THE 21ST CENTURY PREMIER BANK IN INDIANA

2021

ANNUAL REPORT

Centier BANK

FIRST BANCSHARES, INC. AND SUBSIDIARIES

FIRST BANCSHARES, INC.
AND SUBSIDIARIES
MERRILLVILLE, INDIANA

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
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Independent Auditor's Report

Board of Directors, Audit and Risk Committee and Management
First Bancshares, Inc.
Merrillville, Indiana

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the consolidated financial statements of First Bancshares, Inc. (the Corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited the Corporation's internal control over financial reporting as of December 31, 2021, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on COSO.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting" section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

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

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Corporation's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9-C).

An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BKD, LLP

Indianapolis, Indiana
March 24, 2022

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020
(Dollars in thousands, except for per share data)

	2021	2020
ASSETS		
Cash and due from financial institutions	$ 45,987	$ 51,737
Interest-bearing deposits in financial institutions	444,019	106,311
Total cash and cash equivalents	490,006	158,048
Certificates of deposit in other financial institutions	8,041	13,553
Securities available for sale	751,880	569,578
Mutual fund investment	-	10,707
Federal Home Loan Bank (FHLB) stock	27,000	27,000
Loans, net of deferred costs and allowance for loan losses of $63,115 in 2021 and $67,690 in 2020	4,770,792	4,664,883
Loans held for sale	10,932	23,279
Premises and equipment, net	32,526	34,668
Other real estate, net	250	12,467
Investment in bank owned life insurance	29,964	29,435
Deferred tax assets	12,150	10,520
Accrued interest receivable and other assets	96,729	137,627
Total assets	$ 6,230,270	$ 5,691,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	$ 1,722,054	$ 1,463,720
Interest bearing	3,526,278	3,192,474
Total deposits	5,248,332	4,656,194
Advances from Federal Home Loan Bank (FHLB)	260,000	260,000
Federal funds purchased	-	90,000
Other borrowings	49,800	49,800
Subordinated debentures	4,000	4,000
Securities purchased not settled	-	10,175
Accrued interest payable and other liabilities	101,871	115,035
Total liabilities	5,664,003	5,185,204
Stockholders' equity		
Common stock, no par value; $1 stated value: 150,000 shares authorized; shares issued and outstanding at December 31, 2021 and 2020 were 113,263 and 113,263	113	113
Capital surplus	26,202	26,202
Retained earnings	533,477	464,481
Accumulated other comprehensive income, net	6,475	15,765
Total stockholders' equity	566,267	506,561
Total liabilities and stockholders' equity	$ 6,230,270	$ 5,691,765

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2021 and 2020
(Dollars in thousands, except for per share data)

	2021	2020
Interest income		
Loans including fees	$ 173,856	$ 168,181
Taxable securities	5,494	6,330
Nontaxable securities	5,705	4,462
Other	678	611
Total interest income	185,733	179,584
Interest expense		
Deposits	5,109	12,024
Advances from FHLB	4,020	4,626
Federal funds purchased	5	93
Subordinated debentures	210	210
Other borrowings	2,117	2,116
Total interest expense	11,461	19,069
Net interest income	174,272	160,515
Provision (credit) for loan losses	(900)	27,520
Net interest income after provision for loan losses	175,172	132,995
Noninterest income		
Deposit service fees, net	11,080	11,009
Card interchange fees	15,866	12,915
Wealth management fees	9,297	7,810
Mortgage banking income	12,434	22,617
Net gains on sales of securities	385	314
Gains (losses) on sales of other real estate	352	(516)
Gains on interest rate swaps	6,100	13,911
Other income	6,273	5,539
Total noninterest income	61,787	73,599
Noninterest expense		
Salaries and benefits	74,574	64,533
Occupancy expenses, net	16,716	17,128
Data processing expenses	14,216	13,893
Other expenses	22,434	16,833
Total noninterest expense	127,940	112,387
Income before income tax expense	109,019	94,207
Income tax expense	25,865	22,284
Net income	$ 83,154	$ 71,923
Earnings per share:		
Basic	$ 734.16	$ 635.00
Diluted	$ 731.62	$ 632.80

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2021 and 2020
(Dollars in thousands, except for per share data)

	2021	2020
Net income	$ 83,154	$ 71,923
Other comprehensive income (loss)		
Change in unrealized gains (losses) on securities available for sale	(11,401)	11,716
Reclassification adjustment for (gains) on sales of securities included in net income	(385)	(314)
Tax effects	2,496	(2,404)
Total other comprehensive income (loss)	(9,290)	8,998
Comprehensive income	$ 73,864	$ 80,921

(1) Reclassifications are included in net gains (losses) on securities in the consolidated statements of income. Related tax effects, included in income tax expense, were $81 and $66 for the years ended December 31, 2021 and 2020.

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2021 and 2020
(Dollars in thousands, except for per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances, January 1, 2020	$ 113	$ 26,202	$ 403,885	$ 6,767	$ 436,967
Net income	-	-	71,923	-	71,923
Other comprehensive Income	-	-	-	8,998	8,998
Cash dividends ($100.00 per share)	-	-	(11,327)	-	(11,327)
Balances, December 31, 2020	$ 113	$ 26,202	$ 464,481	$ 15,765	$ 506,561
Net income	-	-	83,154	-	83,154
Other comprehensive Loss	-	-	-	(9,290)	(9,290)
Cash dividends ($125.00 per share)	-	-	(14,158)	-	(14,158)
Balances, December 31, 2021	$ 113	$ 26,202	$ 533,477	$ 6,475	$ 566,267

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Cash flows from operating activities		
Net income	$ 83,154	$ 71,923
Adjustments to reconcile net income to net cash		
from operating activities		
Depreciation	4,832	5,706
Provision (credit) for loan losses	(900)	27,520
Net (gains) on securities	(385)	(314)
Earnings on mutual funds	(67)	(158)
Net (gains) losses on sales of other real estate	(352)	516
Net gains on sales of loans held for sale	(10,699)	(16,101)
Loans originated for sale	(333,198)	(471,000)
Loan sale proceeds	356,245	474,312
Net amortization of securities	8,129	5,934
Earnings on life insurance	(529)	(684)
Net change in:		
Interest receivable and other assets	40,896	(67,194)
Deferred tax assets	866	(6,588)
Interest payable and other liabilities	(41,161)	56,565
Net cash from operating activities	106,831	80,437
Cash flows from investing activities		
Proceeds from calls and maturities of certificates of deposit in other financial institutions	5,758	4,525
Purchase of certificates of deposit in other financial institutions	(245)	(2,664)
Proceeds from sales, calls and maturities of securities available for sale	165,029	151,267
Purchases of securities available for sale	(377,035)	(284,269)
Purchase of FHLB stock	-	(1,350)
Proceeds from mutal fund withdrawal	10,773	-
Loans made to customers and principal collections, net	(44,740)	(744,692)
Loans purchased	(32,664)	(13,210)
Proceeds from BOLI death benefit	-	2,570
Proceeds from sales of other real estate	12,962	361
Net property and equipment expenditures	(2,690)	(3,526)
Net cash used in investing activities	(262,852)	(890,988)
Cash flows from financing activities		
Net increase in deposits	592,137	963,532
Net change in federal funds purchased	(90,000)	60,000
Proceeds from long-term FHLB advances	-	25,000
Net change in short-term FHLB advances	-	(180,000)
Cash dividends paid	(14,158)	(11,327)
Net cash from financing activities	487,979	857,205
Net change in cash and cash equivalents	331,958	46,654
Cash and cash equivalents at the beginning of the year	158,048	111,394
Cash and cash equivalents at the end of the year	$ 490,006	$ 158,048
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	$ 11,630	$ 20,290
Income taxes	24,140	28,398
Noncash activities		
Transfer from loans to other real estate	393	6,119
Securities purchased but not settled	-	10,175
Loans purchased but not settled	27,998	-

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of First Bancshares, Inc. (the Corporation), its wholly owned subsidiaries, Centier Risk Management LLC and Centier Bank (the Bank), and the Bank's wholly owned subsidiaries, Centier Nevada 2, LLC; Centier Investments Nevada 2, Inc.; and Centier Holdings Nevada 2, Inc. Centier Nevada 2, LLC; Centier Investments Nevada 2, Inc.; and Centier Holdings Nevada 2, Inc. are a Nevada limited liability partnership and Nevada corporations that manage a portion of the Bank's investment portfolio. Centier Risk Management LLC is an insurance company incorporated in Nevada for the purpose of insuring the Corporation and its subsidiaries against certain risks unique to the operations of the Corporation and for which insurance may not be currently available or economically feasible in today's insurance marketplace. All significant intercompany balances and transactions have been eliminated in the consolidation.

Nature of Operations: The Corporation's revenues, operating income and assets are primarily from the banking industry. The accounting and reporting policies of the Corporation conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. The Bank grants credit and accepts deposits from its customers in the normal course of business primarily in northern Indiana. The following is a summary of the more significant policies.

Subsequent Events: The Corporation has evaluated subsequent events for recognition or disclosure through March 24, 2022, which is the date that the Corporation's financial statements were available to be issued.

Certain Significant Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China and has spread around the world resulting in the World Health Organization declaring a Public Health Emergency of International Concern on January 30, 2020. The spread of the coronavirus has and continues to result in business and social disruption across the nation which continues to add uncertainty in preparing estimates and assumptions.

Certificates of Deposits in Other Financial Institutions: Certificates of deposits in other financial institutions have original maturities greater than 3 months and are carried at cost.

Securities: Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported separately in stockholders' equity, net of tax.

Interest income includes amortization of purchase premiums or discounts. Premiums or discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates securities for other-than-temporary impairment (OTTI) at least on an annual basis, and more frequently when economic or market conditions warrant. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Mutual Fund Investment: The Bank considers mutual fund investments to be equity investments with changes in fair value included in earnings. Interest and dividends are included in taxable securities interest income.

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

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and the allowance for loan losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term, without anticipating prepayments.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days (180 days for residential). Past due status is based on the contractual terms of the loan. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has identified the following loan segments; commercial, residential, and installment loans. Commercial loans may be subject to adverse market conditions which may impact the borrower’s ability to make repayments on the loan or could cause a decline in the value of the collateral that secures the loan; the potential for environmental impairment from events occurring on subject or neighboring properties; and obsolescence in location or function. Residential and installment loans may be subject to adverse employment conditions in the local economy leading to increased default rates; decreased market values from oversupply in a geographic area; and impact to borrowers’ ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required based on past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential first mortgage loans secured by one-to-four family residences, residential construction loans, automobile, home equity and second mortgage loans and on an individual loan basis for commercial loans and mortgage loans secured by other properties.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception or at discounted collateral value for collateral based loans.

During 2020 and in response to the coronavirus, Congress passed the CARES Act which had a special provision in it that allowed for certain qualifying loans to be modified and troubled debt restructuring accounting to be waived. More information on the Corporation's modified loans under this act is disclosed in Note 5.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the trailing twenty-four month period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: changes in lending policies, procedures, and practices, including underwriting standards and collection and charge-off and recovery practices; international, national, regional and local economic trends and conditions; nature and volume of loans; changes in the experience, ability, and depth of lending management and other staff; levels of and severity of past due loans, nonaccrual loans, and classified loans; quality of the Corporation's loan review system; levels of concentrations of credit; and effects of changes in other external factors such as competition and legal and regulatory requirements.

The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management's current estimates of what constitutes a reasonable allowance for credit losses.

<u>Loans Held for Sale</u>: Loans held for sale, for which the fair value option has been elected, are recorded at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

<u>Concentration of Credit Risk</u>: The Bank is a full service bank headquartered in Merrillville, Indiana with 57 branch offices located in Lake, Porter, LaPorte, Marion, Marshall, St. Joseph, Allen, Hamilton, Boone, Elkhart and Tippecanoe Counties. The Bank makes a variety of loans including real estate mortgage, consumer and commercial loans. Substantially all of the Bank's loans are made within the eleven Indiana county trade areas. The loan portfolio at December 31, 2021 had a concentration of 53% of total loans classified as commercial real estate (10% office including medical, 10% commercial construction, 9% retail, 8% multifamily, 7% hospitality, 5% in other commercial industries, and 4% industrial). The remainder of the portfolio was well diversified and substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate.

<u>Premises and Equipment</u>: Land is carried at cost. Asset cost is reported net of accumulated depreciation. Depreciation and amortization expense is calculated by the straight-line method over the useful lives of the related assets ranging from three years to twenty years, or for leasehold improvements over the term of the lease, if less. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

<u>Advertising Expense</u>: Advertising costs are expensed as incurred. Advertising expense was approximately $1,957 and $1,757 for year-end December 31, 2021 and 2020, respectively.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Loan Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in net gains (losses) on sales of loans held for sale. Fair value is based on market prices for comparable mortgage servicing contracts. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. The carrying value of loan servicing rights was $6,447 and $5,876 at December 31, 2021 and 2020, respectively, and are included in accrued interest receivable and other assets on the consolidated balance sheets. There was no valuation allowance at December 31, 2021 and 2020. Mortgage servicing rights fair value approximated the carrying value as of December 31, 2021 and 2020.

Servicing fees, late fees and ancillary fees related to loan servicing are not material.

Loans serviced for others, principally the Federal Home Loan Mortgage Corporation (FHLMC), are not included in loans on the consolidated balance sheets and were $1,024,279 and $942,094 at year-end 2021 and 2020.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on an examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Derivatives: The Corporation enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as other noninterest income. The Corporation is exposed to losses if a counterparty fails to make its payments under a contract in which the Corporation is in the net receiving position. At December 31, 2021, the Corporation anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, the Corporation obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which the Corporation is a party settle monthly. Further, the Corporation has netting agreements with the dealers with which it does business.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives.

The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Corporation enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into. Fair value of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair value of these derivatives are included in net gains on sales of loans.

Cash Flow Reporting: Cash and cash equivalents are defined as cash and due from banks, short-term interest-bearing deposits in banks and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, federal funds purchased and securities sold under agreements to repurchase.

Retirement Plans: Employee 401(k) and profit sharing plan expense is the amount of matching and other discretionary contributions. Deferred compensation plan expense allocates the benefits over years of service.

Associate Stock Ownership Plan (ASOP): The cost of shares issued to the ASOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ASOP shares reduce retained earnings; dividends on unearned ASOP shares reduce any related debt and accrued interest. At December 31, 2021 and 2020, there were no unearned ASOP shares.

Earnings Per Share: Basic earnings per share is based on the weighted average common shares outstanding. The weighted average number of common shares outstanding was 113,263 and 113,263 for 2021 and 2020. Diluted earnings per share includes the dilutive effect of the outstanding subordinated debentures which have the option to convert as of April 15 and October 15 each year. The diluted weighted average number of common shares was 113,873 and 113,906 for 2021 and 2020.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of stockholders' equity.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments with Off-Balance-Sheet Risk: The Corporation, in the normal course of business, makes commitments to extend credit which are not reflected in the financial statements and are recorded when funded. See Note 14 for a summary of these commitments.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

General Litigation: The Corporation is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flow of the Corporation.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to its shareholders.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance-sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

Revenue Recognition: ASU 2014-09 establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Corporation's revenue-generating transactions are not subject to ASU 2014-09, including revenue generated from financial instruments, such as loans, letters of credit, derivatives and investment securities, as well as revenue related to mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Corporation has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. Descriptions of revenue-generating activities that are within the scope of ASU 2014-09, which are presented in our income statements are as follows:

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service charges on deposit accounts - The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include service charges such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed, which is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned monthly, representing the period which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Fiduciary activities – This represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, fees for trust services and similar fiduciary activities. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on the market value of assets under management at month-end. Fees that are transaction-based are recognized at the point in time that the transaction is executed.

Investment brokerage fees – The Corporation earns fees from investment brokerage services provided to its customers by a third-party service provider. The Corporation receives commissions from the third-party provider on a monthly basis based upon customer activity for the month. The fees are paid to us by the third party on a monthly basis and are recognized when received.

Interchange income – The Corporation earns interchange fees from debit cardholder transactions conducted through the Visa payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrent with the transaction processing services provided to the cardholder.

Reclassifications: Some items in the prior year financial statements may have been reclassified to conform to the current presentation. Such reclassifications had no impact on net income or stockholders' equity.

Accounting Standards Not Yet Effective:
The FASB has issued ASU No. 2016-02, *Leases (Topic 842).* Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning January 1, 2022 for the Corporation. The Corporation is still evaluating the impact to the consolidated financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The FASB has issued ASU No. 2016-13, *Financial Instrument – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to enhance their credit loss estimates. The amendment requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning January 1, 2023. Early adoption was permitted beginning December 31, 2018. The Corporation expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses upon adoption. The magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements cannot yet be reasonably estimated. The Corporation established an internal committee that meets on a regular basis to oversee activities and monitor progress of model development.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. As of December 31, 2021 cash and cash equivalents is defined to include cash on hand and deposits in other institutions.

At December 31, 2021, the Corporation's interest-bearing cash accounts and non-interest bearing transaction deposits held at other institutions exceeded the $250 federally insured limits by approximately $442,966. The Federal Home Loan Bank and Federal Reserve Bank are government sponsored entities not insured by the FDIC. Of the $442,966 the Corporation held approximately $436,959 with the Federal Home Loan Bank and Federal Reserve Bank. Each correspondent bank's financial performance and market rating are reviewed on a quarterly basis to ensure the Corporation has deposits only at institutions providing minimal risk for those exceeding the federally insured limits.

The Federal Reserve Board announced on March 15, 2020 the reduction of the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated the restriction on a portion of the Bank's cash and cash equivalents for December 31, 2021 and 2020. At December 31, 2021 and 2020, the required reserve balance was $0.

NOTE 3 - MUTUAL FUND INVESTMENT

The Corporation invested in the Wells Fargo Advantage Adjustable Rate Government Fund (the Fund) with a carrying value of $10,707 at December 31, 2020. The Fund invests primarily in mortgage and asset-backed securities issued or guaranteed by the U.S. government or government-sponsored enterprises (GSE's). The Corporation purchased the investment in order to secure its obligation under a letter of credit which was issued with Wells Fargo. In 2021, the Corporation terminated the investment and the carrying value was $0 at December 31, 2021. The Corporation is actively working with Wells Fargo to secure its obligation. The letter of credit expires May 15, 2022.

(Continued)

(Dollars in thousands)

NOTE 4 - SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities at December 31, 2021 and 2020 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2021:				
U.S. government agencies	$ 24,638	$ 124	$ (144)	$ 24,618
State and political subdivisions	354,252	11,049	(1,187)	364,114
Mortgage-backed - residential	201,172	1,451	(1,877)	200,746
Collateralized mortgage obligations	150,002	657	(1,936)	148,723
Other	13,629	125	(75)	13,679
Total available-for-sale	$ 743,693	$ 13,406	$ (5,219)	$ 751,880

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2020:				
U.S. government agencies	$ 5,481	$ 287	$ -	$ 5,768
State and political subdivisions	219,271	14,419	(38)	233,652
Mortgage-backed - residential	178,072	3,178	(68)	181,182
Collateralized mortgage obligations	145,281	2,270	(73)	147,478
Other	1,500	-	(2)	1,498
Total available-for-sale	$ 549,605	$ 20,154	$ (181)	$ 569,578

(Continued)

(Dollars in thousands)

NOTE 4 - SECURITIES (Continued)

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At year end 2021:						
U.S. government agencies	$ 20,328	$ (144)	$ -	$ -	$ 20,328	$ (144)
State and political subdivisions	107,610	(1,071)	4,409	(116)	112,019	(1,187)
Mortgage-backed - residential	129,116	(1,606)	12,181	(271)	141,297	(1,877)
Collateralized mortgage obligations	83,694	(1,485)	14,069	(451)	97,763	(1,936)
Other	8,704	(75)	-	-	8,704	(75)
Total available-for-sale	$ 349,452	$ (4,381)	$ 30,659	$ (838)	$ 380,111	$ (5,219)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At year end 2020:						
State and political subdivisions	$ 8,084	$ (38)	$ -	$ -	$ 8,084	$ (38)
Mortgage-backed - residential	27,604	(68)	-	-	27,604	(68)
Collateralized mortgage obligations	34,047	(73)	-	-	34,047	(73)
Other	1,498	(2)	-	-	1,498	(2)
Total available-for-sale	$ 71,233	$ (181)	$ -	$ -	$ 71,233	$ (181)

Certain available for sale securities are reported in the financial statements at amounts less than their historical cost. The historical cost of these securities totaled $385,330 and $71,414 at December 31, 2021 and 2020, respectively. Total fair value of these securities was $380,111 and $71,233, which is approximately 51% and 13% of the Corporation's available for sale portfolio at December 31, 2021 and 2020, respectively.

The corporation's management believes the decline in fair value for these securities was temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income during the period the OTTI is identified.

There was no other-than-temporary impairment (OTTI) recognized in accumulated other comprehensive income at December 31, 2021 and 2020. For the years ended December 31, 2021 and 2020, there were no OTTI charges recorded in the consolidated statements of income, respectively.

State and Political Subdivisions
The unrealized losses on the Corporation's investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those securities do not permit the issuer to settle the securities at a price less than the amortized cost basis of the securities. Because the Corporation does not intend to sell the securities and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those securities to be other-than-temporarily impaired at December 31, 2021.

(Continued)

(Dollars in thousands)

NOTE 4 - SECURITIES (Continued)

Mortgage-backed – Residential and Collateralized Mortgage Obligations
The unrealized losses of the Corporation's investments in mortgage-backed securities and collateralized mortgage obligations were a result of interest rate changes. The Corporation expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Corporation does not intend to sell the securities and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those securities to be other-than-temporarily impaired at December 31, 2021.

The proceeds from sales and calls of securities and the associated gains/(losses) are listed below:

	2021	2020
Proceeds	$ 3,704	$ 32,780
Gross gains	385	314
Gross losses	-	-

The amortized cost and fair value of debt securities at December 31, 2021 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,685	$ 2,685
Due from one to five years	5,596	5,745
Due from five to ten years	96,338	100,505
Due after ten years	263,262	268,858
U.S. government agencies	24,638	24,618
Mortgage-backed - residential	201,172	200,746
Collateralized mortgage obligations	150,002	148,723
	$ 743,693	$ 751,880

Securities with a carrying value of $68,883 and $121,307 at December 31, 2021 and 2020, were specifically pledged to secure borrowed funds, securities sold under agreements to repurchase, public deposits and for other purposes as required or permitted by law.

At year-end 2021 and 2020, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity.

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS

Loans by major categories at year-end are summarized as follows:

	2021	2020
Commercial, substantially secured by real estate	$ 3,922,451	$ 3,781,285
Residential	378,750	414,866
Installment	482,967	488,287
Subtotal	4,784,168	4,684,438
Allowance for loan losses	(63,115)	(67,690)
Net deferred loan (fees) costs	49,739	48,135
Loans, net	$ 4,770,792	$ 4,664,883

Included in commercial loans at both December 31, 2021 and 2020 were $926,037 and $788,718 of mortgage warehouse lines. At December 31, 2021, there were 51 lines with maximum individual limits ranging between $3,000 and $300,000. Activity transacted through these mortgage warehouse lines during the years 2021 and 2020 totaled $7,963,742 and $11,824,185.

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year-ending December 31, 2021 and 2020:

December 31, 2021	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Beginning balance	$ 60,990	$ 4,234	$ 2,466	$ 67,690
Provision (credit) for loan losses	1,300	(1,050)	(1,150)	(900)
Loans charged-off	(4,294)	(244)	(16)	(4,554)
Recoveries	705	99	75	879
Total ending allowance balance	$ 58,701	$ 3,039	$ 1,375	$ 63,115

December 31, 2020	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Beginning balance	$ 37,550	$ 3,962	$ 1,893	$ 43,405
Provision for loan losses	26,494	298	728	27,520
Loans charged-off	(4,315)	(106)	(376)	(4,797)
Recoveries	1,261	80	221	1,562
Total ending allowance balance	$ 60,990	$ 4,234	$ 2,466	$ 67,690

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

December 31, 2021	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 1,266	$ 230	$ 39	$ 1,535
Collectively evaluated for impairment	57,435	2,809	1,336	61,580
Total ending allowance balance	$ 58,701	$ 3,039	$ 1,375	$ 63,115
Loans:				
Loans individually evaluated for impairment	$ 15,680	$ 4,179	$ 885	$ 20,744
Loans collectively evaluated for impairment	3,903,715	376,728	532,720	4,813,163
Total ending loans balance	$ 3,919,395	$ 380,907	$ 533,605	$ 4,833,907

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

December 31, 2020	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 1,271	$ 306	$ 56	$ 1,633
Collectively evaluated for impairment	59,719	3,928	2,410	66,057
Total ending allowance balance	$ 60,990	$ 4,234	$ 2,466	$ 67,690
Loans:				
Loans individually evaluated for impairment	$ 14,911	$ 2,352	$ 1,058	$ 18,321
Loans collectively evaluated for impairment	3,762,567	415,119	536,566	4,714,252
Total ending loans balance	$ 3,777,478	$ 417,471	$ 537,624	$ 4,732,573

The manufactured home class, which is part of the installment segment, is presented at recorded investment which includes $47,496 and $46,726 of deferred dealer reserve costs at December 31, 2021 and 2020. The dealer reserve costs range from 1.25% to 1.50% premium established at the origination of the manufactured home loans. The dealer earns the premium over the life of the loan. The Corporation retains 70% of this premium in a deposit account. Accrued interest receivable associated with those accounts was deemed immaterial for adjustment to recorded investments.

The following tables present information related to impaired loans by class of loans as of and for the year-end December 31, 2021 and 2020. For purposes of this presentation, unpaid principal balance is not adjusted for prior charge-offs, due to immateriality.

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	$ 723	$ 723	$ -	$ 746	$ -	$ -
Commercial non-real estate	850	852	-	2,988	2	-
Residential	3,272	3,229	-	3,225	15	-
Other consumer	48	49	-	50	-	-
Manufactured housing	-	-	-	-	-	-
Credit lines	72	72	-	76	2	-
Overdrafts	-	-	-	-	-	-
Subtotal	4,965	4,925	-	7,085	19	-
With an allowance recorded:						
Commercial real estate	14,069	14,073	1,264	14,231	13	-
Commercial non-real estate	32	32	2	35	-	-
Residential	938	950	230	953	-	-
Other consumer	324	328	18	351	1	-
Manufactured housing	189	189	9	198	-	-
Credit lines	246	247	12	253	-	-
Overdrafts	-	-	-	-	-	-
Subtotal	15,798	15,819	1,535	16,021	14	-
Total	$ 20,763	$ 20,744	$ 1,535	$ 23,106	$ 33	$ -

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

December 31, 2020	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	$ 131	$ 131	$ -	$ 130	$ 5	$ -
Commercial non-real estate	565	569	-	626	27	-
Residential	2,143	2,168	-	2,211	15	-
Other consumer	378	382	-	415	6	-
Manufactured housing	268	268	-	279	23	-
Credit lines	275	277	-	294	3	-
Overdrafts	-	-	-	-	-	-
Subtotal	3,760	3,795	-	3,955	79	-
With an allowance recorded:						
Commercial real estate	14,067	14,072	1,252	14,069	670	-
Commercial non-real estate	138	140	19	160	9	-
Residential	184	184	306	184	-	-
Other consumer	40	41	28	42	1	-
Manufactured housing	49	49	15	50	3	-
Credit lines	40	40	13	42	-	-
Overdrafts	-	-	-	-	-	-
Subtotal	14,518	14,526	1,633	14,547	683	-
Total	$ 18,278	$ 18,321	$ 1,633	$ 18,502	$ 762	$ -

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

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2021 and 2020:

	2021		2020	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial real estate	$ 306	$ -	$ 112	$ -
Commercial non-real estate	684	-	334	-
Residential	1,781	-	2,116	246
Other consumer	265	-	380	-
Manufactured housing	-	-	-	-
Credit lines	319	-	318	-
Overdrafts	-	-	-	-
Total	$ 3,355	$ -	$ 3,260	$ 246

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

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

December 31, 2021	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due Over 90 Days	Total Past Due	Loans Not Past Due	Total
Commercial real estate	$ -	$ -	$ 290	$ 290	$ 2,532,381	$ 2,532,671
Commercial non-real estate	1,290	105	657	2,052	1,384,672	1,386,724
Residential	2,013	874	480	3,367	377,540	380,907
Other consumer	373	169	550	1,092	48,435	49,527
Manufactured housing	2,291	1,638	-	3,929	335,006	338,935
Credit lines	71	73	174	318	143,500	143,818
Overdrafts	-	-	-	-	1,325	1,325
Total	$ 6,038	$ 2,859	$ 2,151	$ 11,048	$ 4,822,859	$ 4,833,907

December 31, 2020	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due Over 90 Days	Total Past Due	Loans Not Past Due	Total
Commercial real estate	$ 3	$ -	$ 95	$ 98	$ 2,353,612	$ 2,353,710
Commercial non-real estate	133	357	257	747	1,423,021	1,423,768
Residential	3,153	519	1,767	5,439	412,032	417,471
Other consumer	174	110	120	404	69,014	69,418
Manufactured housing	1,033	1,672	-	2,705	333,373	336,078
Credit lines	45	-	58	103	131,280	131,383
Overdrafts	-	-	-	-	745	745
Total	$ 4,541	$ 2,658	$ 2,297	$ 9,496	$ 4,723,077	$ 4,732,573

Troubled Debt Restructurings:

Included in the impaired loan totals previously presented for 2021 and 2020 are $2,749 and $395 of loans for which the terms have been modified in troubled debt restructurings. The Corporation has allocated $10 and $15 of reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020. The Corporation has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2021 and 2020.

During the years ending December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans were a combination of forbearance with period of short term payment relief followed by period of increased payments; an extension of the amortization period; and extension of the maturity date. Modifications involving a forbearance period were for a period of 1 month to 2 years. Modifications involving an extension of the amortization period were for periods of 6 months.

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

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

December 31, 2021	Number of loans	Outstanding balance	Pre-Modification Weighted Rate	Post-Modification Weighted Rate
Troubled Debt Restructurings:				
Commercial real estate	-	$ -	-	-
Commercial non-real estate	-	-	-	-
Residential	3	2,603	3.11%	3.11%
Other consumer	3	77	6.33%	6.33%
Manufactured housing	3	69	7.21%	7.21%
Credit lines	-	-	-	-
Overdrafts	-	-	-	-
Total	9	$ 2,749	3.30%	3.30%

December 31, 2020	Number of loans	Outstanding balance	Pre-Modification Weighted Rate	Post-Modification Weighted Rate
Troubled Debt Restructurings:				
Commercial real estate	-	$ -	-	-
Commercial non-real estate	1	235	7.50%	7.50%
Residential	-	-	-	-
Other consumer	1	20	4.25%	4.25%
Manufactured housing	4	140	8.00%	8.00%
Credit lines	-	-	-	-
Overdrafts	-	-	-	-
Total	6	$ 395	7.51%	7.51%

The troubled debt restructurings described above for the years ending December 31, 2021 and 2020 did not have an impact on the allowance for loan losses or result in charge-offs as the modified loans had allowance allocations in excess of any concession amounts previously assigned.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

There were no troubled debt restructurings that subsequently defaulted during 2021 and 2020.

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

NOTE 5 - LOANS (Continued)

Impact of COVID-19 on the Corporation:

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose which can ultimately affect the financial position, results of operations and cash flows of the Corporation, as well as the Corporation's customers. In response to economic concerns over COVID-19, in March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The 2021 Consolidated Appropriations Act, passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Corporation into 2021.

The CARES Act included several provisions designed to help financial institutions like the Corporation in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Corporation has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2021, the Corporation has approximately $30,600 of outstanding loans that were modified during 2021 and 2020 under the CARES Act guidance, that remain on modified terms. The Corporation modified other loans during 2021 under the guidance that have since returned to normal repayment status as of December 31, 2021. The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The 2021 Consolidated Appropriations Act approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Corporation, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Corporation if the borrower's loan is not forgiven and is then not repaid by the customer. The Corporation earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Corporation originated approximately $127,000 and $327,000 in PPP loans during 2021 and 2020 respectively, of which approximately $22,000 are still outstanding at December 31, 2021.

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All commercial loans are evaluated individually at origination by classifying the loans as to credit risk. On a go-forward basis all commercial relationships greater than $2,000 are subject to an annual review process and loans between $250 and $2,000 are also subjected to review on a random sampling basis. The Corporation uses the following definitions for risk ratings:

> **Watch**. Loans classified as watch may demonstrate early indicators of increasing credit risk. The exposure is acceptable, but should include a clear plan for preventing deterioration.
>
> **Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans.

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

December 31, 2021	Pass	Watch	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial real estate	$ 2,268,042	$ 218,696	$ 31,183	$ 14,750	$ -	$ -	$ 2,532,671
Commercial non-real estate	1,357,082	28,257	699	686	-	-	1,386,724
Residential	-	69	-	184	-	380,654	380,907
Other consumer	-	-	-	-	-	49,527	49,527
Manufactured housing	-	-	-	-	-	338,935	338,935
Credit lines	2,508	-	-	-	-	141,310	143,818
Overdrafts	-	-	-	-	-	1,325	1,325
Total	$ 3,627,632	$ 247,022	$ 31,882	$ 15,620	$ -	$ 911,751	$ 4,833,907

December 31, 2020	Pass	Watch	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial real estate	$ 1,925,148	$ 383,337	$ 16,056	$ 14,136	$ -	$ 15,033	$ 2,353,710
Commercial non-real estate	1,408,066	14,157	1,071	474	-	-	1,423,768
Residential	-	76	-	184	-	417,211	417,471
Other consumer	-	-	-	-	-	69,418	69,418
Manufactured housing	-	-	-	-	-	336,078	336,078
Credit lines	1,097	-	-	-	-	130,286	131,383
Overdrafts	-	-	-	-	-	745	745
Total	$ 3,334,311	$ 397,570	$ 17,127	$ 14,794	$ -	$ 968,771	$ 4,732,573

(Continued)

(Dollars in thousands)

NOTE 5 - LOANS (Continued)

The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2021 and 2020:

December 31, 2021	Residential	Other Consumer	Manufactured Housing	Credit Lines
Performing	$ 379,126	$ 49,262	$ 338,935	$ 143,499
Nonperforming	1,781	265	-	319
Total	$ 380,907	$ 49,527	$ 338,935	$ 143,818

December 31, 2020	Residential	Other Consumer	Manufactured Housing	Credit Lines
Performing	$ 415,355	$ 69,038	$ 336,078	$ 131,065
Nonperforming	2,116	380	-	318
Total	$ 417,471	$ 69,418	$ 336,078	$ 131,383

NOTE 6 - PREMISES AND EQUIPMENT, NET

Year-end premises and equipment, net were as follows:

	2021	2020
Land	$ 12,536	$ 13,136
Buildings and improvements	29,159	27,029
Furniture, fixtures and equipment	47,353	47,714
Total cost	89,048	87,879
Accumulated depreciation and amortization	(56,522)	(53,211)
	$ 32,526	$ 34,668

(Continued)

(Dollars in thousands)

NOTE 7 - TIME DEPOSITS

The aggregate amount of certificates of deposit with a balance of $250 thousand or more was approximately $126.7 million at December 31, 2021 and $111.4 million at December 31, 2020.

At year-end 2021, stated maturities of time deposits were as follows:

2022	$ 446,068
2023	49,395
2024	23,654
2025	23,762
2026	10,387
	$ 553,266

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

At year-end, advances from the Federal Home Loan Bank were as follows:

	2021	2020
Maturities range from 2025 through 2030, with fixed rates between 0.44% to 3.28%, averaging 1.51%	$ 260,000	$ 260,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $707,586 and $923,566 of one to four family residential mortgage loans, multifamily residential mortgage loans and commercial real estate loans under a blanket lien arrangement at year-end 2021 and 2020. Based on this collateral and the Corporation’s holdings of FHLB stock, the Corporation is eligible to borrow up to a total of $600,000 at year-end 2021.

Payments over the next five years are as follows:

2022	$ -
2023	-
2024	-
2025	30,000
2026	50,000
Thereafter	180,000
	$ 260,000

The Federal Home Loan Bank holds put options on $190,000 of advances that have scheduled maturities ranging from 2026 to 2030.

At December 31, 2021, the Corporation had available $25,000 in a credit line with the FHLB.

(Continued)

NOTE 9 - SUBORDINATED DEBENTURES

In 2016 the Corporation issued convertible subordinated debentures totaling $7,500. The debentures are unsecured, bear interest at a fixed rate of 5.25% and pay interest semi-annually. The debentures mature on April 15, 2022. The Corporation may elect to redeem the debentures at any time, subject to regulatory approval.

Starting on April 15, 2019 note holders have the option to convert their notes to shares of common stock. The election to convert is exercisable every April 15th and October 15th until the debentures reach maturity. If conversion is exercised, notes are converted to shares of common stock of the Corporation at the fair value of the common stock at the date of conversion. The subordinated debentures will be cancelled in the event the debentures are redeemed or converted to common stock. The option to convert notes to shares of common stock was not exercised in April or October 2021. The balance of convertible subordinated debentures was $4,000 as of December 31, 2021.

The subordinated debentures may be included in Corporation's total risk-based capital (with certain limitations) under current regulatory guidelines and interpretations.

NOTE 10 - OTHER BORROWINGS

On June 29, 2017 the Corporation issued $50,000 of senior notes. The notes bear interest at the rate of 4.25% payable semiannually and have a maturity date of July 1, 2022. The notes are unsecured and unsubordinated.

At year-end 2021 and 2020 the Corporation had $49,800 and $49,800 of senior notes outstanding.

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Bank has a trusteed contributory profit-sharing plan covering substantially all employees. All contributions to the plan are funded with the trustee and are made at the discretion of the Bank's Board of Directors. The Bank did not make a contribution to the plan for year-end December 31, 2021 or 2020. The Bank's profit-sharing plan also includes a 401(k) feature for the exclusive benefit of its employees. The 401(k) feature is a voluntary benefit and participation is at the discretion of the employee.

For 2021 and 2020, the Bank matched 66.67% of the employee contributions to a maximum of 6% of employee qualified earnings. For the years ended December 31, 2021 and 2020, these matching funds amounted to $2,437 and $2,238.

The Corporation has an Associate Stock Ownership Plan (ASOP). All contributions to the plan are funded with a trustee and are at the discretion of the Corporation's Board of Directors. The Corporation's contributions and expense for the years ended December 31, 2021 and 2020 were $3,500 and $3,000.

During the year-ended December 31, 2021, no shares were purchased and 63 shares were distributed from the plan and during the year-ended December 31, 2020, no shares were purchased and 4 shares were distributed from the plan. As of December 31, 2021 and 2020, the ASOP held 11,272 and 11,335 shares of the Corporation's stock of which 497 shares and 485 shares are unallocated to employees. Upon distribution of shares to a participant, the participant has the right to require the Corporation to purchase shares at the most recent appraised value in accordance with the terms and conditions of the plan. The fair value of the shares held by the ASOP approximated $100,219 and $83,562 at December 31, 2021 and 2020.

(Continued)

(Dollars in thousands)

NOTE 12 - INCOME TAXES

Income tax expense was as follows:

	2021	2020
Federal		
Current	$ 19,396	$ 22,756
Deferred	710	(5,677)
	20,106	17,079
State		
Current	5,603	6,115
Deferred	156	(910)
	5,759	5,205
Total	$ 25,865	$ 22,284

Effective tax rates differ from federal statutory rate of 21% for 2021 and 2020 applied to income before income tax expense due to the following:

	2021	2020
Income taxes computed at statutory federal income tax rate	$ 22,894	$ 19,783
Increase (decrease) in taxes resulting from:		
Tax-exempt interest income	(1,433)	(1,213)
Bank owned life insurance	(111)	(144)
Captive insurance income not subject to tax	(95)	(378)
State income tax, net of federal income tax	4,550	4,112
Change in unrecognized tax benefits	-	-
Tax credits	(47)	(47)
Other	107	171
Total	$ 25,865	$ 22,284

(Continued)

(Dollars in thousands)

NOTE 12 - INCOME TAXES (continued)

Year-end deferred tax assets and liabilities were due to the following:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 15,447	$ 16,567
Nonaccrual loan and security interest	229	235
Deferred compensation liability	32	58
Retirement benefits liability	254	194
Fixed asset depreciation	358	-
Other real estate owned	-	472
Other	850	266
	17,170	17,792
Deferred tax liablities:		
Net unrealized gain on securities available for sale	(1,712)	(4,208)
Prepaid assets	(1,079)	(1,104)
Stock dividends	(81)	(81)
Mortgage servicing rights	(1,578)	(1,438)
Fixed asset depreciation	-	(75)
Deferred loan fees and costs	(549)	(345)
Other	(21)	(21)
	(5,020)	(7,272)
Net deferred tax assets	$ 12,150	$ 10,520

The Corporation evaluated its deferred tax asset at year-end 2021 and has concluded that it is more likely than not that it will be realized. The Corporation expects to have taxable income in the future such that the deferred tax asset will be realized. Therefore, no valuation allowance is required.

Included in accrued interest payable and other liabilities in the consolidated balance sheets at December 31, 2021 and 2020, was an income tax contingency reserve in the amount of $1,000 and $1,150, respectively, related to uncertain matters from state income tax returns. The Corporation does not expect a significant change in unrecognized tax benefits in the next twelve months.

The total amount of interest and penalties recorded in the consolidated statements of income for the years ended December 31, 2021 and 2020 was $0 and $0, and the amount accrued for interest and penalties at December 31, 2021 and 2020 were $0 and $0, respectively.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the State of Indiana and various other states. The Corporation is no longer subject to examination by taxing authorities for years before 2018.

(Continued)

(Dollars in thousands)

NOTE 13 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Bank, as well as companies and partnerships with which they are affiliated, are customers of the Bank in the ordinary course of business.

At December 31, 2021 and 2020, the outstanding loans to directors, executive officers and their interests amounted to $114,162 and $95,310, which includes loans originated by the Bank sold servicing retained.

In addition, there are related parties that have ownership interest in certain assets which are leased on a long-term basis by the Bank. These lease commitments are included in Note 14 and are as follows:

Related Party Leases	Lease Start Date	Lease End Date		Monthly Payments as of 12/31/2021
Schererville East Branch	January 2016	December 2025	$	20
Retail Operations Department	January 2017	December 2021	$	7
Loan Review	October 2017	September 2022	$	4
Highland Branch	November 2017	October 2023	$	7
Operations Center	November 2017	June 2028	$	237
Dyer Branch	April 2018	April 2023	$	9
Talent Development	July 2018	June 2023	$	3
Mortgage Center	August 2020	July 2025	$	20
Storage Space	September 2020	July 2025	$	3

The aggregate rent expense under all related party leases was $3,716 in 2021 and $3,634 in 2020.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Bank leases twenty-five of its branch offices, six ATM locations and seventeen other properties under lease agreements which expire between March 31, 2022 and June 30, 2033 and require various minimum annual rentals. The total future minimum rental commitments at December 31, 2021, including the related party leases reported above, under the leases are $32,793 and are payable as follows: 2022 - $5,283; 2023 - $5,192; 2024 - $5,111; 2025 - $4,785; 2026 - $4,236 and thereafter $8,186. The total rental expense amounted to $5,455 and $5,405 for the years ended December 31, 2021 and 2020.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to make loans, revolving lines of credit and standby letters of credit. The Bank’s exposure to credit loss in the event of nonperformance by the other party for these financial instruments is represented by the contractual amount of the commitments. The Bank follows the same credit policy to make such commitments as it uses for on-balance-sheet items.

(Continued)

(Dollars in thousands)

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk at year-end follows:

	2021	2020
Commitments to extend credit	$ 24,254	$ 25,934
Revolving lines of credit	1,048,037	762,357
Standby letters of credit	22,776	21,143

Since many commitments to make loans expire without being used, the amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include real estate, vehicles, business assets, deposits, and other items. Risk of loss is limited to the contractual amount of the financial instruments.

There are various contingent liabilities that are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's financial condition or results of operations.

NOTE 15 - FAIR VALUE

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

> 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 reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and assumptions to estimate fair value:

Mutual Fund Investment: The fair value of mutual fund investments are determined by obtaining quoted prices on nationally recognized security exchanges (Level 1 inputs).

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used 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)

(Continued)

NOTE 15 - FAIR VALUE (Continued)

Mortgage Loans Held for Sale, at Fair Value:
The fair value of mortgage loans held for sale is determined using quoted prices from similar assets adjusted for specific attributes of that loan. (Level 2).

Derivatives: The fair value of derivative financial instruments is based on derivative valuation models using market data inputs as of the valuation date. (Level 2).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued 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 and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Corporation typically applies a discount for liquidation and other considerations.

(Dollars in thousands)

NOTE 15 - FAIR VALUE (Continued)

Assets Measured on a Recurring Basis
Assets measured at fair value on a recurring basis are summarized below:

	December 31, 2021 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Securities available-for-sale:				
U.S. government agencies	$ 24,618	$ -	$ 24,618	$ -
State and political subdivisions	364,116	-	364,116	-
Mortgage-backed - residential	200,745	-	200,745	-
Collateralized mortgage obligations	148,723	-	148,723	-
Other	13,678	-	13,678	-
Total securities available-for-sale	$ 751,880	$ -	$ 751,880	$ -
Mutual fund investments	$ -	$ -	$ -	$ -
Mortgage loans held for sale	$ 10,932	$ -	$ 10,932	$ -
Mortgage banking derivative asset	$ 781	$ -	$ 781	$ -
Interest rate swaps - assets	$ 53,977	$ -	$ 53,977	$ -
Financial Liabilities:				
Interest rate swaps - liabilities	$ 53,977	$ -	$ 53,977	$ -
Forward contracts related to mortgage loans held for sale	$ 7	$ -	$ 7	$ -

	Fair Value Measurements at December 31, 2020 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Securities available-for-sale:				
U.S. government agencies	$ 5,768	$ -	$ 5,768	$ -
State and political subdivisions	233,652	-	233,652	-
Mortgage-backed - residential	181,182	-	181,182	-
Collateralized mortgage obligations	147,478	-	147,478	-
Other	1,498	-	1,498	-
Total securities available-for-sale	$ 569,578	$ -	$ 569,578	$ -
Mutual fund investments	$ 10,707	$ 10,707	$ -	$ -
Mortgage loans held for sale	$ 23,279	$ -	$ 23,279	$ -
Mortgage banking derivative asset	$ 2,614	$ -	$ 2,614	$ -
Interest rate swaps - assets	$ 99,417	$ -	$ 99,417	$ -
Financial Liabilities:				
Interest rate swaps - liabilities	$ 99,417	$ -	$ 99,417	$ -
Forward contracts related to mortgage loans held for sale	$ 422	$ -	$ 422	$ -

(Continued)

(Dollars in thousands)

NOTE 15 - FAIR VALUE (Continued)

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2021 and 2020.

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2021 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$ 533	$ -	$ -	$ 533
Other real estate owned	250	-	-	250

	Fair Value Measurements at December 31, 2020 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 18,321	$ -	$ -	$ 18,321
Other real estate owned	12,467	-	-	12,467

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2021 and 2020:

December 31, 2021	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (1) (Weighted Average)
Impaired loans (collateral dependent)	$ 533	Collateral based measurements	Discount to reflect current market conditions and ultimate collectibility	0%
Other real estate owned	$ 250	Sales comparison approach	Adjustment for difference between the comparable sales	0%

December 31, 2020	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans	$ 18,321	Sales comparison approach	Adjustment for differences between the comparable sales	2 to 9% (8%)
			Capitalization rate	n/a
			Discount for collection issues and changes in market conditions	0 to 10% (10%)
Other real estate owned	$ 12,467	Sales comparison approach	Adjustment for difference between the comparable sales	0 to 3% (2%)

(1) For 2021, the table represent one impaired loan and one other real estate owned property and therefore, a range is not applicable.

(Dollars in thousands)

NOTE 15 - FAIR VALUE (Continued)

Financial Instruments Recorded Using Fair Value Option

The Corporation records loans held for sale at fair value. These loans are intended for sale and the Corporation believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Corporation's policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of December 31, 2021 and December 31, 2020.

As of December 31, 2021 and December 31, 2020, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

	2021	2020
Aggregate fair value	$ 10,932	$ 23,279
Contractual fair value	10,618	18,134
Gain (loss)	$ 314	$ 5,145

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2021 and December 31, 2020 for loans held for sale was:

	2021	2020
Interest income	$ -	$ -
Interest expense	-	-
Change in fair value	(924)	1,017
Total change in fair value	$ (924)	$ 1,017

NOTE 16 - REGULATORY MATTERS

The Corporation and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, for the Bank, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the fully phased Basel III rules, the Bank must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Corporation and the Bank met all capital adequacy requirements to which they are subject.

The Bank's prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

(Continued)

(Dollars in thousands)

NOTE 16 - REGULATORY MATTERS (continued)

At year-end, the Corporation and Bank's actual capital levels and minimum required levels, including the capital conversion buffer, were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Total capital (to risk weighted assets)						
Consolidated	$ 622,907	12.18%	$ 536,868	10.50%	N/A	N/A
Bank	$ 665,373	13.02%	$ 536,428	10.50%	$ 510,884	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated	$ 559,792	10.95%	$ 434,607	8.50%	N/A	N/A
Bank	$ 602,258	11.79%	$ 434,252	8.50%	$ 408,707	8.00%
Common tier 1 capital (CET1)						
Consolidated	$ 559,792	10.95%	$ 357,912	7.00%	N/A	N/A
Bank	$ 602,258	11.79%	$ 357,619	7.00%	$ 332,075	6.50%
Tier 1 capital (to average total assets)						
Consolidated	$ 559,792	9.11%	$ 245,896	4.00%	N/A	N/A
Bank	$ 602,258	9.81%	$ 245,546	4.00%	$ 306,932	5.00%
2020						
Total capital (to risk weighted assets)						
Consolidated	$ 549,565	11.71%	$ 492,697	10.50%	N/A	N/A
Bank	$ 593,603	12.66%	$ 492,281	10.50%	$ 468,839	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated	$ 490,796	10.46%	$ 398,850	8.50%	N/A	N/A
Bank	$ 534,885	11.41%	$ 398,513	8.50%	$ 375,071	8.00%
Common tier 1 capital (CET1)						
Consolidated	$ 490,796	10.46%	$ 328,465	7.00%	N/A	N/A
Bank	$ 534,885	11.41%	$ 328,187	7.00%	$ 304,745	6.50%
Tier 1 capital (to average total assets)						
Consolidated	$ 490,796	8.78%	$ 223,473	4.00%	N/A	N/A
Bank	$ 534,885	9.59%	$ 223,108	4.00%	$ 278,885	5.00%

At year-end 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Continued)

(Dollars in thousands)

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $2,539,329 and $1,287,616 at December 31, 2021 and 2020, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps. Commonly, the Corporation will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Corporation's exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in the agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Corporation minimizes credit risk through credit approvals, limits, and monitoring procedures.

The following table reflects the fair value swaps included in the Consolidated Balance Sheets as of December 31:

	Fair Value	
	2021	2020
Included in other assets:		
Interest rate swaps	$ 53,977	$ 99,417
Included in other liabilities:		
Interest rate swaps	$ 53,977	$ 99,417

The effect of derivative instruments on the Consolidated Statement of Income for the twelve months ended December 31, 2021 and 2020 are as follows:

	Amount of Gain Recognized on Derivative	
	2021	2020
Interest rate swaps:		
Gains on interest rate swaps	$ 6,100	$ 13,911

Mortgage Banking Derivatives:

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Corporation's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships. At year-end 2021, the Corporation had approximately $25,404 of interest rate lock commitments and $28,594 of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of $781 and a derivative liability of $7.

(Dollars in thousands)

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At year-end 2020, the Corporation had approximately $52,482 of interest rate lock commitments and $63,720 of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of $2,614 and a derivative liability of $422. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in fair values of these mortgage banking derivatives are included in mortgage banking income.

The net gains (losses) relating to free-standing derivative instruments used for risk management are summarized below as of December 31:

	2021	2020
Forward contracts related to:		
mortgage loans held for sale	$ 415	$ (421)
Interest rate lock commitments	$ (1,833)	$ 2,084

The following table reflects the amount and market value of mortgage banking derivatives included in the Consolidated Balance Sheet as of December 31:

	2021		2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Forward contracts related to				
mortgage loans held for sale	$ 23,959	$ 27	$ -	$ -
Interest rate lock commitments	25,404	754	52,482	2,614
Total included on other assets:		$ 781		$ 2,614
Included in other liabilities				
Forward contracts related to				
mortgage loans held for sale	$ 4,635	$ 7	$ 63,720	$ 422
Interest rate lock commitments	-	-	-	-
Total included on other liabilities:		$ 7		$ 422

(Continued)

(Dollars in thousands)

NOTE 18 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

Condensed financial statements for First Bancshares, Inc. (parent company only) follow:

CONDENSED BALANCE SHEETS
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash	$ 5,172	$ 4,199
Investment in Centier Bank and CRM, LLC	611,225	553,690
Other assets	4,772	3,574
Total assets	$ 621,169	$ 561,463
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Other borrowings	$ 53,800	$ 53,800
Accrued interest payable and other liabilities	1,102	1,102
Total Liabilities	54,902	54,902
Stockholders' equity		
Common stock	113	113
Capital surplus	26,202	26,202
Retained earnings	533,477	464,481
Accumulated other comprehensive income	6,475	15,765
Total stockholders' equity	566,267	506,561
Total liabilities and stockholders' equity	$ 621,169	$ 561,463

(Continued)

(Dollars in thousands)

NOTE 18 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2021 and 2020

	2021	2020
Dividend income	$ 18,248	$ 16,676
Interest expense on subordinated debentures and borrowings	(2,327)	(2,327)
Other operating expenses	(232)	(239)
Income before equity in undistributed net income of Centier Bank and CRM, LLC	15,689	14,110
Equity in undistributed net income of Centier Bank and CRM, LLC	66,825	57,171
Income tax benefits	640	642
Net income	$ 83,154	$ 71,923
Comprehensive income	$ 73,864	$ 80,921

(Continued)

(Dollars in thousands)

NOTE 18 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 83,154	$ 71,923
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed net income of subsidiaries	(66,825)	(57,171)
(Increase) in other assets	(1,198)	(3,284)
Net cash from operating activities	15,131	11,468
Cash flows from investing activities		
Net cash from investing activities	-	-
Cash flows from financing activities		
Cash dividends paid	(14,158)	(11,327)
Net cash from financing activities	(14,158)	(11,327)
Net Change in cash and cash equivalents	973	141
Cash and cash equivalents at beginning of the year	4,199	4,058
Cash and cash equivalents at the end of the year	$ 5,172	$ 4,199

— OFFICE LOCATIONS —

ALLEN COUNTY

FORT WAYNE
803 S. Calhoun St. (Suite 100)

BOONE COUNTY

WHITESTOWN
*6650 Whitestown Pkwy.
(Inside Meijer)

ZIONSVILLE
*50 N. Ford Rd.

ELKHART COUNTY

ELKHART
*100 S. Main St.
*303 County Rd. 17
*2809 Emerson Dr.

GOSHEN
*1716 Elkhart Rd.

HAMILTON COUNTY

CARMEL
*568 E. Carmel Dr.

FISHERS
*11684 Allisonville Rd.

WESTFIELD
*3002 E. State Rd. 32

LAKE COUNTY

CEDAR LAKE
*9704 Lincoln Plaza
(Inside Strack & Van Til)

CROWN POINT
*117 E. Joliet St.
*1276 N. Main St.
*1501 S. Court St.

DYER
*1121 Sheffield Ave.

EAST CHICAGO
*720 W. 145th St.

GARY
*504 Broadway (Suite 102)
*650 S. Lake St.
*4883 Broadway

LAKE COUNTY (cont.)

GRIFFITH
*500 N. Broad St.

HAMMOND
*5433 Hohman Ave.
*2635 169th St.
(Inside Van Til's)

HIGHLAND
*9701 Indianapolis Blvd.
*9102 Indianapolis Blvd.

HOBART
*433 Main St.
*7760 E. 37th Ave.
(Inside Strack & Van Til)

LOWELL
*1914 E. Commercial Ave.

MERRILLVILLE
*8310 Broadway
*3198 E. 81st Ave.
(Corner of Colorado and U.S. 30)
*6001 Broadway
(Inside Strack & Van Til)

MUNSTER
*9716 White Oak Ave.

SCHERERVILLE
*5191 W. Lincoln Hwy.

ST. JOHN
*9621 Wicker Ave. (U.S. Hwy. 41)

WHITING
*1500 119th St.

WINFIELD
*8020 E. 109th Ave.

LAPORTE COUNTY

LA PORTE
*73 Pine Lake Ave.

MICHIGAN CITY
*5501 Franklin St. (U.S. Rt. 421)

MARION COUNTY

INDIANAPOLIS
*50 S. Meridian St.

MARSHALL COUNTY

PLYMOUTH
*537 N. Oak Dr.

PORTER COUNTY

CHESTERTON
103 Broadway
*104 Grant St.
*1600 S. Calumet Rd.

PORTAGE
*3220 Willowcreek Rd.
*6046 Central Ave.
(Inside Strack & Van Til)

SOUTH HAVEN
*390 West U.S. Hwy. 6

VALPARAISO
*150 Lincolnway
*1802 Calumet Ave.
*360 Morthland Dr.
*2707 La Porte Ave.

ST. JOSEPH COUNTY

GRANGER
*7108 Gumwood Rd.

MISHAWAKA
*255 E. Day Rd.

SOUTH BEND
*108 N. Main St. (Suite 102)
*2850 W. Cleveland Rd.

TIPPECANOE COUNTY

LAFAYETTE
*323 Columbia St. (Suite 1A)
*1921 Veterans Memorial Pkwy S.
*5 Executive Dr. (Suite A)

WEST LAFAYETTE
*1020A Sagamore Pkwy. West
*2636 U.S. 52
(Inside Meijer)

CORPORATE HEADQUARTERS - MERRILLVILLE - 600 E. 84TH AVE.

219-756-BANK | 1-888-Centier | Centier.com

*ATM Locations