. Adjustment to premises and equipment to reflect the estimated fair value of acquired premises and equipment and right of use assets.
- e. Elimination of the historical CB goodwill.
- f. Calculation of CDI related to the acquisition.
- g. Calculation of CLI related to the acquisition.
- h. Adjustment to reflect the estimated fair value of MSRs.
- i. Adjustment to net DTAs associated with the effects of the purchase accounting adjustments.
- j. Adjustment to other assets to reflect the estimated fair value of prepaid and other assets.
- k. Adjustment to deposits to reflect the estimated fair value of time deposits in interest rates, which was based on an analysis of market interest rates and maturity dates at the time of acquisition.
- l. Adjustment to reflect the estimated fair value of subordinated debentures for differences in interest rates, which was based primarily on an analysis of market interest rates and maturity dates at the time of acquisition.
- m. Adjustment to other liabilities to establish the reserve for unfunded loan commitments under CECL, operating lease liabilities and various accrual adjustments.

Goodwill of approximately \$67 million, which is the excess of the acquisition consideration over the fair value of net assets acquired, was recorded in the CB acquisition and is the result of expected operational synergies and other factors. This goodwill is attributable to the Company's Commercial Banking and Wealth Management & Trust segments. Goodwill related to the CB acquisition is not deductible for tax purposes, as the transaction was structured as stock sale.

Loans acquired that were not subject to guidance relating to PCD loans include loans with a fair value and gross contractual amounts receivable of \$540 million and \$549 million at the date of acquisition.

Total revenue, defined as net interest income and non-interest income, attributed to CB totaled approximately \$10.7 million and \$3.2 million for the three months ended March 31, 2023 and 2022, respectively. The significant increase between the three months ended March 31, 2023 and 2022 is the result of the prior year period including only a partial month of activity given the March 7, 2022 acquisition date.

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The following unaudited pro forma condensed combined financial information presents the results of operations of Bancorp, including the effects of the purchase accounting adjustments and acquisition expenses, had the CB acquisition taken place at the beginning of the period.

<i>(in thousands)</i>	Three months ended March 31, 2022
Net interest income	\$ 53,793
Provision for credit losses (1)	(2,150)
Non-interest income	22,143
Non-interest expense (2)	47,289
Income before income tax expense	30,797
Income tax expense	6,467
Net income	24,330
Less net income attributed to non-controlling interest	51
Net income available to stockholders	<u>\$ 24,279</u>
Earnings per share	
Basic	\$ 0.84
Diluted	0.83
Basic weighted average shares outstanding	29,056
Diluted weighted average shares outstanding	29,364

(1) - Excludes \$4.4 million in merger related credit loss expense for the three months ended March 31, 2022.

(2) - Excludes \$24.1 million in merger expenses for the three months ended March 31, 2022.

(3) Investment Securities

Debt securities purchased in which Bancorp has the intent and ability to hold to their maturity are classified HTM securities. All other investment securities are classified as AFS securities.

AFS Debt Securities

The following table summarizes the amortized cost, unrealized gains and losses, and fair value of Bancorp's AFS debt securities portfolio:

<i>(in thousands)</i>				
March 31, 2023	Amortized cost	Unrealized		Fair value
		Gains	Losses	
U.S. Treasury and other U.S. Government obligations	\$ 122,752	\$ -	\$ (6,464)	\$ 116,288
Government sponsored enterprise obligations	142,900	75	(5,196)	137,779
Mortgage backed securities - government agencies	851,879	-	(108,424)	743,455
Obligations of states and political subdivisions	142,901	-	(14,176)	128,725
Other	5,924	-	(319)	5,605
Total available for sale debt securities	<u>\$ 1,266,356</u>	<u>\$ 75</u>	<u>\$ (134,579)</u>	<u>\$ 1,131,852</u>
December 31, 2022				
U.S. Treasury and other U.S. Government obligations	\$ 122,966	\$ -	\$ (7,927)	\$ 115,039
Government sponsored enterprise obligations	149,773	290	(6,437)	143,626
Mortgage backed securities - government agencies	874,265	58	(121,585)	752,738
Obligations of states and political subdivisions	145,016	1	(17,418)	127,599
Other	5,957	-	(342)	5,615
Total available for sale debt securities	<u>\$ 1,297,977</u>	<u>\$ 349</u>	<u>\$ (153,709)</u>	<u>\$ 1,144,617</u>

HTM Debt Securities

The following table summarizes the amortized cost, unrecognized gains and losses, and fair value of Bancorp's HTM debt securities portfolio:

<i>(in thousands)</i>				
March 31, 2023	Carrying value	Unrecognized		Fair value
		Gains	Losses	
U.S. Treasury and other U.S. Government obligations	\$ 217,906	\$ -	\$ (7,065)	\$ 210,841
Government sponsored enterprise obligations	27,229	-	(1,884)	25,345
Mortgage backed securities - government agencies	223,616	-	(25,902)	197,714
Total held to maturity debt securities	<u>\$ 468,751</u>	<u>\$ -</u>	<u>\$ (34,851)</u>	<u>\$ 433,900</u>
December 31, 2022				
U.S. Treasury and other U.S. Government obligations	\$ 217,794	\$ -	\$ (9,166)	\$ 208,628
Government sponsored enterprise obligations	27,507	-	(2,559)	24,948
Mortgage backed securities - government agencies	227,916	-	(29,659)	198,257
Total held to maturity debt securities	<u>\$ 473,217</u>	<u>\$ -</u>	<u>\$ (41,384)</u>	<u>\$ 431,833</u>

All investment securities classified as HTM by Bancorp as of March 31, 2023 are obligations of the U.S. Government and/or are issued by U.S. Government-sponsored agencies and have an implicit or explicit government guarantee. Therefore, no ACL has been recorded for Bancorp's HTM securities as of March 31, 2023. Further, as of March 31, 2023, none of Bancorp's HTM securities were in non-accrual or past due status.

Debt Securities by Contractual Maturity

A summary of AFS and HTM debt securities by contractual maturity as of March 31, 2023 follows:

<i>(in thousands)</i>	AFS Debt Securities		HTM Debt Securities	
	Amortized cost	Fair value	Carrying value	Fair value
Due within one year	\$ 38,238	\$ 37,810	\$ 65,167	\$ 63,709
Due after one year but within five years	154,856	146,932	153,365	147,726
Due after five years but within 10 years	67,697	60,871	26,014	24,170
Due after 10 years	153,686	142,784	589	581
Mortgage backed securities - government agencies	851,879	743,455	223,616	197,714
Total	<u>\$ 1,266,356</u>	<u>\$ 1,131,852</u>	<u>\$ 468,751</u>	<u>\$ 433,900</u>

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without prepayment penalties. The investment portfolio includes MBS, which are guaranteed by agencies such as FHLMC, FNMA and GNMA. These securities differ from traditional debt securities primarily in that they may have uncertain principal payment dates and are priced based on estimated prepayment rates on the underlying collateral.

At March 31, 2023 and December 31, 2022, there were no holdings of debt securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

Accrued interest on the AFS and HTM securities portfolios totaled \$3 million and \$729,000 at March 31, 2023, respectively. Accrued interest on the AFS and HTM securities portfolios totaled \$4 million and \$2 million at December 31, 2022, respectively. Accrued interest on the AFS and HTM securities portfolios are included in the condensed consolidated balance sheets.

AFS debt securities totaling \$247 million were acquired on March 7, 2022, as a result of the CB acquisition, a portion of which were classified as HTM at acquisition. Shortly after acquisition, three securities with a total fair value of \$2 million were sold, resulting in a loss on the sale of \$92,000, which was recorded as a fair value adjustment through goodwill during the first quarter of 2022.

Securities with a carrying value of \$783 million and \$1.1 billion were pledged at March 31, 2023 and December 31, 2022, respectively, to secure accounts of commercial depositors in cash management accounts, public deposits and uninsured cash balances for WM&T accounts.

Based on an evaluation of available information including security type, counterparty credit quality, past events, current conditions, and reasonable and supportable forecasts that are relevant to collectability, Bancorp has concluded that it expects to receive all contractual cash flows from each security held in its AFS and HTM debt securities portfolio. As such, no allowance or impairment was recorded with respect to investment securities as of March 31, 2023.

Unrealized and Unrecognized Loss Analysis on Debt Securities

Debt securities with unrealized and unrecognized losses at March 31, 2023 and December 31, 2022, aggregated by investment category and length of time securities have been in a continuous unrealized loss position follows:

(in thousands) March 31, 2023	AFS Debt Securities					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury and other U.S. Government obligations	\$ -	\$ -	\$ 116,288	\$ (6,464)	\$ 116,288	\$ (6,464)
Government sponsored enterprise obligations	43,668	(157)	76,479	(5,039)	120,147	(5,196)
Mortgage-backed securities - government agencies	113,174	(3,879)	620,688	(104,545)	733,862	(108,424)
Obligations of states and political subdivisions	7,312	(42)	107,916	(14,134)	115,228	(14,176)
Other	-	-	5,604	(319)	5,604	(319)
Total AFS debt securities	<u>\$ 164,154</u>	<u>\$ (4,078)</u>	<u>\$ 926,975</u>	<u>\$ (130,501)</u>	<u>\$ 1,091,129</u>	<u>\$ (134,579)</u>

December 31, 2022

U.S. Treasury and other U.S. Government obligations	\$ 3,025	\$ (57)	\$ 111,966	\$ (7,870)	\$ 114,991	\$ (7,927)
Government sponsored enterprise obligations	99,785	(3,553)	22,484	(2,884)	122,269	(6,437)
Mortgage-backed securities - government agencies	180,263	(11,114)	567,988	(110,471)	748,251	(121,585)
Obligations of states and political subdivisions	64,165	(3,763)	56,864	(13,655)	121,029	(17,418)
Other	4,865	(213)	749	(129)	5,614	(342)
Total AFS debt securities	<u>\$ 352,103</u>	<u>\$ (18,700)</u>	<u>\$ 760,051</u>	<u>\$ (135,009)</u>	<u>\$ 1,112,154</u>	<u>\$ (153,709)</u>

(in thousands) March 31, 2023	HTM Debt Securities					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrecognized losses	Fair value	Unrecognized losses	Fair value	Unrecognized losses
U.S. Treasury and other U.S. Government obligations	\$ -	\$ -	\$ 210,841	\$ (7,065)	\$ 210,841	\$ (7,065)
Government sponsored enterprise obligations	1,602	(4)	23,743	(1,880)	25,345	(1,884)
Mortgage-backed securities - government agencies	409	(9)	197,305	(25,893)	197,714	(25,902)
Total HTM debt securities	<u>\$ 2,011</u>	<u>\$ (13)</u>	<u>\$ 431,889</u>	<u>\$ (34,838)</u>	<u>\$ 433,900</u>	<u>\$ (34,851)</u>

December 31, 2022

U.S. Treasury and other U.S. Government obligations	\$ 208,628	\$ (9,166)	\$ -	\$ -	\$ 208,628	\$ (9,166)
Government sponsored enterprise obligations	24,948	(2,559)	-	-	24,948	(2,559)
Mortgage-backed securities - government agencies	198,257	(29,659)	-	-	198,257	(29,659)
Total HTM debt securities	<u>\$ 431,833</u>	<u>\$ (41,384)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 431,833</u>	<u>\$ (41,384)</u>

Applicable dates for determining when securities are in unrealized and unrecognized loss positions are March 31, 2023 and December 31, 2022. As such, it is possible that a security had a market value lower than its amortized cost on other days during the past 12 months, but is not in the “*Less than 12 months*” category above.

For debt securities with unrealized and unrecognized loss positions, Bancorp evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or non-credit related factors. Any impairment that is not credit-related is recognized in AOCI, net of tax. Credit-related impairment is recognized as an ACL for debt securities on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Accrued interest receivable is excluded from the estimate of credit losses. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if Bancorp intends to sell an impaired debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount would be recognized in earnings with a corresponding adjustment to the security’s amortized cost basis. Because the security’s amortized cost basis is adjusted to fair value, there is no ACL in this situation.

In evaluating debt securities in unrealized and unrecognized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, Bancorp considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers’ financial condition, among other factors. Unrealized and unrecognized losses on Bancorp’s investment securities portfolio have not been recognized as an expense because the securities are of high credit quality, and the decline in fair values is attributable to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach maturity and/or the interest rate environment returns to conditions similar to when these securities were purchased. These investments consisted of 523 and 547 separate investment positions as of March 31, 2023 and December 31, 2022, respectively. By dollar value, approximately 98% of the portfolio was in a loss position as of both March 31, 2023 and December 31, 2022. There were no credit related factors underlying unrealized and unrecognized losses on debt securities at March 31, 2023 and December 31, 2022.

(4) Loans and Allowance for Credit Losses on Loans

Composition of loans by class follows:

<i>(in thousands)</i>	March 31, 2023	December 31, 2022
Commercial real estate - non-owner occupied	\$ 1,421,660	\$ 1,397,346
Commercial real estate - owner occupied	850,766	834,629
Total commercial real estate	2,272,426	2,231,975
Commercial and industrial - term	769,479	765,163
Commercial and industrial - term - PPP	9,557	18,593
Commercial and industrial - lines of credit	435,743	465,813
Total commercial and industrial	1,214,779	1,249,569
Residential real estate - owner occupied	620,417	591,515
Residential real estate - non-owner occupied	323,519	313,248
Total residential real estate	943,936	904,763
Construction and land development	439,673	445,690
Home equity lines of credit	200,933	200,725
Consumer	136,412	139,461
Leases	13,207	13,322
Credits cards	21,738	20,413
Total loans (1)	<u>\$ 5,243,104</u>	<u>\$ 5,205,918</u>

(1) Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs.

Accrued interest on loans, which is excluded from the amortized cost of loans, totaled \$16 million and \$17 million at March 31, 2023 and December 31, 2022, respectively, and was included in the condensed consolidated balance sheets.

Loans with carrying amounts of \$2.85 billion and \$2.77 billion were pledged to secure FHLB borrowing capacity at March 31, 2023 and December 31, 2022, respectively.

Loans to directors and their related interests, including loans to companies for which directors are principal owners and executive officers, totaled \$71 million and \$79 million as of March 31, 2023 and December 31, 2022, respectively.

PCD Loans

In connection with the acquisitions of CB on March 7, 2022, Bancorp acquired loans both with and without evidence of credit quality deterioration since origination. Acquired loans are recorded at their fair value at the time of acquisition with no carryover from the acquired institution's previously recorded allowance for loan and lease losses. Acquired loans are accounted for under ASC 326, *Financial Instruments – Credit Losses*.

Bancorp purchased loans through the prior year acquisition for which there was, at the time of acquisition, more-than-insignificant deterioration of credit quality since origination. The carrying amount of loans acquired and classified as PCD was as follows at the respective acquisition dates:

<i>(in thousands)</i>	CB March 7, 2022
Purchase price of PCD loans at acquisition	\$ 88,549
Allowance for credit losses at acquisition	(9,950)
Non-credit discount at acquisition	(4,094)
Fair value of PCD loans at acquisition	<u>\$ 74,505</u>

At March 31, 2023, the book balance of PCD loans acquired as a result of the CB acquisition totaled \$59 million. Interest income recognized on loans classified as PCD totaled \$1.1 million and \$459,000 for the three month periods ended March 31, 2023 and 2022, respectively.

ACL for Loans

The table below reflects activity in the ACL related to loans:

<i>(in thousands)</i> Three Months Ended March 31, 2023	Beginning Balance	Provision for Credit Losses on Loans	Charge-offs	Recoveries	Ending Balance
Commercial real estate - non-owner occupied	\$ 22,641	\$ (991)	\$ -	\$ 19	\$ 21,669
Commercial real estate - owner occupied	10,827	602	-	-	11,429
Total commercial real estate	33,468	(389)	-	19	33,098
Commercial and industrial - term	12,991	991	(71)	87	13,982
Commercial and industrial - lines of credit	6,389	(364)	-	-	6,041
Total commercial and industrial	19,380	627	(71)	87	20,023
Residential real estate - owner occupied	6,717	1,478	-	10	8,205
Residential real estate - non-owner occupied	3,597	546	-	1	4,144
Total residential real estate	10,314	2,024	-	11	12,349
Construction and land development	7,186	(451)	-	-	6,735
Home equity lines of credit	1,613	17	(12)	-	1,618
Consumer	1,158	88	(199)	139	1,186
Leases	201	(2)	-	-	199
Credit cards	211	336	(88)	6	465
Total	<u>\$ 73,531</u>	<u>\$ 2,250</u>	<u>\$ (370)</u>	<u>\$ 262</u>	<u>\$ 75,673</u>

<i>(in thousands)</i> Three Months Ended March 31, 2022	Beginning Balance	Initial ACL on PCD Loans	Provision for Credit Losses on Loans	Charge-offs	Recoveries	Ending Balance
Commercial real estate - non-owner occupied	\$ 15,960	\$ 3,508	\$ 1,140	\$ -	\$ 12	\$ 20,620
Commercial real estate - owner occupied	9,595	2,121	(411)	-	21	11,326
Total commercial real estate	25,555	5,629	729	-	33	31,946
Commercial and industrial - term	8,577	1,358	567	(113)	719	11,108
Commercial and industrial - lines of credit	4,802	1,874	(132)	(36)	-	6,508
Total commercial and industrial	13,379	3,232	435	(149)	719	17,616
Residential real estate - owner occupied	4,316	590	460	(6)	3	5,363
Residential real estate - non-owner occupied	3,677	-	(319)	-	3	3,361
Total residential real estate	7,993	590	141	(6)	6	8,724
Construction and land development	4,789	419	656	-	-	5,864
Home equity lines of credit	1,044	2	421	-	-	1,467
Consumer	772	78	262	(254)	191	1,049
Leases	204	-	7	-	-	211
Credit cards	162	-	28	-	-	190
Total	<u>\$ 53,898</u>	<u>\$ 9,950</u>	<u>\$ 2,679</u>	<u>\$ (409)</u>	<u>\$ 949</u>	<u>\$ 67,067</u>

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The following tables present the amortized cost basis of non-performing loans and the amortized cost basis of loans on non-accrual status for which there was no related ACL losses:

<i>(in thousands)</i> March 31, 2023	Non-accrual Loans With No Recorded ACL	Total Non-accrual Loans	Past Due 90-Days- or-More and Still Accruing Interest
Commercial real estate - non-owner occupied	\$ —	\$ 7,349	\$ 622
Commercial real estate - owner occupied	—	1,297	—
Total commercial real estate	—	8,646	622
Commercial and industrial - term	402	5,214	227
Commercial and industrial - PPP	—	—	—
Commercial and industrial - lines of credit	273	348	—
Total commercial and industrial	675	5,562	227
Residential real estate - owner occupied	247	2,183	—
Residential real estate - non-owner occupied	—	390	43
Total residential real estate	247	2,573	43
Construction and land development	—	—	—
Home equity lines of credit	—	100	—
Consumer	—	265	—
Leases	—	—	—
Credit cards	—	243	2
Total	\$ 922	\$ 17,389	\$ 894

<i>(in thousands)</i> December 31, 2022	Non-accrual Loans With No Recorded ACL	Total Non-accrual Loans	Troubled Debt Restructurings (1)	Past Due 90-Days- or-More and Still Accruing Interest
Commercial real estate - non-owner occupied	\$ —	\$ 7,707	\$ —	\$ 78
Commercial real estate - owner occupied	1,370	2,525	—	—
Total commercial real estate	1,370	10,232	—	78
Commercial and industrial - term	403	1,182	—	259
Commercial and industrial - PPP	—	21	—	28
Commercial and industrial - lines of credit	273	348	—	300
Total commercial and industrial	676	1,551	—	587
Residential real estate - owner occupied	249	1,801	—	—
Residential real estate - non-owner occupied	—	219	—	220
Total residential real estate	249	2,020	—	220
Construction and land development	—	—	—	—
Home equity lines of credit	—	205	—	—
Consumer	—	234	—	—
Leases	—	—	—	—
Credit cards	—	—	—	7
Total	\$ 2,295	\$ 14,242	\$ —	\$ 892

(1) Does not include TDRs captured in the non-accrual column.

For the three month periods ended March 31, 2023 and 2022, the amount of accrued interest income previously recorded as revenue and subsequently reversed due to the change in accrual status was immaterial.

For the three month periods ended March 31, 2023 and 2022, no interest income was recognized on loans on non-accrual status.

The following table presents the amortized cost basis and ACL allocated for collateral dependent loans, which are individually evaluated to determine expected credit losses:

<i>(in thousands)</i> March 31, 2023	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL Allocation
Commercial real estate - non-owner occupied	\$ 14,336	\$ -	\$ -	\$ 14,336	\$ 2,357
Commercial real estate - owner occupied	3,157	-	-	3,157	845
Total commercial real estate	17,493	-	-	17,493	3,202
Commercial and industrial - term	4,541	330	470	5,341	1,463
Commercial and industrial - lines of credit	2,777	169	272	3,218	756
Total commercial and industrial	7,318	499	742	8,559	2,219
Residential real estate - owner occupied	2,578	-	-	2,578	217
Residential real estate - non-owner occupied	584	-	-	584	116
Total residential real estate	3,162	-	-	3,162	333
Construction and land development	-	-	-	-	-
Home equity lines of credit	100	-	-	100	-
Consumer	-	-	270	270	20
Leases	-	-	-	-	-
Credit cards	-	-	-	-	-
Total collateral dependent loans	<u>\$ 28,073</u>	<u>\$ 499</u>	<u>\$ 1,012</u>	<u>\$ 29,584</u>	<u>\$ 5,774</u>

<i>(in thousands)</i> December 31, 2022	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL Allocation
Commercial real estate - non-owner occupied	\$ 14,764	\$ -	\$ -	\$ 14,764	\$ 2,652
Commercial real estate - owner occupied	4,415	-	-	4,415	846
Total commercial real estate	19,179	-	-	19,179	3,498
Commercial and industrial - term	39	2,207	-	2,246	1,205
Commercial and industrial - lines of credit	422	2,821	-	3,243	761
Total commercial and industrial	461	5,028	-	5,489	1,966
Residential real estate - owner occupied	2,199	-	-	2,199	222
Residential real estate - non-owner occupied	415	-	-	415	116
Total residential real estate	2,614	-	-	2,614	338
Construction and land development	-	-	-	-	-
Home equity lines of credit	205	-	-	205	-
Consumer	-	-	219	219	20
Leases	-	-	-	-	-
Credit cards	-	-	-	-	-
Total collateral dependent loans	<u>\$ 22,459</u>	<u>\$ 5,028</u>	<u>\$ 219</u>	<u>\$ 27,706</u>	<u>\$ 5,822</u>

The following tables present the aging of contractually past due loans by portfolio class:

(in thousands)

March 31, 2023	Current	30-59 days Past Due	60-89 days Past Due	90 or more days Past Due	Total Past Due Loans	Total Loans
Commercial real estate - non-owner occupied	\$ 1,420,520	\$ 93	\$ 77	\$ 970	\$ 1,140	\$ 1,421,660
Commercial real estate - owner occupied	849,361	1,082	76	247	1,405	850,766
Total commercial real estate	2,269,881	1,175	153	1,217	2,545	2,272,426
Commercial and industrial - term	764,893	20	2,554	2,012	4,586	769,479
Commercial and industrial - term - PPP	9,557	—	—	—	—	9,557
Commercial and industrial - lines of credit	435,296	99	—	348	447	435,743
Total commercial and industrial	1,209,746	119	2,554	2,360	5,033	1,214,779
Residential real estate - owner occupied	618,228	1,170	297	722	2,189	620,417
Residential real estate - non-owner occupied	323,142	—	—	377	377	323,519
Total residential real estate	941,370	1,170	297	1,099	2,566	943,936
Construction and land development	439,673	—	—	—	—	439,673
Home equity lines of credit	199,880	923	80	50	1,053	200,933
Consumer	135,993	115	64	240	419	136,412
Leases	13,207	—	—	—	—	13,207
Credit cards	21,688	45	3	2	50	21,738
Total	\$ 5,231,438	\$ 3,547	\$ 3,151	\$ 4,968	\$ 11,666	\$ 5,243,104

(in thousands)

December 31, 2022	Current	30-59 days Past Due	60-89 days Past Due	90 or more days Past Due	Total Past Due Loans	Total Loans
Commercial real estate - non-owner occupied	\$ 1,393,016	\$ 3,404	\$ 460	\$ 466	\$ 4,330	\$ 1,397,346
Commercial real estate - owner occupied	831,731	225	2,592	81	2,898	834,629
Total commercial real estate	2,224,747	3,629	3,052	547	7,228	2,231,975
Commercial and industrial - term	763,793	157	292	921	1,370	765,163
Commercial and industrial - term - PPP	17,719	748	77	49	874	18,593
Commercial and industrial - lines of credit	464,494	389	300	630	1,319	465,813
Total commercial and industrial	1,246,006	1,294	669	1,600	3,563	1,249,569
Residential real estate - owner occupied	587,830	1,613	974	1,098	3,685	591,515
Residential real estate - non-owner occupied	312,249	373	331	295	999	313,248
Total residential real estate	900,079	1,986	1,305	1,393	4,684	904,763
Construction and land development	445,618	—	72	—	72	445,690
Home equity lines of credit	200,036	566	40	83	689	200,725
Consumer	138,846	342	85	188	615	139,461
Leases	13,322	—	—	—	—	13,322
Credit cards	20,401	3	2	7	12	20,413
Total	\$ 5,189,055	\$ 7,820	\$ 5,225	\$ 3,818	\$ 16,863	\$ 5,205,918

Loan Risk Ratings

Consistent with regulatory guidance, Bancorp categorizes loans into credit risk rating categories based on relevant information about the ability of borrowers to service their debt, including current financial information, historical payment experience, credit documentation, public information and current economic trends. Pass-rated loans include all risk-rated loans other than those classified as OAEM, substandard, and doubtful, which are defined below:

OAEM – Loans classified as OAEM have potential weaknesses requiring management's heightened attention. These potential weaknesses may result in deterioration of repayment prospects for the loan or of Bancorp's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the paying capacity of the obligor or of collateral pledged, if any. Loans so classified have well-defined weaknesses that jeopardize ultimate repayment of the debt. Default is a distinct possibility if the deficiencies are not corrected.

Substandard non-performing – Loans classified as substandard non-performing have all the characteristics of substandard loans and have been placed on non-accrual status. Loans are placed on non-accrual status when prospects for recovering both principal and accrued interest are considered doubtful or when a default of principal or interest has existed for 90 days or more.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Management considers the guidance in ASC 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination. Current period renewals of credit are re-underwritten at the point of renewal and considered current period originations for purposes of the table below. Bancorp has elected not to disclose revolving loans that have converted to term loans, as activity relating to this disclosure, which is included in the tables is currently immaterial to Bancorp's loan portfolio and is expected to be in the future.

As of March 31, 2023, the risk rating of loans based on year of origination was as follows:

(in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving loans amortized cost basis	
March 31, 2023	2023	2022	2021	2020	2019	Prior		Total
Commercial real estate - non-owner occupied:								
Risk rating								
Pass	\$ 54,428	\$ 354,920	\$ 379,689	\$ 250,448	\$ 124,052	\$ 194,552	\$ 23,852	\$ 1,381,941
OAEM	-	-	1,991	-	3,507	2,189	-	7,687
Substandard	-	1,381	1,012	3,703	18,261	229	97	24,683
Substandard non-performing	-	-	-	-	-	7,349	-	7,349
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate non-owner occupied	\$ 54,428	\$ 356,301	\$ 382,692	\$ 254,151	\$ 145,820	\$ 204,319	\$ 23,949	\$ 1,421,660
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate - owner occupied:								
Risk rating								
Pass	\$ 51,338	\$ 159,590	\$ 207,031	\$ 184,700	\$ 99,251	\$ 120,853	\$ 11,742	\$ 834,505
OAEM	-	2,889	617	5,299	1,104	1,126	846	11,881
Substandard	-	-	1,140	-	680	1,262	-	3,082
Substandard non-performing	-	389	832	-	-	77	-	1,298
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate owner occupied	\$ 51,338	\$ 162,868	\$ 209,620	\$ 189,999	\$ 101,035	\$ 123,318	\$ 12,588	\$ 850,766
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and industrial - term:								
Risk rating								
Pass	\$ 150,625	\$ 262,762	\$ 196,467	\$ 70,680	\$ 45,180	\$ 33,750	\$ -	\$ 759,464
OAEM	-	831	2,795	-	261	454	-	4,341
Substandard	126	40	-	-	184	112	-	462
Substandard non-performing	-	3,772	64	540	106	730	-	5,212
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and industrial - term	\$ 150,751	\$ 267,405	\$ 199,326	\$ 71,220	\$ 45,731	\$ 35,046	\$ -	\$ 769,479
Current period gross charge offs	\$ -	\$ -	\$ (6)	\$ (37)	\$ -	\$ (28)	\$ -	\$ (71)
Commercial and industrial - PPP								
Risk rating								
Pass	\$ -	\$ -	\$ 6,858	\$ 2,699	\$ -	\$ -	\$ -	\$ 9,557
OAEM	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Substandard non-performing	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and industrial - PPP	\$ -	\$ -	\$ 6,858	\$ 2,699	\$ -	\$ -	\$ -	\$ 9,557
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(continued)

(continued)

(in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving loans amortized cost basis	
March 31, 2023	2023	2022	2021	2020	2019	Prior		Total
Commercial and industrial - lines of credit								
Risk rating								
Pass	\$ 4,329	\$ 45,595	\$ 4,083	\$ 769	\$ 10,222	\$ 2,376	\$ 349,426	\$ 416,800
OAEM	-	-	-	-	-	-	17,092	17,092
Substandard	-	-	-	879	-	-	624	1,503
Substandard non-performing	-	-	-	-	273	-	75	348
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and industrial - lines of credit	\$ 4,329	\$ 45,595	\$ 4,083	\$ 1,648	\$ 10,495	\$ 2,376	\$ 367,217	\$ 435,743
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate - owner occupied								
Risk rating								
Pass	\$ 43,469	\$ 185,699	\$ 188,309	\$ 93,506	\$ 26,152	\$ 80,500	\$ -	\$ 617,635
OAEM	-	-	94	-	65	-	-	159
Substandard	-	17	-	10	-	413	-	440
Substandard non-performing	24	486	180	214	60	1,219	-	2,183
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate - owner occupied	\$ 43,493	\$ 186,202	\$ 188,583	\$ 93,730	\$ 26,277	\$ 82,132	\$ -	\$ 620,417
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate - non-owner occupied								
Risk rating								
Pass	\$ 21,218	\$ 92,239	\$ 82,276	\$ 53,823	\$ 33,894	\$ 38,678	\$ -	\$ 322,128
OAEM	-	14	-	112	262	286	-	674
Substandard	-	-	-	-	-	327	-	327
Substandard non-performing	-	259	20	-	-	111	-	390
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate - non-owner occupied	\$ 21,218	\$ 92,512	\$ 82,296	\$ 53,935	\$ 34,156	\$ 39,402	\$ -	\$ 323,519
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction and land development								
Risk rating								
Pass	\$ 27,791	\$ 243,747	\$ 73,360	\$ 52,361	\$ 549	\$ 6,973	\$ 29,719	\$ 434,500
OAEM	-	-	-	-	-	-	999	999
Substandard	4,174	-	-	-	-	-	-	4,174
Substandard non-performing	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction and land development	\$ 31,965	\$ 243,747	\$ 73,360	\$ 52,361	\$ 549	\$ 6,973	\$ 30,718	\$ 439,673
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Home equity lines of credit								
Risk rating								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,794	\$ 200,794
OAEM	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	39	39
Substandard non-performing	-	-	-	-	-	-	100	100
Doubtful	-	-	-	-	-	-	-	-
Total Home equity lines of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,933	\$ 200,933
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12)	\$ (12)

(continued)

(continued)

(in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving loans amortized cost basis	
March 31, 2023	2023	2022	2021	2020	2019	Prior		Total
Consumer								
Risk rating								
Pass	\$ 10,645	\$ 24,848	\$ 15,791	\$ 4,729	\$ 3,628	\$ 3,260	\$ 73,246	\$ 136,147
OAEM	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Substandard non-performing	-	111	37	44	37	36	-	265
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	\$ 10,645	\$ 24,959	\$ 15,828	\$ 4,773	\$ 3,665	\$ 3,296	\$ 73,246	\$ 136,412
Current period gross charge offs	\$ (154)	\$ (5)	\$ (1)	\$ (15)	\$ (8)	\$ (15)	\$ (1)	\$ (199)
Leases								
Risk rating								
Pass	\$ 4,202	\$ 4,066	\$ 2,359	\$ 454	\$ 476	\$ 1,650	\$ -	\$ 13,207
OAEM	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Substandard non-performing	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Leases	\$ 4,202	\$ 4,066	\$ 2,359	\$ 454	\$ 476	\$ 1,650	\$ -	\$ 13,207
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Credit cards								
Risk rating								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,494	\$ 21,494
OAEM	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Substandard non-performing	-	-	-	-	-	-	244	244
Doubtful	-	-	-	-	-	-	-	-
Total Credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,738	\$ 21,738
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (88)	\$ (88)
Total loans								
Risk rating								
Pass	\$ 368,045	\$ 1,373,466	\$ 1,156,223	\$ 714,169	\$ 343,404	\$ 482,592	\$ 710,273	\$ 5,148,172
OAEM	-	3,734	5,497	5,411	5,199	4,055	18,937	42,833
Substandard	4,300	1,438	2,152	4,592	19,125	2,343	760	34,710
Substandard non-performing	24	5,017	1,133	798	476	9,522	419	17,389
Doubtful	-	-	-	-	-	-	-	-
Total Loans	\$ 372,369	\$ 1,383,655	\$ 1,165,005	\$ 724,970	\$ 368,204	\$ 498,512	\$ 730,389	\$ 5,243,104
Current period gross charge offs	\$ (154)	\$ (5)	\$ (7)	\$ (52)	\$ (8)	\$ (43)	\$ (101)	\$ (370)

As of December 31, 2022, the risk rating of loans based on year of origination was as follows:

(in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving loans amortized cost basis	
December 31, 2022	2022	2021	2020	2019	2018	Prior		Total
Commercial real estate - non-owner occupied:								
Risk rating								
Pass	\$ 338,460	\$ 380,612	\$ 264,833	\$ 128,407	\$ 76,359	\$ 139,095	\$ 24,875	\$ 1,352,641
OAEM	-	2,006	-	3,534	-	5,414	-	10,954
Substandard	1,381	1,012	3,744	19,574	-	233	100	26,044
Substandard non-performing	-	-	-	-	-	7,707	-	7,707
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate non-owner occupied	\$ 339,841	\$ 383,630	\$ 268,577	\$ 151,515	\$ 76,359	\$ 152,449	\$ 24,975	\$ 1,397,346
Commercial real estate - owner occupied:								
Risk rating								
Pass	\$ 165,711	\$ 202,599	\$ 194,052	\$ 104,148	\$ 60,899	\$ 74,356	\$ 13,062	\$ 814,827
OAEM	2,895	1,777	4,540	1,891	676	216	510	12,505
Substandard	-	1,152	-	1,623	1,928	69	-	4,772
Substandard non-performing	1,533	911	-	-	-	81	-	2,525
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate owner occupied	\$ 170,139	\$ 206,439	\$ 198,592	\$ 107,662	\$ 63,503	\$ 74,722	\$ 13,572	\$ 834,629
Commercial and industrial - term:								
Risk rating								
Pass	\$ 357,470	\$ 210,906	\$ 90,063	\$ 39,068	\$ 29,901	\$ 27,354	\$ -	\$ 754,762
OAEM	3,835	2,935	-	303	1,426	-	-	8,499
Substandard	178	-	-	201	-	341	-	720
Substandard non-performing	539	39	486	101	17	-	-	1,182
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and industrial - term	\$ 362,022	\$ 213,880	\$ 90,549	\$ 39,673	\$ 31,344	\$ 27,695	\$ -	\$ 765,163
Commercial and industrial - PPP								
Risk rating								
Pass	\$ -	\$ 14,212	\$ 4,047	\$ -	\$ -	\$ -	\$ -	\$ 18,259
OAEM	-	-	313	-	-	-	-	313
Substandard	-	-	-	-	-	-	-	-
Substandard non-performing	-	-	21	-	-	-	-	21
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and industrial - PPP	\$ -	\$ 14,212	\$ 4,381	\$ -	\$ -	\$ -	\$ -	\$ 18,593

(continued)

(continued)

(in thousands) December 31, 2022	Term Loans Amortized Cost Basis by Origination Year						Revolving loans amortized cost basis	Total
	2022	2021	2020	2019	2018	Prior		
Commercial and industrial - lines of credit								
Risk rating								
Pass	\$ 54,948	\$ 13,999	\$ 991	\$ 9,179	\$ 1,188	\$ 1,033	\$ 367,688	\$ 449,026
OAEM	-	-	-	-	-	366	12,491	12,857
Substandard	-	-	905	1,915	-	-	762	3,582
Substandard non-performing	-	-	-	273	-	-	75	348
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and industrial - lines of credit	<u>\$ 54,948</u>	<u>\$ 13,999</u>	<u>\$ 1,896</u>	<u>\$ 11,367</u>	<u>\$ 1,188</u>	<u>\$ 1,399</u>	<u>\$ 381,016</u>	<u>\$ 465,813</u>
Residential real estate - owner occupied								
Risk rating								
Pass	\$ 188,765	\$ 189,007	\$ 96,818	\$ 28,316	\$ 15,281	\$ 70,556	\$ -	\$ 588,743
OAEM	360	96	-	70	-	-	-	526
Substandard	18	-	10	-	140	277	-	445
Substandard non-performing	65	191	70	292	122	1,061	-	1,801
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate - owner occupied	<u>\$ 189,208</u>	<u>\$ 189,294</u>	<u>\$ 96,898</u>	<u>\$ 28,678</u>	<u>\$ 15,543</u>	<u>\$ 71,894</u>	<u>\$ -</u>	<u>\$ 591,515</u>
Residential real estate - non-owner occupied								
Risk rating								
Pass	\$ 97,313	\$ 83,458	\$ 55,787	\$ 34,304	\$ 19,300	\$ 21,720	\$ -	\$ 311,882
OAEM	15	-	115	271	124	290	-	815
Substandard	-	-	-	-	-	332	-	332
Substandard non-performing	86	21	-	-	-	112	-	219
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate - non-owner occupied	<u>\$ 97,414</u>	<u>\$ 83,479</u>	<u>\$ 55,902</u>	<u>\$ 34,575</u>	<u>\$ 19,424</u>	<u>\$ 22,454</u>	<u>\$ -</u>	<u>\$ 313,248</u>
Construction and land development								
Risk rating								
Pass	\$ 257,559	\$ 99,204	\$ 45,427	\$ 580	\$ 5,959	\$ 1,123	\$ 30,378	\$ 440,230
OAEM	-	-	-	-	-	-	999	999
Substandard	4,461	-	-	-	-	-	-	4,461
Substandard non-performing	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction and land development	<u>\$ 262,020</u>	<u>\$ 99,204</u>	<u>\$ 45,427</u>	<u>\$ 580</u>	<u>\$ 5,959</u>	<u>\$ 1,123</u>	<u>\$ 31,377</u>	<u>\$ 445,690</u>
Home equity lines of credit								
Risk rating								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,481	\$ 200,481
OAEM	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	39	39
Substandard non-performing	-	-	-	-	-	-	205	205
Doubtful	-	-	-	-	-	-	-	-
Total Home equity lines of credit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,725</u>	<u>\$ 200,725</u>

(continued)

(continued)

(in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving loans amortized cost basis	Total	
December 31, 2022	2022	2021	2020	2019	2018	Prior			
Consumer									
Risk rating									
Pass	\$ 27,308	\$ 18,396	\$ 5,536	\$ 5,450	\$ 2,270	\$ 1,621	\$ 78,646	\$ 139,227	
OAEM	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	-	-	-	
Substandard non-performing	21	56	40	62	9	31	15	234	
Doubtful	-	-	-	-	-	-	-	-	
Total Consumer	\$ 27,329	\$ 18,452	\$ 5,576	\$ 5,512	\$ 2,279	\$ 1,652	\$ 78,661	\$ 139,461	
Leases									
Risk rating									
Pass	\$ 4,643	\$ 4,344	\$ 2,589	\$ 535	\$ 576	\$ 635	\$ -	\$ 13,322	
OAEM	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	-	-	-	
Substandard non-performing	-	-	-	-	-	-	-	-	
Doubtful	-	-	-	-	-	-	-	-	
Total Leases	\$ 4,643	\$ 4,344	\$ 2,589	\$ 535	\$ 576	\$ 635	\$ -	\$ 13,322	
Credit cards									
Risk rating									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,413	\$ 20,413	
OAEM	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	-	-	-	
Substandard non-performing	-	-	-	-	-	-	-	-	
Doubtful	-	-	-	-	-	-	-	-	
Total Credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,413	\$ 20,413	
Total loans									
Risk rating									
Pass	\$ 1,492,177	\$ 1,216,737	\$ 760,143	\$ 349,987	\$ 211,733	\$ 337,493	\$ 735,543	\$ 5,103,813	
OAEM	7,105	6,814	4,968	6,069	2,226	6,286	14,000	47,468	
Substandard	6,038	2,164	4,659	23,313	2,068	1,252	901	40,395	
Substandard non-performing	2,244	1,218	617	728	148	8,992	295	14,242	
Doubtful	-	-	-	-	-	-	-	-	
Total Loans	\$ 1,507,564	\$ 1,226,933	\$ 770,387	\$ 380,097	\$ 216,175	\$ 354,023	\$ 750,739	\$ 5,205,918	

For certain loan classes, such as credit cards, credit quality is evaluated based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in credit cards based on payment activity:

(in thousands)	March 31, 2023	December 31, 2022
Credit cards		
Performing	\$ 21,494	\$ 20,413
Non-performing	244	—
Total credit cards	<u>\$ 21,738</u>	<u>\$ 20,413</u>

Bancorp had \$290,000 and \$317,000, respectively, in residential real estate loans for which formal foreclosure proceedings were in process at March 31, 2023 and December 31, 2022.

Modifications to Borrowers Experiencing Financial Difficulty

Bancorp adopted ASU 2022-02, “*Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*,” effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

During the three months ended March 31, 2023, there were no modifications made to loans for borrowers experiencing financial difficulty and there were no payment defaults of existing modified loans within 12 months following modification. Default is determined at 90 days or more past due, charge off, or foreclosure.

Troubled Debt Restructuring Disclosures Prior to the Adoption of ASU 2022-02

Detail of outstanding TDRs included in total non-performing loans follows:

(in thousands)	March 31, 2022		
	Balance	Specific reserve allocation	Additional commitment to lend
Commercial real estate - owner occupied	\$ 888	\$ 202	\$ —
Commercial & industrial - term	10	10	—
Total TDRs	<u>\$ 898</u>	<u>\$ 212</u>	<u>\$ —</u>

During the three month periods ended March 31, 2022, there were no loans modified as TDRs and there were no payment defaults of existing TDRs within 12 months following the modification. Default is determined at 90 or more days past due, charge-off, or foreclosure.

(5) Goodwill

As of March 31, 2023 and December 31, 2022, goodwill totaled \$194 million, of which \$172 million was attributed to the commercial banking segment and \$22 million is attributed to WM&T. Goodwill of \$67 million was added through the CB acquisition, \$8.5 million of which was subsequently written off as a result of Bancorp selling its interest in LFA effective December 31, 2022. Effective December 31, 2022, management finalized the fair values of the acquired assets and assumed liabilities associated with the CB acquisition in advance of the 12 month post-acquisition date, as allowed by GAAP.

The composition of goodwill is presented by respective acquisition below:

<i>(in thousands)</i>	March 31, 2023	December 31, 2022
Commonwealth Bancshares (2022)	\$ 58,244	\$ 58,244
Kentucky Bancshares (2021)	123,317	123,317
King Southern Bancorp (2019)	11,831	11,831
Austin State Bank (1996)	682	682
Total	\$ 194,074	\$ 194,074

Note: The acquisition of The Bank Oldham County in 2013 resulted in a bargain purchase gain.

GAAP requires that goodwill and intangible assets with indefinite useful lives not be amortized, but instead be tested for impairment at least annually. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. Bancorp's annual goodwill impairment test is conducted as of September 30 of each year or more often as situations dictate.

At September 30, 2022, Bancorp elected to perform a qualitative assessment to determine if it was more-likely-than-not that the fair value of the reporting units exceeded their carrying value, including goodwill. The qualitative assessment indicated that it was not more-likely-than-not that the carrying value of the reporting units exceeded their fair value.

Changes in the carrying value of goodwill follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Balance at beginning of period	\$ 194,074	\$ 135,830
Goodwill recorded from acquisitions	—	66,694
Provisional period adjustments	—	—
Disposition of LFA	—	—
Impairment	—	—
Balance at end of period	\$ 194,074	\$ 202,524

(6) Core Deposit and Customer List Intangible Assets

Bancorp recorded CDI assets of \$13 million, \$4 million, \$2 million and \$3 million in association with the acquisitions of CB in 2022, KB in 2021, KSB in 2019 and TBOC in 2013, respectively.

Changes in the net carrying amount of CDIs follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Balance at beginning of period	\$ 14,958	\$ 5,596
Core deposit intangible acquired	—	12,724
Provisional period adjustments	—	—
Amortization	(762)	(494)
Balance at end of period	<u>\$ 14,196</u>	<u>\$ 17,826</u>

As a result of the CB acquisition, Bancorp also recorded intangible assets totaling \$14 million associated with the customer lists of the acquired WM&T and LFA businesses. Of this total, \$12 million was recorded for WM&T and \$2 million was recorded for LFA. Similar to CDI assets, these intangibles also amortize over their estimated useful lives.

As previously noted, Bancorp's interest in LFA was sold effective December 31, 2022. As a result, the remaining CLI associated with LFA was written off at the date of sale and ultimately reflected as a component of the \$870,000 pre-tax loss on the disposition of LFA that was recorded on Bancorp's consolidated income statements for the fourth quarter and year ended December 31, 2022.

The carrying amount of the CLI assets follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Balance at beginning of period	\$ 10,032	\$ -
Customer list intangibles acquired	—	14,360
Provisional period adjustments	—	—
Disposition of LFA	—	—
Amortization	(418)	(218)
Balance at end of period	<u>\$ 9,614</u>	<u>\$ 14,142</u>

Future CDI and CLI amortization expense is estimated as follows:

<i>(in thousands)</i>	CDI	CLI
Remainder of 2023	\$ 2,253	\$ 1,254
2024	2,686	1,520
2025	2,375	1,368
2026	2,063	1,216
2027	1,752	1,064
2028	1,339	912
2029	888	760
2030	576	608
2031	264	456
2032	-	304
2033	-	152
Total future expense	<u>\$ 14,196</u>	<u>\$ 9,614</u>

(7) Other Assets

A summary of the major components of other assets follows:

<i>(in thousands)</i>	March 31, 2023	December 31, 2022
Cash surrender value of life insurance other than BOLI	\$ 16,332	\$ 15,496
Net deferred tax asset	47,123	54,145
Investments in tax credit partnerships	13,250	13,969
Swap assets	8,636	10,727
Prepaid assets	4,528	5,721
Trust fees receivable	3,548	3,354
Mortgage servicing rights	14,623	15,219
Other real estate owned	677	677
Other	16,601	15,680
Total other assets	<u>\$ 125,318</u>	<u>\$ 134,988</u>

Bancorp maintains life insurance policies other than BOLI in conjunction with its non-qualified defined benefit retirement and non-qualified compensation plans.

Bancorp periodically invests in certain partnerships with customers that generate federal income tax credits. The tax benefit of these investments exceeds to amortization expense associated with them, resulting in a positive impact on net income.

Bancorp enters into interest rate swap transactions with borrowers who desire to hedge exposure to rising interest rates, while at the same time entering into an offsetting interest rate swap, with substantially matching terms, with another approved independent counterparty. These are undesignated derivative instruments and are recognized on the balance sheet at fair value. For additional information, see the footnote titled “*Derivative Financial Instruments.*”

For additional information related to MSRs, see the footnote titled “*Mortgage Banking Activities.*”

(8) Income Taxes

Components of income tax expense from operations follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Current income tax expense:		
Federal	\$ 5,194	\$ 214
State	677	-
Total current income tax expense	5,871	214
Deferred income tax expense:		
Federal	1,417	842
State	844	389
Total deferred income tax expense	2,261	1,231
Change in valuation allowance	-	-
Total income tax expense	\$ 8,132	\$ 1,445

An analysis of the difference between the statutory and ETRs from operations follows:

	Three months ended March 31,	
	2023	2022
U.S. federal statutory income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	3.3	3.3
Excess tax benefit from stock-based compensation arrangements	(1.1)	(5.9)
Change in cash surrender value of life insurance	(0.7)	1.8
Tax credits	0.4	(1.7)
Tax exempt interest income	(0.5)	(1.6)
Non-deductible merger expenses	-	1.1
Insurance captive	(0.3)	(0.9)
Other, net	(0.2)	(1.7)
Effective tax rate	21.9%	15.4%

Current state income tax expense for 2023 and 2022 represents tax owed to the state of Kentucky, Indiana and Illinois. Ohio state bank taxes are based on capital levels and are recorded as other non-interest expense.

GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. If recognized, tax benefits would reduce tax expense and accordingly, increase net income. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current year tax positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, status of examination, litigation and legislative activity and addition or elimination of uncertain tax positions. As of March 31, 2023 and December 31, 2022, the gross amount of unrecognized tax benefits was immaterial to Bancorp's consolidated financial statements. Federal and state income tax returns are subject to examination for the years after 2018.

(9) Deposits

The composition of deposits follows:

<i>(in thousands)</i>	March 31, 2023	December 31, 2022
Non-interest bearing demand deposits	\$ 1,845,302	\$ 1,950,198
Interest bearing deposits:		
Interest bearing demand	2,303,412	2,308,960
Savings	514,151	535,903
Money market	1,081,704	1,124,100
Time deposits of \$250 thousand or more	147,008	97,638
Other time deposits	465,618	374,453
Total time deposits (1)	612,626	472,091
Total interest bearing deposits	4,511,893	4,441,054
Total deposits	<u>\$ 6,357,195</u>	<u>\$ 6,391,252</u>

(1) Includes \$2.3 million and \$599,000 in brokered deposits as of March 31, 2023 and December 31, 2022, respectively.

(10) Securities Sold Under Agreements to Repurchase

SSUAR represent a funding source of Bancorp and are primarily used by commercial customers in conjunction with collateralized corporate cash management accounts. Such repurchase agreements are considered financing agreements and mature within one business day from the transaction date. At March 31, 2023 and December 31, 2022, all of these financing arrangements had overnight maturities and were secured by government sponsored enterprise obligations and government agency mortgage-backed securities that were owned and controlled by Bancorp.

Information concerning SSUAR follows:

<i>(dollars in thousands)</i>	March 31, 2023	December 31, 2022
Outstanding balance at end of period	\$ 104,578	\$ 133,342
Weighted average interest rate at end of period	1.14%	1.64%

<i>(dollars in thousands)</i>	Three months ended March 31,	
	2023	2022
Average outstanding balance during the period	\$ 122,049	\$ 91,082
Average interest rate during the period	1.52%	0.08%
Maximum outstanding at any month end during the period	\$ 133,740	\$ 142,146

(11) Subordinated Debentures

As a result of its acquisition of Commonwealth Bancshares, Inc. on March 7, 2022, Bancorp became the 100% successor owner of the following unconsolidated trust subsidiaries: Commonwealth Statutory Trust III, Commonwealth Statutory Trust IV and Commonwealth Statutory Trust V. The sole assets of the trust subsidiaries represent the proceeds of offerings loaned in exchange for subordinated debentures with similar terms to the TPS. The TPS are treated as part of Tier I Capital. The subordinated notes and related interest expense are included in Bancorp's consolidated financial statements. The subordinated notes are currently redeemable at Bancorp's option on a quarterly basis. Bancorp chose not to redeem the subordinated notes on April 1, 2023 and carried the notes at the costs noted below at March 31, 2023:

<i>(dollars in thousands)</i>	Face Value	Carrying Value	Origination Date	Maturity Date	Interest Rate
Commonwealth Statutory Trust III	\$ 3,093	\$ 3,051	12/19/2003	1/7/2034	LIBOR + 2.85%
Commonwealth Statutory Trust IV	12,372	12,204	12/15/2005	12/30/2035	LIBOR + 1.35%
Commonwealth Statutory Trust V	11,341	11,187	6/28/2007	9/15/2037	LIBOR + 1.40%
Total	<u>\$ 26,806</u>	<u>\$ 26,442</u>			

As part of the purchase accounting adjustments associated with the CB acquisition, the carrying values of the subordinated notes were adjusted to fair value at acquisition date. The related discounts on the subordinated notes are amortized and recognized as a component of interest expense in Bancorp's consolidated financial statements.

(12) FHLB Advances and Other Borrowings

FHLB advances outstanding at March 31, 2023 consist of a \$175 million cash management advance with an overnight maturity and a \$100 million three-month advance that matures in May 2023. FHLB advances outstanding at December 31, 2022 consisted entirely of a \$50 million cash management advance that matured in early January 2023.

<i>(dollars in thousands)</i>	March 31, 2023	December 31, 2022
Outstanding balance at end of period	\$ 275,000	\$ 50,000
Weighted average interest rate at end of period	4.87%	4.37%

<i>(dollars in thousands)</i>	Three months ended March 31,	
	2023	2022
Average outstanding balance during the period	\$ 163,056	\$ -
Average interest rate during the period	4.31%	-%
Maximum outstanding at any month end during the period	\$ 275,000	\$ -

FHLB advances are collateralized by certain CRE and residential real estate mortgage loans under blanket mortgage collateral pledge agreements, as well as FHLB stock. Bancorp views these advances as an effective lower-costing alternative to brokered deposits to fund loan growth. At March 31, 2023 and December 31, 2022, the amount of available credit from the FHLB totaled \$1.15 billion and \$1.36 billion, respectively.

Bancorp also had unsecured available FFP lines with correspondent banks totaling \$80 million at both March 31, 2023 and December 31, 2022, respectively.

(13) Commitments and Contingent Liabilities

As of March 31, 2023 and December 31, 2022, Bancorp had various commitments outstanding that arose in the normal course of business which are properly not reflected in the condensed consolidated financial statements. Total off-balance sheet commitments to extend credit follows:

<i>(in thousands)</i>	March 31, 2023	December 31, 2022
Commercial and industrial	\$ 789,390	\$ 784,429
Construction and land development	453,430	449,028
Home equity	367,949	358,610
Credit cards	68,519	64,231
Overdrafts	58,022	57,193
Letters of credit	34,273	34,704
Other	101,103	93,419
Future loan commitments	201,404	221,973
Total off balance sheet commitments to extend credit	\$ 2,074,090	\$ 2,063,587

Commitments to extend credit are an agreement to lend to a customer either unsecured or secured, as long as collateral is available as agreed upon and there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not represent future cash requirements. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-balance sheet instruments. Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, securities, equipment and real estate. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, our maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments.

At March 31, 2023 and December 31, 2022, Bancorp had accrued \$4.9 million and \$4.5 million, respectively, in other liabilities for its estimate of credit losses for off balance sheet credit exposures.

Standby letters of credit are conditional commitments issued by Bancorp to guarantee the performance of a customer to a first party beneficiary. Those guarantees are primarily issued to support commercial transactions. Standby letters of credit generally have maturities of one to two years.

Certain commercial customers require confirmation of Bancorp's letters of credit by other banks since Bancorp does not have a rating by a national rating agency. Terms of the agreements range from one month to a year with certain agreements requiring between one and six months' notice to cancel. If an event of default on all contracts had occurred at March 31, 2023, Bancorp would have been required to make payments of approximately \$3 million, or the maximum amount payable under those contracts. No payments have ever been required because of default on these contracts. These agreements are normally secured by collateral acceptable to Bancorp, which limits credit risk associated with the agreements.

As of March 31, 2023, in the normal course of business, there were pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate result of these legal actions and proceedings will not have a material adverse effect on the consolidated financial position or results of operations of Bancorp.

(14) Assets and Liabilities Measured and Reported at Fair Value

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

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

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

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

Bancorp used the following methods and significant assumptions to estimate fair value of each type of financial instrument:

AFS debt securities - Except for Bancorp's U.S Treasury securities, the fair value of AFS debt securities is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). Bancorp's U.S. Treasury securities are based on quoted market prices (Level 1 inputs).

Mortgage loans held for sale - The fair value of mortgage loans held for sale is determined using quoted secondary market prices (Level 2 inputs).

Mortgage banking derivatives – Mortgage banking derivatives used in the ordinary course of business consist primarily of interest rate lock loan commitments and mandatory forward sales contracts. The fair value of the Bancorp's derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from observable market inputs that can generally be verified and do not typically involve significant judgement by Bancorp (Level 2 inputs).

Interest rate swap agreements – Interest rate swaps are valued using valuations received from the relevant dealer counterparty. These valuations consider multiple observable market inputs, including interest rate yield curves, time value and volatility factors (Level 2 inputs).

Carrying values of assets measured at fair value on a recurring basis follows:

March 31, 2023 (in thousands)	Fair Value Measurements Using:			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Available for sale debt securities:				
U.S. Treasury and other U.S. Government obligations	\$ 116,288	\$ —	\$ —	\$ 116,288
Government sponsored enterprise obligations	—	137,779	—	137,779
Mortgage backed securities - government agencies	—	743,455	—	743,455
Obligations of states and political subdivisions	—	128,725	—	128,725
Other	—	5,605	—	5,605
Total available for sale debt securities	116,288	1,015,564	—	1,131,852
Mortgage loans held for sale	—	6,397	—	6,397
Rate lock loan commitments	—	468	—	468
Interest rate swaps	—	8,636	—	8,636
Total assets	<u>\$ 116,288</u>	<u>\$ 1,031,065</u>	<u>\$ —</u>	<u>\$ 1,147,353</u>
Liabilities:				
Interest rate swaps	—	8,152	—	8,152
Mandatory forward contracts	—	71	—	71
Total Liabilities	<u>\$ —</u>	<u>\$ 8,223</u>	<u>\$ —</u>	<u>\$ 8,223</u>

December 31, 2022 (in thousands)	Fair Value Measurements Using:			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Available for sale debt securities:				
U.S. Treasury and other U.S. Government obligations	\$ 115,039	\$ —	\$ —	\$ 115,039
Government sponsored enterprise obligations	—	143,626	—	143,626
Mortgage backed securities - government agencies	—	752,738	—	752,738
Obligations of states and political subdivisions	—	127,599	—	127,599
Other	—	5,615	—	5,615
Total available for sale debt securities	115,039	1,029,578	—	1,144,617
Mortgage loans held for sale	—	2,606	—	2,606
Rate lock loan commitments	—	137	—	137
Mandatory forward contracts	—	47	—	47
Interest rate swaps	—	10,727	—	10,727
Total assets	\$ 115,039	\$ 1,043,095	\$ —	\$ 1,158,134
Liabilities:				
Interest rate swaps	\$ —	\$ 10,737	\$ —	\$ 10,737

There were no transfers into or out of Level 3 of the fair value hierarchy during 2023 or 2022.

Discussion of assets measured at fair value on a non-recurring basis follows:

Collateral dependent loans – For collateral-dependent loans where Bancorp has determined that the liquidation or foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the estimated fair value of the collateral and the amortized cost basis of the loan as of the measurement date. For real estate loans, fair value of the loan's collateral is determined by third party or internal appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, comparable sales, or cost) vary based on the status of the project or property. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. Bancorp reviews the third party appraisal for appropriateness and adjusts the value to consider selling and closing costs, which typically range from 8% to 10% of the appraised value. For non-real estate loans, fair value of the loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation and management's expertise or knowledge of the client and client's business.

OREO – OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ACL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. Bancorp obtains the valuation of OREO with material balances from third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. Bancorp reviews the appraisal for appropriateness and adjusts the value to consider selling and closing costs, which typically range from 8% to 10% of the appraised value.

Carrying values of assets measured at fair value on a non-recurring basis follows:

March 31, 2023 <i>(in thousands)</i>	Fair Value Measurements Using:			Total Fair Value	Losses recorded Three months ended March 31, 2023
	Level 1	Level 2	Level 3		
Collateral dependent loans	\$ —	\$ —	\$ 9,928	\$ 9,928	\$ —
Other real estate owned	—	—	—	—	—

December 31, 2022 <i>(in thousands)</i>	Fair Value Measurements Using:			Total Fair Value	Losses recorded Three months ended March 31, 2022
	Level 1	Level 2	Level 3		
Collateral dependent loans	\$ —	\$ —	\$ 20,637	\$ 20,637	\$ —
Other real estate owned	—	—	677	677	—

There were no liabilities measured at fair value on a non-recurring basis at March 31, 2023 and December 31, 2022.

For Level 3 assets measured at fair value on a non-recurring basis, the significant unobservable inputs used in the fair value measurements are presented below.

<i>(dollars in thousands)</i>	March 31, 2023			
	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Average
Collateral dependent loans	\$ 9,928	Appraisal	Appraisal discounts	23.8%
Other real estate owned	—	Appraisal	Appraisal discounts	—

<i>(dollars in thousands)</i>	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Average
Collateral dependent loans	\$ 20,637	Appraisal	Appraisal discounts	23.3%
Other real estate owned	677	Appraisal	Appraisal discounts	65.6

(15) Disclosure of Financial Instruments Not Reported at Fair Value

GAAP requires disclosure of the fair value of financial assets and liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The estimated fair values of Bancorp's financial instruments not measured at fair value on a recurring or non-recurring basis follows:

March 31, 2023 (in thousands)	Carrying amount	Fair value	Fair Value Measurements Using:			
			Level 1	Level 2	Level 3	
Assets						
Cash and cash equivalents	\$ 316,998	\$ 316,998	\$ 316,998	\$ —	\$ —	
HTM debt securities	468,751	433,900	—	433,900	—	
Federal Home Loan Bank stock	23,226	23,226	—	23,226	—	
Loans, net	5,167,431	4,948,173	—	—	4,948,173	
Accrued interest receivable	20,561	20,561	20,561	—	—	
Liabilities						
Non-interest bearing deposits	\$ 1,845,302	\$ 1,845,302	\$ 1,845,302	\$ —	\$ —	
Transaction deposits	3,899,267	3,899,267	—	3,899,267	—	
Time deposits	612,626	602,758	—	602,758	—	
Securities sold under agreement to repurchase	104,578	104,578	—	104,578	—	
Federal funds purchased	14,745	14,745	—	14,745	—	
Subordinated debentures	26,442	26,492	—	26,492	—	
FHLB advances	275,000	275,188	—	275,188	—	
Accrued interest payable	1,029	1,029	1,029	—	—	

December 31, 2022 (in thousands)	Carrying amount	Fair value	Fair Value Measurements Using:			
			Level 1	Level 2	Level 3	
Assets						
Cash and cash equivalents	\$ 167,367	\$ 167,367	\$ 167,367	\$ —	\$ —	
HTM debt securities	473,217	431,833	—	431,833	—	
Federal Home Loan Bank stock	10,928	10,928	—	10,928	—	
Loans, net	5,132,387	4,914,770	—	—	4,914,770	
Accrued interest receivable	22,157	22,157	22,157	—	—	
Liabilities						
Non-interest bearing deposits	\$ 1,950,198	\$ 1,950,198	\$ 1,950,198	\$ —	\$ —	
Transaction deposits	3,968,963	3,968,963	—	3,968,963	—	
Time deposits	472,091	459,467	—	459,467	—	
Securities sold under agreement to repurchase	133,342	133,342	—	133,342	—	
Federal funds purchased	8,789	8,789	—	8,789	—	
Subordinated debentures	26,343	26,460	—	26,460	—	
FHLB advances	50,000	50,000	—	50,000	—	
Accrued interest payable	660	660	660	—	—	

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. Because no market exists for a significant portion of Bancorp's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Therefore, calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. Changes in assumptions could significantly impact estimates.

(16) Mortgage Banking Activities

Mortgage banking activities primarily include residential mortgage originations and servicing. Mortgages originated and intended for sale in the secondary market are carried at fair value, as determined by outstanding commitments from investors.

Activity for mortgage loans held for sale, at fair value, was as follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Balance, beginning of period:	\$ 2,606	\$ 8,614
Origination of mortgage loans held for sale	24,683	35,829
Loans held for sale acquired	—	3,559
Proceeds from the sale of mortgage loans held for sale	(21,107)	(38,771)
Net gain on sale of mortgage loans held for sale	215	92
Balance, end of period	<u>\$ 6,397</u>	<u>\$ 9,323</u>

The following table represents the components of Mortgage banking income:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Net gain realized on sale of mortgage loans held for sale	\$ 215	\$ 92
Net change in fair value recognized on loans held for sale	50	(27)
Net change in fair value recognized on rate lock loan commitments	330	392
Net change in fair value recognized on forward contracts	(47)	179
Net gain recognized	<u>548</u>	<u>636</u>
Net loan servicing income	1,188	702
Amortization of mortgage servicing rights	(761)	(481)
Change in mortgage servicing rights valuation allowance	-	-
Net servicing income recognized	<u>427</u>	<u>221</u>
Other mortgage banking income	63	146
Total mortgage banking income	<u>\$ 1,038</u>	<u>\$ 1,003</u>

Activity for capitalized mortgage servicing rights was as follows:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Balance at beginning of period	\$ 15,219	\$ 4,528
MSRs acquired	—	12,676
Additions for mortgage loans sold	165	154
Amortization	(761)	(481)
Impairment	—	—
Balance at end of period	<u>\$ 14,623</u>	<u>\$ 16,877</u>

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The estimated fair value of MSRs at March 31, 2023 and December 31, 2022 were \$25 million and \$26 million, respectively. MSRs with an estimated fair value of \$13 million at the date of acquisition were acquired as part of the CB acquisition. There was no valuation allowance recorded for MSRs as of March 31, 2023 and December 31, 2022, as fair value exceeded carrying value.

Total outstanding principal balances of loans serviced for others were \$2.04 billion and \$2.08 billion at March 31, 2023 and December 31, 2022, respectively. Loans serviced for others acquired as part of the CB acquisition totaled \$1.48 billion at the date of acquisition.

Mortgage banking derivatives used in the ordinary course of business consist primarily of mandatory forward sales contracts and interest rate lock loan commitments. Mandatory forward contracts represent future loan commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Interest rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amount required to be received or paid.

Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, the Bank could potentially incur significant additional costs by replacing the positions at then current market rates. The Bank manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management. The Bank does not expect any counterparty to default on their obligations and therefore, the Bank does not expect to incur any cost related to counterparty default.

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk the Bank enters into derivatives, such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate lock loan commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including: market interest rate volatility; the amount of rate lock commitments that close; the ability to fill the forward contracts before expiration; and the time period required to close and sell loans.

The following table includes the notional amounts and fair values of mortgage loans held for sale and mortgage banking derivatives:

<i>(in thousands)</i>	March 31, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Mortgage loans held for sale:				
Mortgage loans held for sale, at fair value	\$ 6,289	\$ 6,397	\$ 2,548	\$ 2,606
Included in other assets:				
Rate lock loan commitments	\$ 12,861	\$ 468	\$ 5,599	\$ 137
Mandatory forward contracts	13,841	(71)	6,581	47

(17) Accumulated Other Comprehensive Income (Loss)

The following table illustrates activity within the balances of AOCI by component:

<i>(in thousands)</i>	Net unrealized gains (losses) on available for sale debt securities	Net unrealized gains (losses) on cash flow hedges	Minimum pension liability adjustment	Total
Three months ended March 31, 2023				
Balance, beginning of period	\$ (115,648)	\$ -	\$ 112	\$ (115,536)
Net current period other comprehensive income	14,217	376	-	14,593
Balance, end of period	<u>\$ (101,431)</u>	<u>\$ 376</u>	<u>\$ 112</u>	<u>\$ (100,943)</u>
Three months ended March 31, 2022				
Balance, beginning of period	\$ (7,657)	\$ -	\$ (283)	\$ (7,940)
Net current period other comprehensive loss	(49,659)	-	-	(49,659)
Balance, end of period	<u>\$ (57,316)</u>	<u>\$ -</u>	<u>\$ (283)</u>	<u>\$ (57,599)</u>

(18) Preferred Stock

Bancorp has one class of preferred stock (no par value; 1,000,000 shares authorized), the relative rights, preferences and other terms of the class or any series within the class will be determined by the Board of Directors prior to any issuance. None of this stock has been issued to date.

(19) Net Income Per Share

The following table reflects net income (numerator) and average shares outstanding (denominator) for basic and diluted net income per share computations:

<i>(in thousands, except per share data)</i>	Three months ended March 31,	
	2023	2022
Net income available to stockholders	\$ 29,048	\$ 7,906
Weighted average shares outstanding - basic	29,178	27,230
Dilutive securities	187	255
Weighted average shares outstanding- diluted	29,365	27,485
Net income per share - basic	\$ 1.00	\$ 0.29
Net income per share - diluted	0.99	0.29

Certain SARs that were excluded from the EPS calculation because their impact was antidilutive were as follows:

<i>(shares in thousands)</i>	Three months ended March 31,	
	2023	2022
Antidilutive SARs	48	45

(20) Stock-Based Compensation

The fair value of all stock-based awards granted, net of estimated forfeitures, is recognized as compensation expense over the respective service period.

At Bancorp's 2015 Annual Meeting of Shareholders, shareholders approved the 2015 Omnibus Equity Compensation Plan and authorized the shares available from the expiring 2005 plan for future awards under the 2015 plan. In 2018, shareholders approved an additional 500,000 shares for issuance under the plan. As of March 31, 2023, there were 140,000 shares available for future awards. The 2005 Stock Incentive Plan expired in April 2015 and SARs granted under this plan expire as late as 2025. The 2015 Stock Incentive Plan has no defined expiration date.

SAR Grants – SARs granted have a vesting schedule of 20% per year and expire ten years after the grant date unless forfeited due to employment termination.

Fair values of SARs are estimated at the date of grant using the Black-Scholes option-pricing model, a leading formula for calculating such value. This model requires the input of assumptions, changes to which can materially impact the fair value estimate. The following assumptions were used in SAR valuations at the grant date in each year:

Assumptions	2023	2022
Dividend yield	2.24%	2.38%
Expected volatility	27.20%	25.43%
Risk free interest rate	3.84%	1.98%
Expected life (in years)	7.1	7.1

Dividend yield and expected volatility are based on historical information for Bancorp corresponding to the expected life of SARs granted. Expected volatility is the volatility of underlying shares for the expected term calculated on a monthly basis. The risk free interest rate is the implied yield currently available on U.S. Treasury issues with a remaining term equal to the expected life of the awards. The expected life of SARs is based on actual experience of past like-term SARs. Bancorp evaluates historical exercise and post-vesting termination behavior when determining the expected life.

RSA Grants – RSAs granted to officers vest over five years. Dividends associated with RSA grants are deferred until shares are vested. Fair value of RSAs is equal to the market value of the shares on the date of grant.

PSU Grants – PSUs vest based upon service and a three-year performance period, which begins January 1 of the first year of the performance period. Because grantees are not entitled to dividend payments during the performance period, the fair value of these PSUs is estimated based upon the market value of the underlying shares on the date of grant, adjusted for non-payment of dividends. Grants require a one-year post-vesting holding period and therefore the fair value of such grants incorporates a liquidity discount related to the holding period of 5.2% and 5.8% for 2023 and 2022.

RSU Grants – RSUs are only granted to non-employee directors, are time-based and vest 12 months after grant date. Because grantees are entitled to deferred dividend payments at the end of the vesting period, therefore the fair value of the RSUs equals market value of underlying shares on the date of grant.

In the first quarters of 2023 and 2022, Bancorp awarded 8,668 and 5,410 RSUs to non-employee directors of Bancorp with a grant date fair value of \$550,000 and \$350,000, respectively.

Bancorp utilized cash of \$175,000 and \$233,000 during the first three months of 2023 and 2022, respectively, for the purchase of shares upon the vesting of RSUs.

Bancorp has recognized stock-based compensation expense for SARs, RSAs and PSUs within compensation expense and RSUs for directors within other non-interest expense, as follows:

Three months ended March 31, 2023					
(in thousands)	Stock Appreciation Rights	Restricted Stock Awards	Restricted Stock Units	Performance Stock Units	Total
Expense	\$ 99	\$ 412	\$ 132	\$ 509	\$ 1,152
Deferred tax benefit	(21)	(87)	(28)	(107)	(243)
Total net expense	<u>\$ 78</u>	<u>\$ 325</u>	<u>\$ 104</u>	<u>\$ 402</u>	<u>\$ 909</u>

Three months ended March 31, 2022					
(in thousands)	Stock Appreciation Rights	Restricted Stock Awards	Restricted Stock Units	Performance Stock Units	Total
Expense	\$ 94	\$ 330	\$ 86	\$ 481	\$ 991
Deferred tax benefit	(20)	(70)	(18)	(101)	(209)
Total net expense	<u>\$ 74</u>	<u>\$ 260</u>	<u>\$ 68</u>	<u>\$ 380</u>	<u>\$ 782</u>

Detail of unrecognized stock-based compensation expense follows:

(in thousands)	Stock Appreciation Rights	Restricted Stock Awards	Restricted Stock Units	Performance Stock Units	Total
Year ended					
Remainder of 2023	\$ 302	\$ 1,209	\$ 408	\$ 1,206	\$ 3,125
2024	307	1,407	3	908	2,625
2025	248	1,182	—	485	1,915
2026	190	875	—	—	1,065
2027	111	514	—	—	625
2028	12	43	—	—	55
Total estimated expense	<u>\$ 1,170</u>	<u>\$ 5,230</u>	<u>\$ 411</u>	<u>\$ 2,599</u>	<u>\$ 9,410</u>

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The following table summarizes **SARs** activity and related information:

<i>(in thousands, except per share and life data)</i>	SARs	Exercise price	Weighted average exercise price	Aggregate intrinsic value(1)	Weighted average fair value	Weighted average remaining contractual life (in years)
Outstanding, January 1, 2022	515	\$15.24 - \$50.71	\$ 31.16	\$ 16,854	\$ 5.08	5.1
Granted	34	47.17 - 74.92	55.45	—	12.07	
Exercised	(114)	15.24 - 40.00	21.55	5,258	3.63	
Forfeited	—	—	—	—	—	—
Outstanding, December 31, 2022	<u>435</u>	\$19.37 - \$74.92	\$ 35.60	\$ 12,784	\$ 6.02	5.1
Outstanding, January 1, 2023	435	\$19.37 - \$74.92	\$ 35.60	\$ 12,784	\$ 6.02	5.1
Granted	29	60.76 - 60.76	60.76	—	16.81	
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Outstanding, March 31, 2023	<u>464</u>	\$19.37 - \$74.92	\$ 37.17	\$ 8,516	\$ 6.69	5.2
Vested and exercisable	345	\$19.37 - \$54.91	\$ 32.92	\$ 7,672	\$ 5.36	4.2
Unvested	119	35.90 - 74.92	49.56	662	10.59	3.7
Outstanding, March 31, 2023	<u>464</u>	\$19.37 - \$74.92	\$ 37.17	\$ 8,516	\$ 6.69	5.2
Vested in the current year	38	\$35.90 - \$54.91	\$ 41.82	\$ 511	\$ 7.75	

(1) – Aggregate intrinsic value for SARs is defined as the amount by which the current market price of the underlying stock exceeds the exercise or grant price.

The following table summarizes activity for **RSAs** granted:

<i>(in thousands, except per share data)</i>	RSAs	Grant date weighted average cost
Unvested at January 1, 2022	99	\$ 41.07
Shares awarded	35	58.47
Restrictions lapsed and shares released	(32)	40.39
Shares forfeited	(6)	47.49
Unvested at December 31, 2022	<u>96</u>	\$ 47.26
Unvested at January 1, 2023	96	\$ 47.26
Shares awarded	38	63.04
Restrictions lapsed and shares released	(31)	43.58
Shares forfeited	(1)	43.74
Unvested at March 31, 2023	<u>102</u>	\$ 54.20

Shares expected to be awarded for **PSUs** granted to executive officers of Bancorp, the three-year performance period for which began January 1 of the award year, are as follows:

Grant year	Vesting period in years	Fair value	Shares expected to be awarded
2021	3	44.44	47,280
2022	3	48.48	51,929
2023	3	54.33	67,018

(21) Derivative Financial Instruments

Periodically, Bancorp enters into interest rate swap transactions with borrowers who desire to hedge exposure to rising interest rates, while at the same time entering into an offsetting interest rate swap, with substantially matching terms, with another approved independent counterparty. These are undesignated derivative instruments and are recognized on the balance sheet at fair value. Because of matching terms of offsetting contracts and collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition have an insignificant effect on earnings. Exchanges of cash flows related to undesignated interest rate swap agreements were offsetting and therefore had no effect on Bancorp's earnings or cash flows.

Interest rate swap agreements derive their value from underlying interest rates. These transactions involve both credit and market risk. Notional amounts are amounts on which calculations, payments and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Bancorp is exposed to credit-related losses in the event of non-performance by counterparties to these agreements. Bancorp mitigates the credit risk of its financial contracts through credit approvals, collateral and monitoring procedures, and does not expect any counterparties to fail their obligations.

Bancorp had outstanding undesignated interest rate swap contracts as follows:

	Receiving		Paying	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
<i>(dollars in thousands)</i>				
Notional amount	\$ 108,252	\$ 132,831	\$ 108,252	\$ 132,831
Weighted average maturity (years)	7.2	7.1	7.2	7.1
Fair value	\$ 8,142	\$ 10,727	\$ 8,152	\$ 10,737

During the first quarter of 2023, Bancorp entered into an interest rate swap to hedge cash flows of a \$100 million rolling fixed-rate three-month FHLB borrowing. While Bancorp expects to utilize fixed-rate three-month FHLB advances with respect to this interest rate swap, brokered CDs or other fixed rate advances may be utilized for the same three-month terms instead should those sources be more favorable. The swap began February 6, 2023 and matures February 6, 2028. For purposes of hedging, rolling fixed rate advances are considered to be floating rate liabilities.

Interest rate swaps involve exchange of Bancorp's floating rate interest payments for fixed rate swap payments on underlying principal amounts. These swaps were designated and qualified, for cash-flow hedge accounting. For derivative instruments that are designated and qualify as cash flow hedging instruments, the effective portion of gains or losses is reported as a component of AOCI, and is subsequently reclassified into earnings as an adjustment to interest expense in periods for which the hedged forecasted transaction impacts earnings.

The following table details Bancorp's derivative position designated as a cash flow hedge, and the related fair value:

<i>(dollars in thousands)</i>				Fair value March 31, 2023
Notional Amount	Maturity Date	Receive (variable) index	Pay fixed swap rate	
\$ 100,000,000	2/6/2028	USD SOFR	3.27%	\$ 494

(22) Regulatory Matters

Bancorp and the Bank are subject to capital regulations in accordance with Basel III, as administered by banking regulators. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. 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 Bancorp's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Holding Company and the Bank must meet specific capital guidelines that involve quantitative measures of Bancorp's assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors.

Banking regulators have categorized the Bank as well-capitalized. To meet the definition of well-capitalized, a bank must have a minimum 6.5% Common Equity Tier 1 Risk-Based Capital ratio, 8.0% Tier 1 Risk-Based Capital ratio, 10.0% Total Risk-Based Capital ratio and 5.0% Tier 1 Leverage ratio.

Additionally, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, Bancorp and the Bank must hold a 2.5% capital conservation buffer composed of Common Equity Tier 1 Risk-Based Capital above the minimum risk-based capital requirements for the Common Equity Tier 1 Risk-Based Capital ratio, Tier 1 Risk-Based Capital ratio and Total Risk-Based Capital ratio necessary to be considered adequately-capitalized. At March 31, 2023, the adequately-capitalized minimums, including the capital conservation buffer, were a 7.0% Common Equity Tier 1 Risk-Based Capital ratio, 8.5% Tier 1 Risk-Based Capital ratio and 10.5% Total Risk-Based Capital ratio. As all of Bancorp's capital ratios were above the adequately-capitalized minimums, including the buffer, the Company was not subject to any such restrictions.

As a result of the CB acquisition, Bancorp became the 100% successor owner of the following unconsolidated trust subsidiaries: Commonwealth Statutory Trust III, Commonwealth Statutory Trust IV and Commonwealth Statutory Trust V. The sole assets of the trust subsidiaries represent the proceeds of offerings loaned in exchange for subordinated debentures with similar terms to the TPS. The TPS are treated as part of Tier 1 Capital. The subordinated note and related interest expense are included in Bancorp's consolidated financial statements. The subordinated notes are currently redeemable at Bancorp's option on a quarterly basis. As of March 31, 2023, subordinated notes added through the CB acquisition totaled \$26 million.

Bancorp continues to exceed the regulatory requirements for all calculations. Bancorp and the Bank intend to maintain a capital position that meets or exceeds the "well-capitalized" requirements as defined by the FRB and the FDIC, in addition to the capital conservation buffer.

The following table sets forth consolidated Bancorp's and the Bank's risk based capital amounts and ratios:

<i>(dollars in thousands)</i> March 31, 2023	Actual		Minimum for adequately capitalized		Minimum for well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (1)						
Consolidated	\$ 786,853	12.91%	\$ 487,733	8.00%	NA	NA
Bank	763,743	12.57	486,086	8.00	\$ 607,608	10.00%
Common equity tier 1 risk-based capital (1)						
Consolidated	689,044	11.30	274,350	4.50	NA	NA
Bank	691,934	11.39	273,423	4.50	394,945	6.50
Tier 1 risk-based capital (1)						
Consolidated	715,044	11.73	365,800	6.00	NA	NA
Bank	691,934	11.39	364,565	6.00	486,086	8.00
Leverage						
Consolidated	715,044	9.56	299,234	4.00	NA	NA
Bank	691,934	9.23	298,876	4.00	373,595	5.00

(dollars in thousands)

December 31, 2022	Actual		Minimum for adequately capitalized		Minimum for well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (1)						
Consolidated	\$ 762,956	12.54%	\$ 486,841	8.00%	NA	NA
Bank	732,688	12.08	485,314	8.00	\$ 606,643	10.00%
Common equity tier 1 risk-based capital (1)						
Consolidated	672,045	11.04	273,848	4.50	NA	NA
Bank	667,777	11.01	272,989	4.50	394,318	6.50
Tier 1 risk-based capital (1)						
Consolidated	698,045	11.47	365,131	6.00	NA	NA
Bank	667,777	11.01	363,986	6.00	485,314	8.00
Leverage						
Consolidated	698,045	9.33	299,329	4.00	NA	NA
Bank	667,777	8.95	298,600	4.00	373,250	5.00

(1) Ratio is computed in relation to risk-weighted assets.

NA – Regulatory framework does not define “well-capitalized” for holding companies.

(23) Segments

Bancorp's principal activities include commercial banking and WM&T. Commercial banking provides a full range of loan and deposit products to individual consumers and businesses. Commercial banking also includes Bancorp's mortgage banking and investment products sales activity. WM&T provides investment management, financial & retirement planning and trust & estate services, as well as retirement plan management for businesses and corporations in all markets in which Bancorp operates. The magnitude of WM&T revenue distinguishes Bancorp from other community banks of similar asset size.

Financial information for each business segment reflects that which is specifically identifiable or allocated based on an internal allocation method. Income taxes are allocated based on the effective federal income tax rate adjusted for any tax-exempt activity. All tax-exempt activity and provision have been allocated fully to the commercial banking segment. Measurement of performance of business segments is based on the management structure of Bancorp and is not necessarily comparable with similar information for any other financial institution. Information presented is also not necessarily indicative of the segments' operations if they were independent entities.

The majority of the net assets of Bancorp are involved in the commercial banking segment. As of March 31, 2023, goodwill totaling \$194 million was recorded on Bancorp's consolidated balance sheets, of which \$172 million is attributed to the commercial banking segment and \$22 million is attributed to WM&T. The portion of total goodwill attributed to WM&T relates entirely to the CB acquisition, which generated \$67 million in total goodwill, \$8.5 million of which was subsequently written off as a result of Bancorp selling its interest in LFA effective December 31, 2022. With the exception of goodwill attributed to WM&T through the CB acquisition, assets assigned to WM&T consist primarily of a CLI asset associated with the WM&T business added through the CB acquisition, net premises and equipment and a receivable related to fees earned that have not been collected.

Selected financial information by business segment follows:

(in thousands)	Three months ended March 31, 2023			Three months ended March 31, 2022		
	Commercial Banking	WM&T	Total	Commercial Banking	WM&T	Total
Net interest income	\$ 62,944	\$ 128	\$ 63,072	\$ 48,653	\$ 107	\$ 48,760
Provision for credit losses	2,625	—	2,625	2,279	—	2,279
Wealth management and trust services	—	9,527	9,527	—	8,243	8,243
All other non-interest income	12,520	—	12,520	10,960	—	10,960
Non-interest expenses	39,600	5,714	45,314	51,690	4,607	56,297
Income before income tax expense	33,239	3,941	37,180	5,644	3,743	9,387
Income tax expense	7,277	855	8,132	633	812	1,445
Net income	25,962	3,086	29,048	5,011	2,931	7,942
Less net income attributed to NCI	—	—	—	—	36	36
Net income available to stockholders	\$ 25,962	\$ 3,086	\$ 29,048	\$ 5,011	\$ 2,895	\$ 7,906
Segment assets	\$ 7,631,031	\$ 36,617	\$ 7,667,648	\$ 7,744,189	\$ 32,963	\$ 7,777,152

(24) Revenue from Contracts with Customers

All of Bancorp's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The table below presents Bancorp's sources of non-interest income with items outside the scope of ASC 606 noted as such:

(in thousands)	Three months ended March 31, 2023			Three months ended March 31, 2022		
	Commercial Banking	WM&T	Total	Commercial Banking	WM&T	Total
Wealth management and trust services	\$ —	\$ 9,527	\$ 9,527	\$ —	\$ 8,243	\$ 8,243
Deposit service charges	2,149	—	2,149	1,863	—	1,863
Debit and credit card income	4,482	—	4,482	4,119	—	4,119
Treasury management fees	2,318	—	2,318	1,904	—	1,904
Mortgage banking income(1)	1,038	—	1,038	1,003	—	1,003
Net investment product sales commissions and fees	754	—	754	607	—	607
Bank owned life insurance(1)	549	—	549	266	—	266
Gain (loss) on sale of premises and equipment (1)	(2)	—	(2)	—	—	—
Other (2)	1,232	—	1,232	1,198	—	1,198
Total non-interest income	<u>\$ 12,520</u>	<u>\$ 9,527</u>	<u>\$ 22,047</u>	<u>\$ 10,960</u>	<u>\$ 8,243</u>	<u>\$ 19,203</u>

(1) Outside of the scope of ASC 606.

(2) Outside of the scope of ASC 606, with the exception of safe deposit fees which were nominal for all periods.

Bancorp's revenue on the consolidated statement of income is categorized by product type, which effectively depicts how the nature, timing and extent of cash flows are affected by economic factors. Revenue sources within the scope of ASC 606 are discussed below:

Bancorp earns fees from its deposit customers for transaction-based, account management and overdraft services. Transaction-based fees, which include services such as ATM use fees and stop payments fees, are recognized at the time the transaction is executed, as that is when the company fulfills the performance obligation. Account management fees are earned over the course of a month and charged in the month in which the services are provided.

Treasury management transaction fees are recognized at the time the transaction is executed, as that is when the company fulfills the performance obligation. Account analysis fees are earned over the course of a month and charged in the month in which the services are provided. Treasury management fees are withdrawn from customers' account balances.

WM&T provides customers fiduciary and investment management services as agreed upon in asset management contracts. The contracts require WM&T to provide a series of distinct services for which fees are earned over time. The contracts are cancellable upon demand with fees typically based upon the asset value of investments. Revenue is accrued and recognized monthly based upon month-end asset values and collected from the customer predominately in the following month except for a small percentage of fees collected quarterly. Incentive compensation related to WM&T activities is considered a cost of obtaining the contract. Contracts between WM&T and customers do not permit performance-based fees and accordingly, none of the fee income earned by WM&T is performance-based. Trust fees receivable were \$3.5 million and \$3.4 million at March 31, 2023 and December 31, 2022, respectively.

Net investment products sales commissions and fees represent the Bank's share of transaction fees and wrap fees resulting from investment services and programs provided through an agent relationship with a third party broker-dealer. Transaction fees are assessed at the time of the transaction. Those fees are collected and recognized on a monthly basis. Trailing fees are based upon market values and are assessed, collected and recognized on a quarterly basis. Because the Bank acts as an agent in arranging the relationship between the customer and third party provider, and does not control the services rendered, investment product sales commissions and fees are reported net of related costs, including nominal incentive compensation, and trading activity charges of \$227,000 and \$188,000 for the three month periods ended March 31, 2023 and 2022.

Debit and credit card revenue primarily consists of debit and credit card interchange income. Interchange income represents fees assessed within the payment card system for acceptance of card-based transactions. Interchange fees are assessed as the performance obligation is satisfied, which is at the point in time the card transaction is authorized. Revenue is collected and recognized daily through the payment network settlement process.

Bancorp did not establish any contract assets or liabilities as a result of adopting ASC 606, nor were any recognized during the three months ended March 31, 2023.

(25) Leases

Bancorp has operating leases for various locations with terms ranging from approximately one year to approximately 18 years, some of which include options to extend the leases in five-year increments. A total of four operating leases were added as a result of the CB acquisition in 2022. Options reasonably expected to be exercised are included in determination of the right-of-use asset. Bancorp elected to use a practical expedient to expense short-term lease obligations associated with leases with original terms of 12 months or less. Bancorp elected not to separate non-lease components from lease components for its operating leases. The right-of-use lease asset and operating lease liability are recorded in premises and equipment and other liabilities on the consolidated balance sheet.

Balance sheet, income statement and cash flow detail regarding operating leases follows:

<i>(dollars in thousands)</i>	March 31, 2023	December 31, 2022
Balance Sheet		
Operating lease right-of-use asset	\$ 19,387	\$ 19,694
Operating lease liability	20,723	21,008
Weighted average remaining lease term (years)	8.8	9.0
Weighted average discount rate	2.56%	2.57%
Maturities of lease liabilities:		
One year or less	\$ 2,641	\$ 3,453
Year two	3,367	3,293
Year three	2,813	2,739
Year four	2,449	2,339
Year five	2,362	2,245
Greater than five years	9,608	9,559
Total lease payments	\$ 23,240	\$ 23,628
Less imputed interest	2,517	2,620
Total	\$ 20,723	\$ 21,008
	Three months ended March 31, 2023	Three months ended March 31, 2022
<i>(in thousands)</i>		
Income Statement		
Components of lease expense:		
Operating lease cost	\$ 840	\$ 656
Variable lease cost	71	57
Less sublease income	25	24
Total lease cost	\$ 886	\$ 689
	Three months ended March 31, 2023	Three months ended March 31, 2022
<i>(in thousands)</i>		
Cash flow Statement		
Supplemental cash flow information:		
Operating cash flows from operating leases	\$ 1,071	\$ 853

As of March 31, 2023, Bancorp had not entered into any lease agreements that had yet to commence.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Stock Yards Bancorp, Inc. ("Bancorp" or "the Company"), is a FHC headquartered in Louisville, Kentucky and is engaged in the business of banking through its wholly owned subsidiaries, Stock Yards Bank & Trust Company ("SYB" or "the Bank") and SYB Insurance Company, Inc. ("the Captive"). Bancorp, which was incorporated in 1988 in Kentucky, is registered with, and subject to supervision, regulation and examination by, the Board of Governors of the Federal Reserve System. As Bancorp has no significant operations of its own, its business is essentially that of SYB and the Captive. The operations of SYB and the Captive are fully reflected in the consolidated financial statements of Bancorp. Accordingly, references to "Bancorp" in this document may encompass both the holding company and its subsidiaries, however, it should be noted that the business of the Captive is immaterial to the overall results of operations and financial condition of Bancorp. All significant inter-company transactions and accounts have been eliminated in consolidation.

SYB, established in 1904, is a state-chartered non-member financial institution that provides services in Louisville, central, eastern and northern Kentucky, as well as the Indianapolis, Indiana and Cincinnati, Ohio markets through 73 full service banking center locations. The Bank is registered with, and subject to supervision, regulation and examination by the FDIC and the Kentucky Department of Financial Institutions.

The Captive, a wholly owned subsidiary of the Bancorp, is a Nevada-based captive insurance company that provides insurance against certain risks unique to operations of the Company and its subsidiaries for which insurance may not be currently available or economically feasible in today's insurance marketplace. The Captive pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. The Captive is subject to regulations of the State of Nevada and undergoes periodic examinations by the Nevada Division of Insurance. It has elected to be taxed under Section 831(b) of the Internal Revenue Code. Pursuant to Section 831(b), if gross premiums do not exceed \$2,650,000, then the Captive is taxable solely on its investment income. The Captive is included in the Company's consolidated financial statements and its federal income tax return.

On April 10, 2023, the IRS issued a proposed regulation that would potentially classify section 831(b) captive activity as a, "listed transaction," and disallow the related tax benefits, both prospectively and retroactively, for a period of three years. At this time, due to the proposed nature of the regulation, it is uncertain as to the impact this development will have on Future operations of the Captive.

As a result of its acquisition of Commonwealth Bancshares, Inc. on March 7, 2022, Bancorp became the 100% successor owner of three unconsolidated Delaware trust subsidiaries: Commonwealth Statutory Trust III, Commonwealth Statutory Trust IV and Commonwealth Statutory Trust V. The sole assets of the trust subsidiaries represent the proceeds of offerings exchanged for subordinated debentures with similar terms to the TPS.

Also as a result of its acquisition of Commonwealth Bancshares, Inc., Bancorp acquired a 60% interest in Landmark Financial Advisors, LLC (LFA), which is based in Bowling Green, Kentucky and provides wealth management services. Effective December 31, 2022, Bancorp's partial interest in LFA was sold, resulting in a pre-tax loss of \$870,000 recorded in other non-interest expense on the consolidated income statements for the year ended December 31, 2022. This acquired line of business was not within the Company's geographic footprint and ultimately did not align with the Company's long-term strategic model. Net income related to LFA and attributable to Bancorp's 60% interest, excluding the pre-tax loss on disposition noted above, totaled \$483,000 for the year ended December 31, 2022.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and accompanying Footnotes presented in Part 1 Item 1 "*Financial Statements*" and other information appearing in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2022. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of Bancorp's future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations.

Cautionary Statement Regarding Forward-Looking Statements
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This document contains statements relating to future results of Bancorp that are considered “forward-looking” as defined by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements are principally, but not exclusively, contained in Part I Item 2 “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by the statement. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believe,” “can,” “conclude,” “continue,” “could,” “estimate,” “expect,” “foresee,” “goal,” “intend,” “may,” “might,” “outlook,” “possible,” “plan,” “predict,” “project,” “potential,” “seek,” “should,” “target,” “will,” “will likely,” “would,” or other similar expressions. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control.

Forward-looking statements detail management’s expectations regarding the future and are based on information known to management only as of the date the statements are made and management undertakes no obligation to update forward-looking statements to reflect events or circumstances that occur after the date forward-looking statements are made, except as required by applicable regulation.

There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements include, among other things:

- Changes in, or forecasts of, future political and economic conditions, inflation or recession and efforts to control related developments;
- changes in laws and regulations or the interpretation thereof;
- accuracy of assumptions and estimates used in establishing the ACL for loans, ACL for off-balance sheet credit exposures and other estimates;
- impairment of investment securities;
- impairment of goodwill, MSRs, other intangible assets and/or DTAs;
- ability to effectively navigate an economic slowdown or other economic or market disruptions;
- changes in fiscal, monetary, and/or regulatory policies;
- changes in tax polices including but not limited to changes in federal and state statutory rates;
- behavior of securities and capital markets, including changes in interest rates, market volatility and liquidity;
- ability to effectively manage capital and liquidity;
- long-term and short-term interest rate fluctuations, as well as the shape of the U.S. Treasury yield curve;
- the magnitude and frequency of changes to the FFTR implemented by the Federal Open Market Committee of the FRB;
- competitive product and pricing pressures;
- projections of revenue, expenses, capital expenditures, losses, EPS, dividends, capital structure, etc.;
- integration of acquired financial institutions, businesses or future acquisitions;
- changes in the credit quality of Bancorp’s customers and counterparties, deteriorating asset quality and charge-off levels;
- changes in technology instituted by Bancorp, its counterparties or competitors;
- changes to or the effectiveness of Bancorp’s overall internal control environment;
- adequacy of Bancorp’s risk management framework, disclosure controls and procedures and internal control over financial reporting;
- changes in applicable accounting standards, including the introduction of new accounting standards;
- changes in investor sentiment or behavior;
- changes in consumer/business spending or savings behavior;
- ability to appropriately address social, environmental and sustainability concerns that may arise from business activities;

- occurrence of natural or man-made disasters or calamities, including health emergencies, the spread of infectious diseases, pandemics or outbreaks of hostilities, and Bancorp's ability to deal effectively with disruptions caused by the foregoing;
- ability to maintain the security of its financial, accounting, technology, data processing and other operational systems and facilities;
- ability to withstand disruptions that may be caused by any failure of its operational systems or those of third parties;
- ability to effectively defend itself against cyberattacks or other attempts by unauthorized parties to access information of Bancorp, its vendors or its customers or to disrupt systems;
- other risks and uncertainties reported from time-to-time in Bancorp's filings with the SEC, including Part I Item 1A "*Risk Factors*" of Bancorp's Annual Report on Form 10-K for the year ended December 31, 2022.

Recent Developments within the Banking Industry

On March 10, 2023, Silicon Valley Bank, an FDIC-insured institution based in Santa Clara, California, was closed by the California Department of Financial Protection & Innovation and the FDIC was named Receiver. As of December 31, 2022, Silicon Valley Bank had approximately \$209 billion in total assets and \$175 billion in total deposits, making this closure one of the largest bank failures in U.S. history and the first FDIC-insured institution failure since 2020.

On March 12, 2023, Signature Bank, an FDIC-insured institution based in New York, New York, was closed by the New York State Department of Financial Services and the FDIC was named Receiver. As of December 31, 2022, Signature Bank had total assets of approximately \$110 billion in total assets and \$83 billion in total deposits, marking another large bank failure and the second FDIC-insured institution failure of 2023.

On May 1, 2023, First Republic Bank, an FDIC-insured institution based on San Francisco, California, was closed by the California Department of Financial Protection & Innovation and the FDIC was named Receiver. To protect depositors, the FDIC entered into a purchase and assumption agreement with JPMorgan Chase Bank, National Association, Columbus, Ohio, to assume all of the deposits and substantially all of the assets of First Republic Bank, which was the result of a highly competitive bidding process.

In each instance of failure noted above, the FDIC was named Receiver upon closure of the respective institutions. The FDIC announced that all depositors affected by the Silicon Valley Bank and Signature Bank failures would be made whole and that no losses associated with the resolution of either institution would be borne by taxpayers. As the First Republic Bank failure resulted in a purchase and assumption agreement with another FDIC-insured institution, depositors of First Republic Bank remain covered by FDIC insurance. However, while losses associated with the resolution of First Republic Bank will not be borne by taxpayers, they will be applied against the Deposit Insurance Fund similar to any losses associated with the resolutions of Silicon Valley Bank and Signature Bank.

As required by law, any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks. While the impact to Bancorp of a special assessment is yet to be determined, such action by the FDIC could result in increased FDIC insurance expense for the Company, which is a component of non-interest expenses on the condensed consolidated financial statements. Bank failures, such as those noted above, can lead to market-wide liquidity problems and potentially affect our business, financial condition and results of operations. For more information regarding such risks, and others inherent in Bancorp's business, see Part I Item 1A "*Risk Factors*" of Bancorp's Annual Report on Form 10-K for the year ended December 31, 2022.

In response to the potential liquidity issues created by the bank failures noted above, and to restore confidence in the stability of the banking system, the FRB created the Bank Term Funding Program. This program serves as a funding source to any U.S. federally insured depository institution, offering collateral-based fixed-rate advances to eligible borrowers for a term of up to one year. Eligible institutions can request such advances under the program until at least March 11, 2024. As of March 31, 2023, Bancorp has made no request for an advance under this program.

Bancorp has not been negatively impacted by the recent bank failures. We remain well-capitalized and continue to monitor and manage our liquidity position to satisfy both daily operations and longer-term strategic needs. Bancorp regularly reviews contingency funding strategies and we believe we are well-equipped to handle future liquidity requirements. We will continue to monitor the developments surrounding the recent bank failures noted above, as well as trends within the financial markets generally, to ensure we remain prepared to address potential liquidity issues that may arise.

Acquisition of Commonwealth Bancshares, Inc. and its Subsidiary Commonwealth Bank & Trust Company

On March 7, 2022, Bancorp completed its acquisition of Commonwealth Bancshares, Inc. and its wholly owned subsidiary, Commonwealth Bank & Trust Company, collectively defined as "CB," a Louisville, Kentucky-based commercial bank and trust company, which operated 15 retail branches, including nine in Jefferson County, four in Shelby County, and two in Northern Kentucky. At the time of acquisition and net of purchase accounting adjustments, CB had \$1.34 billion in assets, \$632 million in loans, \$247 million in investment securities and \$1.12 billion in deposits in addition to maintaining a WM&T Department with total assets under management of approximately \$2.65 billion. CB was also the holding company for three unconsolidated Delaware trust subsidiaries and held a 60% interest in LFA. Bancorp became the 100% successor owner of all three trust subsidiaries and also retained the 60% interest in LFA upon acquisition, the latter of which was disposed of effective December 31, 2022. Bancorp acquired all outstanding common stock of CB, Inc. in a combined stock and cash transaction that resulted in total consideration paid to CB shareholders of \$168 million.

Bancorp recorded goodwill of approximately \$67 million and incurred merger related expenses totaling \$19.5 million during the first quarter of 2022 as a result of the CB acquisition. As a result of Bancorp's disposition of its partial interest in LFA, which resulted in a pre-tax loss of \$870,000 recorded in other non-interest expense on the consolidated income statements for the fourth quarter and year ended December 31, 2022, goodwill totaling \$8.5 million was written off, bringing total goodwill related to the CB acquisition to \$58 million as of December 31, 2022.

The acquisition of CB has had a significant impact on the ACL and credit loss provisioning in 2022. In total, the CB acquisition served to increase the ACL on loans by \$14 million at acquisition date. This increase consisted of \$10 million attributed to the acquired PCD loan portfolio, with the corresponding offset recorded to goodwill (as opposed to provision for credit loss expense), and \$4.4 million of provision for credit loss expense attributed to the acquired non-PCD portfolio, which represented the acquisition-related credit loss expense at the time of acquisition.

Issued but Not Yet Effective Accounting Standards Updates
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For disclosure regarding the impact to Bancorp's financial statements of issued-but-not-yet-effective ASUs, see the footnote titled "*Summary of Significant Accounting Policies*" of Part I Item 1 "*Financial Statements*."

Business Segment Overview

Bancorp is divided into two reportable segments: Commercial Banking and WM&T:

Commercial Banking provides a full range of loan and deposit products to individual consumers and businesses in all its markets through retail lending, mortgage banking, deposit services, online banking, mobile banking, private banking, commercial lending, commercial real estate lending, treasury management services, merchant services, international banking, correspondent banking and other banking services. The Bank also offers securities brokerage services via its banking center network through an arrangement with a third party broker-dealer in the Commercial Banking segment.

WM&T provides investment management, financial & retirement planning and trust & estate services, as well as retirement plan management for businesses and corporations in all markets in which Bancorp operates. The magnitude of WM&T revenue distinguishes Bancorp from other community banks of similar asset size.

Overview – Operating Results (FTE)

The following table presents an overview of Bancorp’s financial performance for the three months ended March 31, 2023 and 2022:

(dollars in thousands, except per share data)

Three months ended March 31,	2023	2022	Variance	
			\$/bp	%
Net income available to stockholders	\$ 29,048	\$ 7,906	\$ 21,142	267%
Diluted earnings per share	\$ 0.99	\$ 0.29	\$ 0.70	241%
ROA	1.55%	0.47%	108 bps	230%
ROE	15.15%	4.55%	1,060 bps	233%

Additional discussion follows under the section titled “Results of Operations.”

General highlights for the three months ended March 31, 2023 compared to March 31, 2022:

- Net Income totaled \$29.0 million for the three months ended March 31, 2023, resulting in diluted EPS of \$0.99, compared to net income of \$7.9 million for the three months ended March 31, 2022, which resulted in diluted EPS of \$0.29. The first quarter of 2022 was significantly impacted by the completion of the CB acquisition.
 - o Strong results for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 were driven by significant organic and acquisition-related growth over the past 12 months, a significantly higher interest rate environment compared to the same period of the prior year and the continued growth of Bancorp’s diversified non-interest revenue streams.
 - o Bancorp completed its acquisition of CB on March 7, 2022. At the time of acquisition and net of purchase accounting adjustments, CB had approximately \$1.34 billion in total assets, \$632 million in loans, \$247 million in investment securities and \$1.12 billion in deposits. The three months ended March 31, 2022 represented the only a partial month of activity associated with the CB acquisition, but included \$19.5 million in merger expenses and \$4.4 million in credit loss expense attributed to the acquired loan portfolio, which weighed heavily on results for the period.
- Total loans (excluding PPP) increased \$456 million, or 10%, compared to March 31, 2022, driven by significant organic growth over the past 12 months. Average loans (excluding PPP) increased \$949 million, or 22%, for the three months ended March 31, 2023 compared to the same period of the prior year as a result of the prior year acquisition in addition to the previously mentioned organic growth.
 - o Bancorp’s ACL on loans increased \$9 million, or 13%, compared to March 31, 2022, attributed mainly to the significant organic loan growth experienced over the last 12 months. Provision for credit losses on loans totaled \$2.3 million for the three months ended March 31, 2023, compared to \$2.7 million for the three months ended March 31, 2022. Expense for the three months ended March 31, 2023 was driven largely by a \$1.4 million specific reserve recorded for a large C&I relationship in addition to annual CECL model updates and qualitative factor adjustments. Expense for the prior year period was driven by \$4.4 million of expense recorded in relation to the acquired loan portfolio of CB, which was partially offset by a net credit to expense of \$1.8 million stemming from generally improving CECL model factors.

- Deposit balances declined \$388 million, or 6%, compared to March 31, 2022, as rising rates and inflationary pressures have enticed depositors to seek higher-yielding alternatives. In addition, the deposit decline experienced for the first quarter of 2023 in particular was also driven in large part by typical seasonal public funds runoff. While we continue to see consistent loyalty and confidence from our customer base, deposit competition and a higher interest rate environment has created NIM compression and we anticipate it will continue to do so throughout most of 2023.
 - As a result of deposit pricing pressure/competition, Bancorp has experienced a shift in the deposit mix, as non-interest bearing deposits and lower-yielding deposits have migrated to higher-yielding options, particularly time deposits. This shift has significantly increased Bancorp's cost of deposits and overall cost of funds.
- Net interest income (FTE) totaled \$63.2 million for the three months ended March 31, 2023, representing an increase of \$14.3 million, or 29%, compared to the three months ended March 31, 2022.
 - NIM increased 48 bps, or 15%, to 3.59% for the three months ended March 31, 2023 compared to the same period of the prior year, consistent with average balance sheet expansion and significant upward movement in the interest rate environment experienced over the past 12 months.
- Non-interest income increased \$2.8 million, or 15%, for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, highlighted by quarterly records for WM&T fees and treasury management fees, in addition to strong debit and credit card income. The prior year period included only a partial month of activity stemming from the acquisition of CB, as the acquisition was completed on March 7, 2022.
- Non-interest expenses declined \$11 million, or 20%, for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. The prior year period included \$19.5 million of merger expenses associated with the CB acquisition. Non-interest expenses in general remain well-controlled and consistent with expansion, strong performance and continued investment in technology.
- As of March 31, 2023, Bancorp continued to be "well-capitalized," the highest regulatory capital rating for financial institutions, with all capital ratios experiencing growth compared to both December 31, 2022 and March 31, 2022. Total stockholders' equity to total assets was 10.36% as of March 31, 2023, compared to 10.14% and 9.75% at December 31, 2022 and March 31, 2022, respectively. Tangible common equity to tangible assets was 7.74% at March 31, 2023, compared to 7.44% and 6.94% at December 31, 2022 and March 31, 2022, respectively.

Results of Operations

Net Interest Income - Overview

As is the case with most banks, Bancorp's primary revenue sources are net interest income and fee income from various financial services provided to customers. Net interest income is the difference between interest income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and interest rates earned on those loans are critical to overall profitability. Similarly, deposit volume is crucial to funding loans and rates paid on deposits directly impact profitability. New business volume is influenced by numerous economic factors including market interest rates, business spending, liquidity, consumer confidence and competitive conditions within the marketplace. The discussion that follows is based on FTE net interest income data.

Comparative information regarding net interest income follows:

(dollars in thousands)

As of and for the three months ended March 31,	2023	2022	Variance	
			\$/bp	%
Net interest income	\$ 63,072	\$ 48,760	\$ 14,312	29%
Net interest income (FTE)*	63,245	48,944	14,301	29%
Net interest spread (FTE)*	3.13%	3.06%	7 bps	2%
Net interest margin (FTE)*	3.59%	3.11%	48 bps	15%
Average interest earning assets	\$ 7,154,286	\$ 6,389,882	\$ 764,404	12%
Average interest bearing liabilities	4,807,907	4,257,843	550,064	13%
Five year Treasury note rate at period end	3.60%	2.42%	118 bps	49%
Average five year Treasury note rate	3.80%	1.83%	197 bps	108%
Prime rate at period end	8.00%	3.50%	450 bps	129%
Average Prime rate	7.69%	3.29%	440 bps	134%
One month term SOFR at period end	4.80%	0.30%	450 bps	1500%
Average one month term SOFR	4.61%	0.16%	445 bps	2781%
One month term LIBOR at period end	4.86%	0.45%	441 bps	980%
Average one month term LIBOR	4.62%	0.23%	439 bps	1909%

*See table titled, "Average Balance Sheets and Interest Rates (FTE)" for detail of Net interest income (FTE).

NIM and net interest spread calculations above exclude the sold portion of certain participation loans, which totaled \$5 million at both March 31, 2023 and December 31, 2022. These sold loans are on Bancorp's balance sheet as required by GAAP because Bancorp retains some form of effective control; however, Bancorp receives no interest income on the sold portion. These participation loans sold are excluded from NIM and spread analysis, as Bancorp believes it provides a more accurate depiction of loan portfolio performance.

At March 31, 2023, Bancorp's loan portfolio consisted of approximately 71% fixed and 29% variable rate loans. At inception, most of Bancorp's fixed rate loans are priced in relation to the five year treasury. Bancorp's variable rate loans are indexed to either Prime, LIBOR or SOFR, generally repricing as those rates change.

Prime rate, the five year Treasury note rate, one month term LIBOR and one month term SOFR are included in the table above to provide a general indication of the interest rate environment in which Bancorp has operated during the past 12 months. The FRB took aggressive interest rate action in 2022, increasing the FFTR a total of 425 bps to a range of 4.25% - 4.50%. These increases ultimately took Prime to 7.50% as of December 31, 2022, marking its highest level since 2007.

During the first quarter of 2023, the FRB continued raising rates, albeit at a slower pace, increasing the FFTR 50 bps to a range of 4.75% - 5.00% via two separate 25 bps rate hikes. As a result, Prime was 8.00% as of March 31, 2023.

The current economic outlook remains volatile, regularly changing as new economic data becomes available and the FRB's fight against inflation continues. While indications in recent quarters had suggested continued interest rate increases from the FRB through 2023 with rates maintaining their higher levels through the end of the year, current projections now anticipate multiple rate decreases from the FRB beginning in the second half of 2023. As a potential economic slowdown and recession looms, Bancorp expects ongoing pricing pressure/competition for both loans and deposits, changing levels of liquidity within the banking system and a severely inverted yield curve will continue to place pressure on NIM in 2023.

Net Interest Income (FTE) – Three months ended March 31, 2023 compared to March 31, 2022

Net interest spread (FTE) and NIM (FTE) were 3.13% and 3.59%, for the three months ended March 31, 2023, compared to 3.06% and 3.11% for the same period in 2022, respectively. NIM during the three months ended March 31, 2023 was significantly impacted by the following:

- The rapidly rising interest rate environment that has evolved from the sustained, pandemic-driven lows experienced beginning in 2020. The FFTR was lowered to a range of 0% - 0.25% in March of 2020, which resulted in Prime dropping to 3.25%, where it remained until the FRB's hike in mid-March 2022. The FFTR stood at a range of 4.75% - 5.00%, and Prime at 8.00%, as of March 31, 2023, as a result of aggressive interest rate action from the FRB over the past 12 months.
- Substantial balance sheet expansion stemming from both acquisition-related activity and organic growth, which resulted in total average earning asset growth of \$764 million, or 12%, and average interest-bearing liability growth of \$550 million, or 13%, for the three months ended March 31, 2023 compared to the same period of 2022.
- Intense pricing pressure/competition for deposits has driven a significant increase in the cost of funds, as depositors seek higher yielding deposit alternatives and Bancorp's borrowing activity has increased.

Net interest income (FTE) increased \$14.3 million, or 29%, for the three months ended March 31, 2023 compared to the same period of 2022, largely as a result of acquisition-related activity, but also driven in part by significant organic loan growth, substantial investment in the investment securities portfolio and the benefits of a rising interest rate environment.

Total average interest earning assets increased \$764 million, or 12%, to \$7.15 billion for the three months ended March 31, 2023, as compared to the same period of 2022, with the average rate earned on total interest earning assets climbing 133 bps to 4.51%.

- Average total loan balances increased \$859 million, or 20%, for the three months ended March 31, 2023, compared to the same period of 2022. Average non-PPP loan growth of \$949 million, or 22%, was driven by acquisition-related expansion and strong organic growth, which was partially offset by a \$90 million, or 86%, decline in average PPP loan balances resulting from continued forgiveness activity.
- Average investment securities grew \$433 million, or 33%, for the three months ended March 31, 2023 compared to the same period of 2022, attributed to a combination of strategically deploying excess liquidity through further investment in 2022 and acquisition-related activity. There were no investment security purchases made during the three month ended March 31, 2023.
- Average FFS and interest bearing due from bank balances decreased \$530 million, or 79%, for the three months ended March 31, 2023, as loan growth, investment in the securities portfolio and deposit run-off led to lower levels of liquidity as compared to the same period of the prior year.

Total interest income (FTE) increased \$29.5 million, or 59%, to \$79.6 million for the three months ended March 31, 2023, as compared to the same period of 2022.

- Interest and fee income (FTE) on loans increased \$24.0 million, or 54%, to \$68.9 million for the three months ended March 31, 2023, compared to the same period of 2022, driven by both organic and acquisition-related growth in the non-PPP portfolio and the rising rate environment, which more than offset a \$2.7 million, or 95%, decline in PPP-related income. The yield on the overall loan portfolio increased 117 bps to 5.33% for the three months ended March 31, 2023, compared to 4.16% for the same period of the prior year, while the yield on the non-PPP loan portfolio increased 135 bps compared to the prior year period, driven by the rising rate environment.
- Significant growth in average investment securities led to a \$4.0 million increase in interest income (FTE) on the portfolio for the three months ended March 31, 2023 compared to the same period of 2022, driving a 56 bps, or 37%, increase in the corresponding yield on the portfolio. Substantial deployment of excess liquidity in 2022 benefitted the investment portfolio, as the yields earned on those purchases improved dramatically as rates began to rise last year.
- Interest income on FFS and interest bearing due from bank balances increased \$1.3 million for the three months ended March 31, 2023, as rising short-term interest rates more than offset a \$530 million decline in related average balances. The yield on these assets increased 438 bps to 4.55% for the three months ended March 31, 2023 compared to the same period of 2022, stemming from the dramatic increase in the FFTR over the past 12 months.

Total average interest bearing liabilities increased \$550 million, or 13%, to \$4.81 billion for the three-month period ended March 31, 2023 compared with the same period in 2022, with the total average cost increasing 126 bps to 1.38%.

- Average interest bearing deposits increased \$331 million, or 8%, for the three months ended March 31, 2023 compared to the same period in 2022, with interest-bearing demand deposits accounting for \$163 million, or 49%, of the increase. The significant growth was attributed mainly to acquisition-related activity, as \$1.12 billion in deposits were added during the first quarter of 2022 in relation to the CBT acquisition. While rising rates and inflationary pressures have driven declines in period-end balances for the past several quarters, the decrease experienced for the first quarter of 2023 was attributed in large part to typical seasonal public funds runoff.
- Consistent with the acquisition-related average interest bearing deposit growth noted above, average SSUAR balances increased \$31 million, or 34%, for the three months ended March 31, 2023 compared to the same period of 2022.
- Average FHLB advances totaled \$163 million for the three months ended March 31, 2023. Bancorp initiated a \$100 million term advance in conjunction with an interest rate swap during the first quarter of 2023 in an effort to secure longer-term funding at a more favorable rate. Bancorp also utilized overnight borrowings with the FHLB during the three months ended March 31, 2023 based on liquidity needs. No FHLB borrowings were utilized during the same period of the prior year.
- Average subordinated debentures totaled \$26 million for the three months ended March 31, 2023. These subordinated debentures were added as a result of the CB acquisition during the first quarter of 2022.

Total interest expense increased \$15.2 million for the three months ended March 31, 2023 compared to the same period of 2022, driven by acquisition-related average balance growth, deposit rate increases, increased borrowing activity and debt assumed through last year's CB acquisition. As a result, the cost of interest bearing liabilities increased 126 bps to 1.38% for the three months ended March 31, 2023 compared to the same period of 2022.

- Total interest bearing deposit expense increased \$12.3 million as a result of acquisition-related growth and the aforementioned deposit rate increases, resulting in a 111 bps increase in the cost of interest bearing deposits. While the overall deposit mix continues to change, the Company also continues to see consistent loyalty and confidence from our customer base. Bancorp expects pricing pressure/competition stemming from the rising rate environment to drive further deposit rate/cost increases in the coming months.
- SSUAR interest expense increased \$439,000 for the three months ended March 31, 2023 compared to the same period of the prior year, consistent with average balance growth and rate increases.
- Interest expense of \$1.7 million was recorded in relation to FHLB borrowings for the three months ended March 31, 2023, driven by the increased borrowings activity previously noted. No FHLB borrowings were utilized for the three months ended March 31, 2023.
- Interest expense totaling \$529,000 was recorded for the three months ended March 31, 2023, as a result of the subordinated debentures added through the prior year acquisition, approximately \$100,000 of which stems from purchase accounting-related mark-to-market amortization.

Average Balance Sheets and Interest Rates (FTE) – Three-Month Comparison

	Three months ended March 31,					
	2023			2022		
(dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Federal funds sold and interest bearing due from banks	\$ 140,831	\$ 1,581	4.55%	\$ 671,263	\$ 282	0.17%
Mortgage loans held for sale	6,460	41	2.57	8,629	24	1.13
Investment securities:						
Taxable	1,666,035	8,446	2.06	1,278,160	4,680	1.48
Tax-exempt	88,585	520	2.38	43,391	252	2.36
Total securities	1,754,620	8,966	2.07	1,321,551	4,932	1.51
Federal Home Loan Bank stock	15,496	165	4.32	10,509	54	2.08
SBA Paycheck Protection Program (PPP) loans	14,075	139	4.01	103,850	2,821	11.02
Non-PPP loans	5,222,804	68,748	5.34	4,274,080	42,055	3.99
Total loans	5,236,879	68,887	5.33	4,377,930	44,876	4.16
Total interest earning assets	7,154,286	79,640	4.51	6,389,882	50,168	3.18
Less allowance for credit losses on loans	75,459			56,035		
Non-interest earning assets:						
Cash and due from banks	78,961			91,235		
Premises and equipment, net	104,369			86,056		
Bank owned life insurance	84,906			53,177		
Goodwill	194,074			153,803		
Accrued interest receivable and other	38,302			154,155		
Total assets	\$ 7,579,439			\$ 6,872,273		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 2,299,789	\$ 6,750	1.19%	\$ 2,136,188	\$ 649	0.12%
Savings	524,911	340	0.26	467,299	55	0.05
Money market	1,116,975	4,162	1.51	1,083,961	190	0.07
Time	538,476	2,247	1.69	461,268	277	0.24
Total interest bearing deposits	4,480,151	13,499	1.22	4,148,716	1,171	0.11
Securities sold under agreements to repurchase	122,049	456	1.52	91,082	17	0.08
Federal funds purchased	16,243	177	4.42	9,993	3	0.12
Federal Home Loan Bank advances	163,056	1,734	4.31	—	—	0.00
Subordinated debentures	26,408	529	8.12	8,052	33	1.66
Total interest bearing liabilities	4,807,907	16,395	1.38	4,257,843	1,224	0.12
Non-interest bearing liabilities:						
Non-interest bearing demand deposits	1,878,307			1,817,462		
Accrued interest payable and other	115,670			93,039		
Total liabilities	6,801,884			6,168,344		
Stockholders' equity	777,555			703,929		
Total liabilities and stockholders' equity	\$ 7,579,439			\$ 6,872,273		
Net interest income		\$ 63,245			\$ 48,944	
Net interest spread			3.13%			3.06%
Net interest margin			3.59%			3.11%

Supplemental Information - Average Balance Sheets and Interest Rates (FTE)

- *Average loan balances include the principal balance of non-accrual loans, as well as unearned income such as loan premiums, discounts, fees/costs and exclude participation loans accounted for as secured borrowings. Participation loans averaged \$5 million for both the three-month period ended March 31, 2023 and 2022, respectively.*
- *Interest income on a FTE basis includes additional amounts of interest income that would have been earned if investments in certain tax-exempt interest earning assets had been made in assets subject to federal taxes yielding the same after-tax income. Interest income on municipal securities and tax-exempt loans has been calculated on a FTE basis using a federal income tax rate of 21%. Approximate tax equivalent adjustments to interest income were \$173,000 and \$184,000 for the three-month periods ended March 31, 2023 and 2022, respectively.*
- *Interest income includes loan fees of \$1.9 million (\$139,000 associated with the PPP) and \$3.8 million (\$2.8 million associated with the PPP) for the three-month periods ended March 31, 2023 and 2022, respectively. Interest income on loans may be materially impacted by the level of prepayment fees collected and accretion related to purchased loans.*
- *Net interest income, the most significant component of Bancorp's earnings, represents total interest income less total interest expense. The level of net interest income is determined by mix and volume of interest earning assets, interest bearing deposits and borrowed funds, and changes in interest rates.*
- *NIM represents net interest income on a FTE basis as a percentage of total average interest earning assets.*
- *Net interest spread (FTE) is the difference between taxable equivalent rates earned on total interest earning assets less the cost of interest bearing liabilities.*
- *The fair market value adjustment on investment securities resulting from ASC 320, "Investments – Debt and Equity Securities" is included as a component of other assets.*

Asset/Liability Management and Interest Rate Risk

Managing interest rate risk is fundamental for the financial services industry. The primary objective of interest rate risk management is to neutralize effects of interest rate changes on net income. By considering both on and off-balance sheet financial instruments, management evaluates interest rate sensitivity with the goal of optimizing net interest income within the constraints of prudent capital adequacy, liquidity needs, market opportunities and customer funding requirements.

Interest Rate Simulation Sensitivity Analysis

Bancorp uses an earnings simulation model to estimate and evaluate the impact of an immediate change in interest rates on earnings in a one-year forecast. The simulation model is designed to reflect dynamics of interest earning assets and interest bearing liabilities. By estimating effects of interest rate fluctuations, the model can approximate interest rate risk exposure. This simulation model is used by management to gauge approximate results given a specific change in interest rates at a given point in time. The model is therefore a tool to indicate earnings trends in given interest rate scenarios and may not indicate actual or expected results.

The results of the interest rate sensitivity analysis performed as of March 31, 2023 were derived from the conservative assumptions Bancorp uses in the model, particularly in relation to deposit betas, which measure how responsive management's deposit repricing may be to changes in market rates and are based on historical data. Management uses different betas in the rising and falling rate scenarios in an effort to best simulate expected earnings trends. The results presented below reflect an interest rate sensitivity analysis that incorporates a deposit beta of approximately 60% for the rising rate scenarios and 30% for falling rate scenarios, respectively. While the beta's experienced since rates began to rise in the first quarter of 2022 were significantly below the 60% beta used in the model, the Company anticipates the future rising rate scenario betas to return to the historic averages. The 30% beta used in the falling rate scenario is the result of management's expectations of deposit rate decreases given the rate changes experienced since the first quarter of 2022.

Bancorp's interest rate simulation sensitivity analysis details that increases in interest rates of 100, 200 and 300 bps would have a negative effect on net interest income, as would decreases in interest rates of 100 and 200 bps. These results depict a slightly liability sensitive interest rate risk profile in rising rate scenarios and an asset sensitive position in the falling rate scenarios. The decrease in net interest income in the rising rate scenarios is primarily due to variable rate loans and short-term investments repricing slower than deposits and short-term borrowings. The decrease in net interest income in the falling rate scenarios is the result of the lower beta experienced since rates began to rise in the first quarter of 2022, which was the result of a significant percentage of the Company's deposit cost being less than 100 bps, and therefore cannot decrease the full 100 or 200 bps simulated in the model.

	Change in Rates				
	-200 Basis Points	-100 Basis Points	+100 Basis Points	+200 Basis Points	+300 Basis Points
% Change from base net interest income at March 31, 2023	-6.39%	-2.95%	-1.93%	-3.87%	-5.83%

Bancorp's loan portfolio is currently composed of approximately 72% fixed and 28% variable rate loans, with the fixed rate portion pricing generally based on a spread to the five year treasury curve at the time of origination and the variable portion pricing based on an on-going spread to Prime (approximately 65%) or one month LIBOR/SOFR (approximately 35%).

In July 2017, the Financial Conduct Authority (the "FCA"), the authority regulating LIBOR, along with various other regulatory bodies, announced that LIBOR would likely be discontinued at the end of 2021. Subsequent to that announcement, in November 2020, the FCA announced that many tenors of LIBOR would continue to be published through June 2023. Subsequent to this, Bank regulators instructed banks to discontinue new originations referencing LIBOR as soon as possible, but no later than December 2021. Effective December 31, 2021, LIBOR is no longer used to issue new loans in the U.S. It is expected to be replaced primarily by the SOFR, which many experts consider a more accurate and more secure pricing benchmark. To facilitate the transition process, management has instituted an enterprise-wide program to identify, assess, and monitor risks associated with the expected discontinuance or unavailability of LIBOR. To date, Bancorp has not experienced any operational issues associated with reference rate reform, nor do we anticipate any in the future.

On March 15, 2022, the Adjustable Interest Rate (LIBOR) Act was signed into law as part of the Consolidated Appropriations Act of 2022. This legislation established a uniform benchmark replacement process for financial contracts that mature after the cessation of LIBOR (scheduled for June 2023) that do not contain clearly defined or practicable fallback provisions. The legislation also established a safe harbor for lenders, providing protection from litigation associated with choosing a replacement rate recommended by the FRB, such as SOFR, and also allows for the continued use of any appropriate benchmark rate for new contracts.

As of March 31, 2023, the Company had approximately \$312 million in loans and interest rate derivative contracts of \$108 million (notional amount) that reference LIBOR. Each of the LIBOR-referenced amounts discussed above will vary in future periods as current contracts expire with potential replacement contracts using either LIBOR or an alternative reference rate. The Company, and other industry participants, continue to review alternative reference rates that could be utilized as a replacement for LIBOR. The Company had \$236 million in loans that were indexed to SOFR at March 31, 2023.

Periodically, Bancorp enters into interest rate swap transactions with borrowers who desire to hedge exposure to rising interest rates, while at the same time entering into an offsetting interest rate swap, with substantially matching terms, with another approved independent counterparty. These are undesignated derivative instruments and are recognized on the balance sheet at fair value, with changes in fair value recorded in other non-interest income as interest rates fluctuate. Because of matching terms of offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings, and are therefore not included in the simulation analysis results above. For additional information see the Footnote titled *“Assets and Liabilities Measured and Reported at Fair Value.”*

In addition, Bancorp periodically uses derivative financial instruments as part of its interest rate risk management, including interest rate swaps. These interest rate swaps are designated as cash flow hedges as described in the Footnote titled *“Derivative Financial Instruments.”* For these derivatives, the effective portion of gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings as an adjustment to interest expense in periods in which the hedged forecasted transaction affects earnings.

Provision for Credit Losses

Provision for credit losses on loans at March 31, 2023 represents the amount of expense that, based on Management's judgment, is required to maintain the ACL for loans at an appropriate level under the CECL model. The determination of the amount of the ACL for loans is complex and involves a high degree of judgment and subjectivity. See the Footnote titled "Basis of Presentation and Summary of Significant Accounting Policies" in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2022 for detailed discussion regarding Bancorp's ACL methodology by loan segment.

An analysis of the changes in the ACL for loans, including provision, and selected ratios follow:

<i>(dollars in thousands)</i>	Three months ended March 31,	
	2023	2022
Beginning balance	\$ 73,531	\$ 53,898
Acquisition - PCD loans (goodwill adjustment)	-	9,950
Adjusted beginning balance	73,531	63,848
Provision for credit losses on loans	2,250	(1,750)
Provision for credit losses on loans - acquired loans	-	4,429
Total provision for credit losses on loans	2,250	2,679
Total charge-offs	(370)	(409)
Total recoveries	262	949
Net loan (charge-offs) recoveries	(108)	540
Ending balance	\$ 75,673	\$ 67,067
Average total loans	\$ 5,236,879	\$ 4,377,930
Provision for credit losses on loans to average total loans (1)	0.04%	0.06%
Net loan (charge-offs) recoveries to average total loans (1)	0.00%	0.01%
ACL for loans to total loans	1.44%	1.38%
ACL for loans to total loans (excluding PPP) (2)	1.45%	1.40%
ACL for loans to average total loans	1.45%	1.53%

(1) Ratios are not annualized

(2) See the section titled "Non-GAAP Financial Measures" for reconciliation of Non-GAAP to GAAP measures

The ACL for loans totaled \$76 million as of March 31, 2023 compared to \$67 million at March 31, 2022, representing an ACL to total loans ratio of 1.44% and 1.38% for those periods, respectively. The ACL to loans (excluding PPP loans) was 1.45% at March 31, 2023 compared to 1.40% at March 31, 2022. Based on the 100% SBA guarantee of the PPP loan portfolio, which totaled \$10 million at March 31, 2023 and \$71 million at March 31, 2022, Bancorp did not reserve for potential losses for these loans within the ACL. See the section titled "Non-GAAP Financial Measures" for reconciliation of non-GAAP to GAAP measures.

Provision of \$2.3 million was recorded to provision for credit losses on loans for the three month period ended March 31, 2023. While credit quality remains strong, provision expense for the first quarter of 2023 was driven by the establishment of a \$1.4 million specific reserve for a large C&I relationship, annual CECL model updates and qualitative factor adjustments. Further, net charge off activity for the three months ended March 31, 2023 totaled \$108,000, serving to reduce the ACL for loans.

Negative provision (excluding acquisition-related activity) of \$1.8 million was recorded for the three month ended March 31, 2022 due to improvement in the unemployment forecast, updates to Bancorp's CECL modeling, net recoveries and strong historic credit metrics. Offsetting the negative provision for the three months ended March 31, 2022 was credit loss expense recorded for the loan portfolio acquired from CB, which totaled \$4.4 million.

In addition to the provision activity noted above for the prior year period, the ACL for loans was also increased \$10 million during the first quarter of 2022, as a result of the PCD loan portfolio added through the CB acquisition, with the corresponding offset recorded to goodwill (as opposed to provision expense).

While separate from the ACL for loans and recorded in other liabilities on the consolidated balance sheets, the ACL for off balance sheet credit exposures also experienced an increase between December 31, 2022 and March 31, 2023. Provision for credit loss expense for off balance sheet credit exposures of \$375,000 was recorded for the three months ended March 31, 2023, driven mainly by a decline in C&I utilization. The ACL for off balance sheet credit exposures was \$4.9 million as of March 31, 2023.

Negative provision for credit loss expense for off balance sheet credit exposures (excluding acquisition-related activity) of \$400,000 was recorded for the three months ended March 31, 2022, as nearly all applicable loan segments experienced declines in their reserve loss percentage, consistent with generally improving model factors and improvement in line of credit utilization. Offsetting this negative provision was a \$500,000 increase in the ACL for off balance sheet credit exposures associated with the CB acquisition, with the offset recorded to goodwill (as opposed to provision expense). The ACL for off balance sheet credit exposures stood at \$3.6 million as of March 31, 2022.

Bancorp's loan portfolio is well-diversified with no significant concentrations of credit. Geographically, most loans are extended to borrowers in Louisville, central, eastern and northern Kentucky, as well as the Indianapolis, Indiana and Cincinnati, Ohio metropolitan markets. The adequacy of the ACL is monitored on an ongoing basis and it is the opinion of management that the balance of the ACL at March 31, 2023 is adequate to absorb probable losses inherent in the loan portfolio as of the financial statement date.

Non-interest Income

<i>(dollars in thousands)</i>	Three months ended March 31,			
	2023	2022	\$ Variance	% Variance
Wealth management and trust services	\$ 9,527	\$ 8,243	\$ 1,284	16%
Deposit service charges	2,149	1,863	286	15
Debit and credit card income	4,482	4,119	363	9
Treasury management fees	2,318	1,904	414	22
Mortgage banking income	1,038	1,003	35	3
Net investment product sales commissions and fees	754	607	147	24
Bank owned life insurance	549	266	283	106
Gain (loss) on sale of premises and equipment	(2)	-	(2)	100
Other	1,232	1,198	34	3
Total non-interest income	<u>\$ 22,047</u>	<u>\$ 19,203</u>	<u>\$ 2,844</u>	15%

Total non-interest income increased \$2.8 million, or 15%, for the three period ended March 31, 2023 compared to the same period of 2022, respectively. Non-interest income comprised 25.9% of total revenues, defined as net interest income and non-interest income, for the three month period ended March 31, 2023 compared to 28.3% for the same period of 2022. WM&T services comprised 43.2% of total non-interest income for the three month period ended March 31, 2023 compared to 42.9% and for the same period of 2022. While strong organic growth has been experienced across most non-interest income revenue streams over the past 12 months, acquisition-related activity accounts for a large portion of the increase for the three months ended March 31, 2023 compared to the same period of 2022, as the first quarter of the prior year included just a partial month of activity related to the CB acquisition.

WM&T Services:

The magnitude of WM&T revenue distinguishes Bancorp from other community banks of similar asset size. WM&T revenue increased \$1.3 million, or 16%, for the three month period ended March 31, 2023, as compared with the same period of 2022, consistent with acquisition-related activity, organic new business development and positive returns for the quarter from both the fixed income and equity markets.

Recurring fees earned for managing accounts are based on a percentage of market value of AUM and are typically assessed on a monthly basis. Recurring fees, which generally comprise the vast majority of WM&T revenue, increased \$1.2 million, or 15%, for the three month period ended March 31, 2023, as compared with the same period of 2022. The increase was driven by both acquisition-related activity and organic business development in addition to the previously mentioned positive returns from fixed income and equity markets for the three months ended March 31, 2023. Further, the prior year period included just a partial month of activity stemming from the CB acquisition.

A portion of WM&T revenue, most notably executor and certain employee benefit plan-related fees, are non-recurring in nature and the timing of these revenues corresponds with the related administrative activities. For this reason, such fees are subject to greater period over period fluctuation. Total non-recurring fees increased \$54,000 for the three month period ended March 31, 2023, as compared with the same period of 2022, which was driven mainly by higher estate fees earned.

AUM, stated at market value, totaled \$6.76 billion at March 31, 2023 compared with \$7.59 billion at March 31, 2022 and \$6.59 billion at December 31, 2022. The decrease in AUM between March 31, 2022 and March 31, 2023 is attributed to the significant declines in both fixed income and equity markets experienced during 2022, which negatively impacted the market value of AUM last year and was only partially countered by equity market appreciation during the first quarter of 2023.

Contracts between WM&T and their customers do not permit performance-based fees and accordingly, none of the WM&T revenue is performance based. Management believes the WM&T department will continue to factor significantly in Bancorp's financial results and provide strategic diversity to revenue streams.

Detail of WM&T Service Income by Account Type:

<i>(in thousands)</i>	Three months ended March 31,	
	2023	2022
Investment advisory	\$ 3,681	\$ 3,415
Personal trust	3,362	2,378
Personal investment retirement	1,680	1,639
Company retirement	363	442
Foundation and endowment	283	261
Custody and safekeeping	86	64
Insurance services	5	40
Other	67	4
Total WM&T services income	<u>\$ 9,527</u>	<u>\$ 8,243</u>

The preceding table demonstrates that WM&T fee revenue is concentrated within investment advisory and personal trust accounts. WM&T fees are predominantly based on AUM and tailored for individual/company accounts and/or relationships with fee structures customized based on account type and other factors with larger relationships paying a lower percentage of AUM in fees. For example, recurring AUM fee structures are in place for investment management, irrevocable and revocable trusts, personal investment retirement accounts and accounts holding only fixed income securities. WM&T also provides company retirement plan services, which can consist of a one-time conversion fee with recurring AUM fees to follow. While there are also fee structures for estate settlements, income received is often non-recurring in nature. Fee structures are agreed upon at the time of account opening and any subsequent revisions are communicated in writing to the customer. WM&T fees earned are not performance-based nor are they based on investment strategy or transactions. Bancorp also earns management fees on in-house investments funds acquired from CB.

Assets Under Management by Account Type:

AUM (not included on balance sheet) increased from \$6.59 billion at December 31, 2022 to \$6.76 billion at March 31, 2023 as follows:

<i>(in thousands)</i>	March 31, 2023			December 31, 2022		
	Managed	Non-managed (1)	Total	Managed	Non-managed (1)	Total
Investment advisory	\$ 2,344,991	\$ 59,924	\$ 2,404,915	\$ 2,249,017	\$ 63,691	\$ 2,312,708
Personal trust	1,770,079	502,150	2,272,229	1,744,522	474,373	2,218,895
Personal investment retirement	785,503	27,431	812,934	756,126	27,065	783,191
Company retirement	54,548	538,692	593,240	52,891	524,568	577,459
Foundation and endowment	444,309	8,492	452,801	428,018	8,219	436,237
Subtotal	\$ 5,399,430	\$ 1,136,689	\$ 6,536,119	\$ 5,230,574	\$ 1,097,916	\$ 6,328,490
Custody and safekeeping	—	227,755	227,755	—	256,791	256,791
Total	<u>\$ 5,399,430</u>	<u>\$ 1,364,444</u>	<u>\$ 6,763,874</u>	<u>\$ 5,230,574</u>	<u>\$ 1,354,707</u>	<u>\$ 6,585,281</u>

(1) Non-managed assets represent those for which the WM&T department does not hold investment discretion.

As of March 31, 2023 and December 31, 2022, approximately 80% and 79%, respectively, of AUM were actively managed. Company retirement plan accounts consist primarily of participant-directed assets. The amount of custody and safekeeping accounts are insignificant.

Managed Trust Assets under Management by Class of Investment:

<i>(in thousands)</i>	March 31, 2023	December 31, 2022
Interest bearing deposits	\$ 221,554	\$ 185,080
Treasury and government agency obligations	229,410	176,917
State, county and municipal obligations	212,497	201,038
Money market mutual funds	88,514	108,751
Equity mutual funds	1,156,985	1,125,540
Other mutual funds - fixed, balanced and municipal	575,360	583,713
Other notes and bonds	205,867	209,178
Common and preferred stocks	2,238,183	2,180,390
Common trust funds and collective investment funds	114,888	114,458
Real estate mortgages	770	774
Real estate	40,741	57,297
Other miscellaneous assets (1)	314,661	287,438
Total managed assets	<u>\$ 5,399,430</u>	<u>\$ 5,230,574</u>

(1) Includes client directed instruments including rights, warrants, annuities, insurance policies, unit investment trusts, and oil and gas rights.

Managed assets are invested in instruments for which market values can be readily determined, the majority of which are sensitive to market fluctuations and consist of approximately 63% in equities and 37% in fixed income securities as of both March 31, 2023 and December 31, 2022. This composition has remained relatively consistent from period to period.

Additional Sources of Non-interest income:

Deposit service charges, which consist of non-sufficient funds charges and to a lesser extent, other activity based charges, increased \$286,000, or 15%, for the three month period ended March 31, 2023, as compared with the same period of 2022, mainly as a result of the contribution associated with acquisition-related activity over the past 12 months. Outside of acquisition-related growth, an industry-wide decline in the volume of fees earned on overdrawn checking accounts has been experienced over the past several years. This trend has been driven by lower check presentment volume, which has in turn led to fewer overdrawn accounts in general. Further, Bancorp anticipates that future growth of this revenue stream could be significantly impacted by changing industry practices. Bancorp could be faced with strategic decisions surrounding deposit-related service charges in the future, which could negatively impact the contributions made by this, or similar, revenue streams.

Debit and credit card income consists of interchange revenue, ancillary fees and incentives received from card processors. Debit and credit card revenue increased \$363,000 or 9%, for the three month period ended March 31, 2023, as compared with the same period of 2022, as a result of increased transaction volume and continued expansion of the customer bases, both organically and through acquisition-related activity. Total debit card income increased \$197,000, or 7%, and total credit card income increased \$166,000, or 14%, for the three period ended March 31, 2023, compared the same period of the prior year. Bancorp expects this revenue stream will continue to grow with the expansion of the customer base.

Treasury management fees primarily consist of fees earned for cash management services provided to commercial customers. This category continues to stand out as a consistent, growing source of revenue for Bancorp and increased \$414,000, or 22%, for the three period ended March 31, 2023, as compared with the same period of 2022, driven by increased transaction volume, new product sales and customer base expansion. Both organic and acquisition-related sales efforts have led to the expansion of online services, reporting, ACH origination, remote deposit and fraud mitigation services over the past 12 months. Bancorp anticipates this income category will continue to increase based on continued customer base growth and the expanding suite of services offered within Bancorp's treasury management platform.

Mortgage banking income primarily includes gains on sales of mortgage loans and net loan servicing income offset by MSR amortization. Bancorp's mortgage banking department predominantly originates residential mortgage loans to be sold in the secondary market, primarily to FNMA and FHLMC. Bancorp offers conventional, VA, FHA and GNMA financing for purchases and refinances, as well as programs for first-time homebuyers. Interest rates on mortgage loans directly influence the volume of business transacted by the mortgage-banking department. Mortgage banking revenue increased \$35,000, or 3%, for the three month period ended March 31, 2023, as compared with the same period of 2022. This increase was driven by market value appreciation of loans held for sale and lower long-term rates, which have helped improve volume compared to recent quarters. Further, mortgage banking income has benefitted from the addition of the mortgage loan servicing portfolio added through the CB acquisition.

Net investment product sales commissions and fees are generated primarily on stock, bond and mutual fund sales, as well as wrap fees earned on brokerage accounts. Wrap fees represent charges for investment programs that bundle together a suite of services, such as brokerage, advisory, research and management and are based on a percentage of account assets. Bancorp deploys its financial advisors primarily through its branch network via an arrangement with a third party broker-dealer, while larger managed accounts are serviced by Bancorp's WM&T Department. Net investment product sales commissions and fees increased \$147,000, or 24%, for the three month period ended March 31, 2023, as compared with the same period of 2022, driven by acquisition-related growth, which included the addition of three financial advisors, and increased trading activity associated with general market volatility.

BOLI assets represent the cash surrender value of life insurance policies on certain active and non-active employees who have provided consent for Bancorp to be the beneficiary for a portion of such policies. The related change in cash surrender value and any death benefits received under the policies are recorded as non-interest income. This income serves to offset the cost of various employee benefits. During the third quarter of 2022, Bancorp purchased an additional \$30 million of BOLI assets in an effort to diversify investment of excess liquidity, bringing total BOLI assets to \$85 million as of March 31, 2023. BOLI income increased \$283,000 for the three month period ending March 31, 2023 compared to the same period of the prior year, which was attributed mainly to the additional investment made in 2022, as previously noted.

During the first quarter of 2023, Bancorp completed the sale of certain acquired properties that overlapped with existing locations, recording a net loss of \$2,000 as a result. No such activity was recorded for the three months ended March 31, 2022.

Other non-interest income increased \$34,000, or 3%, for the three month period ended March 31, 2023 compared with the same period of 2022. The increase was driven largely by positive returns within the COLI portfolio and the contribution of the insurance captive, which served to offset a large decline in miscellaneous fee income and the benefit provided by Bancorp's partial interest in LFA for the three months ended March 31, 2022, the latter of which was disposed of effective December 31, 2022.

Non-interest Expenses

(dollars in thousands)	Three months ended March 31,			
	2023	2022	\$ Variance	% Variance
Compensation	\$ 21,896	\$ 17,969	\$ 3,927	22%
Employee benefits	5,053	4,539	514	11
Net occupancy and equipment	3,899	3,025	874	29
Technology and communication	4,251	3,419	832	24
Debit and credit card processing	1,419	1,337	82	6
Marketing and business development	1,095	772	323	42
Postage, printing and supplies	874	733	141	19
Legal and professional	797	650	147	23
FDIC insurance	1,135	645	490	76
Amortization of investments in tax credit partnerships	323	88	235	267
Capital and deposit based taxes	639	518	121	23
Merger expenses	-	19,500	(19,500)	(100)
Intangible amortization	1,180	713	467	65
Other	2,753	2,389	364	15
Total non-interest expenses	\$ 45,314	\$ 56,297	\$ (10,983)	(20)%

Total non-interest expenses decreased \$11.0 million, or 20%, for the three month period ended March 31, 2023 compared to the same period of 2022, the variance stemming largely from merger expenses associated with completion of the CB acquisition during the first quarter of 2022. Compensation and employee benefits comprised 59.5% of Bancorp's total non-interest expenses for the three month period ended March 31, 2023, compared to 40.0% for the same period of 2022. Excluding merger expenses, compensation and employee benefits comprised 61.2% for the three month period ended March 31, 2022. As previously noted, the three months ended March 31, 2022 included only a partial month of activity associated with the CB acquisition.

Compensation, which includes salaries, incentives, bonuses and stock based compensation, increased \$3.9 million, or 22%, for the three month period ended March 31, 2023, as compared with the same period of 2022. The increases were attributed to growth in full time equivalent employees, annual merit-based salary increases and the impact of the first quarter of 2022 experiencing only a partial month of acquisition-related activity. Net full time equivalent employees totaled 1,044 at March 31, 2023 compared to 1,040 at December 31, 2022 and 997 at March 31, 2022.

Employee benefits consists of all personnel-related expense not included in compensation, with the most significant items being health insurance, payroll taxes and employee retirement plan contributions. Employee benefits increased \$514,000, or 11%, for the three month period ended March 31, 2023, as compared with the same period of 2022, driven primarily by the overall increase in full time equivalent employees noted above.

Net occupancy and equipment expenses primarily include depreciation, rent, property taxes, utilities and maintenance. Costs of capital asset additions flow through the statement of income over the lives of the assets in the form of depreciation expense. Net occupancy expense increased \$874,000, or 29%, the three month period ended March 31, 2023, as compared with the same period of 2022, driven by the acquisition of CB. In connection with the CB acquisition, 15 branches were acquired, four of which were closed shortly after acquisition in addition to one existing SYB location, as a result of branch overlap. At March 31, 2023, Bancorp's branch network consisted of 73 locations throughout Louisville, central, eastern and Northern Kentucky, as well as the MSAs of Indianapolis, Indiana and Cincinnati, Ohio.

Technology and communication expenses include computer software usage and licensing fees, equipment depreciation and expenditures related to investments in technology needed to maintain and improve the quality of customer delivery channels, information security and internal resources. Technology expense increased \$832,000, or 24%, for the three month period ended March 31, 2023 compared to the same period of 2022, consistent with acquisition-related activity, customer expansion and core system upgrades.

Bancorp outsources processing for debit and commercial credit card operations, which generate significant revenue for the Company. These expenses typically fluctuate consistent with transaction volumes. Debit and credit card processing expense increased \$82,000, or 6%, for the three month period ending March 31, 2023 compared to the same period of last year. The increase correlates in part with the increase in transaction volume and customer base expansion resulting from both organic and acquisition-related growth that served to increase corresponding debit and credit card non-interest income.

Marketing and business development expenses include all costs associated with promoting Bancorp including community support, retaining customers and acquiring new business. Marketing and business development expenses increased \$323,000, or 42%, for the three month period ending March 31, 2023, as compared to the same period of 2022. The increase corresponds with strategic decisions to advertise and promote in Bancorp's new markets, as well as the general expansion of Bancorp's existing and prospective customer base and a post-pandemic return to in-person client meeting/entertainment.

Postage, printing and supplies expense increased \$141,000, or 19%, for the three month period ended March 31, 2023 compared to the same period of 2022, consistent with Bancorp's expansion over the past 12 months.

Legal and professional fees increased \$147,000, or 23%, for the three month period ended March 31, 2023 compared to the same period of last year, attributed to various consulting engagements, collection-related expenses and litigation costs arising through the normal course of business. Legal and professional fees associated with the prior year merger-related activity are captured in merger expenses.

FDIC insurance increased \$490,000, or 76%, for the three month period ended March 31, 2023, as compared to the same period of 2022, consistent with organic and acquisition-related balance sheet growth for which the insurance is assessed on and an increased assessment rate. While not reflected in the increased expense experienced for the three months ended March 31, 2023, Bancorp anticipates future increases in FDIC insurance expense associated with potential assessments related to recent bank failures.

Tax credit partnerships generate federal income tax credits, and for each of Bancorp's investments in tax credit partnerships, the tax benefit, net of related expenses, results in a positive effect on net income. Amounts of credits and corresponding expenses can vary widely depending upon the timing and magnitude of the underlying investments. Amortization expense associated with these investments increased \$235,000, for the three month period ending March 31, 2023 compared to the same period of last year, driven by the addition of several recently closed tax credit projects.

Capital and deposit based taxes, which consist primarily of capital-based local income taxes and franchise taxes, increased \$121,000, or 23%, for the three month period ended March 31, 2023 compared to the same period of 2022, attributed to Bancorp's expansion over the past 12 months.

Merger expenses represent non-recurring expenses associated with completion of the CB acquisition and consist primarily of investment banker fees, various compensation-related expenses, legal fees, early termination fees relating to various contracts and system conversion expenses. While no merger expenses were recorded for the three months ended March 31, 2023, \$19.5 million of merger expenses were recorded in the first quarter of 2022 in relation to the CB acquisition.

Intangible amortization expense consists of amortization associated with the CDI of acquired deposit portfolios, as well as an intangible related to customer list of the WM&T business line added through the CB acquisition. The intangibles are generally amortized on an accelerated basis over a period of approximately ten years. Intangible amortization for the three period ended March 31, 2023 was \$1.2 million compared to \$713,000 for the same period of the prior year, the significant increase stemming from the CB acquisition.

Other non-interest expenses increased \$364,000, or 15%, for the three month period ended March 31, 2023, as compared to the same period of 2022. The most notable drivers of the increases were increased card reward expense, higher fraud and theft-related expenses and other ancillary expenses tied to Bancorp's significant growth over the past 12 months.

Bancorp's efficiency ratio (FTE) for the three month period ended March 31, 2023 was 53.13% compared to 82.61% for the three months ended March 31, 2022, the latter period reflecting one-time merger-related expenses attributed to the CB acquisition, which were all recorded in the first quarter of 2022. Bancorp also considers an adjusted efficiency ratio, which eliminates net gains (losses) on sales, calls, and impairment of investment securities, as well as net gains (losses) on sales of premises and equipment and the disposition of any acquired assets, if applicable, and the fluctuation in non-interest expenses related to amortization of investments in tax credit partnerships and merger-related expenses. Bancorp's adjusted efficiency ratio was 52.75% for the three month period ended March 31, 2023 compared to 53.87% for three month period ended March 31, 2022. See the section titled "*Non-GAAP Financial Measures*" for reconciliation of non-GAAP to GAAP measures.

Income Tax Expense

A comparison of income tax expense and ETR follows:

<i>(dollars in thousands)</i>	Three months ended March 31,			
	2023	2022	\$ Variance	% Variance
Income before income tax expense	\$ 37,180	\$ 9,387	\$ 27,793	296%
Income tax expense	8,132	1,445	6,687	463
Effective tax rate	21.9%	15.4%	650 bps	42%

Fluctuations in the ETR are primarily attributed to the following:

- The stock based compensation component of the ETR fluctuates consistent with the level of SAR exercise activity. The ETR was reduced 1.1% for the three months ended March 31, 2023 compared to a reduction of 5.9% for the same period of 2022, consistent with exercise activity.
- Changes in the cash surrender value of life insurance policies can vary widely from period to period, driven largely by changes in the markets. The related impact is inversely correlated with the ETR generally, with cash surrender value declines typically serving to increase the ETR and vice versa. Changes in the cash surrender value of life insurance policies decreased the ETR 0.7% for the three months ended March 31, 2023, compared to an increase of 1.8% the same period of the prior year.
- Bancorp invests in certain partnerships that yield federal income tax credits. Taken as a whole, the tax benefit of these investments exceeds amortization expense, resulting in a positive impact on net income. The timing and magnitude of these transactions may vary widely from period to period. The ETR for the three months ended March 31, 2023 and 2022 was increased by 0.4% and reduced by 1.7%, respectively, by tax credit activity.
- Tax-exempt interest income earned on loans and investment securities reduced the ETR by 0.5% for the three months ended March 31, 2023 compared to a reduction of 1.6% for the same period of the prior year, the larger reduction in the current year being attributed to tax-exempt loans and securities added through acquisition-related activity.
- Non-deductible merger expenses recorded during the three months ended March 31, 2022 served to increase the ETR 1.1%. No such activity was recorded for the three months ended March 31, 2023.
- Bancorp's insurance captive provides insurance against certain risks for which insurance may not currently be available or economically feasible to Bancorp and SYB, as well as a group of third-party insurance captives. The tax advantages of the Captive, including the tax-deductible nature of premiums paid to the Captive as well as the tax-exemption for premiums received by the Captive, serve to reduce income tax expense. Related activity reduced the ETR 0.3% for the three months ended March 31, 2023, compared to reduction of 0.9% for the same period of 2022.

Financial Condition – March 31, 2023 Compared to December 31, 2022**Overview**

Total assets increased \$171 million, or 2%, to \$7.67 billion at March 31, 2023 from \$7.50 billion at December 31, 2022. Total cash and cash equivalents increased \$150 million, or 89%, as the result of increased FHLB borrowing activity and total loans increased \$37 million, or 1%, as loan growth slowed compared to the record organic loan growth experienced in 2022. Partially offsetting this growth was a \$17 million, or 1%, decline in total investment securities stemming from a combination of scheduled maturity and pay down activity within the total portfolio in addition to market value appreciation on the AFS portfolio. Further, other assets declined \$10 million, or 7%, driven largely by interest rate-related changes to the valuations of deferred tax assets and swap assets.

Total liabilities increased \$137 million, or 2%, to \$6.87 billion at March 31, 2023 from \$6.74 billion at December 31, 2022. While total FHLB borrowings increased \$225 million compared to December 31, 2022, a \$34 million, or 1%, decline in total deposits and a \$29 million, or 22%, decline in SSUAR partially offset this growth, as rising interest rates and inflationary pressures encouraged depositors to seek higher-yielding alternatives. Further, a \$31 million, or 25%, decrease in other liabilities was driven by a reduction in various year-end accruals.

Stockholders' equity increased \$34 million, or 4%, to \$794 million at March 31, 2023 from \$760 million at December 31, 2022. Net income of \$29.1 million and a \$14.6 million increase in AOCI associated with changes in the interest rate environment and their corresponding impact on the valuation of the AFS debt securities portfolio served to grow stockholder's equity for the period, offset only partially by \$8.5 million of dividends declared during the first quarter.

Cash and Cash Equivalents

Cash and cash equivalents increased \$150 million, or 89%, ending at \$317 million at March 31, 2023 compared to \$167 million at December 31, 2022, which was driven largely by FHLB borrowing activity. In addition to intermittently utilizing overnight advances with the FHLB based on changing levels of liquidity during the period, Bancorp also entered into a \$100 million term advance in conjunction with a five-year interest rate swap during the first quarter as a way of securing term funding at a more attractive rate. For more information on this interest rate swap, see the footnote titled "*Derivative Financial Instruments*."

Cash and cash equivalent growth was partially offset by loan growth of \$37 million and reductions of \$34 million and \$29 million in total deposits and SSUAR, respectively, during the three months ended March 31, 2023. While growth in period end balances was experienced in comparison to December 31, 2022, average cash and cash equivalents declined \$543 million, or 71%, for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The record levels of liquidity held near the beginning of 2022 have retreated over the past 12 months, driven by the record organic loan growth recorded in 2022 and the deposit run-off experienced over the past few quarters.

Investment Securities

Investment securities decreased \$17 million, or 1%, to \$1.60 billion at March 31, 2023 compared to \$1.62 billion at December 31, 2022, as scheduled maturity and pay down activity within the total portfolio was partially offset by market appreciation within the AFS portfolio stemming from changes in the interest rate environment.

No additional investment in the securities portfolio was made during the three months ended March 31, 2023, as Bancorp elected to maintain higher levels of liquidity amidst loan growth and deposit contraction during the period.

Loans

Total loans increased \$37 million, or 1%, from December 31, 2022 to March 31, 2023. Excluding the PPP portfolio, loans grew \$46 million, or 1%, over the same period. Loan growth for the three months ended March 31, 2023 was concentrated in the CRE and residential real estate segments, which outpaced a decline in the C&I segment, and to a lesser extent, the C&D and consumer segments. While loan production and loan pipelines remain steady, elevated payoff activity stemming largely from business sales and lower LOC utilization combined to mute otherwise solid loan growth for the first quarter of 2023.

After hitting a pandemic-era low of 36.5% at March 31, 2021, total line of credit utilization has improved significantly, reaching 41.1% at March 31, 2023, led by C&I utilization, which strengthened from 23.9% to 30.5% over the same period, respectively. However, line of credit usage has remained below pre-pandemic levels, as customers continue to utilize strong liquidity positions. Further, the addition of new lines, particularly within the C&D and C&I portfolio segments, has increased availability over the past several quarters, but utilization of the new lines has been relatively slow.

PPP loans of \$10 million were outstanding at March 31, 2023. Bancorp has \$210,000 in net unrecognized fees related to the PPP as of March 31, 2023, which will be recognized immediately once the loans are paid off or forgiven by the SBA. The timing of forgiveness activity and the related fee recognition has become insignificant, as the balance of the overall portfolio has shrunk.

Bancorp's credit exposure is diversified with secured and unsecured loans to individuals and businesses. No specific industry concentration exceeds 10% of loans outstanding. While Bancorp has a diversified loan portfolio, a customer's ability to honor contracts is somewhat dependent upon the economic stability and/or industry in which that customer does business. Loans outstanding and related unfunded commitments are primarily concentrated within Bancorp's current market areas, which encompass the Louisville, Kentucky MSA, central, eastern and northern Kentucky, as well as the Indianapolis, Indiana and Cincinnati, Ohio MSAs.

Bancorp occasionally enters into loan participation agreements with other banks to diversify credit risk. For certain participation loans sold, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their ownership share of the loan without permission from Bancorp. GAAP requires the participated portion of these loans to be recorded as secured borrowings. These participated loans are included in the C&I and CRE loan portfolio segments with a corresponding liability recorded in other liabilities. At both March 31, 2023 and December 31, 2022, the total participated portion of loans of this nature totaled \$5 million.

The following table presents the maturity distribution and rate sensitivity of the total loan portfolio as of March 31, 2023:

	Maturity				Total	% of Total
	Within one year	After one but within five years	After five but within fifteen years	After fifteen years		
March 31, 2023 (in thousands)						
Fixed rate	\$ 190,472	\$ 1,522,410	\$ 1,210,107	\$ 826,300	\$ 3,749,289	72%
Variable rate	543,650	535,916	370,690	43,559	1,493,815	28%
Total loans	<u>\$ 734,122</u>	<u>\$ 2,058,326</u>	<u>\$ 1,580,797</u>	<u>\$ 869,859</u>	<u>\$ 5,243,104</u>	<u>100%</u>

In the event where Bancorp structures a loan with a maturity exceeding five years (typically CRE loans), an automatic rate adjustment will typically be set in place at five years from origination date to limit interest rate sensitivity.

Non-performing Loans and Assets

Information summarizing non-performing loans and assets follows:

(dollars in thousands)	March 31, 2023	December 31, 2022
Non-accrual loans	\$ 17,389	\$ 14,242
Troubled debt restructurings	-	-
Loans past due 90 days or more and still accruing	894	892
Total non-performing loans	<u>18,283</u>	<u>15,134</u>
Other real estate owned	677	677
Total non-performing assets	<u>\$ 18,960</u>	<u>\$ 15,811</u>
Non-performing loans to total loans	0.35%	0.29%
Non-performing assets to total assets	0.25%	0.21%
ACL for loans to total non-performing loans	414%	486%

As of March 31, 2023, non-accrual loans totaled \$17 million compared to \$14 million at December 31, 2022. The increase in total non-accrual loans between December 31, 2022 and March 31, 2023 stemmed mainly from one large C&I relationship being placed on non-accrual status.

Non-performing assets as of March 31, 2023 consisted of 124 loans, ranging in individual amounts up to \$6.6 million, and OREO. At March 31, 2023, OREO included two CRE properties and one residential real estate property.

Delinquent Loans

Delinquent loans (consisting of all loans 30 days or more past due) totaled \$12 million and \$17 million at March 31, 2023 and December 31, 2022. The decrease between December 31, 2022 and March 31, 2023 was driven mainly by a large CRE relationship that became current and another large CRE relationship that paid off during the quarter. Delinquent loans to total loans were 0.22% and 0.32% at March 31, 2023 and December 31, 2022, respectively.

Allowance for Credit Losses on Loans

The ACL for loans is a valuation allowance for loans estimated at each balance sheet date in accordance with GAAP. When Bancorp deems all or a portion of a loan to be uncollectible, the appropriate amount is written off and the ACL is reduced by the same amount. Subsequent recoveries, if any, are credited to the ACL when received. See the Footnote titled “*Summary of Significant Accounting Policies*” for discussion of Bancorp’s ACL methodology on loans. Allocations of the ACL may be made for specific loans, but the entire ACL for loans is available for any loan that, in Bancorp’s judgment, should be charged-off.

Bancorp’s ACL for loans was \$76 million as of March 31, 2023 compared to \$74 million as of December 31, 2022. Provision expense for credit losses on loans of \$2.3 million was recorded for the three months ended March 31, 2023, driven mainly by a \$1.4 million specific reserve recorded for a large C&I relationship, annual CECL model updates and qualitative factor adjustments. The projected unemployment rate forecast, which is the primary loss driver within the model, improved between December 31, 2022 and March 31, 2023, serving to benefit expense slightly. Net charge-off activity was minimal for the three months ended March 31, 2023.

The ACL for loans calculation and resulting credit loss expense is significantly impacted by changes in forecasted economic conditions. Should the forecast for economic conditions change, Bancorp could experience further adjustments in its required ACL for loans credit loss expense.

The following table sets forth the ACL by category of loan:

	March 31, 2023			December 31, 2022		
	Allocated Allowance	% of Total ACL on loans	ACL for loans to Total Loans (1)	Allocated Allowance	% of Total ACL on loans	ACL for loans to Total Loans (1)
<i>(dollars in thousands)</i>						
Commercial real estate - non-owner occupied	\$ 21,669	29%	1.52%	\$ 22,641	31%	1.62%
Commercial real estate - owner occupied	11,429	15%	1.34%	10,827	15%	1.30%
Total commercial real estate	33,098	44%	1.46%	33,468	46%	1.50%
Commercial and industrial - term (1)	13,982	18%	1.82%	12,991	17%	1.70%
Commercial and industrial - lines of credit	6,041	8%	1.39%	6,389	9%	1.37%
Total commercial and industrial	20,023	26%	1.66%	19,380	26%	1.57%
Residential real estate - owner occupied	8,205	11%	1.32%	6,717	9%	1.14%
Residential real estate - non-owner occupied	4,144	5%	1.28%	3,597	5%	1.15%
Total residential real estate	12,349	16%	1.31%	10,314	14%	1.14%
Construction and land development	6,735	9%	1.53%	7,186	10%	1.61%
Home equity lines of credit	1,618	2%	0.81%	1,613	2%	0.80%
Consumer	1,186	2%	0.87%	1,158	2%	0.83%
Leases	199	0%	1.51%	201	0%	1.51%
Credit cards	465	1%	2.14%	211	0%	1.03%
Total	<u>\$ 75,673</u>	<u>100%</u>	<u>1.45%</u>	<u>\$ 73,531</u>	<u>100%</u>	<u>1.42%</u>

(1) Excludes the PPP loan portfolio, which was not reserved for based on the underlying 100% SBA guarantee.

The table below details net charge-offs to average loans outstanding by category of loan for the three month periods ended March 31, 2023 and 2022, respectively.

Three months ended March 31, (dollars in thousands)	2023			2022		
	Net (charge offs)/ recoveries	Average Loans	Net (charge offs)/ recoveries to average loans	Net (charge offs)/ recoveries	Average Loans	Net (charge offs)/ recoveries to average loans
Commercial real estate - non-owner occupied	\$ 19	\$ 1,412,841	0.00%	\$ 12	\$ 1,225,492	0.00%
Commercial real estate - owner occupied	-	844,692	0.00%	21	719,340	0.00%
Total commercial real estate	19	2,257,533	0.00%	33	1,944,832	0.00%
Commercial and industrial - term	-	769,171	0.00%	606	614,645	0.10%
Commercial and industrial - term - PPP	-	14,075	0.00%	-	103,850	0.00%
Commercial and industrial - lines of credit	16	451,845	0.00%	(36)	381,158	-0.01%
Total commercial and industrial	16	1,235,091	0.00%	570	1,099,653	0.05%
Residential real estate - owner occupied	10	607,401	0.00%	(3)	433,481	0.00%
Residential real estate - non-owner occupied	1	319,137	0.00%	3	280,701	0.00%
Total residential real estate	11	926,538	0.00%	-	714,182	0.00%
Construction and land development	-	443,729	0.00%	-	313,441	0.00%
Home equity lines of credit	(12)	201,304	-0.01%	-	157,794	0.00%
Consumer	(60)	138,263	-0.04%	(63)	116,278	-0.05%
Leases	-	13,296	0.00%	-	13,388	0.00%
Credit cards	(82)	21,125	-0.39%	-	18,362	0.00%
Total	\$ (108)	\$ 5,236,879	0.00%	\$ 540	\$ 4,377,930	0.01%

While separate from the ACL for loans and recorded in other liabilities on the consolidated balance sheets, the ACL for off balance sheet credit exposures also experienced an increase between December 31, 2022 and March 31, 2023. Provision for credit loss expense for off balance sheet credit exposures of \$375,000 was recorded for the three months ended March 31, 2023, driven mainly by changes in the mix of line of credit utilization. ACL for off balance sheet credit exposures stood at \$4.9 million as of March 31, 2023 compared to \$4.5 million as of December 31, 2022.

Premises and Equipment

Premises and equipment are presented on the consolidated balance sheets net of related depreciation on the respective assets, as well as fair value adjustments associated with purchase accounting. Premises and equipment experienced minimal fluctuation between December 31, 2022 and March 31, 2023. Bancorp's branch network currently consists of 73 locations throughout Louisville, central, eastern and northern, Kentucky, as well as the Indianapolis, Indiana and Cincinnati, Ohio markets.

Premises held for sale totaling \$3 million was recorded on Bancorp's consolidated balance sheets as of March 31, 2023, which consists of three vacant parcels of land, one branch acquired from CB, one legacy SYB branch and an administrative building acquired from KB.

Goodwill

At March 31, 2023, Bancorp had \$194 million in goodwill recorded on its balance sheet. Goodwill of \$67 million was initially recorded in relation to the March 7, 2022 acquisition of CB, \$8.5 million of which was subsequently written off as a result of Bancorp selling its partial interest in LFA. Effective December 31, 2022, management finalized the fair values of the acquired assets and assumed liabilities associated with the CB acquisition in advance of the 12-month post-acquisition date, as allowed by GAAP.

Events that may trigger goodwill impairment include deterioration in economic conditions, a decline in market-dependent multiples or metrics (i.e. stock price declining below tangible book value), negative trends in overall financial performance and regulatory actions. At September 30, 2022, Bancorp elected to perform a qualitative assessment to determine if it was more-likely-than-not that the fair value of the reporting units exceeded their carrying value, including goodwill. The qualitative assessment indicated that it was not more-likely-than-not that the carrying value of the reporting units exceeded their fair value.

Core Deposit and Customer List Intangibles

CDIs and CLIs arising from business acquisitions are initially measured at fair value and are then amortized on an accelerated method based on their useful lives. As of March 31, 2023 and December 31, 2022, Bancorp's CDI assets totaled \$14.2 million and \$15.0 million, respectively. A CDI asset of \$13 million was recorded during the first quarter of 2022 as a result of the CB acquisition.

As of March 31, 2023 and December 31, 2022, Bancorp's CLI assets were \$9.6 million and \$10.0 million, respectively, and are attributed entirely to the WM&T segment acquired from CB. CLI assets totaling \$14 million were recorded in association with the CB acquisition during the first quarter of 2022. However, as a result of Bancorp's disposition of its partial interest in LFA effective December 31, 2022, the \$2 million CLI associated with that business was written off and was included in the loss recorded in relation to the disposition in 2022.

Other Assets and Other Liabilities

Other assets decreased \$10 million, or 7%, to \$125 million between December 31, 2022 and March 31, 2023. Other liabilities decreased \$31 million, or 25%, to \$94 million over the same period.

The decrease in other assets stems mainly from changes in the interest rate environment and the corresponding impact on Bancorp's DTAs and swap assets, which declined \$7 million and \$2 million, respectively, between December 31, 2022 and March 31, 2023. As of March 31, 2023, Bancorp did not incur any impairment with respect to its intangible assets or other long-lived assets.

The decrease in other liabilities was attributed largely to the reduction of various accrued liabilities, such as employee incentive compensation and benefits.

Deposits

Total deposits decreased \$34 million, or 1%, from December 31, 2022 to March 31, 2023, as a \$105 million decline in non-interest bearing deposits was partially offset by a \$71 million increase in interest-bearing deposits, most notably time deposits, as customers have shifted into higher-yielding alternatives amidst rising rates and economic uncertainty. While Bancorp has not been immune to the resulting industry-wide deposit run-off experienced over the past several quarters, fallout within the customer base has not been experienced, as deposit rate increases and time deposit promotions have provided attractive alternatives for customers in addition to Bancorp's ability to offer alternative investment options through the WM&T and retail brokerage business lines. Further, the decrease in deposits experienced during the first quarter of 2023 was attributed in large part to typical seasonal public funds runoff. However, deposit pricing pressure/competition has been intense as a result of rising rates and Bancorp expects it will continue to place pressure on NIM throughout 2023.

As a result of this activity, the rates paid by Bancorp on deposits has increased and the deposit base itself has shifted to a more interest-bearing mix over the past several quarters. The cost of interest-bearing deposits rose to 1.22% for the three months ended March 31, 2023 compared to 0.11% for the same period of the prior year, with the cost of total deposits (including non-interest deposits) rising to 0.86% from 0.08% for the same periods. Total average deposit balances experienced an \$881 million increase for the three months ended March 31, 2023 compared to the same period of 2022, as deposits totaling \$1.12 billion were assumed as a result of the CB acquisition during the first quarter of the prior year.

Securities Sold Under Agreements to Repurchase

SSUARs decreased \$29 million, or 22%, between December 31, 2022 and March 31, 2023, driven largely in tandem with the seasonal decrease in deposit balances previously noted. SSUAR totaling \$66 million were assumed in relation to the CB acquisition during the first quarter of 2022.

SSUAR represent a funding source of Bancorp and are primarily used by commercial customers in conjunction with collateralized corporate cash management accounts. Such repurchase agreements are considered financing agreements and mature within one business day from the transaction date. At March 31, 2023 and December 31, 2022, all of these financing arrangements had overnight maturities and were secured by government sponsored enterprise obligations and government agency mortgage-backed securities that were owned and controlled by Bancorp.

SSUARs are collateralized by securities and are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. All securities underlying the agreements are under the Bancorp's control.

Federal Funds Purchased

FFP and other short-term borrowing balances increased \$6 million, or 68%, between December 31, 2022 and March 31, 2023. At March 31, 2023, FFP related mainly to excess liquidity held by downstream correspondent bank customers of Bancorp.

Subordinated Debentures

As a result of the CB acquisition, Bancorp became the 100% successor owner of the following unconsolidated trust subsidiaries: Commonwealth Statutory Trust III, Commonwealth Statutory Trust IV and Commonwealth Statutory Trust V. The sole assets of the trust subsidiaries represent the proceeds of offerings loaned in exchange for subordinated debentures with similar terms to the TPS. The TPS are treated as part of Tier 1 Capital. The subordinated note and related interest expense are included in Bancorp's consolidated financial statements. The subordinated notes are currently redeemable at Bancorp's option on a quarterly basis. As of March 31, 2023, subordinated notes added through the CB acquisition totaled \$26 million.

FHLB Advances

FHLB advances outstanding at March 31, 2023 totaled \$275 million. These borrowings consisted of a \$175 million cash management advance with an overnight maturity utilized for short-term liquidity purposes and a \$100 million three-month rolling advance related to a five-year interest rate swap (cash flow hedge) that was entered into during the quarter in an effort to secure longer-term funding at a more attractive rate. For more information related to the interest rate swap noted above, see the footnote titled, "*Derivative Financial Instruments*."

Liquidity

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in supply of those funds. Liquidity is provided by short-term assets that can be converted to cash, AFS debt securities, various lines of credit available to Bancorp, and the ability to attract funds from external sources, principally deposits. Management believes it has the ability to increase deposits at any time by offering rates slightly higher than market rate.

Bancorp's Asset/Liability Committee is comprised of senior management and has direct oversight responsibility for Bancorp's liquidity position and profile. A combination of reports provided to management details internal liquidity metrics, composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, and exposure to contingent draws on Bancorp's liquidity.

Bancorp's most liquid assets are comprised of cash and due from banks, FFS and AFS debt securities. FFS and interest bearing deposits totaled \$229 million and \$85 million at March 31, 2023 and December 31, 2022, respectively. The increase experienced for the first three months of 2023 is attributed to mainly to the increased in FHLB borrowings. FFS normally have overnight maturities while interest-bearing deposits in banks are accessible on demand. These investments are used for general daily liquidity purposes.

The fair value of the AFS debt security portfolio was \$1.13 billion and \$1.14 billion at March 31, 2023 and December 31, 2022, respectively. The decrease in AFS debt security portfolio for the first three months of 2023 is attributed to scheduled maturities and normal pay down activity within the portfolio, which was partially offset by market value appreciation during the period. The investment portfolio (HTM and AFS) includes total cash flows on amortizing debt securities of approximately \$294 million (based on assumed prepayment speeds as of March 31, 2023) expected over the next 12 months, including \$100 million of contractual maturities. Combined with FFS and interest bearing deposits from banks, AFS debt securities offer substantial resources to meet either loan growth or reductions in Bancorp's deposit funding base. Bancorp pledges portions of its investment securities portfolio to secure public funds, cash balances of certain WM&T accounts and SSUAR. At March 31, 2023, total investment securities pledged for these purposes comprised 48% of the debt securities portfolio, leaving approximately \$838 million of unpledged debt securities.

Bancorp's deposit base consists mainly of core deposits, defined as time deposits less than or equal to \$250,000, demand, savings, and money market deposit accounts, and excludes public funds and brokered deposits. At March 31, 2023, such deposits totaled \$5.59 billion and represented 88% of Bancorp's total deposits, as compared with \$5.60 billion, or 88% of total deposits at December 31, 2022. Because these core deposits are less volatile and are often tied to other products of Bancorp through long lasting relationships, they do not place undue pressure on liquidity. However, given the intense, industry-wide deposit pricing pressure that is currently being experienced, deposits may generally be more sensitive to market rates, with potential decreases possibly straining Bancorp's liquidity position.

As of March 31, 2023 and December 31, 2022, Bancorp held brokered deposits totaling \$2.3 million and \$599,000, respectively, the majority of which is attributed to deposits added through acquisition-related activity in 2022 and 2021.

Included in total deposit balances at March 31, 2023 are \$622 million in public funds generally comprised of accounts with local government agencies and public school districts in the markets in which Bancorp operates. At December 31, 2022, public funds deposits totaled \$692 million, the decrease experienced during the first three months of 2023 is attributed to typical seasonal deposit run-off.

Bancorp is a member of the FHLB of Cincinnati. As a member of the FHLB, Bancorp has access to credit products of the FHLB. Bancorp views these borrowings as a potential low cost alternative to brokered deposits. At March 31, 2023 and December 31, 2022, available credit from the FHLB totaled \$1.15 billion and \$1.36 billion, respectively. Bancorp also had unsecured FFP lines with correspondent banks totaling \$80 million at both March 31, 2023 and December 31, 2022, respectively.

During the normal course of business, Bancorp enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through Bancorp's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of Bancorp's liquidity.

Bancorp's principal source of cash is dividends paid to it as the sole shareholder of the Bank. As discussed in the Footnote titled "*Commitments and Contingent Liabilities*," as of January 1st of any year, the Bank may pay dividends in an amount equal to the Bank's net income of the prior two years less any dividends paid for the same two years. At March 31, 2023, the Bank could pay an amount equal to \$93 million in dividends to Bancorp without regulatory approval subject to ongoing capital requirements of the Bank.

Sources and Uses of Cash

Cash flow is provided primarily through financing activities of Bancorp, which include raising deposits and borrowing funds from institutional sources such as advances from FHLB and FFP, as well as scheduled loan repayments and cash flows from debt securities. These funds are primarily used to facilitate investment activities of Bancorp, which include making loans and purchasing securities for the investment portfolio. Another important source of cash is net income of the Bank from operating activities. For further detail regarding the sources and uses of cash, see the "*Consolidated Statements of Cash Flows*" in Bancorp's consolidated financial statements.

Commitments

In the normal course of business, Bancorp is party to activities that contain credit, market and operational risk that are not reflected in whole or in part in Bancorp's consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

Bancorp provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Unused loan commitments increased \$11 million, or 1%, as of March 31, 2023 compared to December 31, 2022. Total average line of credit utilization declined to 41.1% as of March 31, 2023 compared to 42.3% at December 31, 2022, however, both represent significant improvement from the pandemic-era low of 36.5% experienced at March 31, 2021. C&I line of credit utilization was 30.5% at March 31, 2023 compared to 33.1% at December 31, 2022 and 31.6% at March 31, 2022.

Commitments to extend credit are agreements to lend to customers as long as collateral is available as agreed upon and there is no violation of any condition established in the contracts. Commitments generally have fixed expiration dates or other termination clauses. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-balance sheet instruments. Bancorp evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, securities, equipment and real estate. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, our maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments.

The ACL for off balance sheet credit exposures, which is separate from the ACL for loans and recorded in other liabilities on the consolidated balance sheets, was \$4.9 million and \$4.5 million as of March 31, 2023 and December 31, 2022, respectively. Provision expense of \$375,000 was recorded for the three month period ended March 31, 2023, driven mainly by changes in the mix of line of credit utilization.

Standby letters of credit are conditional commitments issued by Bancorp to guarantee the performance of a customer to a third party beneficiary. Those guarantees are primarily issued to support commercial transactions. Standby letters of credit generally have maturities of one to two years.

In addition to owned banking facilities, Bancorp has entered into long-term leasing arrangements for certain facilities. Bancorp also has required future payments for a non-qualified defined benefit retirement plan, TPS and the maturity of time deposits.

See the footnote titled "*Commitments and Contingent Liabilities*" for additional detail.

Capital

At March 31, 2023, stockholders' equity totaled \$794 million, representing an increase of \$34 million, or 5%, compared to December 31, 2022. The increase for the three months ended March 31, 2023 was attributed mainly to net income of \$29.1 million and a \$15 million positive change in AOCI, offset only partially by \$9 million of dividends declared and net stock compensation-related activity of \$1 million during the first three months of 2023. AOCI consists of net unrealized gains or losses on AFS debt securities and a minimum pension liability, each net of income taxes. The changes in AOCI from December 31, 2022 to March 31, 2023 were the result of changes in the interest rate environment and its corresponding impact on the valuation of the AFS debt securities portfolio. See the "*Consolidated Statement of Changes in Stockholders' Equity*" for further detail of changes in equity.

Bancorp's TCE ratio and tangible book value per share, both non-GAAP disclosures, experienced improvement between December 31, 2022 and March 31, 2023, which stemmed largely from recording net income of \$29.1 million and a \$15 million positive change in AOCI for the three months ended March 31, 2023. TCE was 7.74% at March 31, 2023 compared to 7.44% at December 31, 2021, while tangible book value per share was \$19.66 at March 31, 2023 compared to \$18.50 at December 31, 2022. See the section titled "*Non-GAAP Financial Measures*" for reconciliation of non-GAAP to GAAP measures.

In May 2021, Bancorp's Board of Directors extended its share repurchase program authorizing the repurchase of up to 1 million shares, or approximately 4% of Bancorp's total common shares outstanding at the time. The plan, which will expire in May 2023 unless otherwise extended or completed at an earlier date, does not obligate Bancorp to repurchase any specific dollar amount or number of shares prior to the plan's expiration. Based on economic developments over the past year and the increased importance of capital preservation, no shares were repurchased in 2022, nor the first three months of 2023. Approximately 741,000 shares remain eligible for repurchase under the current repurchase plan.

Bank holding companies and their subsidiary banks are required by regulators to meet risk-based capital standards. These standards, or ratios, measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The value of both balance sheet and off-balance sheet items are adjusted to reflect credit risks. See the Footnote titled “*Regulatory Matters*” for additional detail regarding regulatory capital requirements, as well as capital ratios of Bancorp and the Bank. The Bank exceeds regulatory capital ratios required to be well-capitalized. Regulatory framework does not define well capitalized for holding companies. Management considers the effects of growth on capital ratios as it contemplates plans for expansion.

Capital ratios as of March 31, 2023 increased compared December 31, 2022, largely as a result of modest risk-weighted asset growth and strong first quarter operating results. Bancorp continues to exceed the regulatory requirements for all calculations. Bancorp and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB and the FDIC, in addition to the capital conservation buffer.

Banking regulators have categorized the Bank as well-capitalized. To meet the definition of well-capitalized for prompt corrective action requirements, a bank must have a minimum 6.5% Common Equity Tier 1 Risk-Based Capital ratio, 8.0% Tier 1 Risk-Based Capital ratio, 10.0% Total Risk-Based Capital ratio and 5.0% Tier 1 Leverage ratio.

Additionally, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, Bancorp and the Bank must hold a 2.5% capital conservation buffer composed of Common Equity Tier 1 Risk-Based Capital above the minimum risk-based capital requirements for the Common Equity Tier 1 Risk-Based Capital ratio, Tier 1 Risk-Based Capital ratio and Total Risk-Based Capital ratio necessary to be considered adequately-capitalized. At March 31, 2023, the adequately-capitalized minimums, including the capital conservation buffer, were a 7.0% Common Equity Tier 1 Risk-Based Capital ratio, 8.5% Tier 1 Risk-Based Capital ratio and 10.5% Total Risk-Based Capital ratio.

As a result of the CB acquisition, Bancorp became the 100% successor owner of the following unconsolidated trust subsidiaries: Commonwealth Statutory Trust III, Commonwealth Statutory Trust IV and Commonwealth Statutory Trust V. The sole assets of the trust subsidiaries represent the proceeds of offerings loaned in exchange for subordinated debentures with similar terms to the TPS. The TPS are treated as part of Tier 1 Capital. The subordinated note and related interest expense are included in Bancorp’s consolidated financial statements. The subordinated notes are currently redeemable at Bancorp’s option on a quarterly basis. As of March 31, 2023, subordinated notes added through the CB acquisition totaled \$26 million.

As permitted by the interim final rule issued on March 27, 2020 by the federal banking regulatory agencies, Bancorp elected the option to delay the estimated impact on regulatory capital related to the adoption of ASC 326 “*Financial Instruments – Credit Losses*,” or CECL, which was effective January 1, 2020. The initial impact of adoption of ASC 326, as well as 25% of the quarterly increases in the ACL subsequent to adoption of ASC 326 (collectively the “transition adjustments”) were delayed for two years. After two years, the cumulative amount of the transition adjustments became fixed and will be phased out of the regulatory capital calculations evenly over a three-year period, with 75% recognized in year three, 50% recognized in year four and 25% recognized in year five. After five years, the temporary regulatory capital benefits will be fully reversed. 2023 represents year four of the transition period for Bancorp. Had Bancorp not elected to defer the regulatory capital impact of CECL, the post ASC 326 adoption capital ratios of Bancorp and the Bank would still have exceeded the well-capitalized level.

Non-GAAP Financial Measures

The following table provides a reconciliation of total stockholders' equity in accordance with GAAP to tangible stockholders' equity (TCE), a non-GAAP disclosure. Bancorp provides the TCE per share, a non-GAAP measure, in addition to those defined by banking regulators, based on its widespread use by investors as a means to evaluate capital adequacy:

<i>(dollars in thousands, except per share data)</i>	March 31, 2023	December 31, 2022
Total stockholders' equity - GAAP (a)	\$ 794,368	\$ 760,432
Less: Goodwill	(194,074)	(194,074)
Less: Core deposit and other intangibles	(23,810)	(24,990)
Tangible common equity - Non-GAAP (c)	<u>\$ 576,484</u>	<u>\$ 541,368</u>
Total assets - GAAP (b)	\$ 7,667,648	\$ 7,496,261
Less: Goodwill	(194,074)	(194,074)
Less: Core deposit and other intangibles	(23,810)	(24,990)
Tangible assets - Non-GAAP (d)	<u>\$ 7,449,764</u>	<u>\$ 7,277,197</u>
Total stockholders' equity to total assets - GAAP (a/b)	10.36%	10.14%
Tangible common equity to tangible assets - Non-GAAP (c/d)	7.74%	7.44%
Total shares outstanding (e)	29,324	29,259
Book value per share - GAAP (a/e)	\$ 27.09	\$ 25.99
Tangible common equity per share - Non-GAAP (c/e)	19.66	18.50

The ACL for loans to total non-PPP loans represents the ACL for loans, divided by total loans less PPP loans. Non-performing loans to total non-PPP loans represents non-performing loans, divided by total loans less PPP loans. Delinquent loans to total non-PPP loans represents delinquent loans (consisting of all loans 30 days or more past due), divided by total loans less PPP loans. Bancorp believes these non-GAAP disclosures are important because they provide comparable ratios after eliminating PPP loans, which are fully guaranteed by the SBA and have not been allocated for within the ACL and are not at risk of non-performance.

<i>(dollars in thousands)</i>	March 31, 2023	December 31, 2022
Total loans - GAAP (a)	\$ 5,243,104	\$ 5,205,918
Less: PPP loans	(9,557)	(18,593)
Total non-PPP loans - Non-GAAP (b)	<u>\$ 5,233,547</u>	<u>\$ 5,187,325</u>
ACL for loans (c)	\$ 75,673	\$ 73,531
Non-performing loans (d)	18,283	15,134
Delinquent loans (e)	11,666	16,863
ACL for loans to total loans - GAAP (c/a)	1.44%	1.41%
ACL for loans to total loans - Non-GAAP (c/b)	1.45%	1.42%
Non-performing loans to total loans - GAAP (d/a)	0.35%	0.29%
Non-performing loans to total loans - Non-GAAP (d/b)	0.35%	0.29%
Delinquent loans to total loans - GAAP (e/a)	0.22%	0.32%
Delinquent loans to total loans - Non-GAAP (e/b)	0.22%	0.33%

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The efficiency ratio, a non-GAAP measure, equals total non-interest expenses divided by the sum of net interest income FTE and non-interest income. In addition to the efficiency ratio presented, Bancorp considers an adjusted efficiency ratio. Bancorp believes it is important because it provides a comparable ratio after eliminating net gains (losses) on sales, calls, and impairment of investment securities, as well as net gains (losses) on sales of premises and equipment and disposition of any acquired assets, if applicable, and the fluctuation in non-interest expenses related to amortization of investments in tax credit partnerships and non-recurring merger expenses.

	Three months ended March 31,	
	2023	2022
<i>(dollars in thousands)</i>		
Total non-interest expenses (a)	\$ 45,314	\$ 56,297
Less: Non-recurring merger expenses	—	(19,500)
Less: Amortization of investments in tax credit partnerships	(323)	(88)
Total non-interest expenses - Non-GAAP (c)	\$ 44,991	\$ 36,709
Total net interest income, FTE	\$ 63,245	\$ 48,944
Total non-interest income	22,047	19,203
Total revenue - Non-GAAP (b)	85,292	68,147
Less: Gain/loss on sale of premises and equipment	2	—
Less: Gain/loss on sale of securities	—	—
Total adjusted revenue - Non-GAAP (d)	\$ 85,294	\$ 68,147
Efficiency ratio - Non-GAAP (a/b)	53.13%	82.61%
Adjusted efficiency ratio - Non-GAAP (c/d)	52.75%	53.87%

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information required by this item is included in Part I Item 2, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations.*”

Item 4. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was carried out by Stock Yards Bancorp, Inc.’s management, with the participation of its CEO and CFO, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company’s CEO and CFO concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Bancorp and the Bank are defendants in various legal proceedings that arise in the ordinary course of business. There is no such proceeding pending or, to the knowledge of management, threatened in which an adverse decision could result in a material adverse change in the business or consolidated financial position of Bancorp or the Bank.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended March 31, 2023.

	Total number of shares purchased(1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Average price paid per share	Maximum number of shares that may yet be purchased under the plans or programs
January 1 - January 31	818	\$ 49.81	—	\$ —	
February 1 - February 28	10,592	61.22	—	—	
March 1 - March 31	28,635	53.32	—	—	
Total	40,045	\$ 55.34	—	\$ —	741,196

(1) Shares repurchased during the three-month period ended March 31, 2023 represent shares withheld to pay taxes due on the exercise of equity grants.

Effective May 22, 2019, Bancorp's Board of Directors approved a share repurchase program authorizing the repurchase of 1 million shares, or approximately 4% of Bancorp's total common shares outstanding at the time. Stock repurchases are expected to be made from time to time on the open market or in privately negotiated transactions, subject to applicable securities laws. The plan, which was extended in May 2021 and will expire in May 2023 unless otherwise extended or completed at an earlier date, does not obligate the Company to repurchase any specific dollar amount or number of shares prior to the plan's expiration. No shares were repurchased in 2022, nor through the first three months of 2023. Approximately 741,000 shares remain eligible for repurchase.

There were no equity securities of the registrant sold without registration during the quarter covered by this report.

Item 6. Exhibits.

The following exhibits are filed or furnished as a part of this report:

Exhibit Number	Description of exhibit
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 902 of the Sarbanes-Oxley Act
101	The following materials from Stock Yards Bancorp Inc.'s Form 10-Q Report for the quarterly period ended March 31, 2023 formatted in inline XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.
104	The cover page from Stock Yards Bancorp Inc.'s Form 10-Q Report for the quarterly period ended March 31, 2023 formatted in inline XBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STOCK YARDS BANCORP, INC.
(Registrant)

Date: May 5, 2023

By: /s/ James A. Hillebrand
James A. Hillebrand
Chairman and CEO (Principal Executive Officer)

Date: May 5, 2023

/s/ T. Clay Stinnett
T. Clay Stinnett
EVP, Treasurer and CFO (Principal Financial Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, James A. Hillebrand, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stock Yards Bancorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2023

By: /s/ James A. Hillebrand

James A. Hillebrand
Chairman and CEO

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, T. Clay Stinnett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stock Yards Bancorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2023

By: /s/ T. Clay Stinnett

T. Clay Stinnett,
EVP, Treasurer and CFO

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report of Stock Yards Bancorp, Inc. on Form 10-Q for the period ending March 31, 2023 (the "Report"), we, the undersigned, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge and belief: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Stock Yards Bancorp, Inc. as of and for the periods presented in the Report.

Date: May 5, 2023

By: /s/ James A. Hillebrand

James A. Hillebrand
Chairman and CEO

Date: May 5, 2023

By: /s/ T. Clay Stinnett

T. Clay Stinnett
EVP, Treasurer and CFO

The foregoing certification is being furnished solely pursuant to 18 U.S.C. section 1350 and is not being filed as part of the report or as a separate document.

A signed original of this written statement required by section 906 has been provided to Stock Yards Bancorp, Inc. and will be retained by Stock Yards Bancorp, Inc. and furnished to the SEC or its staff upon request.