2021

CONNECTING WITH OUR CLIENTS AND COMMUNITIES

ANNUAL REPORT AND FORM 10-K

TIM LANEY

FELLOW SHAREHOLDERS,

2021 was a year of strengthening existing connections, forging new ones, and creating innovative ways to connect with our clients, associates and communities. As a result, we achieved record earnings for the fourth consecutive year, all while maintaining exceptional credit quality. This is a testament to our commitment to deliver common sense banking by building lasting relationships based on the principles of fairness and simplicity. During 2021, we also announced our strategic intent to build 2UniFi℠, a comprehensive and fully digital ecosystem to support the financial and information needs of small and medium-sized businesses.

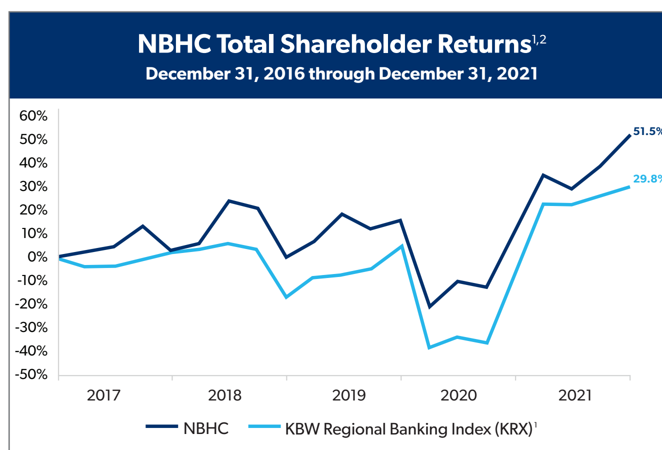
Financial highlights for the twelve months ended December 31, 2021 include:

- Record net income of $93.6 million and earnings per share of $3.01
- Full year net charge-offs of only three basis points
- Record loan originations of $1.5 billion

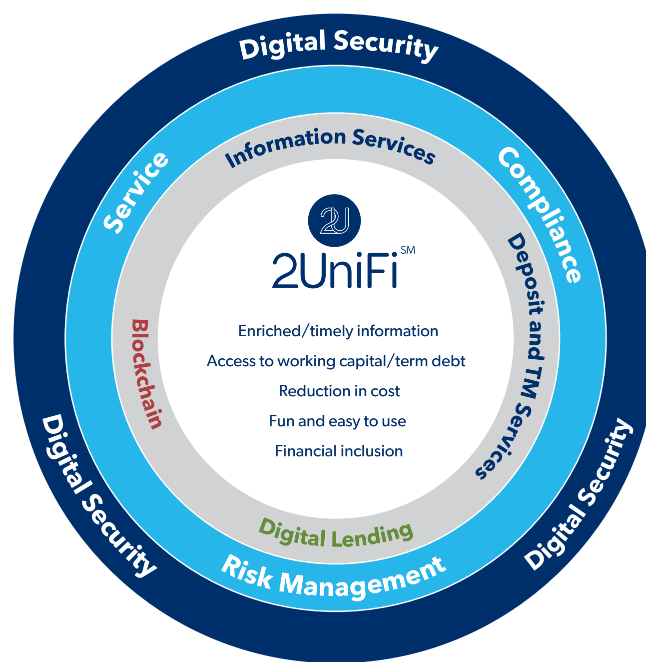
We were pleased to be recognized again as one of Fortune's 100 Fastest Growing Companies and among the top public companies for shareholder value creation. Newsweek named us the #1 Best Small Bank in Colorado for 2021, and Bank Director ranked us #9 in the Best Small Regional Banks for 2022. Further, our shareholder return continues to outperform the KBW Regional Banking Index. In 2021, we also completed $36.4 million of share repurchases, which amounts to over 900,000 shares. Simply put, I am proud that our financial performance is providing meaningful returns for our shareholders.

In 2021, our banking teams were active in our communities, meeting in person with our clients and prospective clients, working together to navigate the ever-changing environment. We generated new loan originations of $1.5 billion, helping our clients and communities move beyond the pandemic. Additionally, we worked with our clients who participated in the SBA's Paycheck Protection Program to achieve forgiveness of these loans. These funds helped hundreds of small and medium-sized businesses secure their payrolls and support their employees through challenging times.

On another important front, we helped our clients secure their dream homes with mortgage production of $2.2 billion.



We believe that it is important to provide our clients with options for how they address their financial needs. To that end, we are building a comprehensive, easy-to-use, digital financial marketplace for small and medium-sized businesses. 2UniFi℠ will emerge as a national ecosystem providing access to a broad array of financial services, real-time information and blockchain payment



tools within a secure, safe and regulated platform. Our goal is to reduce stress and save business owners both time and money by addressing their borrowing,

[1]Total Shareholder Return measured based on security and index market close prices and dividends re-invested into the same security or index.
[2]Past results are not a guarantee of future performance.

depository and cash management needs through a first-of-its-kind digital financial marketplace.

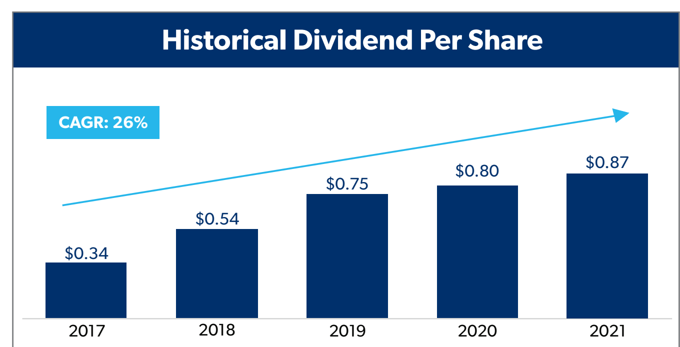
Partnering with fintech innovators is critical to realizing our vision for 2UniFi℠. In 2021, we made direct investments in Finstro Global Holdings, Inc. and Figure Technologies. These partnerships are the first of many innovators we will be working with to accelerate our delivery for 2UniFi℠. Finstro provides a unique and fully digital solution to working capital and trade finance needs of small and medium-sized businesses. With respect to Figure, we are pleased to be a founding member of the USDF™ Consortium, an association of regulated financial institutions, which will help facilitate the transfer of value on the blockchain. We believe these digital innovations, in partnership with a consortium of other banks, will begin to usher in a new era of payment and information management solutions for small and medium-sized businesses.

We continued to make safety a priority during the pandemic for our associates and clients. When circumstances warranted, we requested our clients access our banking center lobbies by appointment while maintaining drive-thru services. Furthermore, we actively worked with clients to assist them in using mobile and online banking capabilities as an alternative to conducting business in our banking centers. For our associates, we waived medical plan cost-sharing and co-pays for COVID-19 testing and treatment throughout the year.

We believe that equity, diversity and inclusion help us connect and build strong relationships within our Company and in the communities where we live and do business. While we view our work as a journey, results to date include:

- 68% of the Company's workforce is female and 56% of the Company's managerial roles are female.[1]
- Minorities represent 22% of the Company's workforce and 19% of the Company's managerial roles.[1]
- We welcomed two new directors to our Board in 2021. Patrick Sobers and Alka Gupta bring additional diversity, insight and perspective to our Company.

I am proud of the meaningful contributions our organization and associates continue to provide through volunteerism and giving in our communities. We had great participation in our annual Do More Charity Challenge® held this year in Kansas City, taking our six year total to nearly $1.5 million in charitable contributions raised, benefiting a wide variety of non-profits in our communities. Our NBH Charitable Foundation provided much needed funding to non-profits including Habitat for Humanity in Utah, Impact Ventures in Texas, People of All Colors Succeed in Kansas City and a special contribution to the Boulder County Wildfire Fund to help those impacted by the devastating Marshall fire that hit our Colorado community in December 2021. In addition, we purchased loans from Habitat for Humanity in Fort Collins, Colorado to enable them to continue building much needed affordable housing.



Our relationship-based banking model and focus on growing market share, all while maintaining a low to moderate risk profile, led to our strong financial performance and establishes a strong foundation for further organic and acquisition-related growth. We grew our tangible book value to $24.33 at December 31, 2021. Our full year dividend totaled $0.87, increasing 9% in 2021. We also raised $40 million in subordinated debt at a 3.0% coupon, one of the lowest cost capital raises in the industry. Our excess liquidity of $2.7 billion coupled with fortress levels of capital, gives us meaningful optionality.

I could not be more proud of my teammates for their continued focus on our clients, communities and each other. We believe that our commitment to building win-win relationships, with a focus on fairness and simplicity, will continue to produce best-in-class results.

SINCERELY,

TIM LANEY
CHAIRMAN, PRESIDENT AND CEO

[1]As of December 31, 2021.

2021 HIGHLIGHTS

DRIVING STRONG AND CONSISTENT FINANCIAL PERFORMANCE

- Record full year earnings per share of $3.01 and $93.6 million in net income
- Record full year loan originations of $1.5 billion
- Low full year net charge-offs to average loans of just 3 basis points
- Record tangible book value per share, growing to $24.33 at December 31, 2021
- Raised $40 million in subordinated debt at a 3.0% coupon, one of the lowest cost capital raises in the industry

DELIVERING AN INNOVATIVE MARKETPLACE FOR SMALL AND MEDIUM-SIZED BUSINESSES

- Announced 2UniFi℠, a national platform that provides access to a robust array of financial services, real-time information and blockchain payment tools within a secure platform and regulated environment to small and medium-sized businesses
- Completed strategic investments in Finstro Global Holdings, Inc. and Figure Technologies
- Founding member of USDF™ Consortium – a network of banks working to facilitate the compliant transfer of value on the blockchain

CREATING A CULTURE THAT DRIVES RECOGNITION

- Named #1 Colorado Small Bank in 2021 by Newsweek
- Named #9 Best Small Regional Bank in 2022 by BankDirector
- 2nd consecutive year in Fortune's 100 Fastest Growing Companies

RECENT RECOGNITION

#92 of 100

#93 In total value creation for the last 3 years[1]

Fortune

Best Small Regional Banks #9

#1 & #5 Market Presence in Top 5 Best Places to Live

U.S. News

[1]Represents a three-year annualized total shareholder return based on data for publicly-traded companies using Fortune's criteria (10/28/2021). From FORTUNE. ©2021 FORTUNE Media IP Limited All rights reserved. Used under license.

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________
Commission File Number: 001-35654

NATIONAL BANK HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**27-0563799**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

7800 East Orchard Road, Suite 300, Greenwood Village, Colorado 80111
(Address of principal executive offices) (Zip Code)
Registrant's telephone, including area code:
(303) 892-8715

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, Par Value $0.01	NBHC	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

As of June 30, 2021, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $1,139,000,000 based on the closing sale price as reported on the New York Stock Exchange.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of February 21, 2022, NBHC had outstanding 29,959,010 shares of Class A voting common stock with $0.01 par value per share, excluding 143,710 shares of restricted Class A common stock issued but not yet vested.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2022 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2021 will be incorporated by reference into Part III of this Form 10-K.

INDEX

			Page
Cautionary Notes Regarding Forward Looking Statements			3
PART I	Item 1.	Business	5
	Item 1A.	Risk Factors	20
	Item 1B.	Unresolved Staff Comments	34
	Item 2.	Properties	34
	Item 3.	Legal Proceedings	35
	Item 4.	Mine Safety Disclosures	35
PART II	Item 5.	Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	35
	Item 6.	Selected Financial Data	37
	Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	45
	Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	70
	Item 8.	Financial Statements and Supplementary Data	71
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	124
	Item 9A.	Controls and Procedures	124
	Item 9B.	Other Information	127
PART III	Item 10.	Directors, Executive Officers and Corporate Governance	127
	Item 11.	Executive Compensation	127
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	127
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	127
	Item 14.	Principal Accountant Fees and Services	127
PART IV	Item 15.	Exhibits and Financial Statement Schedules	128
Signatures			131

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, notwithstanding that such statements are not specifically identified. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “believe,” “can,” “would,” “should,” “could,” “may,” “predict,” “seek,” “potential,” “will,” “estimate,” “target,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “intend” and similar words or phrases. These statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties. We have based these statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, liquidity, results of operations, business strategy and growth prospects.

Forward-looking statements involve certain important risks, uncertainties and other factors, any of which could cause actual results to differ materially from those in such statements and, therefore, you are cautioned not to place undue reliance on such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our ability to execute our business strategy, including our digital strategy, as well as changes in our business strategy or development plans;
- business and economic conditions generally and in the financial services industry;
- effects of any potential government shutdowns;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- effects of any changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- changes imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions;
- effects of inflation, as well as, interest rate, securities market and monetary supply fluctuations;
- changes in the economy or supply-demand imbalances affecting local real estate values;
- changes in consumer spending, borrowings and savings habits;
- with respect to our mortgage business, our inability to negotiate our fees with Fannie Mae, Freddie Mac, Ginnie Mae or other investors for the purchase of our loans, our obligation to indemnify purchasers or to repurchase the related loans if the loans fail to meet certain criteria, or higher rate of delinquencies and defaults as a result of the geographic concentration of our servicing portfolio;
- our ability to identify potential candidates for, obtain regulatory approval for, and consummate, acquisitions, consolidations or other expansion opportunities on attractive terms, or at all;
- our ability to integrate acquisitions or consolidations and to achieve synergies, operating efficiencies and/or other expected benefits within expected time-frames, or at all, or within expected cost projections, and to preserve the goodwill of acquired financial institutions;
- our ability to realize the anticipated benefits from enhancements or updates to our core operating systems from time to time without significant change in our client service or risk to our control environment;

- our dependence on information technology and telecommunications systems of third-party service providers and the risk of system failures, interruptions or breaches of security, including those that could result in disclosure or misuse of confidential or proprietary client or other information;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- changes in sources and uses of funds, including loans, deposits and borrowings;
- increased competition in the financial services industry, nationally, regionally or locally, resulting in, among other things, lower returns;
- continued consolidation in the financial services industry;
- our ability to maintain or increase market share and control expenses;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- the trading price of shares of the Company's stock;
- the effects of tax legislation, including the potential of future increases to prevailing tax rates, or challenges to our position;
- our ability to realize deferred tax assets or the need for a valuation allowance, or the effects of changes in tax laws on our deferred tax assets;
- costs and effects of changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, changes in regulation that affect the fees that we charge, the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations, reviews or other inquiries; and changes in regulations that apply to us as a Colorado state-chartered bank;
- technological changes;
- the timely development and acceptance of new products and services, including in the digital technology space and our digital solution 2UniFi, and perceived overall value of these products and services by our clients;
- changes in our management personnel and our continued ability to attract, hire and retain qualified personnel;
- ability to implement and/or improve operational management and other internal risk controls and processes and our reporting system and procedures;
- regulatory limitations on dividends from our bank subsidiary;
- changes in estimates of future credit reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- widespread natural and other disasters, dislocations, political instability, pandemics, acts of war or terrorist activities, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically;
- adverse effects due to the novel Coronavirus Disease 2019 (“COVID-19”) on the Company and its clients, counterparties, employees and third-party service providers, and the adverse impacts on our business, financial position, results of operations and prospects;
- a cyber-security incident, data breach or a failure of a key information technology system;

- impact of reputational risk on such matters as business generation and retention;
- other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission; and
- our success at managing the risks involved in the foregoing items.

Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law.

PART I: FINANCIAL INFORMATION

Item 1. BUSINESS.

Summary

National Bank Holdings Corporation ("NBHC" or the "Company") is a financial holding company that was incorporated in the State of Delaware in 2009. The Company is headquartered in Greenwood Village, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank (the "Bank"). The Company provides a variety of banking products and services to both commercial and consumer clients through a network of 81 banking centers, as of December 31, 2021, located primarily in Colorado and the greater Kansas City region, and through online and mobile banking products and services. As of December 31, 2021, we had $7.2 billion in assets, $4.5 billion in loans, $6.2 billion in deposits and $0.8 billion in shareholders' equity.

During 2021, we announced the initial development of our digital solution 2UniFi, a national platform for providing information management and access to blockchain payment tools to small and medium-sized businesses. We believe these services will address borrowings, depository and cash management needs for our clients by providing digital access to financial services, real-time information and blockchain solutions. We continue to focus on growing our core business while also innovating and building partnerships that will help us deliver a comprehensive digital financial ecosystem.

NBH Bank is a Colorado state-chartered bank and a member of the Federal Reserve Bank of Kansas City. We operate under a single state charter through the following brand names as divisions of NBH Bank: in Colorado, Community Banks of Colorado and Community Banks Mortgage; in Kansas and Missouri, Bank Midwest and Bank Midwest Mortgage; and in Texas, Utah and New Mexico, Hillcrest Bank and Hillcrest Bank Mortgage. We believe that conducting our banking operations under a single state charter streamlines our operations and enables us to more effectively and efficiently execute our growth strategy.

We began banking operations in October 2010 and, as of December 31, 2021, we have completed six bank acquisitions. We have transformed these banks into one collective banking operation with a strong capital position, organic growth, prudent underwriting, a granular and well-diversified loan portfolio and meaningful market share with continued opportunity for expansion.

Our Market Area

Our core markets are broadly defined as Colorado, the greater Kansas City region, Texas, Utah and New Mexico. We are the third largest banking center network among Colorado-based banks and the ninth largest banking center network in the greater Kansas City metropolitan statistical area ("MSA") among Missouri- and Kansas-based banks ranked by deposits as of June 30, 2021 (the last date as of which data are available), according to S&P Global. Other major MSAs in which we operate include Dallas-Fort Worth-Arlington, Texas; Austin-Round Rock, Texas; and Salt Lake City, Utah.

We believe that our established presence in our markets positions us well for growth opportunities. An integral component of our foundation and growth strategy has been to capitalize on market opportunities and acquire financial services franchises. Our primary focus has been on markets that we believe are characterized by some or all of the following: (i) attractive demographics with household income and population growth above the national average; (ii) concentration of business

activity; (iii) high quality deposit bases; (iv) an advantageous competitive landscape that provides opportunity to achieve meaningful market presence; (v) consolidation opportunities as well as potential for add-on transactions; and (vi) markets sizeable enough to support our long-term organic growth objectives.

The table below describes certain key demographic statistics regarding our markets:

	Deposits (billions)	# of businesses (thousands)	Population (millions)	Unemployment rate[(1)]	Population growth[(2)]	Median household income	Top 3 competitor combined deposit market share
Denver, CO	$ 122.0	197.5	3.0	4.9%	17.3%	$ 86,603	54%
Front Range, CO[(3)]	164.1	> 250.0	4.8	4.8%	18.5%	83,721	52%
Kansas City, MO-KS MSA	81.9	112.6	2.2	3.4%	5.1%	72,051	45%
Austin, TX	61.7	116.3	2.3	3.4%	29.6%	85,670	51%
Dallas, TX	426.6	> 250.0	7.7	4.3%	15.7%	75,727	62%
Salt Lake City, UT	73.6	64.7	1.3	1.8%	13.9%	82,244	76%
U.S.[(4)]				3.9%	6.5%	67,761	56%

(1) Unemployment data is as of December 31, 2021.
(2) For the period 2011 through 2021.
(3) Colorado Front Range is a population weighted average of the following Colorado MSAs: Denver, Boulder, Colorado Springs, Fort Collins and Greeley.
(4) Top 3 competitor combined deposit market share based on U.S. Top 20 MSAs (determined by population).

Source: S&P Global as of December 31, 2021, except Deposits and Top 3 Competitor Combined Deposit Market Shares, which reflects data as of June 30, 2021.

Our Business Strategy

As part of our goal of becoming a leading regional community financial services company, we seek to continue to generate strong organic growth, as well as pursue selective acquisitions of financial institutions and other complementary businesses. Our focus is on building organic growth through strong banking relationships with small- and medium-sized businesses and consumers in our primary markets, while maintaining a low-risk profile designed to generate reliable income streams and attractive returns.

While we remain focused on executing on our business strategies, in 2021 we continued to support our associates, clients, and communities as we navigated the on-going COVID-19 pandemic. We continue to leverage our digital banking platform with our clients and have been working diligently to support our clients who were experiencing financial hardship through participation in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") including assistance with PPP loan forgiveness applications for the first draw loans, PPP loan applications for the second draw and loan modifications, as needed.

The key components of our strategic plan are:

- *Focus on client-centered, relationship-driven banking strategy*. Our business and commercial bankers focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete array of loan, deposit and treasury management products and services. Our business and commercial bankers are supported by treasury management teams in each of their markets, which allows us to more effectively deliver a comprehensive suite of products and services to our business clients and further deepen our banking relationships. Our consumer bankers focus on knowing their clients in order to best meet their financial needs, offering a full complement of loan, deposit, online and mobile banking solutions.

- *Expansion of commercial banking, business banking and specialty businesses*. We have made significant investments in our commercial relationship managers, as well as developed significant capabilities across our

business banking and several specialty commercial banking offerings. Our strategy is to originate a high-quality loan portfolio that is diversified across industries and granular in loan size. We have preferred lender status with the SBA providing a leveraged platform for growth in the business lending segment. We believe we are well-positioned to leverage our operating and risk management infrastructure through organic growth, and we intend to continue to add or repurpose our commercial relationship managers to higher growth opportunities and markets in order to drive increased profitability.

- *Expansion through organic growth, competitive product and digital offerings*. We believe that our focus on serving consumers and small- to medium-sized businesses, coupled with our competitive product offerings, including our digital solution 2UniFi, will provide an expanded revenue base and new sources of fee income. We conduct regular market and competitive analysis to determine which products and services are best suited for our clients. Our teams also continue to pursue opportunities to deepen client relationships, which we believe will further increase our organic loan origination volumes and attract new transaction accounts that offer lower cost of funds and higher fee generating activity.

- *Expansion through our digital solution 2UniFi.* We are designing a platform for small and medium-sized businesses that we believe will increase access to financial services while reducing the costs of banking services. We are focused on providing small and medium-sized businesses with alternative digital access to address borrowing, depository and cash management needs, while also providing information management and access to blockchain payment tools, under the safety of a regulated bank. We will continue to invest with fintech solution providers to support our ecosystem buildout, support our core bank products and offerings, and to leverage efficiencies and technological solutions in our shared services areas. We believe the expansion into the digital financial ecosystem through our platform will provide an expanded revenue base, new sources of fee income and drive growth in our low cost deposit base on a national scale.

- *Continue to strengthen profitability through organic growth and operating efficiencies*. We continue to utilize our comprehensive underwriting and risk management processes under one operating platform while maintaining local branding and leadership, which allows us to support growth and realize operating efficiencies throughout our enterprise. We believe that we have the infrastructure in place to support our future revenue growth without causing non-interest expenses to increase by a corresponding amount. Our growth strategy is focused on organic initiatives in order to accelerate our growth in profitability. Key priorities to strengthen profitability include the continued ramp-up of loan production, growing low-cost core deposits, implementing additional fee-based business initiatives and further enhancing operational efficiencies, including banking center consolidations.

- *Maintain conservative risk profile and sound risk management practices*. Strong risk management is an important element of our operating philosophy. We maintain a conservative risk culture with adherence to comprehensive and seasoned policies across all areas of the organization. We implement self-imposed concentration limits on our loan portfolio to ensure a granular and diverse loan portfolio and protect against downside risk to any particular industry or real estate sector. In light of the strain placed on certain industries by the COVID-19 pandemic, the Company has prudently evaluated and continues to closely monitor our entire loan portfolio. To manage credit risk and yield, we are taking a very careful approach to extending new credit. Our risk management approach seeks to identify, assess and mitigate risk and minimize any resulting losses. We have implemented processes to identify, measure, monitor, report and analyze the types of risk to which we are subject. We believe our risk management policies establish appropriate limitations that allow for the prudent oversight of such risks that include, but are not limited to the following: credit, liquidity, market, operational, legal and compliance, reputational, and strategic and business risk.

- *Pursue disciplined acquisitions or other expansionary opportunities*. We expect that acquisitions or other expansionary opportunities will continue to be a component of our growth strategy. We intend to carefully select opportunities that we believe have stable core franchises, have significant growth potential or will add asset generation capabilities or fee income streams while structuring the opportunities to limit risk. Further, we seek transactions that offer opportunities for clear financial benefits with valuations that have acceptable levels of earnings accretion, tangible book value dilution/earn-back, and internal rates of return. We seek to acquire or expand into financial services franchises in markets that exhibit attractive demographic attributes and business growth trends, and we believe that our focus on attractive markets will provide long-term opportunities for organic growth.

Our main focus is on our primary markets of Colorado, the greater Kansas City region, Texas, Utah and New Mexico, including teams, asset portfolios, specialty commercial finance businesses, and whole banks. From time to time, we also consider other types of opportunities that would be expected to improve our profitability, leverage greater scale and/or leverage technology to grow our digital offerings.

We believe our strategy of strong organic growth through the retention, expansion and development of client-centered relationships and growth through selective acquisitions or other expansionary opportunities in attractive markets provides flexibility regardless of economic conditions. Our established platform for assessing, executing and integrating acquisitions creates opportunities in an economic downturn, and our attractive market factors, franchise scale in our targeted markets and our relationship-centered banking focus create opportunities in an improving economic environment. While the pandemic has created operating stress for many businesses, our teams continually monitor the financial health of our clients in order to manage the increased risk presented by the pandemic and its impact to the global economy. Our strong capital and liquidity have allowed us to prudently navigate a challenging economy, and we believe we are well positioned to continue to support our clients and communities.

Products and Services

Through the Bank, our primary business is to offer a full range of banking products and financial services to our commercial, business and consumer clients, who are predominantly located in Colorado, the greater Kansas City region, Texas, Utah and New Mexico. We conduct our banking business through 81 banking centers, with 40 of those located in Colorado, 34 in Kansas and Missouri, two in Texas, one in Utah and four in New Mexico as of December 31, 2021. Our distribution network also includes 121 ATMs as well as fully integrated online banking and mobile banking services. We offer a high level of personalized service to our clients through our relationship managers and banking center associates. We believe that a personalized banking relationship that includes multiple services, such as loan and deposit services, online and mobile banking solutions and treasury management products and services, is the key to profitable and long-lasting client relationships and that our local focus and decision making provide us with a competitive advantage over banks that do not have these attributes.

Our primary strategic objective is to serve small- to medium-sized businesses in our markets with a variety of unique and useful services, including a full array of banking products, while maintaining a strong and disciplined credit culture and delivering excellent client service. We offer a variety of products and services that are focused on the following areas:

Commercial and Specialty Banking

Our commercial bankers focus on small- and medium-sized businesses and commercial real estate investors/developers with an advisory approach that emphasizes understanding the client's business and offering a complete suite of loan, deposit and treasury management products and services. We have invested significantly in our commercial banking capabilities, attracting experienced commercial bankers from competing institutions in our markets, which positions us well for continued growth in our originated loan portfolio. Throughout the COVID-19 pandemic, our teams have also been working diligently to support our clients who are experiencing financial hardship due to COVID-19 through participation in the SBA's Paycheck Protection Program, including assistance with PPP loan forgiveness applications, and loan modifications, as needed. Our commercial relationship managers offer a wide range of commercial loan products, including:

Commercial and Industrial Loans—We originate commercial and industrial loans and leases, including working capital loans, equipment loans, lender finance loans, food and agribusiness loans, government and non-profit loans, owner occupied commercial real estate loans and other commercial loans and leases. The terms of these loans vary by purpose and by type of underlying collateral, if any.

Working capital loans generally have terms of one to three years, are usually secured by accounts receivable and inventory and carry the personal guarantees of the principals of the business. Equipment loans are generally secured by the financed equipment at advance rates that we believe are appropriate for the equipment type. In the case of owner-occupied commercial real estate loans, we are usually the primary provider of financial services for the company and/or the principals and the primary source of repayment is through the cash flows generated by the borrowers' business operations. Owner-occupied commercial real estate loans are typically secured by a first lien mortgage on real property plus assignments of all leases

related to the properties. Underwriting guidelines generally require borrowers to contribute cash equity that results in an 80% or less loan-to-value ("LTV") ratio on owner-occupied properties. As of December 31, 2021, substantially all of our commercial and industrial loans were secured.

Non-Owner Occupied Commercial Real Estate Loans—Non-owner occupied commercial real estate loans ("CRE") consist of loans to finance the purchase of commercial real estate and development loans. Our non-owner occupied CRE loans include commercial properties such as office buildings, warehouse/distribution buildings, multi-family, hospitality and retail buildings. These loans are typically secured by a first lien mortgage or deed of trust, as well as assignments of all related leases. Underwriting guidelines generally require borrowers to contribute cash equity that results in the lessor of a 75% or less loan to cost or loan to value ratio.

We seek to reduce the risks associated with commercial mortgage lending by focusing our lending in our primary markets. Although non-owner occupied CRE is not a primary focus of our lending strategy, we have developed teams of dedicated CRE bankers in each of our markets who possess the depth and breadth of both market knowledge and industry expertise, which serves to further mitigate risk of this product type.

Small Business Administration Loans—We offer a range of U.S. Small Business Administration, or SBA loans, to support manufacturers, distributors and service providers targeted to small businesses and entrepreneurs seeking growth capital, working capital, or other capital investments. As a Preferred Lender Provider of the SBA, we were able to expedite SBA loan approval, closing, and servicing functions through delegated authority to underwrite and approve loans on behalf of the SBA. We utilize the SBA 7(a) loan, SBA 504 loan, SBA Express loan, and CAP Line loan programs. During 2021 and 2020, we participated in the CARES Act Paycheck Protection Program by offering PPP loans to provide support and funding to our clients affected by the COVID-19 pandemic. Our approach to PPP loans has been to provide the greatest value to our clients both with a thorough and efficient PPP loan origination process and through efficient and expeditious PPP forgiveness.

Commercial Deposit and Treasury Management Products (including business online and mobile banking)—Our commercial bankers are focused on providing value-added deposit products to our clients that optimize their cash management program. We are focused on full-relationship banking, including banking core operating accounts and ancillary accounts. We also provide our commercial clients with money market accounts and short-term repurchase reserve accounts depending on their individual needs. In addition, we provide a wide array of treasury management solutions to our clients, including: business online and mobile banking, commercial credit card services, wire transfers, automated clearing house services, electronic bill payment, lock box services, remote deposit capture services, merchant processing services, cash vault, controlled disbursements, fraud prevention services through positive pay and other auxiliary services, such as account reconciliation, collections, repurchase accounts, zero balance accounts and sweep accounts.

Business Loans—Business loans consist of term loans, line of credit, and real estate secured loans. The terms of these loans vary by purpose and by type of underlying collateral, if any. Business loans generally require LTV ratios of not more than 75 percent. Business loans also assist in the growth of our deposits because many business loan borrowers establish noninterest-bearing and interest-bearing demand deposit accounts and treasury management relationships with us. Those deposit accounts help us to reduce our overall cost of funds, and those treasury management relationships provide us with a source of non-interest income.

Residential and Personal Banking

Our personal bankers focus on knowing their clients in order to best meet their financial needs, offering a full complement of loan, deposit and online and mobile banking solutions. We strive to do business in the areas served by our banking centers, which is also where our marketing is focused, and the vast majority of our new loan and deposit clients are located in existing market areas.

All of our newly originated consumer loans are on a direct to consumer basis. We offer a variety of consumer loans, including:

Residential Real Estate Loans—Residential real estate loans consist of loans secured by the primary or secondary residence of the borrower as well as properties the borrower holds for investment. These loans consist of closed loans, which are

typically amortizing over a 10 to 30-year term. Our LTV benchmark for these loans will generally be below 80% at inception unless related to certain internal or government programs where higher LTV's may be warranted, along with satisfactory debt-to-income ratios. These residential real estate loans are generally originated under terms and conditions consistent with secondary market guidelines. Some of these loans will be placed in the Bank's loan portfolio; however, a majority are sold in the secondary market and provide a significant source of fee income. The majority of loans sold are sold with servicing released. We have residential banking products, servicing capabilities and residential loan origination channels. In addition to the referral business through our existing consumer client base, we have a dedicated team of mortgage bankers who focus origination efforts primarily on new purchase activity and secondarily on refinance activity. We also offer open- and closed-ended home equity loans, which are loans generally secured by second lien positions on residential real estate, and residential construction loans to consumers and builders for the construction of residential real estate. We do not originate or purchase negatively amortizing or sub-prime residential loans.

Consumer Loans—Consumer loans are structured as small personal lines of credit and term loans, with the latter generally bearing interest at a higher rate and having a shorter term than residential mortgage loans. Consumer loans are both secured (for example by deposit accounts, brokerage accounts or automobiles) and unsecured and carry either a fixed rate or variable rate. Examples of our consumer loans include home improvement loans not secured by real estate, new and used automobile loans and personal lines of credit.

Deposit Products (including online and mobile banking)—We offer a variety of deposit products to our clients, including checking accounts, savings accounts, money market accounts, health savings accounts and other deposit accounts, including fixed-rate, fixed maturity time deposits ranging in terms from 30 days to five years, and individual retirement accounts. We view deposits as an important part of the overall client relationship and believe they provide opportunities to cross-sell other products and services. We intend to continue our efforts to attract low-cost transaction deposits from our client relationships. Consumer deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our banking centers. In order to attract and retain deposits, we rely on providing competitively priced high-quality service and introducing new products and services that meet our clients' needs.

We also offer comprehensive, user-friendly mobile and online banking platforms allowing our clients to pay bills, check statements, deposit checks and transfer funds, amongst other features, online or on-the-go.

Lending Activities

Our loan portfolio includes commercial and industrial loans, commercial real estate loans, residential real estate loans, business loans and consumer loans. The principal risk evaluated with each category of loans we make is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the attributes of the borrower's market or industry segment. Attributes of the relevant business market or industry segment include the economic and competitive environment, changes to supply or demand, threat of substitutes and barriers to entry and exit. In our credit underwriting process, we carefully evaluate the borrower's industry, operating performance, liquidity and financial condition. We underwrite credits based on multiple repayment sources, including operating cash flow, liquidation of collateral and guarantor support, where appropriate. We closely monitor the operating performance, liquidity and financial condition of borrowers through analysis of periodic financial statements and meetings with the borrower's management. As part of our credit underwriting process, we also review the borrower's total debt obligations on a global basis. Our credit policy requires that key risks be identified and measured, documented and mitigated, to the extent possible, to seek to ensure the soundness of our loan portfolio.

Our credit policy also provides detailed procedures for making loans to individual and business clients along with the regulatory requirements to ensure that all loan applications are evaluated subject to our fair lending policy. Our credit policy addresses the common credit standards for making loans to clients, the credit analysis and financial statement requirements, the collateral requirements, including insurance coverage where appropriate, as well as the documentation required. Our ability to analyze a borrower's current financial health and credit history, as well as the value of collateral as a secondary source of repayment, when applicable, are significant factors in determining the creditworthiness of loans to clients. We require various levels of internal approvals based on the characteristics of such loans, including the size, nature of the exposure and type of collateral, if any. We believe that the procedures required by our credit policies enhance internal

responsibility and accountability for underwriting decisions and permit us to monitor the performance of credit decision-making. An integral element of our credit risk management strategy is the establishment and adherence to concentration limits for our portfolio. We have established concentration limits that apply to our portfolio based on product types such as commercial real estate, consumer lending, and various categories of commercial and industrial lending. For more detail on our credit policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Asset Quality."

Competition

The banking landscape in our primary markets of Colorado, Kansas City region, Texas, Utah and New Mexico is highly competitive and quite fragmented, with many small banks having limited market share while the large out-of-state national and super-regional banks control the majority of deposits and profitable banking relationships. We compete actively with national, regional and local financial services providers, including: banks, thrifts, credit unions, mortgage companies, finance companies and financial technology ("fintech") companies.

Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a variety of traditional brick and mortar banks and nontraditional alternatives, such as online banks and fintech companies. Competition among providers is based on many factors. The primary factors driving commercial and consumer competition for loans and deposits are interest rates, the fees charged, client service levels and the range of products and services offered. In addition, other competitive factors include the location and hours of our banking centers, the client service orientation of our associates and the availability of digital banking products and services. We believe the most important of these competitive factors that determine our success are our consumer bankers' focus on knowing their individual clients in order to best meet their financial needs and our business and commercial bankers' focus on small- and medium-sized businesses with an advisory approach that emphasizes understanding the client's business and offering a complete array of loan, deposit and treasury management products and services through our banking centers and, especially during the COVID-19 pandemic, our digital banking platform.

We recognize that there are banks and other financial services companies with which we compete that have greater financial resources, access to more capital and higher lending capacity and offer a wider range of deposit and lending instruments. However, given our existing capital base, we expect to be able to meet the majority of small- to medium-sized business and consumer credit and depository service needs.

Human Capital

Our core values Integrity, Meritocracy, Teamwork and Citizenship, represent our belief that our Company's long-term success is deeply tied to having a dedicated and engaged workforce and a commitment to the communities we serve. We are committed to building and contributing to a healthy workplace environment for our associates by investing in competitive compensation and benefit packages, promoting inclusion of diverse viewpoints and backgrounds, providing training and career development opportunities and promoting qualified associates within our organization.

Associate Statistics

We are committed to attracting, developing, and retaining associates who reflect the communities in which we serve. Partnerships with professional associations, schools and universities imbedded within our local footprint, and the use of various technology solutions assist us in connecting and building relationships with a diverse pool of candidates. As of December 31, 2021, we employed 1,120 full-time and 34 part-time associates throughout our business footprint.

The market for top talent is highly competitive. We recognize that workforce turnover is not only financially costly, but it does not align with our commitment to our team. We believe we are best served when we can invest through meritocracy within our current talent pool. The average tenure of service of our associates is approximately seven years.

Equity, Diversity and Inclusion

We strongly believe that equity, diversity and inclusion are important elements in building and sustaining a successful organization and positive, results-driven culture. Additionally, equity, diversity and inclusion helps us to connect and build better relationships within our Company and communities. As a result of our efforts:

- 68% of the Company's workforce is female and 56% of the Company's managerial roles are female, as of December 31, 2021.
- Minorities represent 22% of the Company's workforce and 19% of the Company's managerial roles, as of December 31, 2021.
- In 2021, we hired 382 associates, and 70% of those new associates were female and 35% were minorities.
- In 2021, 251 associates, or 22% of our workforce, were promoted, and 68% of those individuals were female and 25% were minorities.

The Company oversees its Equity, Diversity and Inclusion efforts through our broader Environmental, Social and Governance ("ESG") Committee that is comprised of a multi-disciplinary group of associates throughout NBH Bank with oversight by the executive management team. To further our diversity goals for our workforce, the Company has also implemented programs developed to foster equality and leadership opportunities for the entire associate base, including events with keynote speakers, panels and Q&A forums to enable associate feedback. Our management team also plays an integral part in championing women in business by hosting networking events, serving on panels and sponsoring relevant events that foster understanding and engagement, such as the ATHENA leadership awards.

Associate Development and Training

We believe that building the best team requires investing in our associates' professional development. Associates have access to our learning center, NBH University, which offers a variety of courses that center around professional development. Additionally, we have connection mentors in place to assist new associates with expanding their network, building professional skills, helping navigate the organization and assist in onboarding.

Compensation and Benefits

Our Company offers comprehensive benefits packages to our associates, including medical and prescription drug insurance, dental insurance and vision insurance as well as several voluntary benefit options. Our compensation structure recognizes the individual performance of our associates through merit-based salary increases with a focus on variable pay and paying for performance.

We also encourage our associates to think about their long-term financial stability. Our associates have the opportunity to participate in our 401(k) plan, which includes contribution matches from the Company. Additionally, we offer a stock purchase plan (ASPP) to our associates which allows those who work 20 hours or more per week to purchase shares in our Company through payroll deductions at a 10% discount.

Community Engagement

We strive to make a positive impact in the communities we serve through consistent engagement, as well as maintaining strong partnerships with a wide range of charitable organizations and causes. All bank associates are granted up to eight paid hours each year to donate their time to non-profit organizations that align with our Community Reinvestment Act ("CRA") initiatives, which include financial literacy, affordable housing and workforce development.

Safety and Respect in the Workplace

We are committed to providing a safe and secure work environment in accordance with applicable labor, safety, health, anti-discrimination and other workplace laws. We strive for all of our associates to feel safe and empowered at work. To that end, we maintain a whistleblower hotline that allows associates and others to anonymously voice concerns. We prohibit retaliation against an individual who reported a concern or assisted with an inquiry or investigation.

Our Company made workplace safety a priority during the COVID-19 pandemic. We adhered to applicable health and governmental guidelines with respect to wearing masks and quarantines. We maintained our drive-thru services, and, when circumstances warranted, we requested our clients access our banking center lobbies by appointment only. In addition, we waived medical plan cost-sharing and co-pays for COVID-19 testing and treatment throughout the year.

SUPERVISION AND REGULATION

The U.S. banking industry is highly regulated under federal and state law. Banking laws, regulations, and policies affect the operations of the Company and its subsidiary. Investors should understand that the primary objective of the U.S. bank regulatory regime is the protection of depositors, the Depositors Insurance Fund ("DIF"), and the banking system as a whole, not the protection of the Company's shareholders.

As a bank holding company, we are subject to inspection, examination, supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Our bank subsidiary, NBH Bank, is a Colorado state-chartered bank and a member of the Federal Reserve Bank of Kansas City. As such, NBH Bank is subject to examination, supervision and regulation by both the Colorado Division of Banking and the Federal Reserve. In addition, we expect that any additional businesses that we may invest in or acquire will be regulated by various state and/or federal banking regulators.

Banking statutes and regulations are subject to continual review and revision by Congress, state legislatures and federal and state regulatory agencies. A change in such statutes or regulations, including changes in how they are interpreted or implemented, could have a material effect on our business. In addition to laws and regulations, state and federal bank regulatory agencies may issue policy statements, interpretive letters and similar written guidance pursuant to such laws and regulations, which are binding on us and our subsidiaries.

Banking statutes, regulations and policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions and make distributions or pay dividends on our equity securities. They may also require us to provide financial support to any bank that we control, maintain capital balances in excess of those desired by management and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of NBH Bank or other depository institutions we control.

The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to us and our subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described.

National Bank Holdings Corporation as a Bank Holding Company

As a bank holding company, we are subject to regulation under the Bank Holding Company Act ("BHCA") and to supervision, examination, and enforcement by the Federal Reserve. Federal Reserve jurisdiction also extends to any company that we may directly or indirectly control, such as non-bank subsidiaries and other companies in which we have a controlling interest. While subjecting us to supervision and regulation, we believe that our status as a bank holding company (as opposed to being a non-controlling investor) broadens the investment opportunities available to us among public and private financial institutions.

The BHCA generally prohibits a bank holding company from engaging, directly or indirectly, in activities other than banking or managing or controlling banks, except for activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In 2021, the Company elected to be treated as a financial holding company pursuant to Section 4(l) of the BHCA. As a financial holding company, the Company is authorized to engage in broader set of financial activities than a bank holding company that has not elected to be a treated as a financial holding company, including insurance underwriting and broker-dealer services as well as activities that are jointly determined by the Federal Reserve and the U.S. Treasury to be financial in nature or incidental to such financial activity. Financial holding companies may also engage in activities that are determined by the Federal Reserve to be complementary to financial activities.

Maintaining our financial holding company status requires that the Company and our bank subsidiary, NBH Bank, remain "well-capitalized" and "well-managed" as defined by regulation and that NBH Bank maintain at least a "satisfactory" rating under the CRA. If we or NBH Bank fail to continue to meet these requirements, we could be subject to restrictions on new activities and acquisitions, and/or be required to cease and possibly divest operations that conduct activities that are not permissible for a bank holding company that does not also qualify as a financial holding company.

NBH Bank as a Colorado State-Chartered Bank

Our bank subsidiary, NBH Bank, is a Colorado state-chartered bank and also a member of the Federal Reserve Bank of Kansas City. As such, NBH Bank is subject to examination, supervision and regulation by both the Colorado Division of Banking and the Federal Reserve. NBH Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") through the DIF, in the manner and to the extent provided by law. As an insured bank, NBH Bank is subject to the provisions of the Federal Deposit Insurance Act, as amended (the "FDI Act"), and the FDIC's implementing regulations thereunder, and may also be subject to supervision and examination by the FDIC under certain circumstances.

Under the FDIC Improvement Act of 1991 ("FDICIA"), NBH Bank must submit financial statements prepared in accordance with GAAP and management reports signed by the Company's and NBH Bank's chief executive officer and chief accounting or financial officer concerning management's responsibility for the financial statements, an assessment of internal controls, and an assessment of NBH Bank's compliance with various banking laws and FDIC and other banking regulations. In addition, we must submit annual audit reports to federal regulators prepared by independent auditors. As allowed by regulations, we may use our audit report prepared for the Company to satisfy this requirement. We must provide our auditors with examination reports, supervisory agreements and reports of enforcement actions. The auditors must also attest to and report on the statements of management relating to the internal controls. FDICIA also requires that NBH Bank form an independent audit committee consisting of outside directors only, or that the Company's audit committee be entirely independent.

Broad Supervision, Examination and Enforcement Powers

The Federal Reserve, the FDIC and state bank regulators have broad regulatory, examination and enforcement authority over bank holding companies and banks, as applicable. Bank regulators regularly examine the operations of banks and bank holding companies. In addition, banks and bank holding companies are subject to periodic reporting and filing requirements.

Bank regulators have various remedies available if they determine that a banking organization has violated any law or regulation, that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory, or that the banking organization is operating in an unsafe or unsound manner. The bank regulators have the power to, among other things: enjoin "unsafe or unsound" practices, require affirmative actions to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, terminate deposit insurance, and appoint a conservator or receiver.

Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject the Company, its subsidiaries and their respective officers, directors and institution-affiliated parties to the remedies described above and other sanctions. In addition, the FDIC could terminate NBH Bank's deposit insurance if it determined that the Bank's financial condition was unsafe or unsound or that the bank engaged in unsafe or unsound practices or violated an applicable rule, regulation, order or condition enacted or imposed by the bank's regulators.

Regulatory Capital Requirements

In General

As a bank holding company, we are subject to regulatory capital adequacy requirements implemented by the Federal Reserve. The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. NBH Bank is, and other depository

institution subsidiaries that we may acquire or control in the future will be, subject to capital adequacy guidelines as implemented by the relevant federal banking agency. In the case of the Company and NBH Bank, applicable capital guidelines can be found in the Federal Reserve's Regulations H and Q.

The capital rules require banks and bank holding companies to maintain a minimum common equity tier 1 capital ratio of 4.5%, a total tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. Additionally, bank holding companies are required to hold a capital conservation buffer of common equity tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments.

Further, the federal bank regulatory agencies may set higher capital requirements for an individual bank or when a bank's particular circumstances warrant. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements in order to be considered well-capitalized, and future regulatory change could impose higher capital standards as a routine matter.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. The EGRRCPA directed the federal banking agencies to develop a "Community Bank Leverage Ratio", calculated by dividing tangible equity capital by average consolidated total assets. In October 2019, the federal banking agencies adopted a Community Bank Leverage Ratio of 9%. If a "qualified community bank", generally a depository institution or depository institution holding company with consolidated assets of less than $10 billion, has a leverage ratio which exceeds the Community Bank Leverage Ratio, then the institution is considered to have met all generally applicable leverage and risk based capital requirements, the capital ratio requirements for "well capitalized" status under the prompt corrective action rules and any other leverage or capital requirements to which it is subject. At this time the Company and NBH Bank has not elected to apply this regime.

Prompt Corrective Action

The FDI Act requires federal bank regulatory agencies to take "prompt corrective action" with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution's treatment for purposes of the prompt corrective action provisions will depend upon how its capital levels compare to various capital measures and certain other factors, as established by regulation. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. Our regulatory capital ratios and those of NBH Bank are in excess of the levels established for "well-capitalized" institutions.

Bank Holding Companies as a Source of Strength

The Federal Reserve requires that a bank holding company serve as a source of financial and managerial strength to each bank that it controls and, under appropriate circumstances, commit resources to support each such controlled bank. This support may be required at times when the bank holding company may not have the resources to provide the support. Because we are a bank holding company, the Federal Reserve views the Company (and its consolidated assets) as a source of financial and managerial strength for any controlled depository institutions.

Under the prompt corrective action provisions, if a controlled bank is undercapitalized, then the regulators could require its bank holding company to guarantee a capital restoration plan. In addition, if the Federal Reserve believes that a bank holding company's activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the

assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such action is not in the best interests of the bank holding company or its shareholders.

The Dodd-Frank Act codified the requirement that holding companies, like the Company, serve as a source of financial strength for their subsidiary depository institutions, by providing financial assistance to its insured depository institution subsidiaries in the event of financial distress. Under the source of strength doctrine, the Company could be required to provide financial assistance to NBH Bank should it experience financial distress.

In addition, capital loans by us to NBH Bank will be subordinate in right of payment to deposits and certain other indebtedness of NBH Bank. In the event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of NBH Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Dividend Restrictions

The Company is a legal entity separate and distinct from its subsidiaries. Because the Company’s consolidated net income consists largely of the net income of NBH Bank, the Company’s ability to pay dividends depends upon its receipt of dividends from its subsidiary. The ability of a bank to pay dividends and make other distributions is limited by federal and state law. The specific limits depend on a number of factors, including the bank’s type of charter, recent earnings, recent dividends, level of capital and regulatory status. As a member of the Federal Reserve System and a Colorado state-chartered bank, NBH Bank is subject to Regulation H and limitations under Colorado law with respect to the payment of dividends. Non-bank subsidiaries are also limited by certain federal and state statutory provisions and regulations covering the amount of dividends that may be paid in any given year. State member banks, such as NBH Bank, may not declare or pay a cash dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the Bank's net income during the current calendar year and the retained net income of the prior two calendar years, unless approved by the Federal Reserve.

The ability of a bank holding company to pay dividends and make other distributions can also be limited. The Federal Reserve has authority to prohibit a bank holding company from paying dividends or making other distributions. A bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. In addition, as a Delaware corporation, the Company is subject to certain limitations and restrictions under Delaware corporate law with respect to the payment of dividends and other distributions.

Depositor Preference

The FDI Act provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If our insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including us, with respect to any extensions of credit they have made to such insured depository institution.

Limits on Transactions with Affiliates

Federal law restricts the amount and the terms of both credit and non-credit transactions (generally referred to as “Covered Transactions”) between a bank and its non-bank affiliates. Covered Transactions with any single affiliate may not exceed 10% of the capital stock and surplus of the bank, and Covered Transactions with all affiliates may not exceed, in the aggregate, 20% of the bank’s capital and surplus. For a bank, capital stock and surplus refers to the bank’s tier 1 and tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for credit losses (“ACL”) excluded from tier 2 capital. The bank’s transactions with all of its affiliates in the aggregate are limited to 20% of the foregoing capital. In addition, in connection with Covered Transactions that are extensions of credit, the bank may be required to hold collateral to provide added security to the bank, and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates, including an expansion of what types of transactions are Covered Transactions to include credit exposures related to derivatives, repurchase agreements and securities

lending arrangements and an increase in the amount of time for which collateral requirements regarding Covered Transactions must be satisfied. As of December 31, 2021, the Company did not have any outstanding Covered Transactions.

Regulatory Notice and Approval Requirements for Acquisitions of Control

We must generally receive federal bank regulatory approval before we can acquire a financial institution. Specifically, as a bank holding company, we must obtain prior approval of the Federal Reserve in connection with any acquisition that would result in the Company owning or controlling 5% or more of any class of voting securities of a bank or another bank holding company, including a financial holding company. Our ability to make investments in depository institutions will depend on our ability to obtain approval for such investments from the Federal Reserve. The Federal Reserve could deny our application based on the statutory factors outlined in the BHCA, including the financial and managerial resources of the parties and the future prospects of the combined organization, the effects of the transaction on competition, the convenience and needs of the community, including the record of performance of the parties under the Community Reinvestment Act of 1977, the effectiveness of the Company in combating money-laundering activities and the impact of the transaction on the financial stability of the U.S. banking or financial system, or other considerations. For example, we could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to us, or, if acceptable to us, may reduce the benefit of any acquisition.

In addition, federal and state laws, including the BHCA and the Change in Bank Control Act, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company for purposes of the Change in Bank Control Act.

The BHCA prohibits any entity from acquiring 25% (as noted above, the BHC Act has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. The Federal Reserve has rule-based standards for determining whether one company has control over another. These rules established four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence.

Anti-Money Laundering Requirements

Under federal law, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), certain types of financial institutions, including insured depository institutions, must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing associate training program; and testing of the program by an independent audit function. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence, client identification, and recordkeeping, including in their dealings with non-U.S. financial institutions and non-U.S. clients. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations, and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for banking mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

Consumer Laws and Regulations

Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include, among others, laws regarding unfair and deceptive acts and practices and usury laws, as well as the following consumer protection statutes: Truth in Lending Act, Truth in Savings Act, Electronic Funds Transfer Act, Flood Disaster Protection Act, Expedited Funds Availability Act, Equal Credit Opportunity Act, Fair and Accurate Credit Transactions Act, Fair Housing Act, Fair Credit Reporting Act, Fair Debt Collection Act, Gramm-Leach Bliley Financial Modernization Act, Home Mortgage Disclosure Act, Right to Financial Privacy Act and Real Estate Settlement Procedures Act.

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These state and local laws regulate the manner in which financial institutions deal with clients when taking deposits, making loans or conducting other types of transactions.

The Consumer Financial Protection Bureau (the "CFPB") has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks. The CFPB is authorized to issue rules for both bank and nonbank companies that offer consumer financial products and services, subject to consultation with the prudential banking regulators. In general, however, banks with assets of $10 billion or less, such as NBH Bank, will continue to be examined for consumer compliance by their primary bank regulator.

Much of the CFPB's rulemaking has focused on mortgage lending and servicing, including an important rule requiring lenders to ensure that prospective buyers have the ability to repay their mortgages. Other areas of current CFPB focus include consumer protections for prepaid cards, payday lending, debt collection, overdraft services and privacy notices. The CFPB has been particularly active in issuing rules and guidelines concerning residential mortgage lending and servicing, issuing numerous rules and guidance related to residential mortgages. Perhaps the most significant of these guidelines are the "Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act" portions of Regulation Z and the Know Before You Owe guidelines. Under the Dodd-Frank Act, creditors must make a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable "ability to repay" a residential mortgage according to its terms as well as clearly and concisely disclose the terms and costs associated with these loans.

The CFPB has actively issued enforcement actions against both large and small entities and to entities across the entire financial services industry. The CFPB has relied upon "unfair, deceptive, or abusive acts" prohibitions as its primary enforcement tool. However, the CFPB and DOJ continue to be focused on fair lending in taking enforcement actions against banks with renewed emphasis on alleged redlining practices. Failure to comply with these laws and regulations could give rise to regulatory sanctions, client rescission rights, actions by state and local attorneys general and civil or criminal liability.

The Community Reinvestment Act

The CRA is intended to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The regulators examine banks and assign each bank a public CRA rating. The CRA then requires bank regulators to take into account the bank's record in meeting the needs of its community when considering certain applications by a bank, including applications to establish a banking center or to conduct certain mergers or acquisitions. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Additionally, we must publicly disclose the terms of various CRA-related agreements. The Federal Reserve is required to consider the CRA records of a bank holding company's controlled banks when considering an application by the bank holding company to acquire a bank or to merge with another bank holding company.

When we apply for regulatory approval to make certain investments, the regulators will consider the CRA record of the target institution and our depository institution subsidiary. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.

Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banks are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank ("FRB").

Deposit Insurance Assessments

All of a depositor's accounts at an insured bank, including all non-interest bearing transaction accounts, are insured by the FDIC up to $250,000. FDIC-insured banks are required to pay deposit insurance premiums to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

Assessments are based on an institution's average total consolidated assets less average tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks). NBH Bank may be able to pass part or all of this cost on to its clients, including in the form of lower interest rates on deposits, or fees to some depositors, depending on market conditions.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. If deposit insurance for a banking business we invest in or acquire were to be terminated, that would have a material adverse effect on that banking business and potentially on the Company as a whole.

Changes in Laws, Regulations or Policies

Congress and state legislatures may introduce from time to time measures or take actions that would modify the regulation of banks or bank holding companies. In addition, federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. Such changes could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks and other financial institutions, all of which could affect our investment opportunities and our assessment of how attractive such opportunities may be. We cannot predict whether potential legislation will be enacted and, if enacted, the effect that it or any implementing regulations would have on our business, results of operations, liquidity or financial condition.

COVID-19 Legislation and Regulatory Response

The COVID-19 pandemic has created extensive disruptions to the global economy, to businesses, and to the lives of individuals throughout the world. There have been a number of statutory and regulatory actions intended to help mitigate the adverse economic impact of the COVID-19 pandemic on borrowers, including several mandates from the bank regulatory agencies, requiring financial institutions to work constructively with borrowers affected by the COVID-19 pandemic.

On March 27, 2020, the CARES Act was signed into law. The CARES Act was a $2.2 trillion economic stimulus bill that intended to provide relief in the wake of the COVID-19 pandemic. Several provisions within the CARES Act led to action from the bank regulatory agencies. There are also separate provisions within the legislation that directly impact financial institutions, including affording borrowers with federally-backed mortgage loans experiencing a financial hardship due to the COVID-19 pandemic the option to request forbearance, regardless of delinquency status, for up to 360 days. The CARES Act also provided a moratorium on initiating foreclosure on properties; however, the moratorium expired on July 31, 2021. Additionally, a directive was established to provide loans to businesses impacted by COVID through the PPP.

The bank regulatory agencies have stressed the importance of financial institutions continuing to assist borrowers impacted by the COVID-19 pandemic, and indicated that adequate flexibility will be given to financial institutions who work with such borrowers. On April 3, 2020, the bank regulatory agencies issued a joint policy statement to facilitate mortgage servicers' ability to place consumers in short-term payment forbearance programs, and followed with a final rule on June 23, 2020 that

makes it clear servicers do not violate Regulation X (which places restrictions and requirements upon lenders related to consumers who apply for and receive mortgage loans) by offering certain COVID-19-related loss mitigation options based on an evaluation of limited information collected from the borrower. Additionally, on September 29, 2020, the bank regulatory agencies issued a rule that deferred appraisal and evaluation requirements after the closing of certain residential and CRE transactions through December 31, 2020.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 was signed into law, which also contains provisions that could directly impact financial institutions. The act directed financial regulators to support community development financial institutions and minority depository institutions and directed Congress to re-appropriate $429 billion in unobligated CARES Act funds through a newly structured PPP. Additional government relief was provided under the American Rescue Plan Act of 2021 that became effective on March 11, 2021.

More Information

Our website is www.nationalbankholdings.com. We make available free of charge, through our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the U.S. Securities and Exchange Commission ("SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Item 1A. RISK FACTORS

Risks Relating to Our Banking Operations

The COVID-19 pandemic is adversely affecting us, our clients and third-party service providers, and the adverse impacts on our business, financial position, operations and prospects has been and could continue to be significant.

The COVID-19 pandemic has impacted our business and financial results, and its ultimate impact on our business will depend on highly uncertain and unpredictable future developments, including the magnitude and duration of the pandemic and actions taken by governmental authorities in response to the pandemic, particularly within our geographic footprint. The pandemic and resultant governmental action have severely restricted economic activity, reduced economic output, and resulted in a deterioration in economic conditions. This has resulted in temporary closures of many businesses, some of which include our borrowers, the institution of social distancing and sheltering in place requirements, high rates of unemployment and underemployment, historically low interest rates, and disruptions in consumer spending, among other things. These negative economic conditions have negatively impacted our financial results and may have a continued adverse effect on our business, including adversely impacting the demand for our products and services, our net interest income and our liquidity and regulatory capital requirements. The impact of interest rates or unemployment may also have a negative impact on demand for mortgage products, including refinancing requests.

Furthermore, the pandemic could result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed or operate at reduced capacities, the impact on the national economy worsens, or more clients draw on their lines of credit or seek additional loans to help finance their businesses. Small and mid-sized businesses make up a large portion of our commercial loan portfolio and are particularly vulnerable to the financial effects of the COVID-19 pandemic due to their increased reliance on continuing cash flow to fund day-to-day operations. Although government programs have sought, and may further seek, to provide relief to these types of businesses, there can be no assurance that these programs will succeed. Our participation directly or on behalf of our clients in U.S. government programs, such as the Paycheck Protection Program, that are designed to support individuals, households and businesses impacted by the economic disruptions caused by the COVID-19 pandemic, could be criticized and subject us to increased governmental and regulatory scrutiny, negative publicity or increased exposure to litigation, which could increase our operational, legal and compliance costs and damage our reputation. In addition, we may be exposed to credit risk on a PPP loan if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded or serviced. In such a case, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any related loss from us.

Our business operations may also be disrupted if significant portions of our workforce, key personnel or third-party service providers are unable to work effectively, including because of illness, unavailability, quarantines, government actions, internal or external failure of information technology infrastructure, or other restrictions in connection with the pandemic. Until the COVID-19 pandemic subsides, it will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios and may also have the effect of heightening many of the other risk factors.

Changes in general business and economic conditions could materially and adversely affect us.

Our business and operations are sensitive to general business and economic conditions in the United States and in our core markets of Colorado, the greater Kansas City region, New Mexico, Texas and Utah. If the economies in our core markets, or the U.S. economy more generally, experience worsening economic conditions, including industry-specific conditions, we could be materially and adversely affected. The COVID-19 pandemic has impacted and may continue to impact our local economics through continued temporary closures or other restrictions on businesses, higher unemployment rates and disruption to consumer spending. Weak economic conditions may be characterized by inflation, fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on loans, residential and commercial real estate price declines, lower home sales and commercial activity, further or prolonged pressure on energy prices, high unemployment, and the economic effects of natural disasters, severe weather conditions, health emergencies or pandemics, cyberattacks, outbreaks of hostilities, terrorism or other geopolitical instabilities. All of these factors would be detrimental to our business. Our business is significantly affected by monetary and related policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control and could have a material adverse effect on us.

Changes in the assumptions underlying our acquisition method of accounting, or other significant accounting estimates could affect our financial information and have a material adverse effect on us.

A material portion of our financial results is based on, and subject to, significant assumptions and subjective judgments. As a result of our acquisitions, our financial information is influenced by the application of the acquisition method of accounting, which requires us to make complex assumptions, and these assumptions materially affect our financial results. As such, any financial information generated through the use of the acquisition method of accounting is subject to modification or change. If our assumptions are incorrect and we change or modify our assumptions, it could have a material adverse effect on us or our previously reported results. Additionally, a change in our accounting estimates, such as our ability to realize deferred tax assets, the need for a valuation allowance or the recoverability of the goodwill recorded at the time of our acquisitions, could have a material adverse effect on our financial results.

Our business is highly susceptible to credit risk and fluctuations in the value of real estate and other collateral securing such credit.

As a lender, we are exposed to the risk that our clients will be unable to repay their loans according to their terms and that the collateral securing the payment of their loans (if any) may not be sufficient to assure repayment. The risks inherent in making any loan include risks with respect to the ability of borrowers to repay their loans and, if applicable, the period of time over which the loan is repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. Similarly, we have credit risk embedded in our securities portfolio. Our credit standards, procedures and policies may not prevent us from incurring substantial credit losses. A decline in residential real estate market prices and reduced levels of home sales, could adversely affect the value of collateral securing mortgage loans resulting in greater charge-offs in future periods, as well as adversely impact mortgage loan originations and gains on sale of mortgage loans. A decline in commercial real estate values would likewise adversely affect the value of collateral securing certain commercial loans and result in greater charge-offs in future periods. Declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which could materially and adversely affect us. The COVID-

19 pandemic may negatively impact commercial real estate values, particularly hospitality and leisure, office and retail properties. Residential real estate may also be negatively impacted by higher unemployment driven in part by the pandemic.

We depend on our executive officers and key personnel to implement our strategy and could be harmed by the loss of their services.

The execution of our strategy depends in large part on the skills of our executive management team and our ability to motivate and retain these and other key personnel, including key personnel added through mergers and acquisitions. Accordingly, the loss of service of one or more of our executive officers or key personnel could reduce our ability to successfully implement our growth strategy and materially and adversely affect us. Our success also depends on the experience of our banking center managers and relationship managers and on their relationships with the clients and communities they serve. The loss of these key personnel could negatively impact our banking operations. Further surges in COVID-19 cases may increase the risk of maintaining adequate staffing in our banking centers and other key areas.

Our allowance for credit losses and fair value adjustments may prove to be insufficient to absorb losses inherent in our loan or other real estate owned ("OREO") portfolio.

On January 1, 2020, the Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, the new accounting standard promulgated by the Financial Accounting Standards Board ("FASB"), regarding the recognition of credit losses. This standard made significant changes to the accounting and disclosures for credit losses on financial instruments recorded on an amortized cost basis, including our loans held for investment. The current expected credit loss ("CECL") impairment model requires an estimate of expected credit losses for financial assets measured over the contractual life of an instrument based on historical experience, current conditions and reasonable and supportable forecasts. The standard provides significant flexibility and requires a high degree of judgment in order to develop an estimate of expected lifetime losses. Providing for lifetime losses for our loan portfolio is a change to the previous method of providing allowances for loan losses that are probable and incurred. It may also result in even small changes to future forecasts having a significant impact on the allowance, which could make the allowance more volatile, and regulators may impose additional capital buffers to absorb this volatility. The unique and unprecedented impacts of the COVID-19 pandemic may also lead to greater volatility in economic conditions, potentially increasing volatility in the required allowance amount.

The determination of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding our loans, identification of additional problem loans by us and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. If the real estate markets deteriorate, we expect that we will experience increased delinquencies and credit losses, particularly with respect to construction, land development and land loans. In addition, our regulators periodically review our allowance for credit losses and may require an increase in the allowance for credit losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for credit losses, we will need additional provisions to increase the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and capital and may have a material adverse effect on us.

We hold and acquire an amount of OREO from time to time, which may lead to volatility in operating expenses and vulnerability to declines in real property values.

When necessary, we foreclose on and take title to the real estate serving as collateral for our loans as part of our business. Real estate that we own but do not use in the ordinary course of our operations is referred to as OREO property. While our OREO portfolio is smaller than it has been in recent years, future acquisitions could result in a higher OREO balance, which could negatively affect our earning as a result of various expenses associated with OREO, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with property ownership, as well as by the funding costs associated with OREO assets. We evaluate OREO properties periodically and write down the carrying value of the properties if the results of our evaluation require it. In addition, the COVID-19 pandemic may negatively impact commercial real estate values, particularly hospitality and leisure, office and retail properties. Residential real estate may also be negatively impacted by higher unemployment driven in part by the pandemic.

Environmental issues, including external events such as severe weather, natural disasters, and climate change, as well as environmental liability risks associated with our lending activities, could significantly impact our business.

Severe weather, natural disasters, climate change and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, there can be no guarantee of the effectiveness of such policies and procedures, and the occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations. Additionally, concerns over the long term impacts of climate change have led and will continue to lead to governmental efforts to mitigate those impacts. We and our clients may face cost increases, asset value reductions, and operating process changes as a result.

A significant portion of our loan portfolio is secured by real property, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. There is a risk that hazardous or toxic substances could be found on these properties, and we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

The expanding body of federal, state and local regulation of loan servicing, collections or other aspects of our business may increase the cost of compliance and the risks of noncompliance.

We service the loans held on our balance sheet, and loan servicing is subject to extensive regulation by federal, state and local governmental authorities as well as to various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur significant additional costs to comply with such requirements which may further adversely affect us. The CARES Act and related legislation imposed additional restrictions with respect to foreclosures and the handling of delinquent payments. Our failure to comply with these laws and regulations could possibly lead to: civil and criminal liability; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; and administrative enforcement actions. Any of these outcomes could materially and adversely affect us. There is also uncertainty regarding what legislative or regulatory changes may occur as a result of changes in leadership resulting from elections, or, if changes occur, the ultimate effect they would have upon our financial condition or results of operations.

Small Business Administration lending is an important and growing part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status.

If we were to lose our status as an SBA Preferred Lender, we may lose new opportunities, and a limited number of existing SBA loans, to lenders who are SBA Preferred Lenders. In addition, any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, changes to program-specific rules impacting

volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress, may have a material adverse effect on our SBA lending program. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or collect on guarantees in the event a borrower defaults on its obligations, and could materially adversely affect our SBA lending business.

With respect to the PPP, we could be criticized and subject to increased governmental and regulatory scrutiny, negative publicity or increased exposure to litigation, which could increase our operational, legal and compliance costs and damage our reputation. In addition, we may be exposed to credit risk on a PPP loan if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded or serviced. In such a case, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any related loss from us.

If we violate U.S. Department of Housing and Urban Development ("HUD") lending requirements or if the federal government shuts down or otherwise fails to fully fund the federal budget, our commercial FHA origination business could be adversely affected.

We originate, sell and service loans under FHA insurance programs, and make certifications regarding compliance with applicable requirements and guidelines. If we were to violate these requirements and guidelines, or other applicable laws, or if the FHA loans we originate show a high frequency of loan defaults, we could be subject to monetary penalties and indemnification claims, and could be declared ineligible for FHA programs. Any inability to engage in our commercial FHA origination and servicing business would lead to a decrease in our net income.

In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time in recent years. Federal governmental entities, such as HUD, that rely on funding from the federal budget, could be adversely affected in the event of a government shutdown, which could have a material adverse effect on our commercial FHA origination business and our results of operations.

The fair value of our investment securities can fluctuate due to market conditions outside of our control.

We have historically taken a conservative investment strategy with our securities portfolio, with concentrations of securities that are primarily backed by government sponsored enterprises ("GSE"). A portion of our non-marketable securities portfolio is comprised of non-liquid fund investments and direct investments in our fintech partners. We may seek to increase yields through different strategies, which may include a greater percentage of corporate securities and structured credit products. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and instability in the capital markets or an inability of our partners to successfully execute on their strategies. These factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

We face significant competition from other financial institutions and financial services providers, which may materially and adversely affect us.

Consumer and commercial banking is highly competitive. Our markets contain a large number of community and regional banks as well as a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, including savings and loan associations, savings banks and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds and several government agencies, as well as major retailers, in providing various types of loans and other financial services. Some of these competitors have a long history of successful operations in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor

bases. Some of our competitors also have greater resources and access to capital and possess an advantage by being capable of maintaining numerous banking locations in more convenient sites, operating more ATMs and conducting extensive promotional and advertising campaigns or operating a more developed online banking platform. Competitors may also exhibit a greater tolerance for risk and behave more aggressively with respect to pricing in order to increase their market share. In addition, the effects of disintermediation can also impact the banking business because of the fast growing body of fintech companies that use software to deliver mortgage lending, payment services and other financial services.

Our ability to compete successfully depends on a number of factors, including, among others:

- the ability to develop, maintain and build upon long-term client relationships based on quality service, effective and efficient products and services, high ethical standards and safe and sound assets;
- the scope, relevance and pricing of products and services offered to meet client needs and demands;
- the rate at which we introduce new products and services, including internet-based or other digital services, relative to our competitors;
- the ability to attract and retain highly qualified associates to operate our business;
- the ability to expand our market position;
- client satisfaction with our level of service;
- the ability to invest in new technologies, including relative to our digital banking platform;
- the ability to operate our business effectively and efficiently; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could materially and adversely affect us.

We may not be able to meet the cash flow requirements of deposit withdrawals and other business needs unless we maintain sufficient liquidity.

We require liquidity to make loans and to repay deposit and other liabilities as they become due or are demanded by clients. We principally depend on checking, savings and money market deposit account balances and other forms of client deposits as our primary source of funding for our lending activities. As a result of a decline in overall depositor confidence, an increase in interest rates paid by competitors, general interest rate levels, higher returns being available to clients on alternative investments and general economic conditions, a substantial number of our clients could withdraw their bank deposits with us from time to time, resulting in our deposit levels decreasing substantially, and our cash on hand may not be able to cover such withdrawals and our other business needs, including amounts necessary to operate and grow our business. This would require us to seek third party funding or other sources of liquidity, such as asset sales. Our access to third party funding sources, including our ability to raise funds through the issuance of additional shares of our common stock or other equity or equity-related securities, incurrence of debt, or federal funds purchased, may be impacted by our financial strength, performance and prospects and may also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry, all of which may make potential funding sources more difficult to access, less reliable and more expensive. We may not have access to third party funding in sufficient amounts on favorable terms, or the ability to undertake asset sales or access other sources of liquidity, when needed, or at all, which could materially and adversely affect us.

Like other financial services institutions, our asset and liability structures are monetary in nature. Such structures are affected by a variety of factors, including changes in interest rates, which can impact the value of financial instruments held by us.

Like other financial services institutions, we have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, inflation, currency values, market conditions, the availability and terms (including cost) of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of clients and counterparties and the level and volatility of trading markets. Such factors can impact clients and counterparties of a financial services institution and may impact the value of financial instruments held by a financial services institution.

Our earnings and cash flows largely depend upon the level of our net interest income, which is the difference between the interest income we earn on loans, investments and other interest earning assets, and the interest we pay on interest bearing liabilities, such as deposits and borrowings. Because different types of assets and liabilities may react differently and at different times to market interest rate changes, changes in interest rates can increase or decrease our net interest income. When interest-bearing liabilities increase at a pace exceeding interest earning assets, an increase in interest rates would reduce net interest income. Also, when interest-bearing liabilities mature or reprice more quickly than interest earning assets in a period, an increase in interest rates would reduce net interest income. Similarly, when interest earning assets mature or reprice more quickly, and because the magnitude of repricing of interest earning assets is often greater than interest bearing liabilities, falling interest rates would reduce net interest income.

Accordingly, changes in the level of market interest rates affect our net yield on interest earning assets and liabilities, loan and investment securities portfolios and our overall results. Changes in interest rates may also have a significant impact on any future loan origination revenues. Historically, there has been an inverse correlation between the demand for loans and interest rates. Loan origination volume and revenues usually decline during periods of rising or high interest rates and increase during periods of declining or low interest rates. Changes in interest rates also have a significant impact on the carrying value of a significant percentage of the assets, both loans and investment securities, on our balance sheet. We may incur debt in the future and that debt may also be sensitive to interest rates and any increase in interest rates could materially and adversely affect us. Interest rates are highly sensitive to many factors beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve.

Reforms to and uncertainty regarding LIBOR and certain other indices may adversely affect our business.

The London Interbank Offered Rate ("LIBOR") is a short-term interest rate used as a pricing reference for certain loans, derivatives and other financial instruments. In 2017, the United Kingdom's Financial Conduct Authority (the "FCA") announced that it will no longer persuade or require banks to submit rates for LIBOR after 2021. In November 2020, the Federal Reserve, FDIC and OCC issued a joint statement confirming that the lesser used one-week and two-month USD LIBOR settings would cease publication at the end of 2021, but the remaining USD LIBOR settings would continue publication until June 30, 2023 to better facilitate an orderly transition. These announcements, in conjunction with other financial benchmark reforms and changes in the interbank lending markets, have resulted in uncertainty about the future of LIBOR and certain other rates or indices that are used as interest rate "benchmarks." In addition, regulators, industry groups and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fallback language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate ("SOFR") as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. At this time, it is not possible to predict whether these specific recommendations and proposals will be broadly accepted, whether they will continue to evolve and what the effect of their implementation may be on the market for floating-rate financial instruments. We began indexing new retail adjustable rate mortgages to SOFR in the third quarter of 2020 and are addressing LIBOR-based commercial loans, including adhering to the ISDA IBOR Fallbacks Protocol as needed. We stopped originating LIBOR-based products in the fourth quarter of 2021 and are using substitute interest rates such as Prime and SOFR.

Uncertainty as to the nature and effect of such reforms and actions may adversely affect our financial condition or results of operations, including the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to benchmarks, including any LIBOR-based securities, loans and derivatives. Furthermore, there can be no assurances that we and other market participants will be adequately prepared for an actual discontinuation of benchmarks, including LIBOR, that may have an unpredictable impact on contractual mechanics (including, but not limited to, interest rates to be paid to or by us), which may also result in adversely affecting our financial condition or results of operations. Such transition may also result in litigation with counterparties impacted by the transition as well as increased regulatory scrutiny and other adverse consequences. In addition, any replacement benchmark ultimately adopted as a substitute for LIBOR, including SOFR, may behave differently than LIBOR in a manner detrimental to our financial performance.

We are highly dependent on the internet, cloud technologies and third-party providers. Systems failures or interruptions could have a material adverse effect on us.

Our business is highly dependent on the increasing use of the internet, mobile devices and cloud technologies. Further, we have and will continue to be subject to an increasing risk of operational disruption and information security incidents as a result. These events can arise from a variety of sources, many of which are not under our control because of our reliance on third party technology systems and outsourcing services for key processes including data processing, loan servicing and deposit processing; and for key services including internet, and mobile technology. Potential causes for incidents may include human error, electrical or telecommunication outages, hardware failures, and malicious activity. Any of these events could cause interruption to the Company's operations, as well as the operations of our clients. If significant, sustained or repeated, these events could compromise our ability to operate effectively, damage our reputation, result in a loss of client business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

A failure in or breach of our security systems or infrastructure, or those of our third-party providers, could result in financial losses to us or in the disclosure or misuse of confidential or proprietary information, including client information, or could trigger further regulatory and financial penalty if determined to be non-compliant with evolving privacy and data protection laws. These events could have a material adverse effect on the Company.

As a financial institution, we may be the target of fraudulent activity that may result in financial losses to us or our clients, privacy breaches against our clients or damage to our reputation and regulatory relationships. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, unauthorized intrusion into or use of our systems, ATM skimming or jackpotting, and other dishonest acts. We provide our clients with the ability to bank remotely, including via online, mobile and phone. The secure transmission of confidential information over the internet and other remote channels is a critical element of remote banking. The COVID-19 pandemic has heightened these risks as vulnerabilities for our clients and the Company have increased given work from home and shelter at home orders as well as consumer behaviors independent of jurisdictional orders. Furthermore, crisis conditions caused by the pandemic may lead to more attempts by both domestic and international parties to commit cyber-attacks or other fraudulent acts.

Our systems and network are subject to ongoing cyber incidents such as unauthorized access, loss or destruction of data, account takeovers, unavailability of service, computer viruses or other malicious code, phishing schemes, ransomware and other similar events. Third parties with whom we do business may also be sources of cybersecurity risks. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

To the extent that our activities or the activities of our clients involve the storage and transmission of confidential information, security breaches and viruses could cause serious negative consequences, including reputational damage, litigation exposure and, regulatory scrutiny, and could result in a violation of applicable privacy and data protection laws. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in our systems and could materially and adversely affect us. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of the threats from organized cybercriminals and hackers, and our plans to continue to provide digital banking products and services to our clients.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against large financial institutions, particularly denial of service or ransomware attacks are designed to disrupt key business services, such as client-facing web sites. We are not able to anticipate or implement preventive measures against all security breaches of these types, especially because the techniques used change frequently and can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with credit or debit card, including ATM-related, transactions that typically involve the transmission of sensitive information regarding our clients through various third parties, including merchant acquiring banks, payment processors, payment card networks (e.g., Visa, MasterCard) and our third-party processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely significantly on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. While many of our agreements with third parties contain indemnification provisions, we may not be able to recover sufficiently, or at all, under the provisions to offset any losses we may incur from third-party cyber incidents.

The value of our mortgage servicing rights can decline during periods of falling interest rates, and we may be required to take a charge against earnings for the decreased value.

A mortgage servicing right ("MSR") is the right to service a mortgage loan for a fee. We capitalize MSRs when we originate mortgage loans and retain the servicing rights after we sell the loans. We carry MSRs at the lower of amortized cost or estimated fair value. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect prepayment assumptions. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, the fair value of our MSRs can decrease. Each quarter we evaluate our MSRs for impairment based on the difference between the carrying amount and fair value, and, if a temporary impairment exists, we establish a valuation allowance through a charge that negatively affects our earnings.

We may be required to repurchase mortgage loans or reimburse investors and others as a result of breaches in contractual representations and warranties.

We sell residential mortgage loans to various parties, including GSEs and other financial institutions that purchase mortgage loans for investment or private label securitization. The agreements under which we sell mortgage loans and the insurance or guaranty agreements with the FHA and VA contain various representations and warranties regarding the origination and characteristics of the mortgage loans, including ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, and compliance with applicable origination laws. We may be required to repurchase mortgage loans, indemnify the investor or insurer, or reimburse the investor or insurer for credit losses incurred on loans in the event of a breach of contractual representations or warranties that is not remedied within a period (usually 90 days or less) after we receive notice of the breach. Contracts for mortgage loan sales to the GSEs include various types of specific remedies and penalties that could be applied to inadequate responses to repurchase requests. Similarly, the agreements under which we sell mortgage loans require us to deliver various documents to the investor, and we may be obligated to repurchase any mortgage loan as to which the required documents are not delivered or are defective. We establish a mortgage repurchase liability related to the various representations and warranties that reflect management's estimate of losses for loans which we have a repurchase obligation. Our mortgage repurchase liability represents management's best estimate of the probable loss that we may expect to incur for the representations and warranties in the contractual provisions of our sales of mortgage loans. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. If economic conditions and the housing market deteriorate or future investor repurchase demand and our success at appealing repurchase requests differ from past experience, we could experience increased repurchase obligations and increased loss severity on repurchases, requiring additions to the repurchase liability.

The required accounting treatment of loans we acquire through acquisitions could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

Under U.S. GAAP, we are required to record loans acquired through acquisitions at fair value. Estimating the fair value of such loans requires management to make estimates based on available information, facts, and circumstances on the acquisition date. Any discount on acquired loans is accreted into interest income over the weighted average remaining contractual life of the loans. Therefore, our net interest margins may initially increase due to the discount accretion. We expect the yields on the total loan portfolio will decline as our acquired loan portfolios pay down or mature and the corresponding accretion of the discount decreases. We expect downward pressure on our interest income to the extent that the runoff of our acquired loan portfolios is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods.

We have recorded goodwill as a result of acquisitions that can significantly affect our earnings if it becomes impaired.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying value.

Risks Relating to our Growth Strategy

We may not be able to effectively manage our growth or other expansionary activity.

Our expansionary activity, whether through de novo branching, acquisitions, organic growth or the implementation of our digital banking strategy has placed, and it may continue to place, significant demands on our operations and management. The success of our expansionary activity is dependent upon our ability to:

- continue to implement and improve our operational, credit, financial, legal, management and other internal risk controls and processes and our reporting systems and procedures in order to manage a growing number of client relationships;
- implement and scale our 2UniFi platform and other new technologies;
- integrate our acquisitions and develop consistent policies throughout the various lines of businesses;
- attract and retain the client base; and
- attract and retain management talent.

We may not successfully implement improvements to, or integrate, our management information and control systems, procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in loan volume in various markets and the infrastructure that comes with new banking centers, banks and growth of our client base through our digital banking strategy. Thus, our growth strategy may divert management from our existing franchises and may require us to incur additional expenditures to expand our administrative and operational infrastructure and, if we are unable to effectively manage and grow our financial services franchise, we could be materially and adversely affected. In addition, if we are unable to manage future expansion in our operations, we may experience compliance and operational problems, have to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any one of which could materially and adversely affect us.

Our digital growth strategy may subject us to additional operational, strategic, reputational and regulatory risks.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. Our future success will depend, in part, upon our ability to continue to address the needs of our clients by using innovative technologies to provide products and services that will satisfy client demands for convenience and security, as well as to create additional efficiencies in our operations. The implementation of such new technologies may expose us to additional operational, financial, operational, strategic, reputational and regulatory risks.

New technology-driven products and services are rapidly being introduced throughout the financial services industry, often through fintech companies. We have made and will continue to make investments in and also partner with third party fintech companies in connection with our digital growth strategy and the digital solution, 2UnFi.Our investments may include companies that may be unseasoned, unprofitable or have no established operating histories or earnings and may lack technical, marketing, financial and other resources and are therefore more vulnerable to financial failure. The innovations these companies develop for utilization by 2UniFi, may prove more difficult to successfully integrate into our existing operations. We may be required to employ and maintain qualified personnel and as our business expands into new and expanding markets, and we may be required to install additional operational and control systems to manage fraud, operational, legal and compliance risks. Any failure to successfully manage this integration may adversely affect our timeline for our digital strategy, future financial condition and results of operations. Additionally, any adverse regulatory treatment of the companies and technologies we have invested in, may impact our digital growth and our ability to satisfy our clients' demands for digital offerings in the 2UniFi ecosystem.

Our acquisitions generally will require regulatory approvals, and failure to obtain them would restrict our growth.

We intend to complement and expand our business by pursuing strategic acquisitions of financial services franchises. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, including the Federal Reserve and Colorado Division of Banking. In acting on applications, our banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under the Community Reinvestment Act; and
- the effectiveness of the applicant in combating money laundering activities.

Such regulators could deny our application based on the above criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. In addition, prior to the submission of an application our regulators could discourage us from pursuing strategic acquisitions or indicate that regulatory approvals may not be granted on terms that would be acceptable to us, which could have the same effect of restricting our growth or reducing the benefit of any acquisitions.

The success of future transactions will depend on our ability to successfully identify and consummate acquisitions of financial services franchises that meet our investment objectives. Because of the intense competition for acquisition opportunities and the limited number of potential targets, we may not be able to successfully consummate acquisitions on attractive terms.

There are significant risks associated with our strategy to identify and successfully consummate acquisitions. There are a limited number of acquisition opportunities, and we expect to encounter intense competition from other banking organizations competing for acquisitions and also from other investment funds and entities looking to acquire financial institutions and financial services franchises. Many of these entities are well established and have extensive experience in identifying and consummating acquisitions directly or through affiliates. Many of these competitors possess ongoing banking operations with greater financial, technical, human and other resources and access to capital than we do, which could limit the acquisition opportunities we pursue. Our competitors may be able to achieve greater cost savings, through consolidating operations or otherwise, than we could. These competitive limitations give others an advantage in pursuing certain acquisitions. In addition, increased competition may drive up the prices for the acquisitions we pursue and make the other acquisition terms more onerous, which would make the identification and successful consummation of those acquisitions less attractive to us. Competitors may be willing to pay more for acquisitions than we believe are justified, which could result in us having to pay more for them than we prefer or to forego the opportunity. The trading price of our common stock and of the stock of other potential acquirers may affect our ability to offer a competitive price for acquisitions where stock is proposed

as acquisition consideration. As a result of the foregoing, we may be unable to successfully identify and consummate acquisitions on attractive terms, or at all, that are necessary to grow our business.

To the extent that we are unable to identify and consummate attractive acquisitions, or continue to increase loans through organic loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

We intend to continue to grow our business through organic loan growth and strategic acquisitions of financial services franchises. Previous availability of attractive acquisition targets may not be indicative of future acquisition opportunities, and we may be unable to identify any acquisition targets that meet our investment objectives. As our acquired loan portfolio, which generally produces higher yields than our originated loans due to loan discounts and accretable yield, is paid down, we expect downward pressure on our income to the extent that the runoff is not replaced with other high-yielding loans. As a result of the foregoing, if we are unable to replace loans in our existing portfolio with comparable high-yielding loans, we could be materially and adversely affected. We could also be materially and adversely affected if we choose to pursue riskier higher-yielding loans that fail to perform. As a result of the COVID-19 pandemic and the ensuing economic uncertainty, our ability to develop consistent organic loan growth has been challenged as the Company continues to take a very careful approach to extending new credit.

Projected operating results for businesses acquired by us may be inaccurate and may vary significantly from actual results. To the extent that we make acquisitions that involve distressed assets, we may not be able to realize the value we predict from these assets or make sufficient provision for future losses in the value of, or accurately estimate the future write-downs to be taken in respect of, these assets.

We will generally establish the pricing of transactions and the capital structure of financial services franchises to be acquired by us on the basis of financial projections for such financial services franchises. In general, projected operating results will be based on the judgment of our management team. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed and the projected results may vary significantly from actual results. General economic, political and market conditions can have a material adverse impact on the reliability of such projections. In the event that the projections made in connection with our acquisitions, or future projections with respect to new acquisitions, are not accurate, such inaccuracies could materially and adversely affect us.

Delinquencies and losses in the loan portfolios and other assets we acquire may exceed our initial forecasts developed during our due diligence investigation prior to acquisition and, thus, produce lower returns than we believed our purchase price supported. Furthermore, our due diligence investigation may not reveal all material issues. If, during the diligence process, we fail to identify all relevant issues related to an acquisition, we may be forced to later write-down or write off assets, restructure our operations, or incur impairment or other charges that could result in significant losses. Any of these events could materially and adversely affect us. Economic conditions may create an uncertain environment with respect to asset valuations and there is no certainty that we will be able to sell assets or institutions after we acquire them if we determine it would be in our best interests to do so. In addition, there may be limited liquidity for certain asset classes we hold, including commercial real estate and construction and development loans. Any of the foregoing matters could materially and adversely affect us.

We face risks due to our mortgage banking activities that could negatively impact net income and profitability.

We sell a majority of the mortgage loans that we originate. The sale of these loans generates non-interest income and can be a source of liquidity for the Bank. Disruption in the secondary market for residential mortgage loans as well as declines in real estate values could result in one or more of the following:

- our inability to sell mortgage loans on the secondary market, which could negatively impact our liquidity position;
- declines in real estate values could decrease the potential of mortgage originations, which could negatively impact our earnings;
- if it is determined that loans were made in breach of our representations and warranties to the secondary market, we could incur losses associated with the loans;

- increased compliance requirements, including with respect to the CARES Act, could result in higher compliance costs, higher foreclosure proceedings or lower loan origination volume, all which could negatively impact future earnings; and
- a rise in interest rates could cause a decline in mortgage originations, which could negatively impact our earnings.

Our use of appraisals in deciding whether to make loans secured by real property does not ensure that the value of the real property collateral will be sufficient to repay our loans.

In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and requires the exercise of a considerable degree of judgment. If the appraisal does not accurately reflect the amount that may be obtained upon sale or foreclosure of the property, whether due to a decline in property value after the date of the original appraisal or defective preparation of the appraisal, we may not realize an amount equal to the indebtedness secured by the property and as a result, we may suffer losses. This risk could be intensified by the COVID-19 pandemic, which may negatively impact commercial real estate values, particularly hospitality and leisure, office and retail properties. Residential real estate may also be negatively impacted by higher unemployment driven in part by the pandemic.

Risks Relating to the Regulation of Our Industry

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could materially and adversely affect us.

We are subject to extensive regulation, supervision, and legislation by federal and state regulators and bodies that govern almost all aspects of our operations. Intended to protect clients, depositors and the DIF, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage (including foreclosure and collection practices), limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP. Compliance with laws and regulations, including the effects of the Dodd Frank Act Wall Street Reform and Consumer Protection Act of 2010, can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could materially and adversely affect us. Further, any new laws, rules and regulations could make compliance more difficult or expensive and also materially and adversely affect us.

The FDIC's restoration plan for the DIF and any related increased assessment rates could materially and adversely affect us.

The FDIC insures deposits at FDIC-insured depository institutions, such as our subsidiary bank, up to applicable limits. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. If current assessments imposed by the FDIC are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could materially and adversely affect us.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a federal or state banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had

become unsatisfactory, or that we or our management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, we could be materially and adversely affected.

We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution’s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under this requirement, we could be required to provide financial assistance to our subsidiary bank should our subsidiary bank experience financial distress.

A capital injection may be required at times when we do not have the resources to provide it and therefore we may be required to borrow the funds or raise additional equity capital from third parties. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company’s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company’s general unsecured creditors, including the holders of its indebtedness. Any financing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may not be available on attractive terms, or at all, which likely would have a material adverse effect on us.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements, and engages in coordinated enforcement efforts with the individual federal banking regulators, as well as the Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans or cause us to reduce the average percentage rate or the points and fees on loans that we do make.

Our ability to pay dividends is subject to regulatory limitations and our bank subsidiary's ability to pay dividends to us is also subject to regulatory limitations.

Our ability to declare and pay dividends depends both on the ability of our bank subsidiary to pay dividends to us and on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Because we are a separate legal entity from our bank subsidiary and we do not have significant operations of our own, any dividends paid by us to our shareholders would have to be paid from funds at the holding company level that are legally available therefor. However, as a bank holding company, we are subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Additionally, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval. Finally, holders of our common stock are only entitled to receive such dividends as our board of directors may declare in its unilateral discretion. Dividends are paid out of funds legally available for such purpose based on a variety of considerations, including, without limitation, our historical and projected financial condition, liquidity and results of operations, capital levels, tax considerations, statutory and regulatory prohibitions and other limitations, general economic conditions and other factors deemed relevant by our board of directors. Accordingly, we may not pay the amount of dividends referenced in our current intention above, or any dividends at all, to our shareholders in the future.

Tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.

We operate in multiple jurisdictions, and we are subject to tax laws and regulations of the U.S. federal, state and local governments. From time to time, legislative initiatives may be adopted, which may impact our effective tax rate and could adversely affect our deferred tax assets, tax positions and/or our tax liabilities. In addition, U.S. federal, state and local tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that our historical tax positions will not be challenged by relevant tax authorities or that we would be successful in defending our positions in connection with any such challenge.

Item 1B. UNRESOLVED STAFF COMMENTS.

None

Item 2. PROPERTIES.

Our principal executive offices are located in the Denver Tech Center area immediately south of Denver, Colorado. We also have approximately 70,000 square feet of office and operations space in Kansas City, Missouri. At December 31, 2021, we operated 40 banking centers in Colorado, 34 in Kansas and Missouri, two in Texas, one in Utah and four in New Mexico. Of these banking centers, 61 were owned and 20 locations were leased.

Item 3. LEGAL PROCEEDINGS.

From time to time, we are a party to various litigation matters incidental to the conduct of our business. We do not believe that any of our pending legal proceedings, individually or in the aggregate, will have a material adverse effect on our business, prospects, financial condition, results of operations or liquidity.

Item 4. MINE SAFETY DISCLOSURES.

None.

PART II

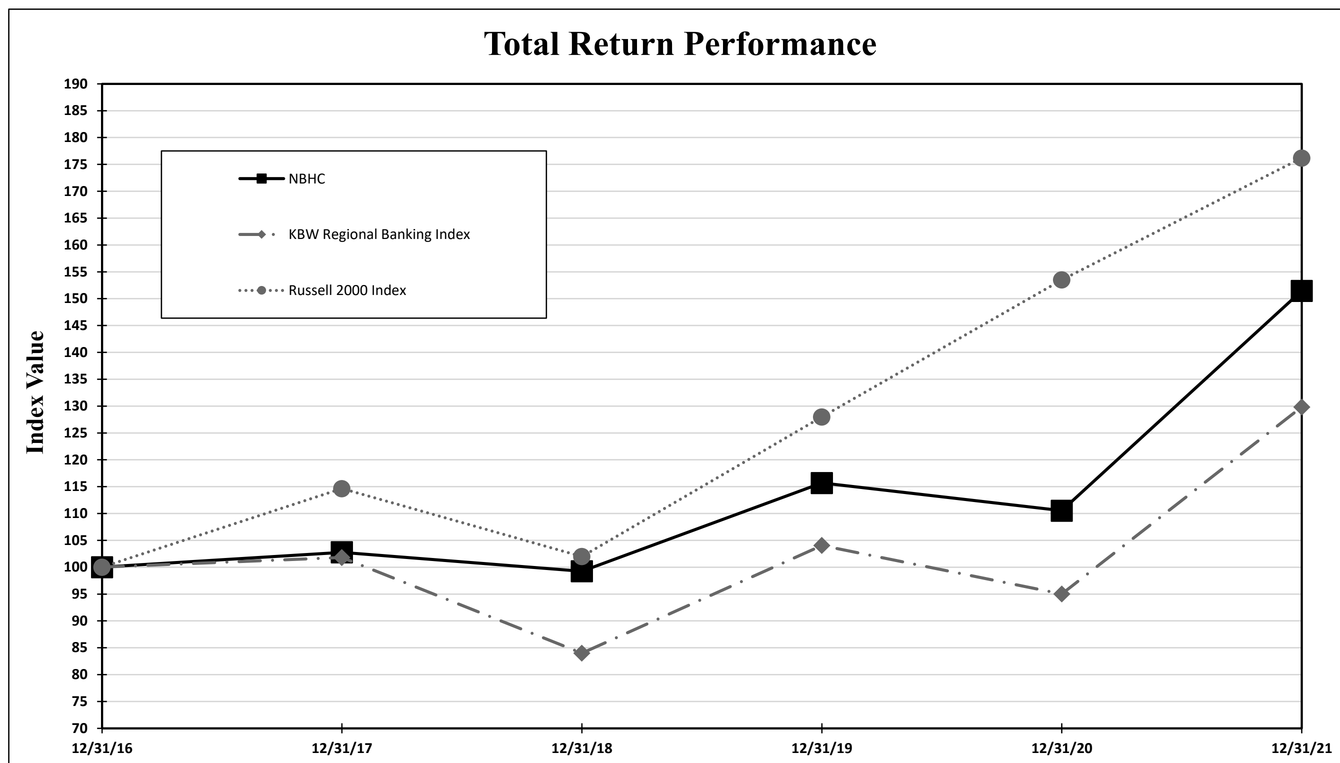
Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Registrant's Common Equity

Shares of the Company's common stock are traded on the New York Stock Exchange ("NYSE") under the symbol "NBHC". The Company had 171 shareholders of record as of February 21, 2022. Management estimates that the number of beneficial owners is significantly greater.

Performance Graph

The following graph presents a comparison of the Company’s performance to the indices named below. It assumes $100 invested on December 31, 2016, with dividends invested on a total return basis.



Index	*Period Ending* 12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
NBHC	100.00	102.77	99.24	115.67	110.51	151.45
KBW Regional Banking Index	100.00	101.81	84.00	104.05	95.02	129.84
Russell 2000 Index	100.00	114.63	101.99	127.98	153.49	176.18

The following table sets forth information about our repurchases of our common stock during the fourth quarter of 2021:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum approximate dollar value of shares that may yet be purchased under the plans or programs [3]
October 1 - October 31, 2021[1]	5,102	$ 42.91	—	$ 55,640,399
November 1 - November 30, 2021[2]	152,001	45.37	147,204	48,961,068
December 1 - December 31, 2021	237,795	43.49	237,795	38,618,179
Total	394,898	44.21	384,999	

(1) Represents shares purchased other than through publicly announced plans purchased pursuant to the Company's stock incentive plans at the then current market value in satisfaction of stock option exercise prices, settlements of restricted stock and tax withholdings.

(2) Of the shares repurchased in November 2021, 4,797 shares were purchased other than through publicly announced plans. These shares were purchased pursuant to the Company's stock incentive plans at the then current market value in satisfaction of stock option exercise prices, settlements of restricted stock and tax withholdings.

(3) On February 24, 2021, the Company's Board of Directors authorized a new program to repurchase up to $75.0 million of the Company's stock from time to time in either the open market or through privately negotiated transactions. The new program of $75.0 million replaced the previously authorized $50.0 million stock repurchase program announced in February 2020 in its entirety. The remaining authorization under the new program as of December 31, 2021 was $38.6 million.

Securities Authorized for Issuance under Equity Compensation Plans

During the second quarter of 2014, shareholders approved the 2014 Omnibus Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Compensation Committee of the Board of Directors has the authority to grant, from time to time, awards of options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards, or any combination thereof to eligible persons. As of December 31, 2021, the aggregate number of Company common stock available for issuance under the 2014 Plan was 4,048,761 shares.

During the second quarter of 2015, shareholders approved the Company's 2014 Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year or 2,000 shares per offering period. The price an employee pays for shares is 90% of the fair market value of Company common stock on the last day of the offering period. As of December 31, 2021, the aggregate number of Company common stock available for issuance under the ESPP was 281,896 shares.

See note 16 to the consolidated financial statements for further detail related to these equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity plans approved by security holders	695,960	$ 28.19	4,330,657
Equity plans not approved by security holders	—	—	—
Total	695,960	$ 28.19	4,330,657

Item 6. SELECTED FINANCIAL DATA.

The following table sets forth a summary of selected historical financial information derived from our audited consolidated financial statements as of and for the five years ended December 31, 2021. This information should be read together with the related notes thereto as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations"

included elsewhere in this annual report. Such information is not necessarily indicative of anticipated future results. All amounts are presented in thousands, except share and per share data, or as otherwise noted.

Summary of Selected Historical Consolidated Financial Data

Consolidated Statements of Financial Condition Data:

	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 845,695	$ 605,565	$ 110,190	$ 109,556	$ 257,364
Investment securities available-for-sale (at fair value)	691,847	661,955	638,249	791,102	855,345
Investment securities held-to-maturity	609,012	376,615	182,884	235,398	258,730
Non-marketable securities	50,740	16,493	29,751	27,555	15,030
Loans [(1)]	4,513,383	4,353,726	4,415,406	4,092,308	3,178,947
Allowance for credit losses	(49,694)	(59,777)	(39,064)	(35,692)	(31,264)
Loans, net	4,463,689	4,293,949	4,376,342	4,056,616	3,147,683
Loans held for sale	139,142	247,813	117,444	48,120	4,629
Other real estate owned	7,005	4,730	7,300	10,596	10,491
Premises and equipment, net	96,747	106,982	112,151	109,986	93,708
Goodwill and other intangible assets, net	127,349	132,955	126,388	128,497	61,237
Other assets	182,785	212,893	194,813	159,240	139,248
Total assets	$ 7,214,011	$ 6,659,950	$ 5,895,512	$ 5,676,666	$ 4,843,465
Deposits	$ 6,228,173	$ 5,676,232	$ 4,737,132	$ 4,535,621	$ 3,979,559
Long-term debt, net	39,478	—	—	—	—
Other liabilities	106,254	163,027	391,460	446,039	331,499
Total liabilities	6,373,905	5,839,259	5,128,592	4,981,660	4,311,058
Total shareholders' equity	840,106	820,691	766,920	695,006	532,407
Total liabilities and shareholders' equity	$ 7,214,011	$ 6,659,950	$ 5,895,512	$ 5,676,666	$ 4,843,465

(1) Total loans are net of unearned discounts and deferred fees and costs.

Consolidated Statements of Operations Data:

	As of and for the years ended				
	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Interest income	$ 200,965	$ 218,002	$ 242,601	$ 221,391	$ 164,421
Interest expense	13,821	25,056	36,771	23,954	18,115
Net interest income	187,144	192,946	205,830	197,437	146,306
Provision (release) expense for loan losses	(9,293)	17,630	11,643	5,197	12,972
Net interest income after provision for loan losses	196,437	175,316	194,187	192,240	133,334
Non-interest income	110,364	140,258	82,752	70,775	39,205
Non-interest expense	191,830	206,177	180,745	189,334	136,677
Income before income taxes	114,971	109,397	96,194	73,681	35,862
Income tax expense	21,365	20,806	15,829	12,230	21,283
Net income	$ 93,606	$ 88,591	$ 80,365	$ 61,451	$ 14,579
Share Information:					
Earnings per share, basic	$ 3.04	$ 2.87	$ 2.57	$ 2.00	$ 0.54
Earnings per share, diluted	3.01	2.85	2.55	1.95	0.53
Dividends paid	0.87	0.80	0.75	0.54	0.34
Book value per share	28.04	26.79	24.60	22.59	19.81
Tangible common book value per share(1)	24.33	23.09	20.89	18.77	17.94
Total shareholders' equity to total assets	11.65%	12.32%	13.01%	12.24%	10.99%
Tangible common equity to tangible assets(1)	10.26%	10.80%	11.27%	10.39%	10.06%
Weighted average common shares outstanding, basic	30,727,566	30,857,086	31,175,825	30,748,234	26,928,763
Weighted average common shares outstanding, diluted	31,068,159	31,075,857	31,530,817	31,430,074	27,709,659
Common shares outstanding	29,958,764	30,634,291	31,176,627	30,769,063	26,875,585

(1) Tangible book value per share and tangible common equity to tangible assets are non-GAAP financial measures. We believe that the most directly comparable GAAP financial measures are book value per share and total shareholders' equity to total assets. See the reconciliation under "About Non-GAAP Financial Measures."

Key Ratios

	As of and for the years ended				
	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Return on average assets	1.33%	1.40%	1.38%	1.10%	0.31%
Return on average tangible assets(1)	1.37%	1.44%	1.42%	1.15%	0.38%
Return on average equity	11.06%	11.24%	10.89%	9.28%	2.67%
Return on average tangible common equity(1)	12.87%	13.27%	13.07%	11.60%	3.61%
Loan to deposit ratio (end of period)	72.47%	76.70%	93.21%	90.23%	80.00%
Non-interest bearing deposits to total deposits (end of period)	40.24%	37.19%	25.01%	23.64%	22.68%
Net interest margin(2)	2.87%	3.33%	3.83%	3.85%	3.36%
Net interest margin FTE(1)(2)(3)	2.95%	3.42%	3.93%	3.93%	3.50%
Interest rate spread FTE(3)(4)	2.79%	3.21%	3.65%	3.77%	3.35%
Yield on earning assets(5)	3.08%	3.76%	4.52%	4.31%	3.78%
Yield on earning assets FTE(1)(2)(3)	3.16%	3.85%	4.61%	4.40%	3.91%
Cost of interest bearing liabilities	0.37%	0.64%	0.96%	0.63%	0.56%
Cost of deposits	0.23%	0.45%	0.64%	0.45%	0.41%
Non-interest income to total revenue FTE(3)	36.46%	41.46%	28.18%	25.95%	20.49%
Non-interest expense to average assets	2.73%	3.26%	3.10%	3.38%	2.90%
Efficiency ratio	64.08%	61.52%	62.22%	69.78%	70.80%
Efficiency ratio FTE(1)(3)	62.99%	60.59%	61.15%	68.64%	68.63%
Total Loans Asset Quality Data(6)(7)(8)					
Non-performing loans to total loans	0.24%	0.47%	0.49%	0.60%	0.66%
Non-performing loans to total loans excluding PPP loans	0.24%	0.49%	0.49%	0.60%	0.66%
Non-performing assets to total loans and OREO	0.39%	0.58%	0.66%	0.85%	0.99%
Non-performing assets to total loans and OREO excluding PPP loans	0.40%	0.60%	0.66%	0.85%	0.99%
Allowance for credit losses to total loans	1.10%	1.37%	0.88%	0.87%	0.98%
Allowance for credit losses to total loans excluding PPP loans	1.11%	1.43%	0.88%	0.87%	0.98%
Allowance for credit losses to non-performing loans	458.77%	293.21%	179.62%	145.94%	148.88%
Net charge-offs to average loans	0.03%	0.06%	0.19%	0.02%	0.36%

(1) Ratio represents a non-GAAP financial measure. See non-GAAP reconciliation below.
(2) Net interest margin represents net interest income, including accretion income on interest earning assets, as a percentage of average interest earning assets.
(3) Presented on a fully taxable equivalent ("FTE") basis using the statutory rate of 21% for 2021, 2020, 2019 and 2018 and 35% for 2017. The taxable equivalent adjustments included above are $5,161, $5,103, $5,065, $4,482 and $5,852 for the years ended 2021, 2020, 2019, 2018, and 2017, respectively.
(4) Interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(5) Interest earning assets include assets that earn interest/accretion or dividends. Any market value adjustments on investment securities or loans are excluded from interest-earning assets.
(6) Non-performing loans consist of non-accruing loans and restructured loans on non-accrual.
(7) Non-performing assets include non-performing loans, other real estate owned and other repossessed assets.
(8) Total loans are net of unearned discounts and fees.

About Non-GAAP Financial Measures

Certain of the financial measures and ratios we present, including “tangible assets,” “return on average tangible assets,” “return on average tangible common equity,” “tangible common book value,” “tangible common book value per share,” “tangible common equity,” “tangible common equity to tangible assets,” and “fully taxable equivalent (FTE)” metrics, are supplemental measures that are not required by, or are not presented in accordance with, U.S. generally accepted accounting principles (GAAP). We refer to these financial measures and ratios as “non-GAAP financial measures.” We consider the use of select non-GAAP financial measures and ratios to be useful for financial and operational decision making and useful in evaluating period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain expenses or assets that we believe are not indicative of our primary business operating results or by presenting certain metrics on an FTE basis. We believe that management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, analyzing and comparing past, present and future periods.

These non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with GAAP and you should not rely on non-GAAP financial measures alone as measures of our performance. The non-GAAP financial measures we present may differ from non-GAAP financial measures used by our peers or other companies. We compensate for these limitations by providing the equivalent GAAP measures whenever we present the non-GAAP financial measures and by including a reconciliation of the impact of the components adjusted for in the non-GAAP financial measure so that both measures and the individual components may be considered when analyzing our performance.

A reconciliation of our GAAP financial measures to the comparable non-GAAP financial measures is as follows:

Tangible Common Book Value Ratios

	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Total shareholders' equity	$ 840,106	$ 820,691	$ 766,920	$ 695,006	$ 532,407
Less: goodwill and core deposit intangible assets, net	(121,392)	(122,575)	(123,758)	(124,941)	(61,237)
Add: deferred tax liability related to goodwill	10,070	9,155	8,241	7,327	10,873
Tangible common equity (non-GAAP)	$ 728,784	$ 707,271	$ 651,403	$ 577,392	$ 482,043
Total assets	$ 7,214,011	$ 6,659,950	$ 5,895,512	$ 5,676,666	$ 4,843,465
Less: goodwill and core deposit intangible assets, net	(121,392)	(122,575)	(123,758)	(124,941)	(61,237)
Add: deferred tax liability related to goodwill	10,070	9,155	8,241	7,327	10,873
Tangible assets (non-GAAP)	$ 7,102,689	$ 6,546,530	$ 5,779,995	$ 5,559,052	$ 4,793,101
Tangible common equity to tangible assets calculations:					
Total shareholders' equity to total assets	11.65%	12.32%	13.01%	12.24%	10.99%
Less: impact of goodwill and core deposit intangible assets, net	(1.39)%	(1.52)%	(1.74)%	(1.85)%	(0.93)%
Tangible common equity to tangible assets (non-GAAP)	10.26%	10.80%	11.27%	10.39%	10.06%
Tangible common book value per share calculations:					
Tangible common equity (non-GAAP)	$ 728,784	$ 707,271	$ 651,403	$ 577,392	$ 482,043
Divided by: ending shares outstanding	29,958,764	30,634,291	31,176,627	30,769,063	26,875,585
Tangible common book value per share (non-GAAP)	$ 24.33	$ 23.09	$ 20.89	$ 18.77	$ 17.94
Tangible common book value per share, excluding accumulated other comprehensive loss (income) calculations:					
Tangible common equity (non-GAAP)	$ 728,784	$ 707,271	$ 651,403	$ 577,392	$ 482,043
Accumulated other comprehensive loss (income), net of tax	6,963	(9,766)	(2,062)	11,275	6,242
Tangible common book value, excluding accumulated other comprehensive loss (income), net of tax (non-GAAP)	735,747	697,505	649,341	588,667	488,285
Divided by: ending shares outstanding	29,958,764	30,634,291	31,176,627	30,769,063	26,875,585
Tangible common book value per share, excluding accumulated other comprehensive loss (income), net of tax (non-GAAP)	$ 24.56	$ 22.77	$ 20.83	$ 19.13	$ 18.17

Return on Average Tangible Assets and Return on Average Tangible Equity

	As of and for the years ended				
	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Net income	$ 93,606	$ 88,591	$ 80,365	$ 61,451	$ 14,579
Add: impact of core deposit intangible amortization expense, after tax	909	910	899	1,649	3,259
Net income adjusted for impact of core deposit intangible amortization expense, after tax	$ 94,515	$ 89,501	$ 81,264	$ 63,100	$ 17,838
Average assets	$ 7,020,111	$ 6,326,268	$ 5,837,121	$ 5,607,532	$ 4,705,241
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(111,944)	(114,031)	(116,104)	(118,546)	(52,958)
Average tangible assets (non-GAAP)	$ 6,908,167	$ 6,212,237	$ 5,721,017	$ 5,488,986	$ 4,652,283
Average shareholders' equity	$ 846,539	$ 788,286	$ 737,923	$ 662,420	$ 546,716
Less: average goodwill and core deposit intangible asset, net of deferred tax liability related to goodwill	(111,944)	(114,031)	(116,104)	(118,546)	(52,958)
Average tangible common equity (non-GAAP)	$ 734,595	$ 674,255	$ 621,819	$ 543,874	$ 493,758
Return on average assets	1.33%	1.40%	1.38%	1.10%	0.31%
Return on average tangible assets (non-GAAP)	1.37%	1.44%	1.42%	1.15%	0.38%
Return on average equity	11.06%	11.24%	10.89%	9.28%	2.67%
Return on average tangible common equity (non-GAAP)	12.87%	13.27%	13.07%	11.60%	3.61%

Fully Taxable Equivalent Yield on Earning Assets and Net Interest Margin

	As of and for the years ended				
	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Interest income	$ 200,965	$ 218,002	$ 242,601	$ 221,391	$ 164,421
Add: impact of taxable equivalent adjustment	5,161	5,103	5,065	4,482	5,852
Interest income FTE (non-GAAP)	$ 206,126	$ 223,105	$ 247,666	$ 225,873	$ 170,273
Net interest income	$ 187,144	$ 192,946	$ 205,830	$ 197,437	$ 146,306
Add: impact of taxable equivalent adjustment	5,161	5,103	5,065	4,482	5,852
Net interest income FTE (non-GAAP)	$ 192,305	$ 198,049	$ 210,895	$ 201,919	$ 152,158
Average earning assets	$ 6,521,300	$ 5,795,864	$ 5,368,073	$ 5,131,694	$ 4,353,320
Yield on earning assets	3.08%	3.76%	4.52%	4.31%	3.78%
Yield on earning assets FTE (non-GAAP)	3.16%	3.85%	4.61%	4.40%	3.91%
Net interest margin	2.87%	3.33%	3.83%	3.85%	3.36%
Net interest margin FTE (non-GAAP)	2.95%	3.42%	3.93%	3.93%	3.50%

Efficiency Ratio

	As of and for the years ended				
	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Net interest income	$ 187,144	$ 192,946	$ 205,830	$ 197,437	$ 146,306
Add: impact of taxable equivalent adjustment	5,161	5,103	5,065	4,482	5,852
Net interest income, FTE (non-GAAP)	$ 192,305	$ 198,049	$ 210,895	$ 201,919	$ 152,158
Non-interest income	$ 110,364	$ 140,258	$ 82,752	$ 70,775	$ 39,205
Non-interest expense	$ 191,830	$ 206,177	$ 180,745	$ 189,334	$ 136,677
Less: core deposit intangible asset amortization	(1,183)	(1,183)	(1,183)	(2,170)	(5,342)
Non-interest expense, adjusted for core deposit intangible asset amortization (non-GAAP)	$ 190,647	$ 204,994	$ 179,562	$ 187,164	$ 131,335
Efficiency ratio	64.08%	61.52%	62.22%	69.78%	70.80%
Efficiency ratio FTE (non-GAAP)	62.99%	60.59%	61.15%	68.64%	68.63%

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes as of and for the years ended December 31, 2021, 2020, and 2019, and with the other financial and statistical data presented in this annual report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that may cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" and should be read herewith.

Management's discussion focuses on 2021 results compared to 2020. For a discussion of 2020 results compared to 2019, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

All amounts are in thousands, except share and per share data, or as otherwise noted.

Overview

Our focus is on building relationships by creating a win-win scenario for our clients and our Company. We believe in providing solutions and services to our clients that are based on fairness and simplicity. We have established a solid financial services franchise with a sizable presence for deposit gathering and building client relationships necessary for growth. Additionally, we are innovating and building strategic partnerships with the goal of delivering a comprehensive digital financial ecosystem for our clients. We are focused on providing small and medium-sized businesses with alternative digital access to address borrowing, depository and cash management needs, while also providing information management and access to blockchain payment tools, under the safety of a regulated bank. We believe that our established presence in our core markets of Colorado, the greater Kansas City region, Texas, Utah and New Mexico, as well as our ongoing investment in digital and blockchain solutions position us well for growth opportunities. As of December 31, 2021, we had $7.2 billion in assets, $4.5 billion in loans, $6.2 billion in deposits and $0.8 billion in equity.

Operating Highlights and Key Challenges

Profitability and returns

- Net income increased $5.0 million, or 5.7%, to a record $93.6 million, as of December 31, 2021, compared to the prior year.
- The return on average tangible assets was 1.37% for 2021, compared to 1.44% for 2020.
- The return on average tangible common equity was 12.87% for 2021, compared to 13.27% for 2020.

Strategic execution

- Announced plans to design a financial eco-system, 2UniFi, for small and medium-sized businesses that we believe will increase access to financial services while reducing the costs of banking services. We believe the expansion into the digital financial ecosystem through our platform will provide an expanded revenue base, new sources of fee income and drive growth in our low cost deposit base on a national scale.
- Strategically invested in two fintech firms including $20.0 million in Finstro Global Holdings, Inc. and $2.0 million in Figure Technologies. We will continue to invest with fintech solution providers to support our ecosystem buildout, support our core bank products and offerings, and to leverage efficiencies and technological solutions in our shared services areas.
- As part of our continued focus on improving operating efficiencies and investing in digital solutions for our clients, we completed the previously announced consolidation of seven banking centers and the sale of one banking center during 2021. Banking center consolidation-related income of $4.6 million was recorded in other non-interest income, and banking center consolidation-related expense of $1.6 million was recorded in other non-interest expense during the year ended December 31, 2021.

- Maintained a conservatively structured loan portfolio represented by diverse industries and concentrations with most industry sector concentrations at 5% or less of total loans and all concentration levels remain well below our self-imposed limits.
- During the year ended December 31, 2021, the Company sold mortgage servicing rights of $10.5 million generating a gain of $1.3 million included in mortgage banking income in the consolidated statements of operation.
- Repurchased 912,213 shares for $36.4 million at a weighted average price per share of $39.88 during the year ended December 31, 2021.
- During 2021, the Company entered into a subordinated note purchase agreement to issue and sell a fixed-to-floating rate note totaling $40.0 million at December 31, 2021. The balance on the note at December 31, 2021, net of issuance costs totaling $0.5 million, totaled $39.5 million. The initial interest rate of the note is 3.00% until November 15, 2026. The Company intends to use the net proceeds from the sale of the note for general corporate purposes.

Loan portfolio

- Loans outstanding totaled $4.5 billion, increasing $159.7 million, or 3.7%, from the prior year, largely due to higher commercial and industrial loans of $203.8 million, or 16.0%.
- Loan originations during the year ended December 31, 2021 totaled a record $1.5 billion, led by commercial loan originations totaling $1.1 billion, including PPP loan originations of $121.1 million.
- During 2021, the Company successfully executed PPP loan forgiveness for our clients with a decrease in PPP loan balances of $154.4 million to $21.7 million as of December 31, 2021.
- COVID-related loan modifications totaled $5.3 million at December 31, 2021, down from $173.6 million at December 31, 2020 as a majority of the COVID-modified loans have now returned to their full principal and interest payment terms.

Credit quality

- Allowance for credit losses totaled 1.10% of total loans at December 31, 2021, compared to 1.37% at December 31, 2020.
- During the year ended December 31, 2021, the Company recorded a provision release of $9.3 million, which included a provision release of $8.8 million for funded loans and a provision release of $0.5 million for unfunded loan commitments. During the year ended December 31, 2020, the Company recorded total provision expense of $17.6 million, which included a provision expense of $17.5 million for funded loans and a provision expense of $0.1 million for unfunded loan commitments.
- Net charge-offs of $1.3 million and $2.7 million were recorded during 2021 and 2020, respectively. Net charge-offs to average total loans totaled 0.03% and 0.06% for 2021 and 2020, respectively.
- Credit quality remained strong, as non-performing loans (comprised of non-accrual loans and non-accrual troubled debt restructured loans) decreased to 0.24% of total loans at December 31, 2021, compared to 0.47% at December 31, 2020. Non-performing assets to total loans and OREO totaled 0.39% at December 31, 2021, compared to 0.58% at December 31, 2020.

Client deposit funded balance sheet

- Average transaction deposits for the fourth quarter of 2021 totaled $5.3 billion, increasing 14.2%, compared to $4.6 billion for the same period in the prior year.
- Average total deposits for the fourth quarter of 2021 totaled $6.2 billion, increasing 8.9%, compared to $5.7 billion for the same period in the prior year.
- The mix of transaction deposits to total deposits improved 390 basis points to 86.5% at December 31, 2021, from 82.6% at December 31, 2020.
- Cost of deposits totaled 0.23% for the year ended December 31, 2021, decreasing 22 basis points, compared to the year ended December 31, 2020.

Revenues

- Fully taxable equivalent net interest income totaled $192.3 million for the year ended December 31, 2021 a decrease of $5.7 million, or 2.9%, compared to the prior year due to a decrease in average loan balances and the interest rate actions taken by the Federal Reserve during 2020.
- The FTE net interest margin narrowed 47 basis points from the prior year to 2.95% for the year ended December 31, 2021 due to lower earning asset yields. The yield on earning assets decreased 69 basis points, driven by the remix of assets into lower-yielding cash balances. The cost of funds decreased 22 basis points to 0.23%.
- Non-interest income totaled $110.4 million during 2021, decreasing $29.9 million, or 21.3%, from 2020, driven by $39.0 million lower mortgage banking income due to slower refinance activity in 2021 and competition driving tighter gain on sale margins. During 2021, service charges and bank card fees increased a combined $2.2 million.
- Other non-interest income increased $7.5 million due to $4.6 million of gains from banking center consolidation-related income and $3.0 million of unrealized gains from equity method investments during 2021.

Expenses

- Non-interest expense totaled $191.8 million during 2021, representing a decrease of $14.3 million, or 7.0%, from 2020, primarily driven by lower mortgage-related compensation as well as the Company's strategic efforts to improve operating efficiencies.
- Occupancy and equipment decreased $2.2 million during 2021, compared to 2020, largely due to efficiencies gained from banking center consolidations. Banking center consolidation-related expense totaling $1.6 million was recorded during 2021, compared to $2.3 million during 2020.
- During the year ended December 31, 2021, non-interest expense included $2.5 million of transaction-related expenses for the investments in Finstro Global Holdings, Inc. and Figure Technologies to further our vision for building a comprehensive digital financial ecosystem
- Income tax expense totaled $21.4 million during 2021, compared to $20.8 million during 2020. Tax expense was lowered by $0.6 million of tax benefit and $0.1 million of tax expense from stock compensation activity during 2021 and 2020, respectively. Adjusting for the stock compensation activity, the 2021 and 2020 effective tax rates were 19.1% and 19.0%, respectively.

Strong capital position

- Capital ratios continue to be strong and in excess of federal bank regulatory agency "well capitalized" thresholds. At December 31, 2021, our consolidated tier 1 leverage ratio was 10.39%, and our common equity tier 1 and consolidated tier 1 risk based capital ratios were 14.26%.
- At December 31, 2021, common book value per share was $28.04. The tangible common book value per share increased $1.24 to $24.33 at December 31, 2021, compared to December 31, 2020, as the Company's earnings outpaced share repurchases and dividends.
- The Bank maintains ample liquidity with excess cash liquidity of $372 million and access to $2.7 billion in readily available funds.

Key Challenges

There are a number of significant challenges confronting us and our industry. We face continual challenges implementing our business strategy. These include growing our assets, particularly loans, and deposits amidst intense competition, changing interest rates, adhering to changes in the regulatory environment and identifying and consummating disciplined acquisition and other expansionary opportunities in a very competitive environment.

The COVID-19 pandemic has caused disruption and is likely to continue to present challenges to our business. We continue to remain committed to ensuring our associates, clients and communities are receiving the support they need through our banking centers and our digital banking platform. Our teams have been working diligently to support our clients who are experiencing financial hardship due to COVID-19 through participation in the SBA's Paycheck Protection Program, including assistance with PPP loan forgiveness applications, and loan modifications, as needed. While access to vaccines in the United States has increased, the efficacy of those vaccines, the impact of emerging targeted vaccine mandates and new

variants of the virus, and the length of time that the government-mandated measures must remain in place or potentially be reinstituted to address COVID-19 are unknown. The pandemic has had a negative impact to the U.S. labor market, consumer spending and business operations, and it is not clear how long new outbreaks of COVID-19 cases will have a continued impact.

Our markets have historically outperformed the national averages on many key indicators; however, the economic impact from the COVID-19 pandemic has caused economic strain nationally and across all of our markets. We are encouraged by the positive signs of economic recovery we are seeing throughout our markets. We are focused on growing our loan portfolio while taking a careful approach to extending new credit and adhering to our established underwriting standards and self-imposed concentration limits. A significant portion of our loan portfolio is secured by real estate and any deterioration in real estate values or credit quality or elevated levels of non-performing assets would ultimately have a negative impact on the quality of our loan portfolio.

As of December 31, 2021, the Company had low exposure to industries highly impacted by the COVID-19 pandemic. Within the commercial loan segment, restaurants were 5.7%, retailers 2.7%, hospital/medical 6.8% and oil and gas 0.7% of total loans. Within the commercial real estate non-owner occupied loan segment, hotel and lodging was 4.1%, multifamily 2.1% and retail 1.5% of total loans. The Company had no direct exposure to other industries and loan types more highly impacted by the pandemic including aviation, cruise lines, energy services, auto manufacturing/dealer floor plans, hedge funds, convention centers, credit cards, malls and taxi/ride share businesses. Furthermore, the Company had no consumer credit card, indirect auto or car leasing exposure.

The agriculture industry continues to be impacted by volatility in commodity prices as well as supply chain issues driven by the COVID-19 pandemic. Our food and agribusiness portfolio is only 4.5% of total loans and is well-diversified across food production, crop and livestock types. Crop and livestock loans represent 1.0% of total loans. We have maintained relationships with food and agribusiness clients that generally possess low leverage and, correspondingly, low bank debt to assets, minimizing any potential credit losses in the future.

The extraordinary government measures enacted during the COVID-19 pandemic have generated unprecedented levels of economic stimulus funding and have produced high levels of cash liquidity within the banking industry. Our cash balances total $845.7 million at December 31, 2021 and have increased $240.1 million from December 31, 2020. Future growth in our interest income will ultimately be dependent on our ability to deploy the excess cash liquidity into high-quality originated loans and other high-quality earning assets such as investment securities. Investment securities totaled $1.3 billion at December 31, 2021 and increased $262.3 million, or 25.3%, compared to December 31, 2020. At December 31, 2021, our loans outstanding totaled $4.5 billion, increasing $159.7 million, or 3.7%, compared to December 31, 2020. During the year ended December 31, 2021, our weighted average rate on new loans funded at the time of origination was 3.51%, compared to the weighted average yield of our originated loan portfolio of 3.98% (FTE). Our net interest income has been impacted by lower average loan balances and interest rate actions taken by the Federal Reserve in response to the COVID-19 pandemic, and our future earnings will be impacted by the Federal Reserve’s future interest rate policy decisions.

Continued regulation, impending new liquidity and capital constraints, and a continual need to bolster cybersecurity are adding costs and uncertainty to all U.S. banks and could affect profitability. Also, nontraditional participants in the market may offer increased competition as non-bank payment businesses, including fintechs, are expanding into traditional banking products. While certain external factors are out of our control and may provide obstacles to our business strategy, we are prepared to deal with these challenges and expand our offerings in digital technology, including by partnering with and investing in fintechs where appropriate. We seek to remain flexible, yet methodical and proactive, in our strategic decision making so that we can quickly respond to market changes and the inherent challenges and opportunities that accompany such changes.

Application of Critical Accounting Policies and Significant Estimates

We use accounting principles and methods that conform to GAAP and general banking practices. We are required to apply significant judgment and make material estimates in the preparation of our financial statements and with regard to various accounting, reporting and disclosure matters. Assumptions and estimates are required to apply these principles where actual measurement is not possible or practical. The most significant of these estimates relate to the determination of the allowance

for credit losses. See additional discussion of our ACL policy in note 2 – Summary of Significant Accounting Policies in the notes to our consolidated financial statements for the year ended December 31, 2021.

The determination of the ACL, which represents management's estimate of lifetime credit losses inherent in our loan portfolio at the balance sheet date, involves a high degree of judgment and complexity. The Company estimates the collective ACL by first disaggregating the loan portfolio into segments based upon broad characteristics such as primary use and underlying collateral. Within these segments, the portfolio is further disaggregated into classes of loans with similar attributes and risk characteristics. The collective ACL is determined at the class level, analyzing loss history based upon specific loss drivers and risk factors affecting each loan class. The Company utilizes a discounted cash flow ("DCF") model that incorporates forecasts of certain national macroeconomic factors (reasonable and supportable forecasts) which drive the losses predicted in establishing the Company's collective ACL. Management accounts for the inherent uncertainty of the underlying economic forecast by reviewing and weighting alternate forecast scenarios. For periods beyond the reasonable and supportable forecast period, the Company reverts to historical long-term average loss rates on a straight-line basis. Additionally, the collective ACL calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition. For further discussion of the ACL, see notes 2 and 7 to our consolidated financial statements.

Future Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 was effective upon issuance and can be adopted during any interim period through December 31, 2022. It provides optional expedients and guidance for applying generally accepted accounting principles to contract modifications and hedging relationships, if certain criteria are met, that reference LIBOR or any other reference rate that is expected to be discontinued. To address reference rate reform, the Company established a LIBOR transition subcommittee in January of 2020 to identify exposure to reference rates within loan and derivative contracts. The Company had no exposure to LIBOR tenors that were discontinued as of January 1, 2022. For tenors expiring on future dates the Company is working to ensure all documentation includes contingency terms, if necessary, that may be utilized at such time when the LIBOR is discontinued. Beginning January 1, 2022, the Company no longer originates loans using LIBOR as a reference rate. The Company has assessed, and will continue to evaluate, the impact from ASU 2020-04 and does not expect the adoption of ASU 2020-04, or any updates issued to date, to have a material impact on its financial statements.

Financial Condition

Total assets were $7.2 billion at December 31, 2021, compared to $6.7 billion at December 31, 2020, an increase of $554.1 million, or 8.3%. Cash and cash equivalents increased $240.1 million, and total loans increased $159.7 million, or 3.7%.

During 2021, lower cost demand, savings and money market deposits ("transaction deposits") increased $0.7 billion, or 15.0%, compared to the prior year, as we continued developing full banking relationships with our clients. Our clients used their core operating accounts for PPP funds and economic stimulus checks, which aided the strong deposit growth. In addition to providing excess cash liquidity, the increase in transaction deposits provided low-cost funding utilized to fund loan growth.

Investment securities

<u>Available-for-sale</u>

Total investment securities available-for-sale were $691.8 million at December 31, 2021, compared to $662.0 million at December 31, 2020, an increase of $29.9 million, or 4.52%. During 2021 and 2020, purchases of available-for-sale securities totaled $288.6 million and $286.1 million, respectively. Maturities and paydowns of available-for-sale securities during 2021 and 2020 totaled $235.9 million and $271.5 million, respectively. There were no sales of available-for-sale securities during 2021 or 2020.

Available-for-sale investment securities are summarized as follows as of the dates indicated:

	December 31, 2021				December 31, 2020			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weighted average yield
Mortgage-backed securities:								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 231,523	$ 227,696	32.9%	1.38%	$ 193,424	$ 196,334	29.6%	1.36%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	467,490	461,334	66.7%	1.47%	454,345	462,779	69.9%	1.45%
Municipal securities	230	237	0.0%	3.17%	362	375	0.1%	3.46%
Corporate debt	2,000	2,111	0.3%	5.80%	2,000	1,998	0.3%	5.83%
Other securities	469	469	0.1%	0.00%	469	469	0.1%	0.00%
Total investment securities available-for-sale	$ 701,712	$ 691,847	100.0%	1.46%	$ 650,600	$ 661,955	100.0%	1.44%

As of December 31, 2021 and 2020, nearly all the available-for-sale investment portfolio was backed by mortgages. The residential mortgage pass-through securities portfolio is comprised of both fixed rate and adjustable rate Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Government National Mortgage Association ("GNMA") securities. The other mortgage-backed securities ("MBS") are comprised of securities backed by FHLMC, FNMA and GNMA securities.

Mortgage-backed securities may have actual maturities that differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average life of the available-for-sale mortgage-backed securities portfolio was 4.2 years and 2.7 years at December 31, 2021 and December 31, 2020, respectively. This estimate is based on assumptions and actual results may differ. At December 31, 2021 and December 31, 2020, the duration of the total available-for-sale investment portfolio was 3.8 years and 2.6 years, respectively.

At December 31, 2021 and 2020, adjustable rate securities comprised 1.7% and 2.3%, respectively, of the available-for-sale mortgage-backed security portfolio. The remainder of the portfolio was comprised of fixed rate amortizing securities with 10 to 30 year contractual maturities, with a weighted average coupon of 1.70% per annum and 2.00% per annum at December 31, 2021 and 2020, respectively.

The available-for-sale investment portfolio included $3.4 million of unrealized gains and $13.3 million of unrealized losses at December 31, 2021. At December 31, 2020, the available-for-sale investment portfolio included $11.7 million of unrealized gains and $0.4 million of unrealized losses. We believe any unrealized losses are a result of prevailing interest rates, and as such, we do not believe that any of the securities with unrealized losses were impaired. Management believes that default of the available-for-sale securities is highly unlikely. FHLMC, FNMA and GNMA guaranteed mortgage-backed securities have a long history of zero credit losses, an explicit guarantee by the U.S. government (although limited for FNMA and FHLMC securities) and yields that generally trade based on market views of prepayment and liquidity risk rather than credit risk.

Held-to-maturity

At December 31, 2021, we held $609.0 million of held-to-maturity investment securities, compared to $376.6 million at December 31, 2020, an increase of $232.4 million, or 61.7%. Purchases of held-to-maturity securities totaled $397.8 million and $284.2 million during 2021 and 2020, respectively. Maturities and paydowns of held-to-maturity securities totaled $161.9 million and $88.1 million during 2021 and 2020, respectively.

Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	December 31, 2021				December 31, 2020			
	Amortized cost	Fair value	Percent of portfolio	Weighted average yield	Amortized cost	Fair value	Percent of portfolio	Weighted average yield
Mortgage-backed securities:								
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 312,916	$ 309,614	51.4%	1.56%	$ 306,187	$ 310,930	81.3%	1.39%
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	296,096	289,646	48.6%	1.25%	70,428	70,761	18.7%	0.41%
Total investment securities held-to-maturity	$ 609,012	$ 599,260	100.0%	1.41%	$ 376,615	$ 381,691	100.0%	1.21%

The residential mortgage pass-through and other residential MBS held-to-maturity investment portfolios are comprised of fixed rate FHLMC, FNMA and GNMA securities.

The fair value of the held-to-maturity investment portfolio included $2.2 million and $5.3 million of unrealized gains and $11.9 million and $0.3 million of unrealized losses at December 31, 2021 and December 31, 2020, respectively.

The Company does not measure expected credit losses on a financial asset, or group of financial assets, in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Management evaluated held-to-maturity securities noting they are backed by loans guaranteed by either U.S. government agencies or U.S. government sponsored entities, and management believes that default is highly unlikely given this governmental backing and long history without credit losses. Additionally, management notes that yields on which the portfolio generally trades are based upon market views of prepayment and liquidity risk and not credit risk. The Company has no intention to sell the securities and believes it will not be required to sell the securities before the recovery of their amortized cost.

Mortgage-backed securities may have actual maturities that differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. The estimated weighted average expected life of the held-to-maturity mortgage-backed securities portfolio as of December 31, 2021 and December 31, 2020 was 4.1 years and 2.4 years, respectively. This estimate is based on assumptions and actual results may differ. The duration of the total held-to-maturity portfolio was 3.8 years and 2.4 years as of December 30, 2021 and December 31, 2020, respectively.

Residential mortgage pass-through investments due after one year but within five years had a weighted average yield of 3.35% at December 31, 2021. Those due after five years but within 10 years had a weighted average yield of 1.91%, and those due after 10 years had a weighted average yield of 1.26% at December 31, 2021. Other residential MBS held-to-maturity investments due after five years but within 10 years had a weighted average yield of 1.64%, and those due after 10 years had a weighted average yield of 1.23%.

Non-marketable securities

During 2021, the Company updated its asset classifications to include certain financial instruments previously included in other assets within non-marketable securities in the statements of financial condition.

Non-marketable securities totaled $50.7 million and $22.1 million at December 31, 2021 and 2020, respectively, and included FRB stock, FHLB stock and other non-marketable securities. At December 31, 2021, other non-marketable securities totaled $36.2 million and consisted of equity method investments and convertible preferred stock without readily determinable fair values. During the years ended December 31, 2021 and 2020, purchases of non-marketable securities totaled $27.7 million and $4.1 million, respectively. Included in the purchases during 2021 were investments in two fintech firms, Finstro Global Holdings, Inc. of $20.0 million and Figure Technologies of $2.0 million. The Company will continue to invest with fintech solution providers to support our ecosystem buildout, support our core bank products and offerings, and to leverage efficiencies and technological solutions in our shared services areas. At December 31, 2020, the Company held $5.6 million of equity method investments.

At December 31, 2021, the Company held $13.9 million of FRB stock and $0.7 million of FHLB stock for regulatory or debt facility purposes. At December 31, 2020, the Company held $13.9 million of FRB stock and $2.6 million of FHLB stock. These are restricted securities which, lacking a market, are carried at cost. The Company is not aware of any events or changes in circumstances that may have an adverse effect on the investments carried at cost.

Loans overview

At December 31, 2021, our loan portfolio was comprised of new loans that we have originated and loans that were acquired in connection with our six acquisitions to date.

The table below shows the loan portfolio composition at the respective dates:

	December 31, 2021	December 31, 2020	December 31, 2021 vs. December 31, 2020 % Change
Originated:			
Commercial:			
Commercial and industrial	$ 1,458,218	$ 1,248,530	16.8%
Municipal and non-profit	928,705	870,410	6.7%
Owner-occupied commercial real estate	503,663	464,417	8.5%
Food and agribusiness	200,412	205,189	(2.3)%
PPP loans(1)	21,677	176,106	(87.7)%
Total commercial	3,112,675	2,964,652	5.0%
Commercial real estate non-owner occupied	611,765	542,642	12.7%
Residential real estate	616,135	581,555	5.9%
Consumer	17,336	18,581	(6.7)%
Total originated	4,357,911	4,107,430	6.1%
Acquired:			
Commercial:			
Commercial and industrial	16,252	22,102	(26.5)%
Municipal and non-profit	340	381	(10.8)%
Owner-occupied commercial real estate	29,973	51,821	(42.2)%
Food and agribusiness	3,177	5,108	(37.8)%
Total commercial	49,742	79,412	(37.4)%
Commercial real estate non-owner occupied	52,964	89,354	(40.7)%
Residential real estate	52,521	77,105	(31.9)%
Consumer	245	425	(42.4)%
Total acquired	155,472	246,296	(36.9)%
Total loans	$ 4,513,383	$ 4,353,726	3.7%

(1) PPP loan balances are net of fees and costs and include principal totaling $22,300 and $179,531 as of December 31, 2021 and 2020, respectively.

The Company maintains a granular and well-diversified loan portfolio with self-imposed concentration limits. Our loan portfolio increased $159.7 million, or 3.7%, from December 31, 2020. Excluding PPP loans, total loans increased $314.1 million or 7.5%, led by commercial loan growth of $272.8 million, or 9.5%. New loan originations during the year ended December 31, 2021 totaled a record $1.5 billion, led by commercial loan originations of $1.1 billion including PPP loan originations of $121.1 million.

Our commercial and industrial loan portfolio is comprised of diverse industry segments. At December 31, 2021, these segments included finance and financial services, primarily lender finance loans of $183.7 million, hospital/medical loans of $307.1 million, manufacturing-related loans of $117.0 million, and a variety of smaller subcategories of commercial and industrial loans. Food and agribusiness loans, which are well-diversified across food production, crop and livestock types, totaled $203.6 million and were 24.9% of the Company’s risk based capital. Crop and livestock loans represent 1.0% of total loans.

Non-owner occupied CRE loans were 81.5% of the Company's risk based capital, or 14.7% of total loans, and no specific property type comprised more than 5.0% of total loans. The Company maintains very little exposure to non-owner occupied CRE retail properties, comprising 1.5% of total loans. Multi-family loans totaled $93.2 million, or 2.1% of total loans as of December 31, 2021.

When considering the loan portfolio in its entirety, 75.1% of loans were located within our footprint of Colorado, the greater Kansas City region, Texas, Utah and New Mexico as of December 31, 2021, based on the domicile of the borrower or, in the case of collateral-dependent loans, the geographical location of the collateral.

New loan origination is a direct result of our ability to recruit and retain top banking talent, connect with clients in our markets and provide needed services at competitive rates. Loan originations totaled a record $1.5 billion over the past 12 months, led by commercial loan originations of $1.1 billion, which included PPP loan originations of $121.1 million. Originations are defined as closed end funded loans and revolving lines of credit advances net of any current period paydowns. Management utilizes this more conservative definition of originations to better approximate the impact of originations on loans outstanding and ultimately net interest income.

The following tables represent new loan originations during 2021 and 2020:

	Fourth quarter 2021	Third quarter 2021	Second quarter 2021	First quarter 2021	Total 2021
Commercial:					
Commercial and industrial	$ 229,529	$ 196,289	$ 147,030	$ 23,390	$ 596,238
Municipal and non-profit	101,450	43,516	25,131	7,999	178,096
Owner occupied commercial real estate	28,914	53,445	48,225	27,093	157,677
Food and agribusiness	11,016	8,442	26,956	(10,104)	36,310
PPP loans	—	—	—	121,141	121,141
Total commercial	370,909	301,692	247,342	169,519	1,089,462
Commercial real estate non-owner occupied	46,128	55,392	58,532	49,195	209,247
Residential real estate	55,873	54,442	53,962	74,145	238,422
Consumer	2,524	1,810	2,267	1,353	7,954
Total	$ 475,434	$ 413,336	$ 362,103	$ 294,212	$ 1,545,085

Included in originations are net fundings (paydowns) under revolving lines of credit of $138,777, $29,154, $59,520 and ($26,395) as of the fourth, third, second and first quarter of 2021, respectively.

	Fourth quarter 2020	Third quarter 2020	Second quarter 2020	First quarter 2020	Total 2020
Commercial:					
Commercial and industrial	$ 96,625	$ 11,354	$ (8,726)	$ 118,999	$ 218,252
Municipal and non-profit	25,348	6,083	49,679	13,968	95,078
Owner occupied commercial real estate	36,085	23,758	22,078	37,372	119,293
Food and agribusiness	19,191	13,876	(10,480)	(6,787)	15,800
PPP loans	—	122	358,798	—	358,920
Total Commercial	177,249	55,193	411,349	163,552	807,343
Commercial real estate non-owner occupied	52,018	24,937	18,992	80,792	176,739
Residential real estate	41,355	49,786	29,024	46,273	166,438
Consumer	1,858	2,980	2,206	2,320	9,364
Total	$ 272,480	$ 132,896	$ 461,571	$ 292,937	$ 1,159,884

Included in originations are net fundings (paydowns) under revolving lines of credit of $50,982, ($27,899), ($55,826) and $48,789 as of the fourth, third, second and first quarter of 2020, respectively.

The tables below show the contractual maturities of our loans for the dates indicated:

	December 31, 2021				
	Due within 1 year	Due after 1 but within 5 years	Due after 5 but within 15 years	Due after 15 Years	Total
Commercial:					
Commercial and industrial	$ 140,715	$ 1,099,955	$ 226,793	$ 7,007	$ 1,474,470
Municipal and non-profit	23,827	112,022	559,493	233,703	929,045
Owner occupied commercial real estate	40,510	160,853	266,664	65,609	533,636
Food and agribusiness	79,507	107,799	11,193	5,090	203,589
PPP loans	2,437	19,240	—	—	21,677
Total commercial	286,996	1,499,869	1,064,143	311,409	3,162,417
Commercial real estate non-owner occupied	200,042	316,473	147,783	431	664,729
Residential real estate	12,605	30,233	201,918	423,900	668,656
Consumer	3,504	11,507	2,570	—	17,581
Total loans	$ 503,147	$ 1,858,082	$ 1,416,414	$ 735,740	$ 4,513,383

	December 31, 2020				
	Due within 1 year	Due after 1 but within 5 years	Due after 5 but within 15 years	Due after 15 Years	Total
Commercial:					
Commercial and industrial	$ 109,586	$ 927,881	$ 230,431	$ 2,734	$ 1,270,632
Municipal and non-profit	42,222	164,994	391,069	272,506	870,791
Owner occupied commercial real estate	24,510	177,311	238,135	76,283	516,239
Food and agribusiness	80,691	105,815	17,432	6,359	210,297
PPP loans	—	176,106	—	—	176,106
Total commercial	257,009	1,552,107	877,067	357,882	3,044,065
Commercial real estate non-owner occupied	72,486	426,291	129,963	3,256	631,996
Residential real estate	18,569	36,747	269,166	334,177	658,659
Consumer	5,167	10,886	2,953	—	19,006
Total loans	$ 353,231	$ 2,026,031	$ 1,279,149	$ 695,315	$ 4,353,726

The stated interest rate (which excludes the effects of non-refundable loan origination and commitment fees, net of costs and the accretion of fair value marks) of total loans with maturities over one year is as follows at the dates indicated:

	December 31, 2021					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial	$ 460,795	4.18%	$ 872,961	3.41%	$ 1,333,756	3.67%
Municipal and non-profit[(1)]	881,339	3.37%	23,879	2.76%	905,218	3.35%
Owner occupied commercial real estate	293,190	4.70%	199,936	3.75%	493,126	4.45%
Food and agribusiness	49,303	5.21%	74,779	3.95%	124,082	4.45%
PPP loans	19,239	1.00%	—	—	19,239	1.00%
Total commercial	1,703,866	3.88%	1,171,555	3.49%	2,875,421	3.72%
Commercial real estate non-owner occupied	214,463	4.28%	250,224	3.51%	464,687	3.86%
Residential real estate	360,648	3.45%	295,403	4.00%	656,051	3.70%
Consumer	11,567	4.37%	2,510	3.52%	14,077	4.21%
Total loans with > 1 year maturity	$ 2,290,544	3.85%	$ 1,719,692	3.58%	$ 4,010,236	3.74%

	December 31, 2020					
	Fixed		Variable		Total	
	Balance	Weighted average rate	Balance	Weighted average rate	Balance	Weighted average rate
Commercial						
Commercial and industrial	$ 320,745	4.68%	$ 840,301	3.11%	$ 1,161,046	3.54%
Municipal and non-profit[1]	803,350	3.55%	25,219	2.83%	828,569	3.53%
Owner occupied commercial real estate	261,406	4.82%	230,323	3.88%	491,729	4.51%
Food and agribusiness	57,360	5.02%	72,246	3.67%	129,606	4.27%
PPP loans	176,106	1.00%	—	—	176,106	1.00%
Total commercial	1,618,967	3.79%	1,168,089	3.29%	2,787,056	3.58%
Commercial real estate non-owner occupied	253,879	4.65%	305,631	3.42%	559,510	3.98%
Residential real estate	298,759	3.60%	341,332	4.14%	640,091	3.89%
Consumer	11,384	4.92%	2,455	3.50%	13,839	4.66%
Total loans with > 1 year maturity	$ 2,182,989	3.86%	$ 1,817,507	3.47%	$ 4,000,496	3.68%

(1) Included in municipal and non-profit fixed rate loans are loans totaling $343,089 and $387,105 that have been swapped to variable rates at current market pricing at December 31, 2021 and 2020, respectively. Included in the municipal and non-profit segment are tax exempt loans totaling $746,508 and $711,582 with an FTE weighted average rate of 3.97% and 4.03% at December 31, 2021 and 2020, respectively.

Asset quality

Asset quality is fundamental to our success and remains a strong point, driven by our disciplined adherence to our self-imposed concentration limits across industry sector and real estate property type. Accordingly, for the origination of loans, we have established a credit policy that allows for responsive, yet controlled lending with credit approval requirements that are scaled to loan size. Within the scope of the credit policy, each prospective loan is reviewed in order to determine the appropriateness and the adequacy of the loan characteristics and the security or collateral prior to making a loan. We have established underwriting standards and loan origination procedures that require appropriate documentation, including financial data and credit reports. For loans secured by real property, we require property appraisals, title insurance or a title opinion, hazard insurance and flood insurance, in each case where appropriate.

Additionally, we have implemented procedures to timely identify loans that may become problematic in order to ensure the most beneficial resolution for the Company. Asset quality is monitored by our credit risk management department and evaluated based on quantitative and subjective factors such as the timeliness of contractual payments received. Additional factors that are considered, particularly with commercial loans over $500,000, include the financial condition and liquidity of individual borrowers and guarantors, if any, and the value of our collateral. To facilitate the oversight of asset quality, loans are categorized based on the number of days past due and on an internal risk rating system, and both are discussed in more detail below.

Our internal risk rating system uses a series of grades which reflect our assessment of the credit quality of loans based on an analysis of the borrower's financial condition, liquidity and ability to meet contractual debt service requirements. Loans that are perceived to have acceptable risk are categorized as “Pass” loans. “Special mention” loans represent loans that have potential credit weaknesses that deserve close attention. Special mention loans include borrowers that have potential weaknesses or unwarranted risks that, unless corrected, may threaten the borrower's ability to meet debt service requirements. However, these borrowers are still believed to have the ability to respond to and resolve the financial issues that threaten their financial situation. Loans classified as “Substandard” have a well-defined credit weakness and are inadequately protected by the current paying capacity of the obligor or of the collateral pledged, if any. Although these loans are identified as potential problem loans, they may never become non-performing. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. “Doubtful” loans are loans that management believes that collection of payments in accordance with the terms of the loan agreement are highly questionable and improbable. Doubtful loans are deemed impaired and put on non-accrual status.

In the event of borrower default, we may seek recovery in compliance with state lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include modifying or restructuring a loan from its original terms, for economic or legal reasons, to provide a concession to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Such restructured loans are considered TDRs in accordance with ASC 310-40. Assets that have been foreclosed on or acquired through deed-in-lieu of foreclosure are classified as OREO until sold, and are carried at the fair value of the collateral less estimated costs to sell, with any initial valuation adjustments charged to the ACL and any subsequent declines in carrying value charged to impairments on OREO.

Non-performing assets and past due loans

Non-performing assets consist of non-accrual loans and OREO. Interest income that would have been recorded had non-accrual loans performed in accordance with their original contract terms during 2021 and 2020 was $0.8 million and $1.2 million, respectively.

Past due status is monitored as an indicator of credit deterioration. Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Loans that are 90 days or more past due are put on non-accrual status unless the loan is well secured and in the process of collection.

The following table sets forth the non-performing assets and past due loans as of the dates presented:

	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Non-accrual loans:					
Non-accrual loans, excluding restructured loans	$ 8,466	$ 12,190	$ 16,894	$ 21,017	$ 13,745
Restructured loans on non-accrual	2,366	8,197	4,854	3,439	7,255
Non-performing loans	10,832	20,387	21,748	24,456	21,000
OREO	7,005	4,730	7,300	10,596	10,491
Other repossessed assets	—	17	—	—	—
Total non-performing assets	$ 17,837	$ 25,134	$ 29,048	$ 35,052	$ 31,491
Loans 30-89 days past due and still accruing interest	$ 1,687	$ 968	$ 6,349	$ 5,066	$ 5,124
Loans 90 days or more past due and still accruing interest	420	162	1,662	1,047	25,407
Non-accrual loans	10,832	20,387	21,748	24,456	21,000
Total past due and non-accrual loans	$ 12,939	$ 21,517	$ 29,759	$ 30,569	$ 51,531
Accruing restructured loans	$ 7,186	$ 13,945	$ 6,885	$ 5,944	$ 8,461
Allowance for credit losses	49,694	59,777	39,064	35,692	31,264
Non-performing loans to total loans	0.24%	0.47%	0.49%	0.60%	0.66%
Total 90 days past due and still accruing interest and non-accrual loans to total loans	0.25%	0.47%	0.53%	0.62%	1.46%
Total non-performing assets to total loans and OREO	0.39%	0.58%	0.66%	0.85%	0.99%
ACL to non-performing loans	458.77%	293.21%	179.62%	145.94%	148.88%

During 2021, total non-performing loans decreased $9.6 million, or 46.9%, from December 31, 2020. During 2021, accruing TDRs decreased $6.8 million, or 48.5%. OREO increased $2.3 million, or 48.1%, to $7.0 million at December 31, 2021, compared to December 31, 2020 primarily related to one previously acquired loan.

Loans 30-89 days past due and still accruing interest increased $0.7 million from December 31, 2020 to December 31, 2021, and loans 90 days or more past due and still accruing interest increased $0.3 million from December 31, 2020 to December 31, 2021.

The Company continues to monitor the operating status and trends of our clients to enable us to quickly detect credit deterioration and take action where needed. The CARES Act afforded financial institutions the option to modify loans within certain parameters in response to the COVID-19 pandemic without requiring the modifications to be classified as TDRs under ASC Topic 310 if the borrower has been adversely impacted by COVID-19 and was current on their loan payments. The Company modified 19 loans totaling $9.9 million during the year ended December 31, 2021 and 510 loans totaling $519.0 million during the year ended December 31, 2020, due to the effects of the COVID-19 pandemic, that were not classified as TDRs. Modified loans that remained on a payment deferral plan, paying interest only, at December 31, 2021 totaled $5.3 million. At December 31, 2021, $206 thousand of loan modifications related to COVID-19 were a subsequent modification, and one loan totaling $206 thousand was classified as non-accrual. At December 31, 2020, modified loans that remained on a payment deferral plan totaled $173.6 million, or 4.0% of the total loan portfolio, of which $45.4 million, or 26.2%, were a subsequent modification.

Allowance for credit losses

The ACL represents the amount that we believe is necessary to absorb estimated lifetime credit losses inherent in the loan portfolio at the balance sheet date and involves a high degree of judgment and complexity. On January 1, 2020, the Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which replaced the incurred loss methodology for recognizing credit losses with a CECL model. The Company utilizes a DCF model developed within a third-party software tool to establish expected lifetime credit losses for the loan portfolio. The ACL is calculated as the difference between the amortized cost basis and the projections from the DCF analysis. The DCF model allows for individual life of loan cash flow modeling, excluding extensions and renewals, using loan-specific interest rates and repayment schedules including estimated prepayment rates and loss recovery timing delays. The model incorporates forecasts of certain national macro-economic factors, including unemployment rates, home price index (“HPI”), retail sales and gross domestic product (“GDP”), which drive correlated loss rates. The determination and application of the ACL accounting policy involves judgments, estimates and uncertainties that are subject to change. For periods beyond the reasonable and supportable forecast period, we revert to historical long-term average loss rates on a straight-line basis.

We measure expected credit losses for loans on a pooled basis when similar risk characteristics exist. We have identified four primary loan segments within the ACL model that are further stratified into 11 loan classes to provide more granularity in analyzing loss history and to allow for more definitive qualitative adjustments based upon specific risk factors affecting each loan class. Generally, the underlying risk of loss for each of these loan segments will follow certain norms/trends in various economic environments. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. Following are the loan classes within each of the four primary loan segments:

Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer
Commercial and industrial	Construction	Senior lien	Consumer
Owner occupied commercial real estate	Acquisition and development	Junior lien	
Food and agribusiness	Multifamily		
Municipal and non-profit	Non-owner occupied		

Loans on non-accrual, in bankruptcy and TDRs with a balance greater than $250,000 are excluded from the pooled analysis and are evaluated individually. If management determines that foreclosure is probable, expected credit losses are evaluated based on the criteria listed below, adjusted for selling costs as appropriate. Typically, these loans consist of commercial, commercial real estate and agriculture loans and exclude homogeneous loans such as residential real estate and consumer loans. Specific allowances are determined by collectively analyzing:

- the borrower’s resources, ability and willingness to repay in accordance with the terms of the loan agreement;
- the likelihood of receiving financial support from any guarantors;
- the adequacy and present value of future cash flows, less disposal costs, of any collateral; and

- the impact current economic conditions may have on the borrower's financial condition and liquidity or the value of the collateral.

The collective resulting ACL for loans is calculated as the sum of the general reserves, specific reserves on individually evaluated loans, and qualitative factor adjustments. While these amounts are calculated by individual loan or on a pool basis by segment and class, the entire ACL is available for any loan that, in our judgment, should be charged-off. The determination and application of the ACL accounting policy involves judgments, estimates, and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity or results of operations.

Net charge-offs on loans during the year ended December 31, 2021 totaled $1.3 million, or 0.03% of total loans. During the year ended December 31, 2021, the Company recorded a provision release of $9.3 million, which included a provision release of $8.8 million for funded loans and a provision release of $0.5 million for unfunded loan commitments. Provision release was driven by strong asset quality and an improved outlook in the CECL model's underlying economic forecast. Specific reserves on loans totaled $1.6 million at December 31, 2021.

Net charge-offs on loans during the year ended December 31, 2020 totaled $2.7 million, or 0.06% of total loans. During the year ended December 31, 2020, the Company recorded total provision expense of $17.6 million, which included a provision expense of $17.5 million for funded loans and a provision expense of $0.1 million for unfunded loan commitments. Provision expense was recorded to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19 and to support non-PPP originated loan growth. Specific reserves on loans totaled $1.9 million at December 31, 2020.

The Company has elected to exclude accrued interest receivable ("AIR") from the ACL calculation. When a loan is placed on non-accrual, any recorded AIR is reversed against interest income. As of December 31, 2021 and December 31, 2020, AIR from loans totaled $15.7 million and $16.7 million, respectively.

Total ACL

After considering the above mentioned factors, we believe that the ACL of $49.7 million is adequate to cover estimated lifetime losses inherent in the loan portfolio at December 31, 2021. However, it is likely that future adjustments to the ACL will be necessary. Any changes to the underlying assumptions, circumstances or estimates, including but not limited to changes in the underlying macro-economic forecast, used in determining the ACL, could negatively or positively affect the Company's results of operations, liquidity or financial condition.

The following schedule presents, by class stratification, the changes in the ACL during the years listed:

	As of and for the years ended									
	December 31, 2021		December 31, 2020		December 31, 2019		December 31, 2018		December 31, 2017	
	Total loans	% NCOs[1]	Total loans	% NCOs[1]	Total loans	% NCOs[1]	Total loans	% NCOs[1]	Total loans	% NCOs[1]
Beginning balance	$ 59,777		$ 39,064		$ 35,692		$ 31,264		$ 29,174	
Cumulative effect adjustment[2]	—		5,836		—		—		—	
Charge-offs:										
Commercial	(1,171)	0.02%	(2,023)	0.04%	(7,422)	0.17%	(895)	0.00%	(10,342)	0.34%
Commercial real estate non-owner occupied	—	0.00%	(412)	0.01%	(116)	0.00%	(11)	0.00%	—	0.00%
Residential real estate	(24)	0.00%	(67)	0.00%	(124)	0.00%	(118)	0.00%	(236)	0.00%
Consumer	(621)	0.01%	(726)	0.01%	(937)	0.02%	(1,134)	0.02%	(737)	0.02%
Total charge-offs	(1,816)		(3,228)		(8,599)		(2,158)		(11,315)	
Recoveries	552		571		328		1,389		433	
Net charge-offs	(1,264)	0.03%	(2,657)	0.06%	(8,271)	0.19%	(769)	0.02%	(10,882)	0.36%
Provision (release) expense for loan losses	(8,819)		17,534		11,643		5,197		12,972	
Ending allowance for credit losses	$ 49,694		$ 59,777		$ 39,064		$ 35,692		$ 31,264	
Ratio of ACL to total loans outstanding at period end	1.10%		1.37%		0.88%		0.87%		0.98%	
Ratio of ACL to total loans outstanding, excluding PPP loans at period end	1.11%		1.43%		0.88%		0.87%		0.98%	
Ratio of ACL to total non-performing loans at period end	458.77%		293.21%		179.62%		145.94%		148.88%	
Total loans	$ 4,513,383		$ 4,353,726		$ 4,415,406		$ 4,092,308		$ 3,178,947	
Average total loans outstanding during the period	4,358,707		4,578,894		4,288,226		3,819,603		3,029,446	
Average total loans outstanding, excluding PPP loans during the period	4,224,607		4,352,984		4,288,226		3,819,603		3,029,446	
Non-performing loans	10,832		20,387		21,748		24,456		21,000	

(1) Ratio of net charge-offs to average total loans.

(2) Related to the adoption of Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.

The following tables present the allocation of the ACL and the percentage of the total amount of loans in each loan category listed as of the dates presented:

	December 31, 2021			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 3,140,740	69.6%	$ 31,256	62.9%
PPP loans[1]	21,677	0.5%	—	0.0%
Commercial real estate non-owner occupied	664,729	14.7%	10,033	20.2%
Residential real estate	668,656	14.8%	8,056	16.2%
Consumer	17,581	0.4%	349	0.7%
Total	$ 4,513,383	100.0%	$ 49,694	100.0%

(1) PPP loans are fully guaranteed by the SBA.

	December 31, 2020			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 2,867,959	66.0%	$ 30,376	50.8%
PPP loans[1]	176,106	4.0%	—	0.0%
Commercial real estate non-owner occupied	631,996	14.5%	17,448	29.2%
Residential real estate	658,659	15.1%	11,492	19.2%
Consumer	19,006	0.4%	461	0.8%
Total	$ 4,353,726	100.0%	$ 59,777	100.0%

(1) PPP loans are fully guaranteed by the SBA.

	December 31, 2019			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 2,992,307	67.8%	$ 30,442	77.9%
Commercial real estate non-owner occupied	630,906	14.3%	4,850	12.4%
Residential real estate	770,417	17.4%	3,468	8.9%
Consumer	21,776	0.5%	304	0.8%
Total	$ 4,415,406	100.0%	$ 39,064	100.0%

	December 31, 2018			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 2,644,571	64.6%	$ 27,137	76.1%
Commercial real estate non-owner occupied	592,212	14.5%	4,406	12.3%
Residential real estate	830,815	20.3%	3,800	10.6%
Consumer	24,710	0.6%	349	1.0%
Total	$ 4,092,308	100.0%	$ 35,692	100.0%

	December 31, 2017			
	Total loans	% of total loans	Related ACL	ACL as a % of total ACL
Commercial	$ 1,874,605	59.0%	$ 21,385	68.4%
Commercial real estate non-owner occupied	563,049	17.7%	5,609	17.9%
Residential real estate	716,237	22.5%	3,965	12.7%
Consumer	25,056	0.8%	305	1.0%
Total	$ 3,178,947	100.0%	$ 31,264	100.0%

Deposits

Deposits from banking clients serve as a primary funding source for our banking operations and our ability to gather and manage deposit levels is critical to our success. Deposits not only provide a low-cost funding source for our loans, but also provide a foundation for the client relationships that are critical to future loan growth. The following table presents information regarding our deposit composition at December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020		Increase (decrease)	
					Amount	% Change
Non-interest bearing demand deposits	$ 2,506,265	40.2%	$ 2,111,045	37.1%	$ 395,220	18.7%
Interest bearing demand deposits	555,401	8.9%	514,286	9.1%	41,115	8.0%
Savings accounts	774,559	12.4%	646,829	11.4%	127,730	19.7%
Money market accounts	1,558,032	25.0%	1,417,940	25.0%	140,092	9.9%
Total transaction deposits	5,394,257	86.5%	4,690,100	82.6%	704,157	15.0%
Time deposits < $250,000	703,741	11.4%	820,229	14.5%	(116,488)	(14.2)%
Time deposits ≥ $250,000	130,175	2.1%	165,903	2.9%	(35,728)	(21.5)%
Total time deposits	833,916	13.5%	986,132	17.4%	(152,216)	(15.4)%
Total deposits	$ 6,228,173	100.0%	$ 5,676,232	100.0%	$ 551,941	9.7%

The following table shows uninsured time deposits by scheduled maturity as of December 31, 2021:

	December 31, 2021
Three months or less	$ 14,340
Over 3 months through 6 months	4,538
Over 6 months through 12 months	17,027
Thereafter	21,520
Total uninsured time deposits	$ 57,425

At December 31, 2021 and 2020, time deposits that were scheduled to mature within 12 months totaled $555.4 million and $659.5 million, respectively. Of the time deposits scheduled to mature within 12 months at December 31, 2021, $81.4 million were in denominations of $250,000 or more, and $474.0 million were in denominations less than $250,000. The aggregate amount of time deposits that exceeded the FDIC insurance limit was $57.4 million at December 31, 2021. Note 12 to the consolidated financial statements provides a maturity schedule of time deposits outstanding at December 31, 2021.

Long-term debt

During the fourth quarter of 2021, the Company entered into a subordinated note purchase agreement to issue and sell a fixed-to-floating rate note totaling $40.0 million. The balance on the note at December 31, 2021, net of long-term debt issuance costs totaling $0.5 million, totaled $39.5 million. Interest expense totaling $183.3 thousand was recorded within other liabilities in the consolidated statements of financial condition during the year ended December 31, 2021.

The note is subordinated, unsecured and matures on November 15, 2031. Payments consist of interest only. Beginning November 15, 2021, the note will initially be payable semi-annually in arrears and will bear interest at 3.00% per annum until November 15, 2026 (or any earlier redemption date). From November 15, 2026 until November 15, 2031 (or any earlier redemption date) payments will be made quarterly in arrears, and the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month term SOFR plus 203 basis points. The Company intends to use the net proceeds from the sale of the note for general corporate purposes. Prior to November 5, 2026, the Company may redeem the note only under certain limited circumstances. Beginning on November 5, 2026 through maturity, the note may be redeemed, at the Company's option, on any scheduled interest payment date. Any redemption by the Company would be at a redemption price equal to 100% of the principal amount of the note being redeemed, together with any accrued and unpaid interest on the note being redeemed up to but excluding the date of redemption. The note is not subject to redemption at the option of the holder.

Other borrowings

As of December 31, 2021 and 2020, the Bank sold securities under agreements to repurchase totaling $22.8 million and $22.9 million, respectively. In addition, as a member of the FHLB, the Bank has access to a line of credit and term financing from the FHLB with total available credit of $0.9 billion at December 31, 2021. The Bank utilizes its FHLB line of credit as a funding mechanism for originated loans and loans held for sale. At December 31, 2021 and 2020, the Bank had no outstanding borrowings with the FHLB. The Bank may pledge investment securities and loans as collateral for FHLB advances. There were no investment securities pledged at December 31, 2021 or 2020. Loans pledged were $1.3 billion at December 31, 2021 and $1.2 billion at December 31, 2020. The Company incurred no interest expense related to FHLB advances or other short-term borrowings for the year ended December 31, 2021, compared to $1.3 million for the year ended December 31, 2020.

Regulatory Capital

Our subsidiary bank and the holding company are subject to the regulatory capital adequacy requirements of the Federal Reserve Board and the FDIC, as applicable. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly further discretionary actions by regulators that could have a material adverse effect on us. At December 31, 2021 and 2020, our subsidiary bank and the consolidated holding company exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as further detailed in note 14 of our consolidated financial statements.

Results of Operations

Our net income depends largely on net interest income, which is the difference between interest income from interest earning assets and interest expense on interest bearing liabilities. Our results of operations are also affected by provisions for loan losses and non-interest income, such as service charges, bank card income, swap fee income, and gain on sale of mortgages. Our primary operating expenses, aside from interest expense, consist of salaries and benefits, occupancy costs, telecommunications data processing expense, and intangible asset amortization. Any expenses related to the resolution of problem assets are also included in non-interest expense.

Overview of results of operations

Net income totaled a record $93.6 million, or $3.01 per diluted share, during 2021, compared to net income of $88.6 million, or $2.85 per diluted share, during 2020. The return on average tangible assets was 1.37% and 1.44% during the years ended December 31, 2021 and 2020, respectively, and the return on average tangible common equity was 12.87% and 13.27%, respectively.

Net interest income

We regularly review net interest income metrics to provide us with indicators of how the various components of net interest income are performing. We regularly review: (i) our loan mix and the yield on loans; (ii) the investment portfolio and the related yields; (iii) our deposit mix and the cost of deposits; and (iv) net interest income simulations for various forecast periods.

The table below presents the components of net interest income on a FTE basis for the years ended December 31, 2021, 2020 and 2019. The effects of trade-date accounting of investment securities for which the cash had not settled are not considered interest earning assets and are excluded from this presentation for time frames prior to their cash settlement, as are the market value adjustments on the investment securities available-for-sale and loans.

	For the year ended December 31, 2021			For the year ended December 31, 2020			For the year ended December 31, 2019		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Interest earning assets:									
Originated loans FTE(1)(2)(3)	$ 4,129,684	$ 164,527	3.98%	$ 4,237,091	$ 171,592	4.05%	$ 3,838,229	$ 183,502	4.78%
Acquired loans	202,174	17,340	8.58%	299,901	27,909	9.31%	443,025	35,992	8.12%
Loans held for sale	178,373	5,110	2.86%	185,182	5,628	3.04%	113,183	4,407	3.89%
Investment securities available-for-sale	667,859	10,014	1.50%	591,870	11,406	1.93%	713,686	15,472	2.17%
Investment securities held-to-maturity	576,343	7,311	1.27%	248,006	5,099	2.06%	207,784	5,825	2.80%
Other securities	15,032	838	5.57%	26,903	1,157	4.30%	28,060	1,770	6.31%
Interest earning deposits and securities purchased under agreements to resell	751,835	986	0.13%	206,911	314	0.15%	24,106	698	2.90%
Total interest earning assets FTE(2)	$ 6,521,300	$ 206,126	3.16%	$ 5,795,864	$ 223,105	3.85%	$ 5,368,073	$ 247,666	4.61%
Cash and due from banks	78,979			74,461			76,788		
Other assets	472,775			511,721			430,402		
Allowance for credit losses	(52,943)			(55,778)			(38,142)		
Total assets	$ 7,020,111			$ 6,326,268			$ 5,837,121		
Interest bearing liabilities:									
Interest bearing demand, savings and money market deposits	$ 2,772,091	$ 6,240	0.23%	$ 2,730,857	$ 8,605	0.32%	$ 2,426,963	$ 13,277	0.55%
Time deposits	914,837	7,362	0.80%	1,038,107	15,024	1.45%	1,074,506	16,526	1.54%
Securities sold under agreements to repurchase	20,338	23	0.11%	28,585	132	0.46%	60,445	668	1.11%
Long-term debt, net	6,200	196	3.16%	—	—	0.00%	—	—	0.00%
Federal Home Loan Bank advances	—	—	0.00%	95,418	1,295	1.36%	269,207	6,300	2.34%
Total interest bearing liabilities	$ 3,713,466	$ 13,821	0.37%	$ 3,892,967	$ 25,056	0.64%	$ 3,831,121	$ 36,771	0.96%
Demand deposits	2,355,171			1,497,940			1,159,080		
Other liabilities	104,935			147,075			108,997		
Total liabilities	6,173,572			5,537,982			5,099,198		
Shareholders' equity	846,539			788,286			737,923		
Total liabilities and shareholders' equity	$ 7,020,111			$ 6,326,268			$ 5,837,121		
Net interest income FTE(2)		$ 192,305			$ 198,049			$ 210,895	
Interest rate spread FTE(2)			2.79%			3.21%			3.65%
Net interest earning assets	$ 2,807,834			$ 1,902,897			$ 1,536,952		
Net interest margin FTE(2)			2.95%			3.42%			3.93%
Average transaction deposits	$ 5,127,262			$ 4,228,797			$ 3,586,043		
Average total deposits	6,042,099			5,266,904			4,660,549		
Ratio of average interest earning assets to average interest bearing liabilities	175.61%			148.88%			140.12%		

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
(2) Presented on an FTE basis using the statutory tax rate of 21% for all periods presented. The taxable equivalent adjustments included above are $5,161, $5,103 and $5,065 for the years ended 2021, 2020 and 2019, respectively.
(3) Loan fees included in interest income totaled $18,207, $15,713 and $6,328 during 2021, 2020 and 2019, respectively.

Net interest income totaled $187.1 million, $192.9 million and $205.8 million during the years ended 2021, 2020 and 2019, respectively. Net interest income on an FTE basis totaled $192.3 million, $198.0 million and $210.9 million during the years ended 2021, 2020 and 2019, respectively. The yield on earning assets decreased 69 basis points, led by a decrease in the originated portfolio yields due to a remix of assets into lower-yielding cash balances and interest rate actions taken by the Federal Reserve during 2020. During 2021, the cost of funds decreased 22 basis points, compared to the prior year.

Average loans comprised $4.3 billion, or 66.4%, of total average interest earning assets during 2021, compared to $4.5 billion, or 78.3%, during 2020. The decrease in average loan balances was primarily driven by our careful approach to extending new credit, a focus on managing credit risk and yield and a decrease in PPP loan balances. During 2021, loan originations totaled $1.5 billion.

Average investment securities comprised 19.1% and 14.5% of total interest earning assets during 2021 and 2020, respectively. The increase in the investment portfolio was driven by strategic decisions to deploy a portion of excess liquidity into investment securities. Average interest bearing cash balances totaled $751.8 million during 2021, compared to $206.9 million during 2020.

Average balances of interest bearing liabilities decreased $179.5 million during 2021, compared to 2020. The decrease was driven by time deposits totaling $123.3 million, FHLB advances totaling $95.4 million and securities sold under agreements to repurchase totaling $8.2 million. The decrease was partially offset by increases in interest bearing demand, savings and money market deposits totaling $41.2 million and long-term debt totaling $6.2 million.

Total interest expense related to interest bearing liabilities was $13.8 million and $25.1 million during 2021 and 2020, respectively, at an average cost of 0.37% and 0.64% during 2021 and 2020, respectively. Additionally, the cost of deposits decreased 22 basis points to 0.23% during 2021, compared to 0.45% during 2020, due to the decline in short-term interest rates as a result of interest rate actions taken by the Federal Reserve.

The following table summarizes the changes in net interest income on an FTE basis by major category of interest earning assets and interest bearing liabilities, identifying changes related to volume and changes related to rates for 2021, 2020 and 2019:

	The year ended December 31, 2021 compared to the year ended December 31, 2020			The year ended December 31, 2020 compared to the year ended December 31, 2019		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Originated loans FTE[(1)(2)(3)]	$ (4,279)	$ (2,786)	$ (7,065)	$ 16,153	$ (28,063)	$ (11,910)
Acquired loans	(8,382)	(2,187)	(10,569)	(13,319)	5,236	(8,083)
Loans held for sale	(195)	(323)	(518)	2,188	(967)	1,221
Investment securities available-for-sale	1,139	(2,531)	(1,392)	(2,348)	(1,718)	(4,066)
Investment securities held-to-maturity	4,165	(1,953)	2,212	827	(1,553)	(726)
Other securities	(662)	343	(319)	(50)	(563)	(613)
Interest earning deposits and securities purchased under agreements to resell	715	(43)	672	277	(661)	(384)
Total interest income	$ (7,499)	$ (9,480)	$ (16,979)	$ 3,728	$ (28,289)	$ (24,561)
Interest expense:						
Interest bearing demand, savings and money market deposits	$ 93	$ (2,458)	$ (2,365)	$ 958	$ (5,630)	$ (4,672)
Time deposits	(992)	(6,670)	(7,662)	(527)	(975)	(1,502)
Securities sold under agreements to repurchase	(9)	(100)	(109)	(147)	(389)	(536)
Long-term debt, net	196	—	196	—	—	—
Federal Home Loan Bank advances	—	(1,295)	(1,295)	(2,359)	(2,646)	(5,005)
Total interest expense	(712)	(10,523)	(11,235)	(2,075)	(9,640)	(11,715)
Net change in net interest income	$ (6,787)	$ 1,043	$ (5,744)	$ 5,803	$ (18,649)	$ (12,846)

(1) Originated loans are net of deferred loan fees, less costs, which are included in interest income over the life of the loan.
(2) Presented on a fully taxable equivalent basis using the statutory tax rate of 21% for all periods presented. The taxable equivalent adjustments included above are $5,161, $5,103 and $5,065 for the years ended 2021, 2020 and 2019, respectively.
(3) Loan fees included in interest income totaled $18,207, $15,713 and $6,328 for the years ended December 31, 2021, 2020 and 2019, respectively.

Below is a breakdown of average deposits and the average rates paid during the periods indicated:

	For the three months ended				For the years ended			
	December 31, 2021		December 31, 2020		December 31, 2021		December 31, 2020	
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid
Non-interest bearing demand	$ 2,459,063	0.00%	$ 1,898,171	0.00%	$ 2,355,171	0.00%	$ 1,497,940	0.00%
Interest bearing demand	547,740	0.17%	660,817	0.21%	548,612	0.20%	821,813	0.23%
Money market accounts	1,549,844	0.25%	1,459,528	0.31%	1,506,274	0.27%	1,318,764	0.41%
Savings accounts	749,978	0.16%	626,252	0.18%	717,205	0.16%	590,280	0.23%
Time deposits	851,779	0.61%	1,008,297	1.16%	914,837	0.80%	1,038,107	1.45%
Total average deposits	$ 6,158,404	0.18%	$ 5,653,065	0.33%	$ 6,042,099	0.23%	$ 5,266,904	0.45%

Provision for loan losses

The provision for loan losses represents the amount of expense that is necessary to bring the ACL to a level that we deem appropriate to absorb estimated lifetime losses inherent in the loan portfolio as of the balance sheet date. The determination of the ACL, and the resultant provision for loan losses, is subjective and involves significant estimates and assumptions.

The Company recorded a provision release of $9.3 million for the year ended December 31, 2021, which included a provision release of $8.8 million for funded loans and a provision release of $0.5 million for unfunded loan commitments, driven by strong asset quality and an improved outlook in the CECL model's underlying economic forecast. During the year ended December 31, 2020, the Company recorded total provision expense of $17.6 million, which included a provision expense of $17.5 million for funded loans and a provision expense of $0.1 million for unfunded loan commitments, to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19 and to support non-PPP originated loan growth.

The allowance for credit losses totaled 1.10% of total loans at December 31, 2021, compared to 1.37% at December 31, 2020. Excluding PPP loans, the allowance for credit losses totaled 1.11% of loans at December 31, 2021, compared to 1.43% at December 31, 2020.

Non-interest income

The table below details the components of non-interest income for the years presented:

	For the years ended December 31,			2021 vs 2020		2020 vs 2019	
				Increase (decrease)		Increase (decrease)	
	2021	2020	2019	Amount	% Change	Amount	% Change
Service charges	$ 14,894	$ 14,962	$ 17,895	$ (68)	(0.5)%	$ (2,933)	(16.4)%
Bank card fees	17,693	15,446	14,595	2,247	14.5 %	851	5.8 %
Mortgage banking income	63,360	102,384	42,346	(39,024)	(38.1)%	60,038	141.8 %
Bank-owned life insurance income	2,208	2,360	1,713	(152)	(6.4)%	647	37.8 %
Other non-interest income	12,174	4,719	5,888	7,455	158.0 %	(1,169)	(19.9)%
OREO-related income	35	387	315	(352)	(91.0)%	72	22.9 %
Total non-interest income	$ 110,364	$ 140,258	$ 82,752	$ (29,894)	(21.3)%	$ 57,506	69.5 %

Non-interest income totaled $110.4 million for the year ended December 31, 2021, compared to $140.3 million for the year ended December 31, 2020. The decrease was driven by $39.0 million lower mortgage banking income due to slower refinance activity in 2021 and competition driving tighter gain on sale margins. Included in mortgage banking income was a $1.3 million gain from the sale of mortgage servicing rights during 2021. Other non-interest income increased $7.5 million during 2021 due to $4.6 million of banking center consolidation-related income and $3.0 million of unrealized gains from equity method investments. Bank card fees increased $2.2 million due to changes in consumer behavior.

Non-interest expense

The table below details the components of non-interest expense for the years presented:

	For the years ended December 31,			2021 vs 2020		2020 vs 2019	
				Increase (decrease)		Increase (decrease)	
	2021	2020	2019	Amount	% Change	Amount	% Change
Salaries and benefits	$ 127,504	$ 141,170	$ 122,732	$ (13,666)	(9.7)%	$ 18,438	15.0 %
Occupancy and equipment	25,283	27,473	27,336	(2,190)	(8.0)%	137	0.5 %
Telecommunications and data processing	9,310	9,042	8,754	268	3.0 %	288	3.3 %
Marketing and business development	2,509	2,802	3,897	(293)	(10.5)%	(1,095)	(28.1)%
FDIC deposit insurance	1,850	1,168	1,049	682	58.4 %	119	11.3 %
Bank card expenses	5,177	4,388	4,780	789	18.0 %	(392)	(8.2)%
Professional fees	5,423	2,946	3,256	2,477	84.1 %	(310)	(9.5)%
Other non-interest expense	10,414	10,547	10,867	(133)	(1.3)%	(320)	(2.9)%
Problem asset workout	2,063	3,148	3,186	(1,085)	(34.5)%	(38)	(1.2)%
Gain on OREO sales, net	(475)	(38)	(7,193)	437	>100.0%	(7,155)	(99.5)%
Core deposit intangible asset amortization	1,183	1,183	1,183	—	—	—	—
Banking center consolidation-related expense	1,589	2,348	898	(759)	(32.3)%	1,450	161.5 %
Total non-interest expense	$ 191,830	$ 206,177	$ 180,745	$ (14,347)	(7.0)%	$ 25,432	14.1 %

During the year ended December 31, 2021, non-interest expense decreased $14.3 million, or 7.0%, compared to the year ended December 31, 2020, primarily due to lower mortgage-related compensation as well as the Company’s strategic efforts to improve operating efficiency. Salaries and benefits decreased $13.7 million primarily due to lower mortgage banking related compensation. Included in 2021 were $2.5 million of transaction-related professional fees for the investments in Finstro Global Holdings, Inc. and Figure Technologies. Occupancy and equipment decreased $2.2 million largely due to efficiencies gained from banking center consolidations. Problem asset workout expense decreased $1.1 million, and gain on sale of OREO increased $0.4 million.

Income taxes

Income taxes are accounted for in accordance with ASC Topic 740. Under this guidance, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. ASC Topic 740 requires the establishment of a valuation allowance against the net deferred tax asset unless it is more-likely-than-not that the tax benefit of the deferred tax asset will be realized. For purposes of projecting whether the deferred tax asset will be realized, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results, or the ability to implement tax planning strategies varies, adjustments to the carrying value of the deferred tax assets may be required. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

Income tax expense totaled $21.4 million during 2021, compared to $20.8 million during 2020. Included in income tax expense was $0.6 million of tax benefit and $0.1 million of tax expense from stock compensation activity during 2021 and 2020, respectively. Adjusting for the stock compensation activity, the effective tax rate for 2021 was 19.1% compared to an adjusted rate of 19.0% for 2020. As of December 31, 2021, our marginal tax rate (the rate we pay on each incremental dollar of earnings) was approximately 23%. However, our effective tax rate (income tax expense divided by income before income taxes) for a given period differs from our marginal rate largely due to income and expense items that are non-taxable or non-deductible in the calculation of income tax expense. The lower effective tax rate compared to the federal statutory tax rate was primarily due to interest income from tax-exempt lending, bank-owned life insurance income, and the relationship of these items to pre-tax income.

Liquidity and Capital Resources

Liquidity

Liquidity is monitored and managed to ensure that sufficient funds are available to operate our business and pay our obligations to depositors and other creditors, while providing ample available funds for opportunistic and strategic investments. Management believes that the Company's excess cash, borrowing capacity and access to sufficient sources of capital are adequate to meet its short-term and long-term liquidity needs in the foreseeable future. Our primary sources of funds are deposits, securities sold under agreements to repurchase, prepayments and maturities of loans and investment securities, the sale of investment securities, and funds provided from operations. We anticipate having access to other third party funding sources, including the ability to raise funds through the issuance of shares of our common stock or other equity or equity-related securities, incurrence of debt, and federal funds purchased, that may also be a source of liquidity. We anticipate that these sources of liquidity will provide adequate funding and liquidity for at least a 12-month period, and we may utilize any combination of these funding sources for long-term liquidity needs if deemed prudent.

On-balance sheet liquidity is represented by our cash and cash equivalents and unencumbered investment securities, and is detailed in the table below as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Cash and due from banks	$ 845,195	$ 605,065
Interest bearing bank deposits	500	500
Unencumbered investment securities, at fair value	781,166	513,945
Total	$ 1,626,861	$ 1,119,510

Total on-balance sheet liquidity increased $507.4 million from December 31, 2020 to December 31, 2021, primarily driven by strong deposit growth.

Through our relationship with the FHLB, the Bank may pledge qualifying loans and investment securities allowing us to obtain additional liquidity through FHLB advances and lines of credit. There were no investment securities pledged at December 31, 2021 or 2020. The Bank had loans pledged as collateral for FHLB advances of $1.3 billion at December 31, 2021 and $1.2 billion at December 31, 2020. FHLB advances, lines of credit and other short-term borrowing availability totaled $0.9 billion at December 31, 2021. The Bank can obtain additional liquidity through the FHLB facility, if required, and also has access to federal funds lines of credit with correspondent banks.

During 2021, the Company entered into a subordinated note purchase agreement to issue and sell a fixed-to-floating note. The Company intends to use the net proceeds from the sale of the note for general corporate purposes. The note is not subject to redemption at the option of the holder.

Our primary uses of funds are loan originations, investment security purchases, withdrawals of deposits, settlement of repurchase agreements, capital expenditures, operating expenses, and share repurchases. For additional information regarding our operating, investing and financing cash flows, see our consolidated statements of cash flows in the accompanying consolidated financial statements.

Exclusive from the investing activities related to acquisitions, our primary investing activities are originations and pay-offs and paydowns of loans and purchases and sales of investment securities. At December 31, 2021, pledgeable investment securities represented a significant source of liquidity. Our available-for-sale investment securities are carried at fair value and our held-to-maturity securities are carried at amortized cost. Our collective investment securities portfolio totaled $1.3 billion at December 31, 2021, inclusive of pre-tax net unrealized gains of $3.4 million on the available-for-sale securities portfolio. Additionally, our held-to-maturity securities portfolio had $2.2 million of pre-tax net unrealized gains at December 31, 2021. The gross unrealized gains and losses are detailed in note 4 of our consolidated financial statements. As of December 31, 2021, our investment securities portfolio consisted primarily of MBS, all of which were issued or guaranteed by U.S. Government agencies or sponsored enterprises. The anticipated repayments and marketability of these securities offer substantial resources and flexibility to meet new loan demand, reinvest in the investment securities portfolio, or provide optionality for reductions in our deposit funding base.

At present, financing activities primarily consist of changes in deposits and repurchase agreements, and advances from the FHLB, in addition to the payment of dividends and the repurchase of our common stock. Maturing time deposits represent a potential use of funds. As of December 31, 2021, $555.4 million of time deposits were scheduled to mature within 12 months. Based on the current interest rate environment, market conditions, and our consumer banking strategy focusing on both lower cost transaction accounts and term deposits, our strategy is to replace a portion of those maturing time deposits with transaction deposits and market-rate time deposits.

We enter into contractual obligations that require a future cash settlement. These may include operating lease obligations, purchase obligations, time deposits and issuance of long-term debt. For the year ended December 31, 2021, contractual obligations totaled $924.6 million with $576.1 million estimated to be paid within one year. Included within those contractual obligations were time deposits totaling $833.9 million, with $555.4 million of that estimated to be paid within one year.

Capital

Under the Basel III requirements, at December 31, 2021, the Company and the Bank met all capital adequacy requirements, and the Bank had regulatory capital ratios in excess of the levels established for well-capitalized institutions. For more information on regulatory capital, see note 14 in our consolidated financial statements.

Our shareholders' equity is impacted by earnings, changes in unrealized gains and losses on securities, net of tax, stock-based compensation activity, share repurchases and the payment of dividends.

The Board of Directors has from time to time authorized multiple programs to repurchase shares of the Company's common stock either in open market or in privately negotiated transactions in accordance with applicable regulations of the SEC. On February 24, 2021, the Company's Board of Directors authorized a new program to repurchase up to $75.0 million of the Company's stock which replaces the previously authorized $50.0 million stock repurchase program announced in February 2020 in its entirety. During 2021, the Company repurchased 912,213 shares for $36.4 million at a weighted average price per share of $39.88. The remaining authorization under the new program as of December 31, 2021 was $38.6 million.

On January 20, 2022, our Board of Directors declared a quarterly dividend of $0.23 per common share, payable on March 15, 2022 to shareholders of record at the close of business on February 25, 2022.

Asset/Liability Management and Interest Rate Risk

Management and the Board of Directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit this exposure. Interest rate risk is measured using net interest income simulations and market value of portfolio equity analyses. These analyses use various assumptions, including the nature and timing of interest rate changes, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment/replacement of asset and liability cash flows.

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing earnings and preserving adequate levels of liquidity and capital. The asset and liability management function is under the guidance of the Asset Liability Committee with direction from the Board of Directors. The Asset Liability Committee meets monthly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, local and national market conditions and rates. The Asset Liability Committee also reviews the liquidity, capital, deposit mix, loan mix and investment positions of the Company.

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and utilize various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

Our interest rate risk model indicated that the Company was asset sensitive in terms of interest rate sensitivity at December 31, 2021 and 2020. During the year ended December 31, 2021, our asset sensitivity decreased slightly for a rising rate environment as a result of the balance sheet mix. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 25 basis point decrease in interest rates on net interest income based on the interest rate risk model at December 31, 2021 and 2020:

Hypothetical shift in interest rates (in bps)	% change in projected net interest income	
	December 31, 2021	December 31, 2020
200	11.12%	14.22%
100	5.37%	7.46%
(25)	(0.67)%	(0.46)%

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that management may undertake to manage the risks in response to anticipated changes in interest rates and actual results may also differ due to any actions taken in response to the changing rates.

As part of the asset/liability management strategy to manage primary market risk exposures expected to be in effect in future reporting periods, management has emphasized the origination of longer duration loans. The strategy with respect to liabilities has been to continue to emphasize transaction account growth, particularly non-interest or low interest bearing non-maturing deposit accounts while building long-term client relationships. Non-maturing deposit accounts totaled 86.5% of total deposits at December 31, 2021, compared to 82.6% at December 31, 2020. We currently have no brokered time deposits.

Impact of Inflation and Changing Prices

The primary impact of inflation on our operations is reflected in increasing operating costs and non-interest expense. Unlike most industrial companies, virtually all of our assets and liabilities are monetary in nature. As a result, changes in interest rates have a more significant impact on our performance than do changes in the general rate of inflation and changes in prices. Interest rate changes do not necessarily move in the same direction, nor have the same magnitude, as changes in the prices of goods and services. Although not as critical to the banking industry as many other industries, inflationary factors may have some impact on our ability to grow, total assets, earnings and capital levels. We do not expect inflation to be a significant factor in our financial results in the near future. To help curb inflation, the Federal Reserve has indicated that they will more than likely increase interest rates during the first quarter of 2022.

Off-Balance Sheet Activities

In the normal course of business, we are a party to various contractual obligations, commitments and other off-balance sheet activities that contain credit, market, and operational risk that are not required to be reflected in our consolidated financial statements. The most significant of these are the loan commitments that we enter into to meet the financing needs of clients, including commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. As of December 31, 2021 and 2020, we had loan commitments totaling $992.5 million and $848.6 million, respectively, and standby letters of credit that totaled $7.3 million for both 2021 and 2020. Unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. We do not anticipate any material losses arising from commitments or contingent liabilities, and we do not believe that there are any material commitments to extend credit that represent risks of an unusual nature.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information called for by this item is provided under the caption *Asset/Liability Management and Interest Rate Risk* in Part I, Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Financial Statements

	Page
Report of Independent Registered Public Accounting Firm (KPMG, LLP, Kansas City, MO - PCAOB ID 185)	71
Consolidated Statements of Financial Condition	74
Consolidated Statements of Operations	75
Consolidated Statements of Comprehensive Income	76
Consolidated Statements of Changes in Shareholders' Equity	77
Consolidated Statements of Cash Flows	78
Notes to Consolidated Financial Statements	79

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Bank Holdings Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of National Bank Holdings Corporation and subsidiaries (the Company) as of December 31, 2021and 2020, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 23, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments - Credit Losses*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant

estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for credit losses for loans individually evaluated on a collective basis

As discussed in Note 3 to the consolidated financial statements, the Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (ASC Topic 326), as of January 1, 2020. As discussed in Note 7 to the consolidated financial statements, the allowance for credit losses related to loans collectively evaluated for impairment (the collective ACL) was $48.1 million of a total ACL of $49.7 million as of December 31, 2021. The Company estimated the December 31, 2021 collective ACL by first disaggregating the loan portfolio into segments based upon broad characteristics such as primary use and underlying collateral. Within these segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics. The 2021 collective ACL was determined at the class level, analyzing loss history based upon specific loss drivers and risk factors affecting each loan class. The Company utilized a discounted cash flow (DCF) model developed within a third-party software tool to establish expected lifetime credit losses for the loan portfolio. The 2021 collective ACL was calculated as the difference between the amortized cost basis and the projections from the DCF analysis. The DCF model allows for individual life of loan cash flow modeling, excluding extensions and renewals, using loan-specific interest rates and repayment schedules including estimated prepayment rates and loss recovery timing delays. The model incorporates forecasts of certain national macroeconomic factors (reasonable and supportable forecasts) which drive correlated Probability of Default ("PD") and Loss Given Default ("LGD") rates, which in turn, drive the losses predicted in establishing the Company's 2021 collective ACL. Management accounts for the inherent uncertainty of the underlying economic forecast by reviewing and weighting alternate forecast scenarios. PD and LGD rates along with prepayment rates and loss recovery time delays are determined at a loan class level making use of both internal and peer historical loss rate data. For periods beyond the reasonable and supportable forecast period, the Company reverts to historical long-term average loss rates on a straight-line basis. The length of the forecast period spans four quarters. The length of the reversion period is based on management's assessment of the length and pattern of the current economic cycle and typically ranges from four to eight quarters. Additionally, the 2021 collective ACL calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience.

We identified the assessment of the 2021 collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge in the industry, and subjective and complex auditor judgment was involved in the assessment of the 2021 collective ACL. Specifically, the assessment encompassed the evaluation of the 2021 collective ACL methodology, including (1) the DCF model and significant assumptions: PD, LGD, prepayment rates, discount rates, loss recovery time delays, the use of peer data, portfolio segmentation, the length and weighting of the reasonable and supportable forecast and the reversion period, and (2) the qualitative risk factors. The assessment also included an evaluation of the conceptual soundness and performance of the underlying models and assumptions. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the 2021 collective ACL estimate, including controls over the:

- development of the 2021 collective ACL methodology

- continued use and appropriateness of changes made to the DCF model
- performance monitoring of the DCF model
- identification and determination of the significant assumptions used in the DCF model
- continued use and appropriateness of changes made to the qualitative factors, including the significant assumptions used in the measurement of the qualitative factors
- analysis of the overall ACL results, trends, and ratios.

We evaluated the Company's process to develop the 2021 collective ACL estimate by testing certain sources of data, factors, and significant assumptions that the Company used, and considered the relevance and reliability of such data, factors, and significant assumptions, including an evaluation of whether additional factors or alternative assumptions should be used. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's 2021 collective ACL methodology for compliance with U.S. generally accepted accounting principles
- assessing the conceptual soundness and performance testing of the DCF model by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating judgments made by the Company in the continued use and appropriateness of changes made to the PD, LGD, prepayment rates, loss recovery time delays, use of peer data, and the reversion period assumptions by comparing them to relevant Company-specific metrics and trends, and the applicable industry and regulatory practices
- evaluating the selection of methodology used to develop the economic forecast scenarios, including the weighting of the scenarios, and underlying assumptions, by comparing it to the Company's business environment and relevant industry practices
- determining whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices
- evaluating the methodology used to develop the qualitative factors and the effect of those factors on the 2021 collective ACL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying DCF model.

We also assessed the sufficiency of the audit evidence obtained related to the 2021 collective ACL estimate by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

KPMG LLP

We have served as the Company's auditor since 2010.

Kansas City, Missouri
February 23, 2022

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

December 31, 2021 and 2020

(In thousands, except share and per share data)

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 845,195	$ 605,065
Interest bearing bank deposits	500	500
Cash and cash equivalents	845,695	605,565
Investment securities available-for-sale (at fair value)	691,847	661,955
Investment securities held-to-maturity (fair value of $599,260 and $381,691 at December 31, 2021 and December 31, 2020, respectively)	609,012	376,615
Non-marketable securities	50,740	22,073
Loans	4,513,383	4,353,726
Allowance for credit losses	(49,694)	(59,777)
Loans, net	4,463,689	4,293,949
Loans held for sale	139,142	247,813
Other real estate owned	7,005	4,730
Premises and equipment, net	96,747	106,982
Goodwill	115,027	115,027
Intangible assets, net	12,322	17,928
Other assets	182,785	207,313
Total assets	$ 7,214,011	$ 6,659,950
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing demand deposits	$ 2,506,265	$ 2,111,045
Interest bearing demand deposits	555,401	514,286
Savings and money market	2,332,591	2,064,769
Time deposits	833,916	986,132
Total deposits	6,228,173	5,676,232
Securities sold under agreements to repurchase	22,768	22,897
Long-term debt, net	39,478	—
Other liabilities	83,486	140,130
Total liabilities	6,373,905	5,839,259
Shareholders' equity:		
Common stock, par value $0.01 per share: 400,000,000 shares authorized; 51,487,907 and 51,487,907 shares issued; 29,958,764 and 30,634,291 shares outstanding at December 31, 2021 and December 31, 2020, respectively	515	515
Additional paid-in capital	1,014,294	1,011,362
Retained earnings	289,876	223,175
Treasury stock of 21,384,676 and 20,686,986 shares at December 31, 2021 and December 31, 2020, respectively, at cost	(457,616)	(424,127)
Accumulated other comprehensive (loss) income, net of tax	(6,963)	9,766
Total shareholders' equity	840,106	820,691
Total liabilities and shareholders' equity	$ 7,214,011	$ 6,659,950

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the Years Ended December 31, 2021, 2020 and 2019

(In thousands, except share and per share data)

	2021	2020	2019
Interest and dividend income:			
Interest and fees on loans	$ 181,816	$ 200,026	$ 218,836
Interest and dividends on investment securities	17,325	16,505	21,297
Dividends on non-marketable securities	838	1,157	1,770
Interest on interest-bearing bank deposits	986	314	698
Total interest and dividend income	200,965	218,002	242,601
Interest expense:			
Interest on deposits	13,602	23,629	29,803
Interest on borrowings	219	1,427	6,968
Total interest expense	13,821	25,056	36,771
Net interest income before provision for loan losses	187,144	192,946	205,830
Provision (release) expense for loan losses	(9,293)	17,630	11,643
Net interest income after provision for loan losses	196,437	175,316	194,187
Non-interest income:			
Service charges	14,894	14,962	17,895
Bank card fees	17,693	15,446	14,595
Mortgage banking income	63,360	102,384	42,346
Bank-owned life insurance income	2,208	2,360	1,713
Other non-interest income	12,174	4,719	5,888
OREO-related income	35	387	315
Total non-interest income	110,364	140,258	82,752
Non-interest expense:			
Salaries and benefits	127,504	141,170	122,732
Occupancy and equipment	25,283	27,473	27,336
Telecommunications and data processing	9,310	9,042	8,754
Marketing and business development	2,509	2,802	3,897
FDIC deposit insurance	1,850	1,168	1,049
Bank card expenses	5,177	4,388	4,780
Professional fees	5,423	2,946	3,256
Other non-interest expense	10,414	10,547	10,867
Problem asset workout	2,063	3,148	3,186
Gain on OREO sales, net	(475)	(38)	(7,193)
Core deposit intangible asset amortization	1,183	1,183	1,183
Banking center consolidation-related expense	1,589	2,348	898
Total non-interest expense	191,830	206,177	180,745
Income before income taxes	114,971	109,397	96,194
Income tax expense	21,365	20,806	15,829
Net income	$ 93,606	$ 88,591	$ 80,365
Earnings per share—basic	$ 3.04	$ 2.87	$ 2.57
Earnings per share—diluted	3.01	2.85	2.55
Weighted average number of common shares outstanding:			
Basic	30,727,566	30,857,086	31,175,825
Diluted	31,068,159	31,075,857	31,530,817

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2021, 2020 and 2019

(In thousands)

	2021	2020	2019
Net income	$ 93,606	$ 88,591	$ 80,365
Other comprehensive (loss) income, net of tax:			
Securities available-for-sale:			
Net unrealized (losses) gains arising during the period, net of tax benefit (expense) of $5,034, ($2,634), and ($4,510) for the years ended 2021, 2020 and 2019, respectively.	(16,186)	8,482	14,352
Less: amortization of net unrealized holding gains to income, net of tax benefit of $168, $248, and $320 for the years ended 2021, 2020 and 2019, respectively.	(543)	(778)	(1,015)
Other comprehensive (loss) income	(16,729)	7,704	13,337
Comprehensive income	$ 76,877	$ 96,295	$ 93,702

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended 2021, 2020 and 2019

(In thousands, except share and per share data)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss), net	Total
Balance, December 31, 2018	$ 515	$ 1,014,399	$ 106,990	$ (415,623)	$ (11,275)	$ 695,006
Cumulative effect adjustment[1]	—	—	256	—	—	256
Net income	—	—	80,365	—	—	80,365
Stock-based compensation	—	4,869	—	—	—	4,869
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $6,010, net	—	(10,045)	—	6,661	—	(3,384)
Cash dividends declared ($0.75 per share)	—	—	(23,529)	—	—	(23,529)
Other comprehensive income	—	—	—	—	13,337	13,337
Balance, December 31, 2019	$ 515	$ 1,009,223	$ 164,082	$ (408,962)	$ 2,062	$ 766,920
Cumulative effect adjustment[2]	$ —	$ —	$ (4,623)	$ —	$ —	$ (4,623)
Net income	—	—	88,591	—	—	88,591
Stock-based compensation	—	5,299	—	—	—	5,299
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $1,588, net	—	(3,160)	—	4,311	—	1,151
Repurchase of 734,117 shares	—	—	—	(19,476)	—	(19,476)
Cash dividends declared ($0.80 per share)	—	—	(24,875)	—	—	(24,875)
Other comprehensive income	—	—	—	—	7,704	7,704
Balance, December 31, 2020	$ 515	$ 1,011,362	$ 223,175	$ (424,127)	$ 9,766	$ 820,691
Net income	$ —	$ —	$ 93,606	$ —	$ —	$ 93,606
Stock-based compensation	—	5,541	—	—	—	5,541
Issuance of stock under purchase and equity compensation plans, including gain on reissuance of treasury stock of $4,661, net	—	(2,609)	—	2,911	—	302
Repurchase of 912,213 shares	—	—	—	(36,400)	—	(36,400)
Cash dividends declared ($0.87 per share)	—	—	(26,905)	—	—	(26,905)
Other comprehensive loss	—	—	—	—	(16,729)	(16,729)
Balance, December 31, 2021	$ 515	$ 1,014,294	$ 289,876	$ (457,616)	$ (6,963)	$ 840,106

(1) Related to the adoption of Accounting Standards Update No. 2016-02, *Leases*. Refer to note 3 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

(2) Related to the adoption of Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Refer to note 3 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

See accompanying notes to the consolidated financial statements.

NATIONAL BANK HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021, 2020 and 2019
(In thousands)

	For the year ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 93,606	$ 88,591	$ 80,365
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision (release) expense for loan losses	(9,293)	17,630	11,643
Provision (release) expense for mortgage loan repurchases	(108)	662	(366)
Depreciation and amortization	13,585	14,449	15,038
Change in current income tax receivable	1,045	(2,371)	1,955
Change in deferred income taxes	(226)	3,477	8,793
Net excess tax (benefit) expense from stock-based compensation	(644)	51	(2,160)
Discount accretion, net of premium amortization on securities	4,335	3,374	2,047
Loan accretion	(6,582)	(11,694)	(15,590)
Gain on sale of mortgages, net	(56,946)	(98,250)	(39,922)
Origination of loans held for sale, net of repayments	(1,867,734)	(2,376,660)	(1,317,547)
Proceeds from sales of loans held for sale	2,041,158	2,348,166	1,289,877
Bank-owned life insurance income	(2,208)	(2,360)	(1,713)
Gain on the sale of other real estate owned, net	(475)	(38)	(7,193)
(Income) loss from non-marketable securities	(2,985)	406	298
Originations of mortgage serving rights	(7,882)	(10,354)	(27)
Proceeds from sales of mortgage servicing rights	11,375	—	—
Gain on sale of mortgage servicing rights	(1,290)	—	—
(Recovery) impairment of mortgage servicing rights	(740)	751	129
Impairment on other real estate owned	799	470	1,082
Impairment on fixed assets related to banking center consolidations	1,553	1,631	898
Gain on sale of fixed assets	(3,768)	—	—
Gain from banking center divestiture	(778)	—	—
Stock-based compensation	5,541	5,299	4,869
Operating lease payments	(5,099)	(5,414)	(5,294)
Change in other assets	24,225	(18,073)	670
Change in other liabilities	(50,962)	34,045	16,391
Net cash provided by (used in) operating activities	179,502	(6,212)	44,243
Cash flows from investing activities:			
Proceeds from non-marketable securities	2,006	13,709	14,737
Proceeds from maturities of investment securities available-for-sale	235,860	271,508	195,467
Proceeds from maturities of investment securities held-to-maturity	161,923	88,071	60,948
Proceeds from sales of investment securities available-for-sale	—	—	20,378
Proceeds from sales of other real estate owned	1,917	3,671	12,112
Purchase of non-marketable securities	(27,688)	(4,107)	(18,700)
Purchase of investment securities available-for-sale	(288,580)	(286,130)	(45,745)
Purchase of investment securities held-to-maturity	(397,758)	(284,170)	(10,201)
Sales (purchases) of premises and equipment, net	5,146	(4,352)	(11,204)
Net (increase) decrease in loans	(166,662)	49,209	(312,844)
Purchase of bank-owned life insurance	—	—	(20,000)
Net cash used in investing activities	(473,836)	(152,591)	(115,052)
Cash flows from financing activities:			
Net increase in deposits	552,719	939,100	201,511
Net decrease in repurchase agreements and other short-term borrowings	(129)	(34,038)	(9,112)
Proceeds from long-term debt	40,000	—	—
Payment of long-term debt issuance costs	(535)	—	—
Advances from FHLB	—	947,431	1,477,447
FHLB repayments	—	(1,155,106)	(1,571,432)
Issuance of stock under purchase and equity compensation plans	(2,267)	(749)	(6,229)
Proceeds from exercise of stock options	2,489	1,832	2,788
Payment of dividends	(26,888)	(24,816)	(23,530)
Repurchase of common stock	(36,400)	(19,476)	—
Net cash provided by financing activities	528,989	654,178	71,443
Increase in cash, cash equivalents and restricted cash[(1)]	234,655	495,375	634
Cash, cash equivalents and restricted cash at beginning of the year[(1)]	615,565	120,190	119,556
Cash, cash equivalents and restricted cash at end of period[(1)]	$ 850,220	$ 615,565	$ 120,190
Supplemental disclosure of cash flow information during the period:			
Cash paid for interest	$ 16,638	$ 27,622	$ 34,458
Net tax payment	15,389	22,111	9,271
Supplemental schedule of non-cash activities:			
Loans transferred to other real estate owned at fair value	4,516	1,533	2,705
(Decrease) increase in loans purchased but not settled	—	(16,351)	7,372
Loans transferred from loans held for sale to loans	7,807	3,625	1,732
Lease right-of-use assets obtained	—	—	(30,474)

(1) Included in restricted cash at December 31, 2021, 2020 and 2019 is $4.5 million, $10.0 million and $10.0 million, respectively, placed in escrow for certain potential liabilities, for which the Company is indemnified, resulting from a previous acquisition. The restricted cash is included in other assets in the Company's consolidated statements of financial condition.

See accompanying notes to the consolidated financial statements.

Note 1 Basis of Presentation

National Bank Holdings Corporation is a bank holding company that was incorporated in the State of Delaware in 2009. The Company is headquartered in Greenwood Village, Colorado, and its primary operations are conducted through its wholly owned subsidiary, NBH Bank, a Colorado state-chartered bank and a member of the Federal Reserve System. The Company provides a variety of banking products to both commercial and consumer clients through a network of 81 banking centers as of December 31, 2021, located primarily in Colorado, the greater Kansas City region, Texas, Utah and New Mexico, as well as through online and mobile banking products and services.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, NBH Bank. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and, where applicable, with general practices in the banking industry or guidelines prescribed by bank regulatory agencies. The consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results presented. All such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts are made whenever necessary to conform to current period presentation. During 2021, the Company updated its asset classifications to include certain financial instruments within non-marketable securities that were previously reported in other assets in the statements of financial condition. The prior period presentations have been reclassified to conform to the current period presentations. Refer to note 5 for further discussion. All amounts are in thousands, except share data and per share data, or as otherwise noted.

While general economic conditions have been improving, the COVID-19 pandemic caused disruption to the communities we serve and has changed the way we live and work. We continue to remain committed to ensuring our associates, clients and communities are receiving the support they need through our banking centers and our digital banking platform. Our teams have been working diligently to support our clients who are experiencing financial hardship due to COVID-19 through participation in the SBA's Paycheck Protection Program, including assistance with PPP loan forgiveness applications, and loan modifications, as needed. While access to vaccines in the United States has increased, the efficacy of those vaccines, the impact of emerging targeted vaccine mandates and new variants of the virus, and the length of time that the government-mandated measures must remain in place or potentially be reinstituted to address COVID-19 are unknown. The pandemic has had a negative impact to the U.S. labor market, consumer spending and business operations, and it is not clear how long new outbreaks of COVID-19 cases will have a continued impact.

GAAP requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. By their nature, estimates are based on judgment and available information. Management has made significant estimates in certain areas, such as the fair values of financial instruments, contingent liabilities and the allowance for credit losses ("ACL"). Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

Note 2 Summary of Significant Accounting Policies

a) Cash and cash equivalents—Cash and cash equivalents include cash, cash items, amounts due from other banks, amounts due from the Federal Reserve Bank of Kansas City, federal funds sold, and interest-bearing bank deposits.

b) Investment securities—Investment securities may be classified in three categories: trading, available-for-sale or held-to-maturity. Management determines the appropriate classification at the time of purchase and reevaluates the classification at each reporting period. Any sales of available-for-sale securities are for the purpose of executing the Company's asset/liability management strategy, reducing borrowings, funding loan growth, providing liquidity, or eliminating a perceived credit risk in a specific security. Held-to-maturity securities are carried at amortized cost, and the available-for-sale securities are carried at estimated fair value. Unrealized gains or losses on securities available-for-sale are reported as accumulated other comprehensive income (loss) ("AOCI"), a component of shareholders' equity, net of income tax. Gains and losses realized upon sales of securities are calculated using the specific identification method. Premiums and discounts are amortized to interest income over the estimated lives of the securities. Prepayment experience is periodically evaluated and a determination made regarding the appropriate estimate of the future rates of prepayment. When a change in a bond's estimated remaining life is necessary, a corresponding adjustment is made in the related premium amortization or discount accretion. Purchases and sales of securities, including any corresponding gains or losses, are recognized on a trade-date basis and a receivable or payable is recognized for pending transaction settlements.

Management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, we evaluate whether the decline in fair value is the result of credit losses or other factors. In making the assessment, we may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss. When the loss is not considered a result of credit loss, the cost basis of the security is written down to fair value, with the loss charge recognized in AOCI. The Company does not measure expected credit losses for U.S. agency-backed held-to-maturity securities, since the risk of nonpayment of the amortized cost basis is zero. Credit losses are not estimated for AIR from investment securities as interest deemed uncollectible is written off through interest income.

Prior to the adoption of ASU 2016-13, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that were deemed to be other-than-temporarily impaired were reflected in earnings as realized losses. In estimating other-than-temporary-impairment prior to January 1, 2020, the Company considered, among other things, the severity and duration of the unrealized loss position; adverse conditions specifically related to the security; changes in expected future cash flows; downgrades in the rating of the security by a rating agency; the failure of the issuer to make scheduled interest or principal payments; whether the Company had the intent to sell the security; and whether it was more likely than not that the Company would be required to sell the security.

c) Non-marketable securities— Non-marketable securities include FRB stock, FHLB stock and other non-marketable securities. FRB and FHLB securities have been acquired for debt facility or regulatory purposes and are carried at cost. Other non-marketable securities consist of equity method investments in which the Company's proportionate share of income or loss is recognized one quarter in arrears in other non-interest income in the consolidated statements of operations. Equity method investments are periodically evaluated for impairment. If impairment is deemed other than temporary, the Company will reduce the carrying value of the investment to the extent it is not recoverable. Other non-marketable securities also include an investment in convertible preferred stock. As the convertible preferred stock does not have a readily determinable fair value, it is carried at cost and evaluated periodically for impairment.

d) Loans receivable—Loans receivable include loans originated by the Company and loans that are acquired through acquisitions. Loans originated by the Company are carried at the principal amount outstanding, net of premiums, discounts, unearned income and deferred loan fees and costs. Loan fees and certain costs of originating loans are deferred and the net amount is amortized over the contractual life of the related loans. Acquired loans are initially recorded at fair value. Non-refundable loan origination and commitment fees, net of direct costs of originating or acquiring loans, and fair value adjustments for acquired loans, are deferred and recognized over the remaining lives of the related loans in accordance with ASC 310-20.

Estimated fair values of acquired loans are based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, the expected timing of cash flows, classification status, fixed or variable interest rate, term of loan and whether or not the loan is amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Discounts created when the loans are recorded at their estimated fair values at acquisition are accreted over the remaining term of the loan as an adjustment to the related loan's yield. Similar to originated loans described below, the accrual of interest income on acquired loans is discontinued when the collection of principal or interest, in whole or in part, is doubtful.

Interest income on acquired loans and interest income on loans originated by the Company is accrued and credited to income as it is earned using the interest method based on daily balances of the principal amount outstanding. However, interest is generally not accrued on loans 90 days or more past due, unless they are well secured and in the process of collection. Additionally, in certain situations, loans that are not contractually past due may be placed on non-accrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as insufficient collateral value or deficient primary and secondary sources of repayment. Accrued interest receivable is reversed when a loan is placed on non-accrual status and payments received generally reduce the carrying value of the loan. Interest is not accrued while a loan is on non-accrual status and interest income is generally recognized on a cash basis only after payment in full of the past due principal and collection of principal outstanding is reasonably assured. A loan may be placed back on accrual status if all contractual payments have been received, or sooner under certain conditions and collection of future principal and interest payments is no longer doubtful.

In the event of borrower default, the Company may seek recovery in compliance with state lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include modifying or restructuring a loan from its original terms, for economic or legal reasons, to provide a concession to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Such restructured loans are considered "troubled debt restructurings" and are identified in accordance with ASC 310-40.

The CARES Act afforded financial institutions the option to modify loans within certain parameters in response to the COVID-19 pandemic without requiring the modifications to be classified as TDRs if the borrower has been adversely impacted by COVID-19 and was current on their loan payments. The Company has modified loans due to the effects of the COVID-19 pandemic that were not classified as TDRs. Modifications include deferral of principal as well as full-payment deferral for a period ranging from three months to one year.

e) Loans held for sale—The Company has elected to record loans originated and intended for sale in the secondary market at estimated fair value. The Company estimates fair value based on quoted market prices for similar loans in the secondary market. Gains or losses are recognized upon sale and are included as a component of mortgage banking income in the consolidated statements of operations. Loans held for sale have primarily been fixed rate single-family residential mortgage loans under contract to be sold in the secondary market. In most cases, loans in this category are sold within 45 days. Currently, conventional loans in states where the bank has market presence may be sold with servicing retained or with servicing released. Government loans and conventional loans in states where the bank does not have a market presence are generally sold with servicing released. Under limited circumstances, buyers may have recourse to return a purchased loan to the Company. Recourse conditions may include early payoff, early payment default, breach of representations or warranties, or documentation deficiencies in the underwriting process.

The Company enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. interest rate lock commitments). Such interest rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. To protect against the price risk inherent in residential mortgage loan commitments, the Company utilizes both "best efforts" and "mandatory delivery" forward loan sale commitments to mitigate the risk of potential increases or decreases in the values of loans that would result from the change in market rates for such loans. The Company manages the interest rate risk on interest rate lock commitments by entering into forward sale contracts of mortgage backed securities. Such contracts are accounted for as derivatives and are recorded at fair value as derivative assets or liabilities. They are carried in the consolidated statements of financial condition within other assets or other liabilities, and changes in fair value are recorded net as a component of mortgage banking income in the consolidated statements of operations. The gross gains on loan sales are recognized based on new loan commitments with adjustment for price and pair-off activity. Commission expenses on loans held for sale are recognized based on loans closed.

f) Allowance for credit losses—The Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, effective January 1, 2020.

The ACL represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified four primary loan segments that are further stratified into 11 loan classes to provide more granularity in analyzing loss history based upon specific loss drivers and risk factors affecting each loan class. Generally, the underlying risk of loss for each of these loan classes will follow certain norms/trends in various economic environments. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. Those loans include loans on non-accrual status, loans in bankruptcy, and TDRs described below. If a specific allowance is warranted based on the borrower's overall financial condition, the specific allowance is calculated based on discounted expected cash flows using the loan's initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral-dependent loans.

The Company utilizes a DCF model developed within a third-party software tool to establish expected lifetime credit losses for the loan portfolio. The ACL is calculated as the difference between the amortized cost basis and the projections from the DCF analysis. The DCF model allows for individual life of loan cash flow modeling, excluding extensions and renewals, using loan-specific interest rates and repayment schedules adjusted for estimated prepayment rates and loss recovery timing delays. The model incorporates forecasts of certain national macroeconomic factors, including unemployment rates, HPI, retail sales and GDP, which drive correlated probability of default ("PD") and loss given default ("LGD") rates. PD and LGD, in turn, drive the losses predicted in establishing our ACL. PD and LGD rates along with prepayment rates and loss recovery time delays are determined at a loan class level making use of both internal and peer historical loss rate data. The determination and application of the ACL accounting policy involves judgments, estimates, and uncertainties that are subject to change. For periods beyond the reasonable and supportable forecast period, we revert to historical long-term average loss rates on a straight-line basis. The length of the forecast period spans four quarters. The length of the reversion period is based on management's assessment of the length and pattern of the current economic cycle and typically ranges from four to eight quarters.

Management accounts for the inherent uncertainty of the underlying economic forecast by reviewing and weighting alternate forecast scenarios. Additionally, the ACL calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth and industry concentrations. The Company has elected to exclude AIR from the allowance for credit losses calculation. When a loan is placed on non-accrual, any recorded AIR is reversed against interest income.

The determination and application of the ACL accounting policy involves judgments, estimates, and uncertainties that are subject to change. Changes in these assumptions, estimates or the conditions surrounding them may have a material impact on our financial condition, liquidity or results of operations. Various regulatory agencies, as an integral part of the examination process, periodically review the ACL. Such agencies may require the Company to recognize additions to the ACL or reserve increases to adversely graded classified loans based on their judgments about information available to them at the time of their examinations.

The ACL is decreased by net charge-offs and is increased by provisions for loan losses that are charged to the statements of operations. Charge-offs, if any, are typically measured for each loan based on a thorough analysis of the most probable source of repayment, such as the present value of the loan's expected future cash flows, the loan's estimated fair value, or the estimated fair value of the underlying collateral less costs of disposition for collateral-dependent loans. When it is determined that specific loans, or portions thereof, are uncollectible, these amounts are charged off against the ACL.

The Company uses an internal risk rating system to indicate credit quality in the loan portfolio. The risk rating system is applied to all loans and uses a series of grades, which reflect management's assessment of the risk attributable to loans based on an analysis of the borrower's financial condition and ability to meet contractual debt service requirements. Loans that management perceives to have acceptable risk are categorized as "Pass" loans. The "Special Mention" loans represent loans

that have potential credit weaknesses that deserve management's close attention. Special mention loans include borrowers that have potential weaknesses or unwarranted risks that, unless corrected, may threaten the borrower's ability to meet debt requirements. However, these borrowers are still believed to have the ability to respond to and resolve the financial issues that threaten their financial situation. Loans classified as "Substandard" are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. "Doubtful" loans are loans that management believes the collection of payments in accordance with the terms of the loan agreement is highly questionable and improbable. Credit quality indicators are reviewed and updated in accordance with internal policy based on loan balance and risk rating. Interest accrual is discontinued on doubtful loans and certain substandard loans.

Unfunded loan commitments

In addition to the ACL for funded loans, the Company maintains reserves to cover the risk of loss associated with off-balance sheet unfunded loan commitments. The allowance for off-balance sheet credit losses is maintained within the other liabilities in the statements of financial condition. Under the CECL framework, adjustments to this liability are recorded as provision for credit losses in the statements of operations. Unfunded loan commitment balances are evaluated by loan class and further segregated by revolving and non-revolving commitments. In order to establish the required level of reserve, the Company applies average historical utilization rates and ACL loan model loss rates for each loan class to the outstanding unfunded commitment balances.

Prior to the adoption of ASU 2016-13, the Company's determination of the allowance took into consideration, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical net loan losses, the estimated loss emergence period, estimated default rates, any declines in cash flow assumptions from acquisitions, loan structures, growth factors and other elements that warrant recognition.

Under the prior incurred loss methodology, the Company routinely evaluated adversely risk-rated credits for impairment. Impairment, if any, was typically measured for each loan based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated fair value, or the estimated fair value of the underlying collateral less costs of disposition for collateral dependent loans. General allowances were established for loans with similar characteristics. In this process, general allowance factors were based on an analysis of historical loss and recovery experience, if any, related to originated and acquired loans, as well as certain industry experience, with adjustments made for qualitative or environmental factors that were likely to cause estimated credit losses to differ from historical experience. To the extent that the data supporting such factors had limitations, management's judgment and experience played a key role in determining the allowance estimates.

g) Premises and equipment—With the exception of premises and equipment acquired through business combinations, which are initially measured and recorded at fair value, purchased land, buildings and equipment are carried at cost, including capitalized interest when appropriate, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The Company generally assigns depreciable lives of 39 years for buildings, 7 to 15 years for building improvements, and 3 to 7 years for equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or remaining lease terms. Maintenance and repairs are charged to non-interest expense as incurred. The Company reviews premises and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposal is less than its carrying amount. Property and equipment that meet the held-for-sale criteria is recorded at the lower of its carrying amount or fair value less cost to sell and depreciation is ceased.

h) Goodwill and intangible assets—Goodwill is established and recorded if the consideration given during an acquisition transaction exceeds the fair value of the net assets received. Goodwill has an indefinite useful life and is not amortized, but is evaluated annually for potential impairment, or when events or circumstances indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. Such events or circumstances may include deterioration in general economic conditions, deterioration in industry or market conditions, an increased competitive environment, a decline in market-dependent multiples or metrics, declining financial performance, entity-specific events or circumstances or a sustained decrease in share price (either in absolute terms or relative to peers). If the Company determines, based upon the

qualitative assessment, that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount no additional procedures are performed; however, if the Company determines that it is more likely than not that the fair value of the reporting unit is less than the carrying amount the Company will compare the fair value of the reporting unit to its carrying amount. Any excess of the carrying amount over fair value would indicate a potential impairment and the Company would proceed to perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment.

Intangible assets that have finite useful lives, such as core deposit intangibles, are amortized over their estimated useful lives. The Company's core deposit intangible assets represent the value of the anticipated future cost savings that will result from the acquired core deposit relationships versus an alternative source of funding. Judgment may be used in assessing goodwill and intangible assets for impairment. Estimates of fair value are based on projections of revenues, operating costs and cash flows of the reporting unit considering historical and anticipated future results, general economic and market conditions, as well as the impact of planned business or operational strategies. The valuations use a combination of present value techniques to measure fair value considering market factors. Additionally, judgment is used in determining the useful lives of finite-lived intangible assets. Adverse changes in the economic environment, operations of the reporting unit, or changes in judgments and projections could result in a significantly different estimate of the fair value of the reporting unit and could result in an impairment of goodwill and/or intangible assets.

MSRs associated with loans originated and sold, where servicing is retained, are initially capitalized at fair value and included in intangible assets in the consolidated statements of financial condition. For subsequent measurement purposes, the Company measures servicing assets based on the lower of cost or market using the amortization method. The values of these capitalized servicing rights are amortized as an offset to the loan servicing income earned in relation to the servicing revenue expected to be earned. The carrying values of these rights are reviewed quarterly for impairment based on the fair value of those assets. For purposes of impairment evaluation and measurement, management stratifies MSRs based on the predominant risk characteristics of the underlying loans, including loan type and loan term. If, by individual stratum, the carrying amount of these MSRs exceeds fair value, a valuation allowance is established and the impairment is recognized in mortgage banking income. If the fair value of impaired MSRs subsequently increases, management recognizes the increase in fair value in current period mortgage banking income and, through a reduction in the valuation allowance, adjusts the carrying value of the MSRs to a level not in excess of amortized cost.

i) Reserve for Mortgage Loan Repurchase Losses–The Company sells mortgage loans to various third parties, including government-sponsored entities, under contractual provisions that include various representations and warranties that typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, and similar matters. The Company may be required to repurchase the mortgage loans with identified defects, indemnify the investor or insurer, or reimburse the investor for credit loss incurred on the loan (collectively "repurchase") in the event of a material breach of such contractual representations or warranties. Risk associated with potential repurchases or other forms of settlement is managed through underwriting and quality assurance practices.

The Company establishes mortgage repurchase reserves related to various representations and warranties that reflect management's estimate of losses based on a combination of factors. Such factors incorporate actual and historic loss history, delinquency trends in the portfolio and economic conditions. The Company establishes a reserve at the time loans are sold and updates the reserve estimate quarterly during the estimated loan life. The repurchase reserve is included in other liabilities in the consolidated statements of financial condition.

j) Other real estate owned—OREO consists of property that has been foreclosed on or repossessed by deed in lieu of foreclosure. The assets are initially recorded at the fair value of the collateral less estimated costs to sell, with any initial valuation adjustments charged to the ACL. Subsequent downward valuation adjustments, if any, in addition to gains and losses realized on sales and net operating expenses, are recorded in non-interest expense. Costs associated with maintaining property, such as utilities and maintenance, are charged to expense in the period in which they occur, while costs relating to the development and improvement of property are capitalized to the extent the balance does not exceed fair value. All OREO acquired through acquisition is recorded at fair value, less cost to sell, at the date of acquisition.

k) Bank-owned life insurance—The Company is the owner and beneficiary of bank-owned life insurance ("BOLI") policies that it purchased on certain associates of the Company. The BOLI is carried at net realizable value with changes in net realizable value recorded in non-interest income in the consolidated statements of operations.

l) Securities purchased under agreements to resell and securities sold under agreements to repurchase—The Company periodically enters into purchases or sales of securities under agreements to resell or repurchase as of a specified future date. The securities purchased under agreements to resell are accounted for as collateralized financing transactions and are reflected as an asset in the consolidated statements of financial condition. The securities pledged by the counterparties are held by a third party custodian and valued daily. The Company may require additional collateral to ensure full collateralization for these transactions. The repurchase agreements are considered financing agreements and the obligation to repurchase assets sold is reflected as a liability in the consolidated statements of financial condition of the Company. The repurchase agreements are collateralized by debt securities that are under the control of the Company.

m) Stock-based compensation—The Company accounts for stock-based compensation in accordance with ASC Topic 718. The Company grants stock-based awards including stock options, restricted stock and performance stock units. Stock option grants are for a fixed number of common shares and are issued at exercise prices which are not less than the fair value of a share of stock at the date of grant. The options vest over a time period stated in each option agreement and may be subject to other performance vesting conditions, which require the related compensation expense to be recorded ratably over the requisite service period starting when such conditions become probable. Restricted stock is granted for a fixed number of shares, the transferability of which is restricted until such shares become vested according to the terms in the award agreement. Restricted shares may have multiple vesting qualifications, which can include time vesting of a set portion of the restricted shares and performance criterion, such as market criteria that are tied to specified market conditions of the Company's common stock price and performance targets tied to the Company's earnings per share.

The fair value of stock options is measured using a Black-Scholes model. The fair value of time-based restricted stock awards and performance stock units with performance based vesting criteria is based on the Company's stock price on the date of grant. The fair value of performance stock units with market-based vesting criteria is measured using a Monte Carlo simulation model. Compensation expense for the portion of the awards that contain performance and service vesting conditions is recognized over the requisite service period based on the fair value of the awards on the grant date. Compensation expense for the portion of the awards that contain a market vesting condition is recognized over the derived service period based on the fair value of the awards on the grant date. The amortization of stock-based compensation reflects any estimated forfeitures, and the expense realized in subsequent periods may be adjusted to reflect the actual forfeitures realized. The outstanding stock options primarily carry a maximum contractual term of ten years. To the extent that any award is forfeited, surrendered, terminated, expires, or lapses without being vested or exercised, the shares of stock subject to such award not delivered are again made available for awards under the Plan.

Excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are recognized in the consolidated statements of operations as a component of income tax expense or benefit and are classified as an operating activity within the Company's consolidated statements of cash flows. The tax effects of exercised, expired or vested awards are treated as discrete items in the reporting period in which they occur and may result in increased volatility in our effective tax rate. Cash paid by the Company when directly withholding shares for tax withholding purposes is classified as a financing activity in the consolidated statements of cash flows.

n) Income taxes—The Company and its subsidiaries file U.S. federal and certain state income tax returns on a consolidated basis. Additionally, the Company and its subsidiaries file separate state income tax returns with various state jurisdictions. The provision for income taxes includes the income tax balances of the Company and all of its subsidiaries.

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax rates in the period of change. The Company establishes a valuation allowance when management believes, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

The Company recognizes and measures income tax benefits based upon a two-step model: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized; and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized for a position in this model and the tax benefit claimed on a tax return is treated as an unrecognized tax benefit. The Company recognizes income tax related interest and penalties in other non-interest expense.

o) Earnings per share—The Company applies the two-class method of computing earnings per share as certain of the Company's restricted shares are entitled to non-forfeitable dividends and are therefore considered to be a class of participating securities. The two-class method allocates income according to dividends declared and participation rights in undistributed income. Basic earnings per share is computed by dividing income allocated to common shareholders by the weighted average number of common shares outstanding during each period. Diluted income per common share is computed by dividing income allocated to common shareholders by the weighted average common shares outstanding during the period, plus amounts representing the dilutive effect of stock options outstanding, certain unvested restricted shares, or other contracts to issue common shares ("common stock equivalents") using the treasury stock method. Common stock equivalents are excluded from the computation of diluted earnings per common share in periods in which they have an anti-dilutive effect.

p) Interest Rate Swap Derivatives—The Company carries all derivatives in the statement of financial condition at fair value. All derivative instruments are recognized as either assets or liabilities depending on the rights or obligations under the contracts. All gains and losses on the derivatives due to changes in fair value are recognized in earnings each period.

The Company offers interest rate swap products to certain of its clients to manage potential changes in interest rates. Each contract between the Company and a client is offset with a contract between the Company and an institutional counterparty, thus minimizing the Company's exposure to rate changes. The Company's portfolio consists of a "matched book," and as such, changes in fair value of the swap pairs will largely offset in earnings. In accordance with applicable accounting guidance, if certain conditions are met, a derivative may be designated as (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk (referred to as a fair value hedge) or (2) a hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk (referred to as a cash flow hedge). The Company documents all hedging relationships at the inception of each hedging relationship and uses industry accepted methodologies and ranges to determine the effectiveness of each hedge. The fair value of the hedged item is calculated using the estimated future cash flows of the hedged item and applying discount rates equal to the market interest rate for the hedged item at the inception of the hedging relationship (inception benchmark interest rate plus an inception credit spread), adjusted for changes in the designated benchmark interest rate thereafter.

q) Treasury stock —When the Company acquires treasury stock, the sum of the consideration paid and direct transaction costs after tax is recognized as a deduction from equity. The cost basis for the reissuance of treasury stock is determined using a first-in, first-out basis. To the extent that the reissuance price is more than the cost basis (gain), the excess is recorded as an increase to additional paid-in capital in the consolidated statements of financial condition. If the reissuance price is less than the cost basis (loss), the difference is recorded to additional paid-in capital to the extent there is a cumulative treasury stock paid-in capital balance. Any loss in excess of the cumulative treasury stock paid-in capital balance is charged to retained earnings.

r) Acquisition activities—The Company accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the fair value of net assets acquired exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. Fair values are subject to refinement for up to a maximum of one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Adjustments recorded to the acquired assets and liabilities assumed are applied prospectively in accordance with Accounting Standards Codification ("ASC") Topic 805. The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss; therefore, the related ACL is not carried forward at the time of acquisition.

Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Deposit liabilities and the related depositor relationship intangible assets, known as the core deposit intangible assets, may be exchanged in observable exchange transactions. As a result, the core deposit intangible asset is considered identifiable, because the separability criterion has been met.

Note 3 Recent Accounting Pronouncements

Leases—In February 2016, the FASB issued ASU 2016-02, *Leases*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases*. The new standard established a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statements. ASU 2016-02 became effective for the Company on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11 which, among other things, provided an additional transition method that allows entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The updates did not significantly change lease accounting requirements applicable to lessors and did not significantly impact our financial statements in relation to contracts whereby we act as a lessor. We applied the modified-retrospective transition approach prescribed by ASU 2018-11. Upon adoption of ASU 2016-02 and ASU 2018-11 on January 1, 2019, we recognized right-of-use assets and related lease liabilities totaling $30.5 million with a cumulative-effect adjustment to beginning retained earnings of $0.3 million, after tax.

Financial Instruments - Credit Losses—In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. This update replaces the current incurred loss methodology for recognizing credit losses with a CECL model, which 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. This amendment broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, the update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update 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 a company's loan portfolio. We adopted ASU 2016-13 on January 1, 2020 using a modified retrospective approach. Results for reporting periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Upon adoption, the Company recognized a $5.8 million increase in the allowance for credit losses with a corresponding reduction to retained earnings, net of tax, of $4.6 million. Since the investment securities portfolio was comprised of mortgage-backed securities issued by government sponsored entities as of January 1, 2020, no credit loss allowance was required upon adoption.

Other Pronouncements— The Company adopted ASU 2017-04, *Intangibles - Goodwill and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment* and ASU 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* with no material impact on its financial statements.

Note 4 Investment Securities

The Company's investment securities portfolio is comprised of available-for-sale and held-to-maturity investment securities. These investment securities totaled $1.3 billion at December 31, 2021 and included $0.7 billion of available-for-sale securities and $0.6 billion of held-to-maturity securities. At December 31, 2020, investment securities totaled $1.0 billion and included $0.6 billion of available-for-sale securities and $0.4 billion of held-to-maturity securities.

Available-for-sale

Available-for-sale securities are summarized as follows as of the dates indicated:

	December 31, 2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 231,523	$ 1,436	$ (5,263)	$ 227,696
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	467,490	1,889	(8,045)	461,334
Municipal securities	230	7	—	237
Corporate debt	2,000	111	—	2,111
Other securities	469	—	—	469
Total investment securities available-for-sale	$ 701,712	$ 3,443	$ (13,308)	$ 691,847

	December 31, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 193,424	$ 2,952	$ (42)	$ 196,334
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	454,345	8,778	(344)	462,779
Municipal securities	362	13	—	375
Corporate debt	2,000	—	(2)	1,998
Other securities	469	—	—	469
Total investment securities available-for-sale	$ 650,600	$ 11,743	$ (388)	$ 661,955

During 2021 and 2020, purchases of available-for-sale securities totaled $288.6 million and $286.1 million, respectively. Maturities and paydowns of available-for-sale securities during 2021 and 2020 totaled $235.9 million and $271.5 million, respectively. There were no sales of available-for-sale securities during 2021 or 2020.

At December 31, 2021 and 2020, the Company’s available-for-sale investment portfolio was primarily comprised of mortgage-backed securities, and all mortgage-backed securities were backed by GSE collateral such as FHLMC and FNMA and the government owned agency GNMA.

The tables below summarize the available-for-sale securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 163,579	$ (4,404)	$ 22,852	$ (859)	$ 186,431	$ (5,263)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	237,759	(5,593)	48,750	(2,452)	286,509	(8,045)
Total	$ 401,338	$ (9,997)	$ 71,602	$ (3,311)	$ 472,940	$ (13,308)

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 26,878	$ (42)	$ 1	$ —	$ 26,879	$ (42)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	95,888	(328)	2,138	(16)	98,026	(344)
Corporate debt	1,998	(2)	—	—	1,998	(2)
Total	$ 124,764	$ (372)	$ 2,139	$ (16)	$ 126,903	$ (388)

Management evaluated all of the available-for-sale securities in an unrealized loss position at December 31, 2021 and December 31, 2020. The portfolio included 49 securities, which were in an unrealized loss position at December 31, 2021, compared to 22 securities at December 31, 2020. The unrealized losses in the Company's investment portfolio at December 31, 2021 and 2020 were caused by changes in interest rates. The Company has no intention to sell these securities and believes it will not be required to sell the securities before the recovery of their amortized cost. Management believes that default of the available-for-sale securities is highly unlikely. FHLMC, FNMA and GNMA guaranteed mortgage-backed securities have a long history of zero credit losses, an explicit guarantee by the U.S. government (although limited for FNMA and FHLMC securities) and yields that generally trade based on market views of prepayment and liquidity risk rather than credit risk.

Certain securities are pledged as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the FRB, if needed. The fair value of available-for-sale investment securities pledged as collateral totaled $363.4 million and $385.8 million at December 31, 2021 and 2020, respectively. The Bank may also pledge available-for-sale investment securities as collateral for FHLB advances. No securities were pledged for this purpose at December 31, 2021 or 2020.

Mortgage-backed securities may have actual maturities that differ from contractual maturities depending on the repayment characteristics and experience of the underlying financial instruments. As of December 31, 2021, municipal securities with an amortized cost and fair value of $0.2 million were due between one to five years. Corporate debt securities with an amortized cost of $2.0 million and fair value of $2.1 million were due after five years through ten years. Other securities with an amortized cost and fair value of $0.5 million as of December 31, 2021 have no stated contractual maturity date.

As of December 31, 2021 and December 31, 2020, AIR from available-for-sale investment securities totaled $1.0 million and $1.1 million, respectively, and was included within other assets in the statements of financial condition.

Held-to-maturity

Held-to-maturity investment securities are summarized as follows as of the dates indicated:

	December 31, 2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 312,916	$ 2,061	$ (5,363)	$ 309,614
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	296,096	122	(6,572)	289,646
Total investment securities held-to-maturity	$ 609,012	$ 2,183	$ (11,935)	$ 599,260

	December 31, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 306,187	$ 4,940	$ (197)	$ 310,930
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	70,428	396	(63)	70,761
Total investment securities held-to-maturity	$ 376,615	$ 5,336	$ (260)	$ 381,691

During 2021 and 2020, purchases of held-to-maturity securities totaled $397.8 million and $284.2 million, respectively. Maturities and paydowns of held-to-maturity securities totaled $161.9 million and $88.1 million during 2021 and 2020, respectively.

The held-to-maturity portfolio included 48 securities which were in an unrealized loss position at December 31, 2021, compared to nine securities at December 31, 2020. The tables below summarize the held-to-maturity securities with unrealized losses as of the dates shown, along with the length of the impairment period:

	December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 197,095	$ (3,499)	$ 45,353	$ (1,864)	$ 242,448	$ (5,363)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	276,098	(6,572)	—	—	276,098	(6,572)
Total	$ 473,193	$ (10,071)	$ 45,353	$ (1,864)	$ 518,546	$ (11,935)

	December 31, 2020					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities:						
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ 53,453	$ (197)	$ —	$ —	$ 53,453	$ (197)
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	19,554	(63)	—	—	19,554	(63)
Total	$ 73,007	$ (260)	$ —	$ —	$ 73,007	$ (260)

The Company does not measure expected credit losses on a financial asset, or group of financial assets, in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Management evaluated held-to-maturity securities noting they are backed by loans guaranteed by either U.S. government agencies or U.S. government sponsored entities, and management believes that default is highly unlikely given this governmental backing and long history without credit losses. Additionally, management notes that yields on which the portfolio generally trades are based upon market views of prepayment and liquidity risk and not credit risk. The Company has no intention to sell any held-to-maturity securities and believes it will not be required to sell any held-to-maturity securities before the recovery of their amortized cost.

Certain securities are pledged as collateral for public deposits, securities sold under agreements to repurchase and to secure borrowing capacity at the FRB, if needed. The carrying value of held-to-maturity investment securities pledged as collateral totaled $147.3 million and $140.6 million at December 31, 2021 and December 31, 2020, respectively. The Bank may also pledge held-to-maturity investment securities as collateral for FHLB advances. No held-to-maturity investment securities were pledged for this purpose at December 31, 2021 or 2020.

Actual maturities of mortgage-backed securities may differ from scheduled maturities depending on the repayment characteristics and experience of the underlying financial instruments.

As of December 31, 2021 and December 31, 2020, AIR from held-to-maturity investment securities totaled $0.9 million and $0.7 million, respectively, and was included within other assets in the statements of financial condition.

Note 5 Non-marketable Securities

During 2021, the Company updated its asset classifications to include certain financial instruments previously included in other assets within non-marketable securities in the statements of financial condition.

Non-marketable securities totaled $50.7 million and $22.1 million at December 31, 2021 and 2020, respectively, and included FRB stock, FHLB stock and other non-marketable securities. At December 31, 2021, other non-marketable securities totaled $36.2 million and consisted of equity method investments totaling $16.2 million and convertible preferred stock without readily determinable fair values totaling $20.0 million. During the years ended December 31, 2021 and 2020, purchases of non-marketable securities totaled $27.7 million and $4.1 million, respectively. Included in these purchases were investments in two fintech firms, Finstro Global Holdings, Inc. of $20.0 million and Figure Technologies of $2.0 million. At December 31, 2020, the Company held $5.6 million of equity method investments.

At December 31, 2021, the Company held $13.9 million of FRB stock and $0.7 million of FHLB stock for regulatory or debt facility purposes. At December 31, 2020, the Company held $13.9 million of FRB stock and $2.6 million of FHLB stock. These are restricted securities which, lacking a market, are carried at cost. There have been no identified events or changes in circumstances that may have an adverse effect on the investments carried at cost.

Note 6 Loans

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company's acquisitions.

The tables below show the loan portfolio composition including carrying value by segment as of the dates shown. The carrying value of loans is net of discounts, fees, costs and fair value marks of $9.4 million and $16.2 million at December 31, 2021 and 2020, respectively. Included in commercial loans are fully-guaranteed loans originated as part of the SBA's Paycheck Protection Program of which $21.7 million and $176.1 million, net of fees and costs, were outstanding at December 31, 2021 and 2020, respectively.

	December 31, 2021	
	Total loans	% of total
Commercial	$ 3,162,417	70.1%
Commercial real estate non-owner occupied	664,729	14.7%
Residential real estate	668,656	14.8%
Consumer	17,581	0.4%
Total	$ 4,513,383	100.0%

	December 31, 2020	
	Total loans	% of total
Commercial	$ 3,044,065	70.0%
Commercial real estate non-owner occupied	631,996	14.5%
Residential real estate	658,659	15.1%
Consumer	19,006	0.4%
Total	$ 4,353,726	100.0%

Information about delinquent and non-accrual loans is shown in the following tables at December 31, 2021 and 2020:

	December 31, 2021					
	30-89 days past due and accruing	Greater than 90 days past due and accruing	Non-accrual loans	Total past due and non-accrual	Current	Total loans
Commercial:						
Commercial and industrial	$ 481	$ —	$ 1,490	$ 1,971	$ 1,494,176	$ 1,496,147
Municipal and non-profit	202	—	—	202	928,843	929,045
Owner occupied commercial real estate	207	—	4,525	4,732	528,904	533,636
Food and agribusiness	89	—	64	153	203,436	203,589
Total commercial	979	—	6,079	7,058	3,155,359	3,162,417
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	86,126	86,126
Acquisition/development	—	—	—	—	9,609	9,609
Multifamily	—	—	—	—	92,174	92,174
Non-owner occupied	94	217	121	432	476,388	476,820
Total commercial real estate	94	217	121	432	664,297	664,729
Residential real estate:						
Senior lien	399	198	4,251	4,848	609,780	614,628
Junior lien	179	—	374	553	53,475	54,028
Total residential real estate	578	198	4,625	5,401	663,255	668,656
Consumer	36	5	7	48	17,533	17,581
Total loans	$ 1,687	$ 420	$ 10,832	$ 12,939	$ 4,500,444	$ 4,513,383

	December 31, 2021		
	Non-accrual loans with a related allowance for credit loss	Non-accrual loans with no related allowance for credit loss	Non-accrual loans
Commercial:			
Commercial and industrial	$ 1,490	$ —	$ 1,490
Municipal and non-profit	—	—	—
Owner occupied commercial real estate	4,525	—	4,525
Food and agribusiness	64	—	64
Total commercial	6,079	—	6,079
Commercial real estate non-owner occupied:			
Construction	—	—	—
Acquisition/development	—	—	—
Multifamily	—	—	—
Non-owner occupied	121	—	121
Total commercial real estate	121	—	121
Residential real estate:			
Senior lien	3,274	977	4,251
Junior lien	374	—	374
Total residential real estate	3,648	977	4,625
Consumer	7	—	7
Total loans	$ 9,855	$ 977	$ 10,832

	December 31, 2020					
	30-89 days past due and accruing	Greater than 90 days past due and accruing	Non-accrual loans	Total past due and non-accrual	Current	Total loans
Commercial:						
Commercial and industrial	$ 170	$ —	$ 6,312	$ 6,482	$ 1,440,256	$ 1,446,738
Municipal and non-profit	—	—	—	—	870,791	870,791
Owner occupied commercial real estate	—	—	5,450	5,450	510,789	516,239
Food and agribusiness	146	—	422	568	209,729	210,297
Total commercial	316	—	12,184	12,500	3,031,565	3,044,065
Commercial real estate non-owner occupied:						
Construction	—	—	—	—	91,125	91,125
Acquisition/development	—	—	6	6	24,665	24,671
Multifamily	—	—	1,523	1,523	67,233	68,756
Non-owner occupied	—	—	135	135	447,309	447,444
Total commercial real estate	—	—	1,664	1,664	630,332	631,996
Residential real estate:						
Senior lien	527	160	5,820	6,507	577,764	584,271
Junior lien	95	—	709	804	73,584	74,388
Total residential real estate	622	160	6,529	7,311	651,348	658,659
Consumer	30	2	10	42	18,964	19,006
Total loans	$ 968	$ 162	$ 20,387	$ 21,517	$ 4,332,209	$ 4,353,726

	December 31, 2020		
	Non-accrual loans with a related allowance for credit loss	Non-accrual loans with no related allowance for credit loss	Non-accrual loans
Commercial:			
Commercial and industrial	$ 6,080	$ 232	$ 6,312
Municipal and non-profit	—	—	—
Owner occupied commercial real estate	2,698	2,752	5,450
Food and agribusiness	88	334	422
Total commercial	8,866	3,318	12,184
Commercial real estate non-owner occupied:			
Construction	—	—	—
Acquisition/development	6	—	6
Multifamily	—	1,523	1,523
Non-owner occupied	135	—	135
Total commercial real estate	141	1,523	1,664
Residential real estate:			
Senior lien	4,158	1,662	5,820
Junior lien	709	—	709
Total residential real estate	4,867	1,662	6,529
Consumer	10	—	10
Total loans	$ 13,884	$ 6,503	$ 20,387

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. Non-accrual loans include non-accrual loans and TDRs on non-accrual status. There was no interest income recognized from non-accrual loans during the years ended December 31, 2021 and 2020.

The Company's internal risk rating system uses a series of grades, which reflect our assessment of the credit quality of loans based on an analysis of the borrower's financial condition, liquidity and ability to meet contractual debt service requirements and are categorized as "Pass", "Special mention", "Substandard" and "Doubtful". For a description of the general characteristics of the risk grades, refer to note 2 Summary of Significant Accounting Policies.

The amortized cost basis for all loans as determined by the Company's internal risk rating system and year of origination is shown in the following tables as of December 31, 2021 and 2020:

	December 31, 2021								
	Origination year						Revolving loans amortized cost basis	Revolving loans converted to term	Total
	2021	2020	2019	2018	2017	Prior			
Commercial:									
Commercial and industrial:									
Pass	$ 424,813	$ 155,268	$ 146,420	$ 128,002	$ 49,408	$ 18,529	$ 519,678	$ 5,975	$ 1,448,093
Special mention	—	1,122	2,000	3,446	22,654	4,440	1,824	250	35,736
Substandard	—	99	89	744	10,399	303	105	—	11,739
Doubtful	—	375	—	54	49	101	—	—	579
Total commercial and industrial	424,813	156,864	148,509	132,246	82,510	23,373	521,607	6,225	1,496,147
Municipal and non-profit:									
Pass	234,827	93,310	69,509	81,175	147,115	302,574	535	—	929,045
Total municipal and non-profit	234,827	93,310	69,509	81,175	147,115	302,574	535	—	929,045
Owner occupied commercial real estate:									
Pass	122,641	81,072	84,359	71,183	48,086	77,100	13,666	1,688	499,795
Special mention	—	—	9,155	3,864	1,429	13,443	—	—	27,891
Substandard	—	1,192	1,527	—	220	2,028	—	—	4,967
Doubtful	—	389	550	—	—	44	—	—	983
Total owner occupied commercial real estate	122,641	82,653	95,591	75,047	49,735	92,615	13,666	1,688	533,636
Food and agribusiness:									
Pass	11,245	20,606	6,966	21,427	2,443	24,047	107,978	24	194,736
Special mention	—	4,670	1,234	—	—	215	1,897	—	8,016
Substandard	—	—	—	—	259	578	—	—	837
Total food and agribusiness	11,245	25,276	8,200	21,427	2,702	24,840	109,875	24	203,589
Total commercial	793,526	358,103	321,809	309,895	282,062	443,402	645,683	7,937	3,162,417
Commercial real estate non-owner occupied:									
Construction:									
Pass	39,584	10,047	29,496	—	222	—	6,777	—	86,126
Total construction	39,584	10,047	29,496	—	222	—	6,777	—	86,126
Acquisition/development:									
Pass	1,691	385	766	1,830	30	4,907	—	—	9,609
Total acquisition/development	1,691	385	766	1,830	30	4,907	—	—	9,609
Multifamily:									
Pass	3,101	32,619	2,184	15,977	193	37,713	—	—	91,787
Special mention	—	—	—	—	—	387	—	—	387
Total multifamily	3,101	32,619	2,184	15,977	193	38,100	—	—	92,174
Non-owner occupied									
Pass	59,060	58,964	122,452	18,425	92,349	95,265	557	—	447,072
Special mention	—	—	5,747	5,584	9,745	3,898	—	—	24,974
Substandard	—	—	—	729	—	4,045	—	—	4,774
Total non-owner occupied	59,060	58,964	128,199	24,738	102,094	103,208	557	—	476,820
Total commercial real estate non-owner occupied	103,436	102,015	160,645	42,545	102,539	146,215	7,334	—	664,729
Residential real estate:									
Senior lien									
Pass	223,120	100,476	38,696	21,889	29,554	177,051	18,278	188	609,252
Special mention	—	—	—	—	—	290	—	—	290
Substandard	44	325	684	318	299	3,416	—	—	5,086
Total senior lien	223,164	100,801	39,380	22,207	29,853	180,757	18,278	188	614,628
Junior lien									
Pass	1,320	2,150	2,731	1,639	951	3,209	40,921	328	53,249
Special mention	—	—	—	—	—	—	24	322	346
Substandard	—	19	—	62	131	221	—	—	433
Total junior lien	1,320	2,169	2,731	1,701	1,082	3,430	40,945	650	54,028
Total residential real estate	224,484	102,970	42,111	23,908	30,935	184,187	59,223	838	668,656
Consumer									
Pass	8,815	3,528	1,241	631	131	557	2,653	19	17,575
Substandard	—	—	—	—	—	6	—	—	6
Total consumer	8,815	3,528	1,241	631	131	563	2,653	19	17,581
Total loans	$ 1,130,261	$ 566,616	$ 525,806	$ 376,979	$ 415,667	$ 774,367	$ 714,893	$ 8,794	$ 4,513,383

	December 31, 2020								
	Origination year						Revolving loans amortized cost basis	Revolving loans converted to term	Total
	2020	2019	2018	2017	2016	Prior			
Commercial:									
Commercial and industrial:									
Pass	$ 372,041	$ 212,388	$ 189,753	$ 93,822	$ 15,145	$ 17,662	$ 499,283	$ 991	$ 1,401,085
Special mention	—	1,445	7,381	4,845	5,810	729	2,329	1,478	24,017
Substandard	23	1,238	925	11,885	56	4,840	1,341	—	20,308
Doubtful	—	—	34	456	—	809	29	—	1,328
Total commercial and industrial	372,064	215,071	198,093	111,008	21,011	24,040	502,982	2,469	1,446,738
Municipal and non-profit:									
Pass	131,961	91,911	125,247	156,275	124,269	238,453	2,675	—	870,791
Total municipal and non-profit	131,961	91,911	125,247	156,275	124,269	238,453	2,675	—	870,791
Owner occupied commercial real estate:									
Pass	100,791	107,558	90,398	53,131	32,648	87,758	1,401	—	473,685
Special mention	1,581	2,236	2,714	544	3,254	19,341	—	—	29,670
Substandard	—	1,988	6,211	251	93	3,802	—	—	12,345
Doubtful	—	511	—	—	—	28	—	—	539
Total owner occupied commercial real estate	102,372	112,293	99,323	53,926	35,995	110,929	1,401	—	516,239
Food and agribusiness:									
Pass	28,139	9,198	20,242	7,198	9,556	28,330	106,007	126	208,796
Special mention	—	—	—	—	—	222	—	—	222
Substandard	—	—	—	302	—	977	—	—	1,279
Total food and agribusiness	28,139	9,198	20,242	7,500	9,556	29,529	106,007	126	210,297
Total commercial	634,536	428,473	442,905	328,709	190,831	402,951	613,065	2,595	3,044,065
Commercial real estate non-owner occupied:									
Construction:									
Pass	15,841	49,658	17,349	4,072	—	—	2,006	1,807	90,733
Special mention	392	—	—	—	—	—	—	—	392
Total construction	16,233	49,658	17,349	4,072	—	—	2,006	1,807	91,125
Acquisition/development:									
Pass	3,762	1,997	1,947	8,373	4,559	3,694	11	—	24,343
Special mention	—	—	—	34	—	253	—	—	287
Substandard	—	—	—	—	—	41	—	—	41
Total acquisition/development	3,762	1,997	1,947	8,407	4,559	3,988	11	—	24,671
Multifamily:									
Pass	29,738	13,670	137	212	18,050	4,990	—	—	66,797
Special mention	—	—	—	—	—	436	—	—	436
Substandard	—	—	—	—	—	1,523	—	—	1,523
Total multifamily	29,738	13,670	137	212	18,050	6,949	—	—	68,756
Non-owner occupied									
Pass	51,445	92,225	25,362	86,975	26,613	118,144	3,083	643	404,490
Special mention	70	5,458	5,841	22,737	—	3,662	100	—	37,868
Substandard	—	—	779	—	3,937	370	—	—	5,086
Total non-owner occupied	51,515	97,683	31,982	109,712	30,550	122,176	3,183	643	447,444
Total commercial real estate non-owner occupied	101,248	163,008	51,415	122,403	53,159	133,113	5,200	2,450	631,996
Residential real estate:									
Senior lien									
Pass	129,551	76,504	36,493	47,887	88,358	173,091	24,884	218	576,986
Special mention	—	—	—	—	—	463	—	—	463
Substandard	95	818	20	1,232	550	4,107	—	—	6,822
Total senior lien	129,646	77,322	36,513	49,119	88,908	177,661	24,884	218	584,271
Junior lien									
Pass	3,479	4,217	2,553	1,775	1,226	3,760	55,860	365	73,235
Special mention	—	—	—	—	—	21	341	—	362
Substandard	—	112	101	177	55	287	—	59	791
Total junior lien	3,479	4,329	2,654	1,952	1,281	4,068	56,201	424	74,388
Total residential real estate	133,125	81,651	39,167	51,071	90,189	181,729	81,085	642	658,659
Consumer:									
Pass	9,777	3,348	1,674	489	329	623	2,700	19	18,959
Substandard	—	—	37	—	2	8	—	—	47
Total consumer	9,777	3,348	1,711	489	331	631	2,700	19	19,006
Total loans	$ 878,686	$ 676,480	$ 535,198	$ 502,672	$ 334,510	$ 718,424	$ 702,050	$ 5,706	$ 4,353,726

Loans evaluated individually

We evaluate loans individually when they no longer share risk characteristics with pooled loans. These loans include loans on non-accrual status, loans in bankruptcy, and TDRs described below. If a specific allowance is warranted based on the borrower's overall financial condition, the specific allowance is calculated based on discounted expected cash flows using the loan's initial contractual effective interest rate or the fair value of the collateral less selling costs for collateral-dependent loans.

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. Management individually evaluates collateral-dependent loans with an amortized cost basis of $250 thousand or more and includes collateral-dependent loans less than $250 thousand within the general allowance population. The amortized cost basis of collateral-dependent loans over $250 thousand was as follows at December 31, 2021 and 2020:

	December 31, 2021		
	Real property	**Business assets**	**Total amortized cost basis**
Commercial			
Commercial and industrial	$ 3,270	$ 1,261	$ 4,531
Owner-occupied commercial real estate	4,012	255	4,267
Total Commercial	7,282	1,516	8,798
Residential real estate			
Senior lien	2,212	—	2,212
Total residential real estate	2,212	—	2,212
Total loans	$ 9,494	$ 1,516	$ 11,010

	December 31, 2020		
	Real property	**Business assets**	**Total amortized cost basis**
Commercial			
Commercial and industrial	$ 7,579	$ 3,005	$ 10,584
Owner-occupied commercial real estate	3,701	284	3,985
Food and agribusiness	334	—	334
Total Commercial	11,614	3,289	14,903
Commercial real estate non owner-occupied			
Acquisition/development	1,573	—	1,573
Multifamily	1,523	—	1,523
Total commercial real estate	3,096	—	3,096
Residential real estate			
Senior lien	2,021	—	2,021
Total residential real estate	2,021	—	2,021
Total loans	$ 16,731	$ 3,289	$ 20,020

Loan modifications and troubled debt restructurings

The Company's policy is to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with lending laws, the respective loan agreements, and credit monitoring and remediation procedures that may include restructuring a loan to provide a concession by the Company to the borrower from their original terms due to borrower financial difficulties in order to facilitate repayment. Additionally, if a borrower's repayment obligation has been discharged by a court, and that debt has not been reaffirmed by the borrower, regardless of past due status, the loan is considered to be a TDR.

The CARES Act afforded financial institutions the option to modify loans within certain parameters in response to the COVID-19 pandemic without requiring the modifications to be classified as TDRs under ASC Topic 310 if the borrower has been adversely impacted by COVID-19 and was current on their loan payments. The Company modified 19 loans totaling $9.9 million during the year ended December 31, 2021 and 510 loans totaling $519.0 million during the year ended December 31, 2020, due to the effects of the COVID-19 pandemic, that were not classified as TDRs. Modified loans that

remained on a payment deferral plan, paying interest only, at December 31, 2021 totaled $5.3 million, or 0.1% of the total loan population. At December 31, 2021, $206 thousand of loan modifications related to COVID-19 were a subsequent modification and one loan totaling $206 thousand was classified as non-accrual. At December 31, 2020, modified loans that remained on a payment deferral plan totaled $173.6 million, or 4.0% of the total loan portfolio, of which 26.2% were a subsequent modification.

During 2021, the Company restructured four loans with an amortized cost basis of $1.1 million to facilitate repayment that are considered TDRs. Loan modifications were a reduction of the principal payment, a reduction in interest rate, or an extension of term. The tables below provide additional information related to accruing TDRs at December 31, 2021 and 2020:

	December 31, 2021			
	Amortized cost basis	Average year-to-date amortized cost basis	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 4,066	$ 4,472	$ 4,417	$ —
Commercial real estate non-owner occupied	725	767	892	—
Residential real estate	2,395	2,468	2,781	—
Consumer	—	—	—	—
Total	$ 7,186	$ 7,707	$ 8,090	$ —

	December 31, 2020			
	Amortized cost basis	Average year-to-date amortized cost basis	Unpaid principal balance	Unfunded commitments to fund TDRs
Commercial	$ 9,387	$ 9,544	$ 9,978	$ 150
Commercial real estate non-owner occupied	2,400	2,351	4,105	—
Residential real estate	2,121	2,185	2,922	12
Consumer	37	37	37	—
Total	$ 13,945	$ 14,117	$ 17,042	$ 162

The following table summarizes the Company's carrying value of non-accrual TDRs as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Commercial	$ 644	$ 3,397
Commercial real estate non-owner occupied	117	1,644
Residential real estate	1,605	3,156
Consumer	—	—
Total non-accruing TDRs	$ 2,366	$ 8,197

Accrual of interest is resumed on loans that were previously on non-accrual only after the loan has performed sufficiently for a period of time. The Company had no TDRs that were modified within the past 12 months and had defaulted on their restructured terms during the year ended December 31, 2021. During 2020, the Company had three TDRs totaling $3.4 million that had been modified within the prior 12 months and defaulted on their restructured terms. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due on principal or interest. The allowance for credit losses related to TDRs on non-accrual status is determined by individual evaluation, including collateral adequacy, using the same process as loans on non-accrual status which are not classified as TDRs.

Note 7 Allowance for Credit Losses

The tables below detail the Company's allowance for credit losses as of the dates shown:

	Year ended December 31, 2021				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 30,376	$ 17,448	$ 11,492	$ 461	$ 59,777
Charge-offs	(1,171)	—	(24)	(621)	(1,816)
Recoveries	371	7	48	126	552
Provision expense (release) for loan losses	1,680	(7,422)	(3,460)	383	(8,819)
Ending balance	$ 31,256	$ 10,033	$ 8,056	$ 349	$ 49,694

	Year ended December 31, 2020				
	Commercial	Non-owner occupied commercial real estate	Residential real estate	Consumer	Total
Beginning balance	$ 30,442	$ 4,850	$ 3,468	$ 304	$ 39,064
Cumulative effect adjustment(1)	(1,299)	1,666	5,314	155	5,836
Charge-offs	(2,023)	(412)	(67)	(726)	(3,228)
Recoveries	394	—	32	145	571
Provision expense for loan losses	2,862	11,344	2,745	583	17,534
Ending balance	$ 30,376	$ 17,448	$ 11,492	$ 461	$ 59,777

(1) Related to the adoption of Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Refer to note 3 – Recent Accounting Pronouncements of our consolidated financial statements for further details.

In evaluating the loan portfolio for an appropriate ACL level, excluding loans evaluated individually, loans were grouped into segments based on broad characteristics such as primary use and underlying collateral. Within the segments, the portfolio was further disaggregated into classes of loans with similar attributes and risk characteristics for purposes of developing the underlying data used within the discounted cash flow model including, but not limited to, prepayment and recovery rates as well as loss rates tied to macro-economic conditions within management's reasonable and supportable forecast. The ACL also includes subjective adjustments based upon qualitative risk factors including asset quality, loss trends, lending management, portfolio growth and loan review/internal audit results.

Net charge-offs on loans during the year ended December 31, 2021 were $1.3 million. The Company recorded a provision release of $9.3 million during 2021, which included a provision release of $8.8 million for funded loans and a provision release of $0.5 million for unfunded loan commitments. Provision release was driven by strong asset quality and an improved outlook in the CECL model's underlying economic forecast.

Net charge-offs on loans during the year ended December 31, 2020 were $2.7 million. The Company recorded total provision expense of $17.6 million during 2020, which included a provision expense of $17.5 million for funded loans and a provision expense of $0.1 million for unfunded loan commitments. Provision expense was recorded to provide coverage for the impact of deteriorating economic conditions as a result of COVID-19 and to support non-PPP originated loan growth.

The Company has elected to exclude AIR from the allowance for credit losses calculation. As of December 31, 2021 and December 31, 2020, AIR from loans totaled $15.7 million and $16.7 million, respectively.

Note 8 Leases

Right-of-use ("ROU") lease assets totaled $19.7 million and $25.4 million as of December 31, 2021 and 2020, respectively, and were included in other assets in the consolidated statements of financial condition. The related lease liabilities totaled $20.3 million and $26.0 million as of December 31, 2021 and 2020, respectively, and were included in other liabilities in the consolidated statements of financial condition.

The Company has operating leases for banking centers, corporate offices and ATM locations, with remaining lease terms ranging from one year to ten years. The Company only included reasonably certain renewal options in the lease terms. The weighted-average remaining lease term for our operating leases was 4.7 years and 5.4 years at December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the weighted-average discount rate were 3.25% and 3.36%, respectively, utilizing the Company's incremental FHLB borrowing rate for borrowings of a similar term at the date of lease commencement.

Rent expense totaled $5.1 million and $5.7 million for the years ended December 31, 2021 and 2020, respectively, and was recorded within occupancy and equipment in the consolidated statements of operations. Lease payments do not include non-lease components such as real estate taxes, insurance and common area maintenance.

Below is a summary of undiscounted future minimum lease payments as of December 31, 2021:

Years ending December 31,	Amount
2022	$ 4,511
2023	4,171
2024	3,741
2025	2,985
2026	1,967
Thereafter	10,174
Total lease payments	27,549
Less: Imputed interest	(7,296)
Present value of operating lease liabilities	$ 20,253

Note 9 Premises and Equipment

Premises and equipment consisted of the following at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Land	$ 30,556	$ 33,149
Buildings and improvements	86,201	92,463
Equipment	63,553	60,205
Total premises and equipment, at cost	180,310	185,817
Less: accumulated depreciation and amortization	(83,563)	(78,835)
Premises and equipment, net	$ 96,747	$ 106,982

The Company recorded $7.3 million, $8.1 million and $8.2 million of depreciation expense during 2021, 2020 and 2019, respectively, as a component of occupancy and equipment expense in the consolidated statements of operations. The Company disposed of $13.7 million, $3.6 million and $0.0 million of premises and equipment, net, during 2021, 2020 and 2019, respectively. The company recorded gains on sale of premises and equipment totaling $3.8 million and $0.3 million during the years ended December 31, 2021 and 2020, respectively, within other non-interest income in the consolidated statements of operations. During 2021, the Company recognized $1.6 million of impairment in its consolidated statements of operations related to premises and equipment classified as held-for-sale totaling $6.0 million at the time of impairment. During 2020, the Company recognized $1.6 million of impairments from the consolidation of 12 banking centers classified as held-for-sale totaling $8.0 million.

Note 10 Other Real Estate Owned

A summary of the activity in OREO during 2021 and 2020 is as follows:

	For the years ended December 31,	
	2021	2020
Beginning balance	$ 4,730	$ 7,300
Transfers from loan portfolio, at fair value	4,516	1,533
Impairments	(799)	(470)
Sales	(1,442)	(3,633)
Ending balance	$ 7,005	$ 4,730

During the year ended December 31, 2021 and 2020, the Company sold OREO properties with net book balances of $1.4 million and $3.6 million, respectively. Sales of OREO properties resulted in net OREO gains of $475 thousand and $38 thousand which were included within gain on OREO sales, net in the consolidated statements of operations for the years ended December 31, 2021 and 2020, respectively.

Note 11 Goodwill and Intangible Assets

Goodwill and core deposit intangible

In connection with our acquisitions, the Company recorded goodwill of $115.0 million. Goodwill is measured as the excess of the fair value of consideration paid over the fair value of net assets acquired. No goodwill impairment was recorded during the years ended December 31, 2021 or December 31, 2020.

The gross carrying amount of the core deposit intangibles and the associated accumulated amortization at December 31, 2021 and December 31, 2020, are presented as follows:

	December 31, 2021			December 31, 2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangible	$ 48,834	$ (42,469)	$ 6,365	$ 48,834	$ (41,286)	$ 7,548

The Company is amortizing the core deposit intangibles from acquisitions on a straight line basis over 7-10 years from the date of the respective acquisition, which represents the expected useful life of the assets. The Company recognized core deposit intangible amortization expense of $1.2 million for the years ended December 31, 2021, 2020 and 2019.

The following table shows the estimated future amortization expense for the core deposit intangibles as of December 31, 2021:

Years ending December 31,	Amount
2022	$ 1,127
2023	1,048
2024	1,048
2025	1,048
2026	1,048

Mortgage servicing rights

MSRs represent rights to service loans originated by the Company and sold to government-sponsored enterprises including FHLMC, FNMA, GNMA and FHLB and are included in other assets in the consolidated statements of financial condition. Mortgage loans serviced for others were $0.7 billion at December 31, 2021 and $1.4 billion at December 31, 2020.

Below are the changes in the MSRs for the years presented:

	For the years ended December 31,	
	2021	2020
Beginning balance	$ 10,380	$ 2,630
Originations	7,881	10,354
Sales	(10,499)	—
Recovery (impairment)	740	(751)
Amortization	(2,545)	(1,853)
Ending balance	5,957	10,380
Fair value of mortgage servicing rights	$ 7,729	$ 11,542

During the year ended December 31, 2021, the Company sold rights to service loans totaling $1.3 billion in unpaid principal balances from our mortgage servicing rights portfolio as a strategic move to reduce the risk associated with mortgage servicing. As a result of the sale, the book value of our mortgage servicing right intangible decreased $10.5 million and generated a gain of $1.3 million included in mortgage banking income in the consolidated statements of operations.

The fair value of MSRs was determined based upon a discounted cash flow analysis. The cash flow analysis included assumptions for discount rates and prepayment speeds. Discount rates ranged from 9.5% to 10.0%, and the constant prepayment speed ranged from 9.3% to 14.5% for the December 31, 2021 valuation. Discount rates ranged from 9.5% to 10.5%, and the constant prepayment speed ranged from 15.4% to 21.3% for the December 31, 2020 valuation. Included in mortgage banking income in the consolidated statements of operations was servicing income of $3.5 million and $1.7 million for the years ended December 31, 2021 and 2020, respectively.

MSRs are evaluated and impairment is recognized to the extent fair value is less than the carrying amount. The Company evaluates impairment by stratifying MSRs based on the predominant risk characteristics of the underlying loans, including loan type and loan term. The Company is amortizing the MSRs in proportion to and over the period of the estimated net servicing income of the underlying loans.

The following table shows the estimated future amortization expense for the MSRs as of December 31, 2021:

Years ending December 31,	Amount
2022	$ 813
2023	702
2024	606
2025	524
2026	453

Note 12 Deposits

Total deposits were $6.2 billion and $5.7 billion at December 31, 2021 and 2020, respectively. Time deposits were $0.8 billion and $1.0 billion at December 31, 2021 and 2020, respectively. The following table summarizes the Company's time deposits by remaining contractual maturity:

Years ending December 31,		Amount
2022	$	555,361
2023		197,026
2024		50,617
2025		27,882
2026		2,445
Thereafter		585
Total time deposits	$	833,916

The Company incurred interest expense on deposits as follows during the years indicated:

	For the years ended December 31,		
	2021	2020	2019
Interest bearing demand deposits	$ 1,088	$ 1,921	$ 1,514
Money market accounts	3,995	5,342	9,046
Savings accounts	1,157	1,342	2,717
Time deposits	7,362	15,024	16,526
Total	$ 13,602	$ 23,629	$ 29,803

The Federal Reserve System requires cash balances to be maintained at the FRB based on certain deposit levels. There was no minimum reserve requirement for the Bank at December 31, 2021.

Note 13 Borrowings

Borrowings consist of securities sold under agreements to repurchase, subordinated debt and FHLB advances.

Securities sold under agreements to repurchase

The following table sets forth selected information regarding repurchase agreements during 2021, 2020 and 2019:

	As of and for the years ended December 31,		
	2021	2020	2019
Maximum amount of outstanding agreements at any month end during the period	$ 23,574	$ 54,489	$ 68,600
Average amount outstanding during the period	20,338	30,355	60,445
Weighted average interest rate for the period	0.11%	0.45%	1.11%

The Company enters into repurchase agreements to facilitate the needs of its clients. As of December 31, 2021, 2020 and 2019, the Company sold securities under agreements to repurchase totaling $22.8 million, $22.9 million and $56.9 million, respectively. The Company pledged mortgage-backed securities with a fair value of approximately $28.8 million, $27.7 million and $65.6 million, as of December 31, 2021, 2020 and 2019, respectively, for these agreements. The Company monitors collateral levels on a continuous basis and may be required to provide additional collateral based on the fair value of the underlying securities. As of December 31, 2021, 2020 and 2019, the Company had $6.1 million, $2.1 million and $7.0 million, respectively, of excess collateral pledged for repurchase agreements.

The vast majority of the Company's repurchase agreements are overnight transactions with clients that mature the day after the transaction. At December 31, 2021, 2020 and 2019, none of the Company's repurchase agreements were for periods longer than one day. The repurchase agreements are subject to a master netting arrangement; however, the Company has not offset any of the amounts shown in the consolidated financial statements.

Long-term debt

During the fourth quarter of 2021, the Company entered into a subordinated note purchase agreement to issue and sell a fixed-to-floating rate note totaling $40.0 million. The balance on the note at December 31, 2021, net of long-term debt issuance costs totaling $0.5 million, totaled $39.5 million. Interest expense totaling $183.3 thousand was recorded within other liabilities in the consolidated statements of financial condition during the year ended December 31, 2021.

The note is subordinated, unsecured and matures on November 15, 2031. Payments consist of interest only. Beginning November 15, 2021, the note will initially be payable semi-annually in arrears and will bear interest at 3.00% per annum until November 15, 2026 (or any earlier redemption date). From November 15, 2026 until November 15, 2031 (or any earlier redemption date) payments will be made quarterly in arrears, and the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month term SOFR plus 203 basis points. The Company intends to use the net proceeds from the sale of the note for general corporate purposes. Prior to November 5, 2026, the Company may redeem the note only under certain limited circumstances. Beginning on November 5, 2026 through maturity, the note may be redeemed, at the Company's option, on any scheduled interest payment date. Any redemption by the Company would be at a redemption price equal to 100% of the principal amount of the note being redeemed, together with any accrued and unpaid interest on the note being redeemed up to but excluding the date of redemption. The note is not subject to redemption at the option of the holder.

Federal Home Loan Bank advances

As a member of the FHLB, the Bank has access to a line of credit and term financing from the FHLB with total available credit of $0.9 billion at December 31, 2021. At December 31, 2021 and 2020, the Bank had no outstanding borrowings from the FHLB. At December 31, 2019, the Bank had $192.7 million in line of credit advances from the FHLB that matured within a day. At December 31, 2019, the Bank had $15.0 million in term advances from the FHLB with fixed interest rates between 1.55% - 2.33% and maturity dates of 2020 - 2021.

The Bank may have investment securities and loans pledged as collateral for FHLB advances. There were no investment securities pledged at December 31, 2021 or 2020. At December 31, 2019, investment securities pledged were $17.6 million. Loans pledged were $1.3 billion, $1.2 billion and $1.5 billion at December 31, 2021, 2020 and 2019, respectively. There was no interest expense related to FHLB advances and other short-term borrowings for the year ended December 31, 2021, compared to $1.3 million and $6.3 million for the years ended December 31, 2020 and 2019, respectively.

Note 14 Regulatory Capital

As a bank holding company that has elected to be treated as a financial holding company, the Company and NBH Bank is subject to regulatory capital adequacy requirements implemented by the Federal Reserve, including maintaining capital positions at the "well-capitalized" level. The federal banking agencies have risk-based capital adequacy regulations intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. Under these regulations, assets are assigned to one of several risk categories, and nominal dollar amounts of assets and credit equivalent amounts of off-balance-sheet items are multiplied by a risk-adjustment percentage for the category.

Under the Basel III requirements, at December 31, 2021 and 2020, the Company and the Bank met all capital requirements, including the capital conservation buffer of 2.5%. The Company and Bank had regulatory capital ratios in excess of the levels established for well-capitalized institutions, as detailed in the tables below:

	December 31, 2021					
	Actual		Required to be well capitalized under prompt corrective action provisions		Required to be considered adequately capitalized[1]	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio:						
Consolidated	10.4%	$ 731,087	N/A	N/A	4.0%	$ 281,463
NBH Bank	9.1%	637,115	5.0%	$ 350,584	4.0%	280,467
Common equity tier 1 risk based capital:						
Consolidated	14.3%	$ 731,087	N/A	N/A	7.0%	$ 358,813
NBH Bank	12.5%	637,115	6.5%	$ 331,427	7.0%	356,921
Tier 1 risk based capital ratio:						
Consolidated	14.3%	$ 731,087	N/A	N/A	8.5%	$ 435,701
NBH Bank	12.5%	637,115	8.0%	$ 407,910	8.5%	433,404
Total risk based capital ratio:						
Consolidated	15.9%	$ 816,117	N/A	N/A	10.5%	$ 538,219
NBH Bank	13.4%	682,145	10.0%	$ 509,888	10.5%	535,382

	December 31, 2020					
	Actual		Required to be well capitalized under prompt corrective action provisions		Required to be considered adequately capitalized[1]	
	Ratio	Amount	Ratio	Amount	Ratio	Amount
Tier 1 leverage ratio:						
Consolidated	10.7%	$ 696,311	N/A	N/A	4.0%	$ 260,370
NBH Bank	9.2%	600,622	5.0%	$ 325,447	4.0%	260,358
Common equity tier 1 risk based capital:						
Consolidated	14.7%	$ 696,311	N/A	N/A	7.0%	$ 331,632
NBH Bank	12.7%	600,622	6.5%	$ 307,631	7.0%	331,295
Tier 1 risk based capital ratio:						
Consolidated	14.7%	$ 696,311	N/A	N/A	8.5%	$ 402,696
NBH Bank	12.7%	600,622	8.0%	$ 378,623	8.5%	402,287
Total risk based capital ratio:						
Consolidated	15.8%	$ 749,899	N/A	N/A	10.5%	$ 497,448
NBH Bank	13.8%	654,209	10.0%	$ 473,279	10.5%	496,943

(1) Includes the capital conservation buffer of 2.5%.

Note 15 Revenue from Contracts with Clients

Revenue is recognized when obligations under the terms of a contract with clients are satisfied. Below is the detail of the Company's revenue from contracts with clients.

Service charges and other fees

Service charge fees are primarily comprised of monthly service fees, check orders, and other deposit account related fees. Other fees include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account-related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to clients' accounts.

Bank card fees

Bank card fees are primarily comprised of debit card income, ATM fees, merchant services income, and other fees. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions. The Company's performance obligation for bank card fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Gain on OREO sales, net

Gain on OREO sales, net is recognized when the Company meets its performance obligation to transfer title to the buyer. The gain or loss is measured as the excess of the proceeds received compared to the OREO carrying value. Sales proceeds are received in cash at the time of transfer.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, and non-interest expense in-scope of Topic 606 for the years ended December 31, 2021, 2020 and 2019.

	For the years ended December 31,		
	2021	**2020**	**2019**
Non-interest income			
In-scope of Topic 606:			
Service charges and other fees	$ 18,066	$ 16,913	$ 19,720
Bank card fees	17,693	15,446	14,595
Non-interest income (in-scope of Topic 606)	35,759	32,359	34,315
Non-interest income (out-of-scope of Topic 606)	69,975	107,899	48,437
Total non-interest income	$ 105,734	$ 140,258	$ 82,752
Non-interest expense			
In-scope of Topic 606:			
Gain on OREO sales, net	$ 475	$ 38	7,193
Total revenue in-scope of Topic 606	$ 36,234	$ 32,397	$ 41,508

Contract acquisition costs

The Company utilizes the practical expedient which allows entities to expense immediately contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. The Company has not capitalized any contract acquisition costs.

Note 16 Stock-based Compensation and Benefits

The Company provides stock-based compensation in accordance with shareholder-approved plans. In 2014, shareholders approved the 2014 Omnibus Incentive Plan (the "2014 Plan"). The 2014 Plan replaces the NBH Holdings Corp. 2009 Equity Incentive Plan (the "Prior Plan"), pursuant to which the Company granted equity awards prior to the approval of the 2014 Plan. Pursuant to the 2014 Plan, the Compensation Committee of the Board of Directors has the authority to grant, from time to time, awards of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards, or any combination thereof to eligible persons.

As of December 31, 2021, the aggregate number of Class A common stock available for issuance under the 2014 Plan is 4,048,761 shares. Any shares that are subject to stock options or stock appreciation rights under the 2014 Plan will be counted against the amount available for issuance as one share for every one share granted, and any shares that are subject to awards under the 2014 Plan other than stock options or stock appreciation rights will be counted against the amount available for issuance as 3.25 shares for every one share granted. The 2014 Plan provides for recycling of shares from both the Prior Plan and the 2014 Plan, the terms of which are further described in the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders. Upon an option exercise, it is the Company's policy to issue shares from treasury stock.

To date, the Company has issued stock options, restricted stock and performance stock units under the plans. The Compensation Committee sets the option exercise price at the time of grant, but in no case is the exercise price less than the fair market value of a share of stock at the date of grant.

Stock options

The Company issues stock options, which are primarily time-vesting with 1/3 vesting on each of the first, second and third anniversary of the date of grant or date of hire. The expense associated with the awarded stock options was measured at fair value using a Black-Scholes option-pricing model. The outstanding option awards vest or have vested on a graded basis over 1-4 years of continuous service and have 10-year contractual terms.

Below are the weighted average assumptions used in the Black-Scholes option pricing model to determine fair value of the Company's stock options granted in 2021, 2020 and 2019:

	2021	2020	2019
Weighted average fair value	$ 9.65	$ 3.37	$ 6.31
Weighted average risk-free interest rate [1]	1.14%	0.44%	2.35%
Expected volatility [2]	30.54%	25.08%	20.56%
Expected term (years) [3]	6.04	6.04	6.05
Dividend yield [4]	2.09%	3.44%	2.00%

(1) The risk-free rate for the expected term of the options was based on the U.S. Treasury yield curve at the date of grant and based on the expected term.
(2) Expected volatility was calculated using historical volatility of the Company's stock price for a period commensurate with the expected term of the options.
(3) The expected term was estimated to be the average of the contractual vesting term and time to expiration.
(4) The dividend yield was calculated in accordance with the Company's dividend policy at the time of grant.

The Company issued stock options in accordance with the 2014 Plan during 2021. The following table summarizes stock option activity for 2021:

	Options	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value
Outstanding at December 31, 2020	768,129	$ 26.35	6.91	$ 5,224
Granted	82,587	40.18		
Exercised	(128,551)	25.00		
Forfeited	(26,205)	27.80		
Outstanding at December 31, 2021	695,960	28.19	6.57	$ 10,964
Options exercisable at December 31, 2021	440,806	26.94	5.49	7,492
Options vested and expected to vest	677,858	28.07	6.51	10,756

Stock option expense is a component of salaries and benefits in the consolidated statements of operations and totaled $0.9 million, $1.0 million and $0.7 million for 2021, 2020 and 2019, respectively. At December 31, 2021, there was $0.4 million of total unrecognized compensation cost related to non-vested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 2.0 years.

The following table summarizes the Company's outstanding stock options:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 18.00 - 22.99	159,208	3.35	$ 19.22	159,208	$ 19.22
23.00 - 27.99	193,046	8.24	23.13	60,728	23.14
28.00 - 32.99	89,409	6.25	32.56	87,455	32.62
33.00 - 37.99	172,080	6.57	34.14	132,133	34.12
38.00 and above	82,217	9.22	40.24	1,282	40.51

Restricted stock awards

The Company issues primarily time-based restricted stock awards that vest over a range of a 1 – 3 year period. Restricted stock with time-based vesting was valued at the fair value of the shares on the date of grant as they are assumed to be held beyond the vesting period.

Performance stock units

During the years ended December 2021, 2020 and 2019, the Company granted 52,526, 68,498, and 60,781 performance stock units in accordance with the 2014 Plan, respectively. The Company grants performance stock units which represent initial target awards and do not reflect potential increases or decreases resulting from the final performance results, which are to be determined at the end of the three-year performance period (vesting date). The actual number of shares to be awarded at the end of the performance period will range from 0% - 150% of the initial target awards. For awards granted prior to 2020, 60% of the award is based on the Company's cumulative earnings per share (EPS target) during the performance period, and 40% of the award is based on the Company's cumulative total shareholder return (TSR target), or TSR, during the performance period. On the vesting date, the Company's TSR will be compared to the respective TSRs of the companies comprising the KBW Regional Index at the grant date to determine the shares awarded. The fair value of the EPS target portion of the award was determined based on the closing stock price of the Company's common stock on the grant date. The fair value of the TSR target portion of the award was determined using a Monte Carlo Simulation at the grant date.

In establishing the PSU components during 2021 and 2020, the Compensation Committee determined the EPS target portion of the award would not be an effective metric in light of economic uncertainty surrounding COVID-19. Consequently, the Compensation Committee granted an award based upon a relative return on tangible assets ("ROTA"). Annually, the Company's ROTA is compared to the respective ROTA of companies comprising the KBW Regional Index. At the end of the measurement period, the Company's ranking will be averaged to determine the shares awarded. The fair value of the relative ROTA award was determined based on the closing stock price of the Company's common stock on the grant date.

The weighted-average grant date fair value per unit for the relative ROTA target portion and the TSR target portion granted during 2021 was $40.16 and $33.11, respectively. The initial weighted-average performance price for the TSR target portion granted during 2021 was $33.04. During 2021 and 2020, the Company awarded an additional 30,024 and 17,852 units due to final performance results related to performance stock units granted in 2018 and 2017, respectively.

The following table summarizes restricted stock and performance stock unit activity during 2021 and 2020:

	Restricted stock shares	Weighted average grant-date fair value	Performance stock units	Weighted average grant-date fair value
Unvested at December 31, 2019	122,198	$ 34.19	158,874	$ 31.19
Granted	127,400	23.94	68,498	26.74
Adjustment due to performance	—	—	17,852	33.22
Vested	(69,444)	32.60	(53,540)	33.22
Forfeited	(13,524)	29.25	(6,847)	29.52
Unvested at December 31, 2020	166,630	$ 27.42	184,837	$ 29.21
Granted	89,351	39.99	52,526	37.01
Adjustment due to performance	—	—	30,024	30.38
Vested	(90,645)	29.78	(90,016)	30.38
Forfeited	(20,869)	29.54	(16,977)	28.96
Unvested at December 31, 2021	144,467	$ 33.40	160,394	$ 31.36

As of December 31, 2021, the total unrecognized compensation cost related to the non-vested restricted stock awards and performance stock units totaled $2.3 million and $2.4 million, respectively, and is expected to be recognized over a weighted average period of approximately 2.0 years and 1.8 years, respectively. Expense related to non-vested restricted stock awards totaled $2.7 million, $2.5 million and $2.2 million during 2021, 2020 and 2019, respectively. Expense related to non-vested performance stock units totaled $2.0 million, $1.8 million and $2.0 million during 2021, 2020 and 2019, respectively. Expense related to non-vested restricted stock awards and units is a component of salaries and benefits in the Company's consolidated statements of operations.

Employee stock purchase plan

The 2014 Employee Stock Purchase Plan ("ESPP") is intended to be a qualified plan within the meaning of Section 423 of the Internal Revenue Code of 1986 and allows eligible employees to purchase shares of common stock through payroll deductions up to a limit of $25,000 per calendar year and 2,000 shares per offering period. The price an employee pays for shares is 90.0% of the fair market value of Company common stock on the last day of the offering period. The offering periods are the six-month periods commencing on March 1 and September 1 of each year and ending on August 31 and February 28 (or February 29 in the case of a leap year) of each year. There are no vesting or other restrictions on the stock purchased by employees under the ESPP. Under the ESPP, the total number of shares of common stock reserved for issuance totaled 400,000 shares, of which 281,896 was available for issuance at December 31, 2021.

Under the ESPP, employees purchased 20,980 shares and 23,212 shares during 2021 and 2020, respectively.

Note 17 Common Stock

The Company had 29,958,764 and 30,634,291 shares of Class A common stock outstanding at December 31, 2021 and 2020, respectively. Additionally, the Company had 144,467 and 166,630 shares outstanding at December 31, 2021 and 2020, respectively, of restricted Class A common stock issued but not yet vested under the 2014 Omnibus Incentive Plan that are not included in shares outstanding until such time that they are vested; however, these shares do have voting and certain dividend rights during the vesting period.

On February 24, 2021, the Company's Board of Directors authorized a new program to repurchase up to $75.0 million of the Company's stock from time to time in either the open market or through privately negotiated transactions. The new program of $75.0 million replaced the previously authorized $50.0 million stock repurchase program announced in February 2020 in its entirety. During 2021, the Company repurchased 912,213 shares for $36.4 million at a weighted average price per share of $39.88. The remaining authorization under the current program as of December 31, 2021 was $38.6 million.

Note 18 Earnings Per Share

The Company calculates earnings per share under the two-class method, as certain non-vested share awards contain non-forfeitable rights to dividends. As such, these awards are considered securities that participate in the earnings of the Company. Non-vested shares are discussed further in note 16.

The Company had 29,958,764 and 30,634,291 shares of Class A common stock outstanding as of December 31, 2021 and 2020, respectively, exclusive of issued non-vested restricted shares. Certain stock options and non-vested restricted shares are potentially dilutive securities, but are not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive for 2021, 2020 and 2019.

The following table illustrates the computation of basic and diluted earnings per share for 2021, 2020 and 2019:

	For the years ended December 31,		
	2021	2020	2019
Net income	$ 93,606	$ 88,591	$ 80,365
Less: income allocated to participating securities	(133)	(130)	(94)
Income allocated to common shareholders	$ 93,473	$ 88,461	$ 80,271
Weighted average shares outstanding for basic earnings per common share	30,727,566	30,857,086	31,175,825
Dilutive effect of equity awards	340,593	218,771	354,992
Weighted average shares outstanding for diluted earnings per common share	31,068,159	31,075,857	31,530,817
Basic earnings per share	$ 3.04	$ 2.87	$ 2.57
Diluted earnings per share	3.01	2.85	2.55

The Company had 695,960, 768,129 and 657,114 outstanding stock options to purchase common stock at weighted average exercise prices of $28.19, $26.35 and $26.69 per share at December 31, 2021, 2020 and 2019, respectively, which have time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those stock options is dilutive. The Company had 304,861, 351,467 and 281,072 unvested restricted shares and performance stock units issued as of December 31, 2021, 2020 and 2019, respectively, which have performance, market and/or time-vesting criteria, and as such, any dilution is derived only for the time frame in which the vesting criteria had been met and where the inclusion of those restricted shares and units is dilutive.

Note 19 Income Taxes

Income tax expense attributable to income before taxes was $21.4 million, $20.8 million and $15.8 million for 2021, 2020 and 2019, respectively. Included in income tax was $0.6 million of tax benefit, $51 thousand of tax expense and $2.2 million of tax benefit from stock compensation activity during 2021, 2020 and 2019, respectively.

(a) Income taxes

Total income taxes for 2021, 2020 and 2019 were allocated as follows:

	For the years ended December 31,		
	2021	2020	2019
Current expense:			
U.S. federal	$ 13,746	$ 16,460	$ 8,947
State and local	2,643	3,255	2,280
Total current income tax expense	16,389	19,715	11,227
Deferred expense:			
U.S. federal	4,327	560	4,115
State and local	649	531	487
Total deferred income tax expense	4,976	1,091	4,602
Income tax expense	$ 21,365	$ 20,806	$ 15,829

(b) Tax Rate Reconciliation

The reconciliation between the income tax expenses and the amounts computed by applying the U.S. federal income tax rate to pretax income is as follows:

	For the years ended December 31,		
	2021	2020	2019
Income tax at federal statutory rates (21%)	$ 24,144	$ 22,974	$ 20,201
State income taxes, net of federal benefits	2,601	2,991	2,186
Tax-exempt loan interest income	(4,862)	(4,628)	(4,354)
Bank-owned life insurance income	(603)	(575)	(475)
Stock-based compensation	(733)	43	(1,925)
Non-deductible compensation	852	388	253
Other	(34)	(387)	(57)
Income tax expense	$ 21,365	$ 20,806	$ 15,829

(c) Significant Components of Deferred Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 are presented below:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Excess tax basis of acquired loans over carrying value	$ 679	$ 966
Allowance for credit losses	11,806	14,154
Other real estate owned	645	634
Accrued stock-based compensation	1,384	2,070
Accrued compensation	4,355	3,674
Capitalized start-up costs	1,223	1,540
Accrued expenses	316	532
Net deferred loan fees	1,021	1,015
Net operating loss	573	641
Lease liability	4,811	6,154
Net unrealized losses on investment securities	2,169	—
Other	1,791	2,025
Total deferred tax assets	30,773	33,405
Deferred tax liabilities:		
Intangible assets	(4,822)	(2,563)
Net unrealized gains on investment securities	—	(3,033)
Premises and equipment	(1,858)	(1,599)
Right of use assets	(4,674)	(6,015)
Prepaid expenses	(255)	(229)
Mortgage servicing rights	(1,415)	(2,458)
Other	(59)	(44)
Total deferred tax liabilities	(13,083)	(15,941)
Net deferred tax asset	$ 17,690	$ 17,464

At December 31, 2021, the Company had federal and state net operating loss carryovers (“NOLs”) of $2.2 million and $3.2 million, respectively, which are available to offset future taxable income. The federal NOLs expire in varying amounts through 2034, and the state NOLs expire in varying amounts between 2026 and 2034. While these NOLs are subject to certain restrictions on the amount that can be utilized per year, the Company does not expect any tax attribute carryovers to expire before they are utilized.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, if any (including the impact of available carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. For the years ended December 31, 2021 and 2020, management believes a valuation allowance on the deferred tax asset is not necessary based on the current and future projected earnings of the Company. The Company has no ASC 740-10 unrecognized tax benefits recorded as of December 31, 2021 and 2020 and does not expect the total amount of unrecognized tax benefits to significantly increase within the next 12 months. The Company and its subsidiary bank are subject to income tax by federal, state and local government taxing authorities. The Company is not currently subject to any open income tax examinations; however, the Company’s tax returns for the years ended December 31, 2018 through 2021 remain subject to examination by U.S. federal income tax authorities. The years open to examination by state and local government authorities vary by jurisdiction.

Note 20 Derivatives

Risk management objective of using derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company has established policies stipulating that neither carrying value nor fair value at risk should exceed established guidelines. The Company has designed strategies to confine these risks within the established limits and identify appropriate trade-offs in the financial structure of its balance sheet. These strategies include the use of derivative financial instruments to help achieve the desired balance sheet repricing structure while meeting the desired objectives of its clients. Currently the Company employs certain interest rate swaps that are designated as fair value hedges as well as economic hedges. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

Fair values of derivative instruments on the balance sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification in the consolidated statements of financial condition as of December 31, 2021 and 2020.

Information about the valuation methods used to measure fair value is provided in note 22.

		Asset derivatives fair value			Liability derivatives fair value	
	Balance Sheet location	December 31, 2021	December 31, 2020	Balance Sheet Location	December 31, 2021	December 31, 2020
Derivatives designated as hedging instruments:						
Interest rate products	Other assets	$ 477	$ —	Other liabilities	$ 12,221	$ 38,884
Total derivatives designated as hedging instruments		$ 477	$ —		$ 12,221	$ 38,884
Derivatives not designated as hedging instruments:						
Interest rate products	Other assets	$ 8,321	$ 18,149	Other liabilities	$ 8,329	$ 18,176
Interest rate lock commitments	Other assets	1,792	7,001	Other liabilities	197	298
Forward contracts	Other assets	91	—	Other liabilities	266	2,622
Total derivatives not designated as hedging instruments		$ 10,204	$ 25,150		$ 8,792	$ 21,096

Fair value hedges

Interest rate swaps designated as fair value hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. As of December 31, 2021, the Company had interest rate swaps with a notional amount of $343.1 million that were designated as fair value hedges. These interest rate swaps were associated with $345.2 million of the Company's fixed-rate loans included in loans receivable in the statements of financial condition as of December 31, 2021, before a gain of $16.1 million from the fair value hedge adjustment in the carrying amount.

As of December 31, 2020, the Company had interest rate swaps with a notional amount of $387.1 million that were designated as fair value hedges. These interest rate swaps were associated with $389.9 million of the Company's fixed-rate loans as of December 31, 2020, excluding a gain of $40.1 million from the fair value hedge adjustment in the carrying amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives.

Non-designated hedges

Derivatives not designated as hedges are not speculative and consist of interest rate swaps with commercial banking clients that facilitate their respective risk management strategies. Interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the client swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2021, the Company had matched interest rate swap transactions with an aggregate notional amount of $394.4 million related to this program. As of December 31, 2020, the Company had matched interest rate swap transactions with an aggregate notional amount of $456.0 million.

As part of its mortgage banking activities, the Company enters into interest rate lock commitments, which are commitments to originate loans where the interest rate on the loan is determined prior to funding and the clients have locked into that interest rate. The Company then locks in the loan and interest rate with an investor and commits to deliver the loan if settlement occurs ("best efforts") or commits to deliver the locked loan in a binding ("mandatory") delivery program with an investor. Fair value changes of certain loans under interest rate lock commitments are hedged with forward sales contracts of MBS. Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in non-interest income. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Company determines the fair value of interest rate lock commitments and delivery contracts by measuring the fair value of the underlying assets. The fair value of the underlying assets is impacted by current interest rates, remaining origination fees, costs of production to be incurred, and the probability that the interest rate lock commitments will close or will be funded.

Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Company does not expect any counterparty to any MBS contract to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that, if the Company fails to deliver the loans subject to interest rate risk lock commitments, it will still be obligated to “pair off” MBS to the counterparty. Should this be required, the Company could incur significant costs in acquiring replacement loans and such costs could have an adverse effect in the consolidated financial statements.

The fair value of the mortgage banking derivative is recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change.

The Company had interest rate lock commitments with a notional value of $110.0 million and forward contracts with a notional value of $198.3 million at December 31, 2021. At December 31, 2020, the Company had interest rate lock commitments with a notional value of $258.8 million and forward contracts with a notional value of $375.3 million.

Effect of derivative instruments on the consolidated statements of operations

The tables below present the effect of the Company’s derivative financial instruments on the consolidated statements of operations for 2021 and 2020:

Derivatives in fair value hedging relationships	Location of gain (loss) recognized in income on derivatives	Amount of gain recognized in income on derivatives	
		For the years ended December 31,	
		2021	2020
Interest rate products	Interest and fees on loans	$ 4,568	$ 4,405

Hedged items	Location of gain (loss) recognized in income on hedged items	Amount of loss recognized in income on hedged items	
		For the years ended December 31,	
		2021	2020
Interest rate products	Interest and fees on loans	$ (3,026)	$ (6,376)

Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives For the years ended December 31, 2021	2020
Interest rate products	Other non-interest expense	$ 23	$ (7)
Interest rate lock commitments	Mortgage banking income	(6,852)	7,218
Forward contracts	Mortgage banking income	2,447	(2,339)
Total		$ (4,382)	$ 4,872

Credit-risk-related contingent features

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness for reasons other than an error or omission of an administrative or operational nature, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty has the right to terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of December 31, 2021, the termination value of derivatives in a net liability position related to these agreements was $20.8 million, which includes accrued interest but excludes any adjustment for nonperformance risk. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and, as of December 31, 2021, the Company had posted $21.6 million in eligible collateral. If the Company had breached any of these provisions at December 31, 2021, it could have been required to settle its obligations under the agreements at the termination value.

Note 21 Commitments and Contingencies

In the normal course of business, the Company enters into various off-balance sheet commitments to help meet the financing needs of clients. These financial instruments include commitments to extend credit, commercial and consumer lines of credit and standby letters of credit. The same credit policies are applied to these commitments as the loans in the consolidated statements of financial condition; however, these commitments involve varying degrees of credit risk in excess of the amount recognized in the consolidated statements of financial condition. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements, as commitments often expire without being drawn upon. However, the contractual amount of these commitments, offset by any additional collateral pledged, represents the Company's potential credit loss exposure.

Total unfunded commitments at December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Commitments to fund loans	$ 462,151	$ 311,237
Unfunded commitments under lines of credit	530,397	537,325
Commercial and standby letters of credit	7,321	7,320
Total unfunded commitments	$ 999,869	$ 855,882

Commitments to fund loans—Commitments to fund loans are legally binding agreements to lend to clients in accordance with predetermined contractual provisions providing there have been no violations of any conditions specified in the contract. These commitments are generally at variable interest rates and are for specific periods or contain termination clauses and may require the payment of a fee. The total amounts of unused commitments are not necessarily representative of future credit exposure or cash requirements, as commitments often expire without being drawn upon.

Unfunded commitments under lines of credit—In the ordinary course of business, the Company extends revolving credit to its clients. These arrangements may require the payment of a fee.

Commercial and standby letters of credit—As a provider of financial services, the Company routinely issues commercial and standby letters of credit, which may be financial standby letters of credit or performance standby letters of credit. These are

various forms of "back-up" commitments to guarantee the performance of a client to a third party. While these arrangements represent a potential cash outlay for the Company, the majority of these letters of credit will expire without being drawn upon. Letters of credit are subject to the same underwriting and credit approval process as traditional loans, and as such, many of them have various forms of collateral securing the commitment, which may include real estate, personal property, receivables or marketable securities.

Contingencies

Mortgage loans sold to investors may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company established a reserve liability for expected losses related to these representations and warranties based upon management's evaluation of actual and historic loss history, delinquency trends in the portfolio and economic conditions. Charges against the reserve during the year ended December 31, 2021 and 2020 totaling $0.5 million and $0.5 million, respectively, were primarily driven by early payoffs. The Company recorded a repurchase reserve of $2.1 million and $2.7 million at December 31, 2021 and 2020, respectively, which is included in other liabilities in the consolidated statements of financial condition.

The following table summarizes mortgage repurchase reserve activity for the periods presented:

	For the years ended December 31,			
	2021		2020	
Beginning balance	$	2,741	$	2,589
Provision (released from) charged to operating expense, net		(108)		662
Charge-offs		(531)		(510)
Ending balance	$	2,102	$	2,741

In the ordinary course of business, the Company and the Bank may be subject to litigation. Based upon the available information and advice from the Company's legal counsel, management does not believe that any potential, threatened or pending litigation to which it is a party will have a material adverse effect on the Company's liquidity, financial condition or results of operations.

Note 22 Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For disclosure purposes, the Company groups its financial and non-financial assets and liabilities into three different levels based on the nature of the instrument and the availability and reliability of the information that is used to determine fair value. The three levels are defined as follows:

- Level 1—Includes assets or liabilities in which the valuation methodologies are based on unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2—Includes assets or liabilities in which the inputs to the valuation methodologies are based on similar assets or liabilities in inactive markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs other than quoted prices that are observable, such as interest rates, yield curves, volatilities, prepayment speeds, and other inputs obtained from observable market input.

- Level 3—Includes assets or liabilities in which the inputs to the valuation methodology are based on at least one significant assumption that is not observable in the marketplace. These valuations may rely on management's judgment and may include internally-developed model-based valuation techniques.

Level 1 inputs are considered to be the most transparent and reliable and level 3 inputs are considered to be the least transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the

asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. While third party price indications may be available in those cases, limited trading activity can challenge the observability of those inputs.

Changes in the valuation inputs used for measuring the fair value of financial instruments may occur due to changes in current market conditions or other factors. Such changes may necessitate a transfer of the financial instruments to another level in the hierarchy based on the new inputs used. The Company recognizes these transfers at the end of the reporting period that the transfer occurs. During 2021 and 2020, there were no transfers of financial instruments between the hierarchy levels.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of each instrument under the valuation hierarchy:

Fair Value of Financial Instruments Measured on a Recurring Basis

Investment securities available-for-sale—Investment securities available-for-sale are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as level 1. At December 31, 2021 and 2020, the Company did not hold any level 1 securities. When quoted market prices in active markets for identical assets or liabilities are not available, quoted prices of securities with similar characteristics, discounted cash flows or other pricing characteristics are used to estimate fair values and the securities are then classified as level 2.

Loans held for sale—The Company has elected to record loans originated and intended for sale in the secondary market at estimated fair value. The portfolio consists primarily of fixed rate residential mortgage loans that are sold within 45 days. The Company estimates fair value based on quoted market prices for similar loans in the secondary market and are classified as level 2.

Interest rate swap derivatives—The Company's derivative instruments are limited to interest rate swaps that may be accounted for as fair value hedges or non-designated hedges. The fair values of the swaps incorporate credit valuation adjustments in order to appropriately reflect nonperformance risk in the fair value measurements. The credit valuation adjustment is the dollar amount of the fair value adjustment related to credit risk and utilizes a probability weighted calculation to quantify the potential loss over the life of the trade. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying the respective counterparties’ credit spreads to the exposure offset by marketable collateral posted, if any. Certain derivative transactions are executed with counterparties who are large financial institutions ("dealers"). International Swaps and Derivative Association Master Agreements (“ISDA”) and Credit Support Annexes (“CSA”) are employed for all contracts with dealers. These contracts contain bilateral collateral arrangements. The fair value inputs of these financial instruments are determined using discounted cash flow analysis through the use of third-party models whose significant inputs are readily observable market parameters, primarily yield curves, with appropriate adjustments for liquidity and credit risk, and are classified as level 2.

Mortgage banking derivatives—The Company relies on a third-party pricing service to value its mortgage banking derivative financial assets and liabilities, which the Company classifies as a level 3 valuation. The external valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held for sale includes grouping the interest rate lock commitments by interest rate and terms, applying an average 86.7% estimated pull-through rate based on historical experience, and then multiplying by quoted investor prices determined to be reasonably applicable to the loan commitment groups based on interest rate, terms, and rate lock expiration dates of the loan commitment groups. The Company also relies on an external valuation model to estimate the fair value of its forward commitments to sell residential mortgage loans (i.e., an estimate of what the Company would receive or pay to terminate the forward delivery contract based

on market prices for similar financial instruments), which includes matching specific terms and maturities of the forward commitments against applicable investor pricing.

The tables below present the financial instruments measured at fair value on a recurring basis as of December 31, 2021 and 2020, in the consolidated statements of financial condition utilizing the hierarchy structure described above:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 227,696	$ —	$ 227,696
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	461,334	—	461,334
Municipal securities	—	237	—	237
Corporate debt	—	2,111	—	2,111
Loans held for sale	—	139,142	—	139,142
Interest rate swap derivatives	—	8,798	—	8,798
Mortgage banking derivatives	—	—	1,883	1,883
Total assets at fair value	$ —	$ 839,318	$ 1,883	$ 841,201
Liabilities:				
Interest rate swap derivatives	$ —	$ 20,550	$ —	$ 20,550
Mortgage banking derivatives	—	—	463	463
Total liabilities at fair value	$ —	$ 20,550	$ 463	$ 21,013

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale:				
Mortgage-backed securities:				
Residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises	$ —	$ 196,334	$ —	$ 196,334
Other residential MBS issued or guaranteed by U.S. Government agencies or sponsored enterprises	—	462,779	—	462,779
Municipal securities	—	318	—	318
Corporate debt	—	1,998	—	1,998
Loans held for sale	—	247,813	—	247,813
Interest rate swap derivatives	—	18,149	—	18,149
Mortgage banking derivatives	—	—	7,001	7,001
Total assets at fair value	$ —	$ 927,391	$ 7,001	$ 934,392
Liabilities:				
Interest rate swap derivatives	$ —	$ 57,060	$ —	$ 57,060
Mortgage banking derivatives	—	—	2,920	2,920
Total liabilities at fair value	$ —	$ 57,060	$ 2,920	$ 59,980

The table below details the changes in level 3 financial instruments during 2021:

	Mortgage banking derivatives, net
Balance at December 31, 2020	$ 4,081
Loss included in earnings, net	(4,405)
Fees and costs included in earnings, net	1,744
Balance at December 31, 2021	$ 1,420

Fair Value of Financial Instruments Measured on a Non-recurring Basis

Certain assets may be recorded at fair value on a non-recurring basis as conditions warrant. These non-recurring fair value measurements typically result from the application of lower of cost or fair value accounting or a write-down occurring during the period.

Individually evaluated loans—The Company records individually evaluated loans based on the fair value of the collateral when it is probable that the Company will be unable to collect all contractual amounts due in accordance with the terms of the loan agreement. The Company relies on third-party appraisals and internal assessments, utilizing a discount rate in the range of 6% - 15%, with a weighted average discount rate of 8.3%, in determining the estimated fair values of these loans. The inputs used to determine the fair values of loans are considered level 3 inputs in the fair value hierarchy. At December 31, 2021, the Company recorded a specific reserve of $1.6 million related to six loans with a carrying balance of $5.1 million. At December 31, 2020, the Company recorded a specific reserve of $1.9 million related to seven loans with a carrying balance of $7.5 million.

OREO—OREO is recorded at the fair value of the collateral less estimated selling costs using a range of 6% - 10% with a weighted average discount rate of 7.2%. The estimated fair values of OREO are updated periodically and further write-downs may be taken to reflect a new basis. The Company recognized $0.8 million and $0.5 million of OREO impairments in its consolidated statements of operations during 2021 and 2020, respectively. The fair values of OREO are derived from third party price opinions or appraisals that generally use an income approach or a market value approach. If reasonable comparable appraisals are not available, then the Company may use internally developed models to determine fair values. The inputs used to determine the fair value of OREO properties are considered level 3 inputs in the fair value hierarchy.

Mortgage servicing rights—MSRs represent the value associated with servicing residential real estate loans that have been sold to outside investors with servicing retained. The fair value for servicing assets is determined through discounted cash flow analysis and utilizes discount rates ranging from 9.5% to 10.0% with a weighted average discount rate of 9.5% at December 31, 2021 and a prepayment speed assumption range from 9.3% to 14.5% with a weighted average rate of 9.4% at December 31, 2021 as inputs. At December 31, 2020, discount rates ranged from 9.5% to 10.5% with a weighted average discount rate of 9.5% and prepayment speed assumption range from 15.4% to 21.3% with a weighted average rate of 15.8%. The weighted average MSRs are subject to impairment testing. The carrying values of these MSRs are reviewed quarterly for impairment based upon the calculation of fair value. For purposes of measuring impairment, the MSRs are stratified into certain risk characteristics including note type and note term. If the valuation model reflects a value less than the carrying value, MSRs are adjusted to fair value through a valuation allowance and the adjustment is included in mortgage banking income in the consolidated statements of operations. There was $0.7 million of recovery on MSRs during 2021 compared to $0.8 million of impairment during 2020. The inputs used to determine the fair values of MSRs are considered level 3 inputs in the fair value hierarchy.

Premises and equipment—During 2021, the Company completed the previously announced consolidation of seven banking centers. Premises and equipment held-for-sale are written down to estimated fair value less costs to sell in the period in which the held-for-sale criteria are met. Fair value is estimated in a process which considers current local commercial real estate market conditions and the judgment of the sales agent and often involves obtaining third party appraisals from certified real estate appraisers. These fair value measurements are classified as Level 3. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. The Company recognized $1.6 million of impairment in its consolidated statements of operations related to premises and equipment classified as held-for-sale totaling $6.0 million during the year ended December 31, 2021. During 2020, the Company recognized $1.6 million of impairments in its consolidated statements of operations related to premises and equipment classified as held-for-sale totaling $8.0 million.

The Company may be required to record fair value adjustments on other available-for-sale and municipal securities valued at par on a non-recurring basis.

The tables below provide information regarding losses from the assets recorded at fair value on a non-recurring basis at December 31, 2021 and 2020.

	December 31, 2021	
	Total	Losses from fair value changes
Individually evaluated loans	$ 14,083	$ 1,816
Other real estate owned	7,005	799
Premises and equipment	6,032	1,552
Total	$ 27,120	$ 4,167

	December 31, 2020	
	Total	Losses from fair value changes
Individually evaluated loans	$ 25,480	$ 3,228
Other real estate owned	4,730	470
Premises and equipment	8,024	1,631
Mortgage servicing rights	10,380	751
Total	$ 48,614	$ 6,080

The Company did not record any liabilities measured at fair value on a non-recurring basis during 2021 and 2020.

Note 23 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is determined based upon quoted market prices to the extent possible; however, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques that may be significantly impacted by the assumptions used, including the discount rate and estimates of future cash flows. Changes in any of these assumptions could significantly affect the fair value estimates. The fair value of the financial instruments listed below does not reflect a premium or discount that could result from offering all of the Company’s holdings of financial instruments at one time, nor does it reflect the underlying value of the Company, as ASC Topic 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies and are based on the exit price concept within ASC Topic 825 and applied to this disclosure on a prospective basis. Considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The fair value of financial instruments at December 31, 2021 and 2020 are set forth below:

	Level in fair value measurement hierarchy	December 31, 2021		December 31, 2020	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
ASSETS					
Cash and cash equivalents	Level 1	$ 845,695	$ 845,695	$ 605,565	$ 605,565
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	227,696	227,696	196,334	196,334
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises available-for-sale	Level 2	461,334	461,334	462,779	462,779
Municipal securities available-for-sale	Level 2	237	237	318	318
Municipal securities available-for-sale	Level 3	—	—	57	57
Corporate debt	Level 2	2,111	2,111	1,998	1,998
Other available-for-sale securities	Level 3	469	469	469	469
Mortgage-backed securities—residential mortgage pass-through securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	312,916	309,614	306,187	310,930
Mortgage-backed securities—other residential mortgage-backed securities issued or guaranteed by U.S. Government agencies or sponsored enterprises held-to-maturity	Level 2	296,096	289,646	70,428	70,761
Non-marketable securities	Level 2	14,533	14,533	16,493	16,493
Loans receivable	Level 3	4,513,383	4,540,847	4,353,726	4,511,357
Loans held for sale	Level 2	139,142	139,142	247,813	247,813
Accrued interest receivable	Level 2	17,848	17,848	18,795	18,795
Interest rate swap derivatives	Level 2	8,798	8,798	18,149	18,149
Mortgage banking derivatives	Level 3	1,883	1,883	7,001	7,001
LIABILITIES					
Deposit transaction accounts	Level 2	5,394,257	5,394,257	4,690,100	4,690,100
Time deposits	Level 2	833,916	833,163	986,132	993,070
Securities sold under agreements to repurchase	Level 2	22,768	22,768	22,897	22,897
Long-term debt	Level 2	40,000	40,000	—	—
Accrued interest payable	Level 2	3,944	3,944	6,762	6,762
Interest rate swap derivatives	Level 2	20,550	20,550	57,060	57,060
Mortgage banking derivatives	Level 3	463	463	2,920	2,920

Note 24 Parent Company Only Financial Statements

Parent company only financial information for National Bank Holdings Corporation is summarized as follows:

Condensed Statements of Financial Condition

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$ 107,154	$ 91,402
Non-marketable securities	24,178	58
Investment in subsidiaries	746,135	725,002
Other assets	7,366	14,751
Total assets	$ 884,833	$ 831,213
LIABILITIES AND STOCKHOLDERS' EQUITY		
Long-term debt, net	$ 39,478	$ —
Other liabilities	5,249	10,522
Total liabilities	44,727	10,522
Shareholders' equity	840,106	820,691
Total liabilities and shareholders' equity	$ 884,833	$ 831,213

Condensed Statements of Operations

	For the years ended December 31,		
	2021	2020	2019
Income			
Equity in undistributed earnings of subsidiaries	$ 37,866	$ 67,416	$ 28,133
Distributions from subsidiaries	63,000	27,200	55,725
Income from non-marketable securities	553	—	—
Total income	101,419	94,616	83,858
Expenses			
Interest expense	197	—	—
Salaries and benefits	5,622	5,136	4,925
Other expenses	5,042	2,621	2,463
Total expenses	10,861	7,757	7,388
Income before income taxes	90,558	86,859	76,470
Income tax benefit	(3,048)	(1,732)	(3,895)
Net income	$ 93,606	$ 88,591	$ 80,365

Condensed Statements of Cash Flows

	For the years ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 93,606	$ 88,591	$ 80,365
Equity in undistributed earnings of subsidiaries	(37,866)	(67,416)	(28,133)
Stock-based compensation expense	5,541	5,299	4,869
Net excess tax (benefit) expense from stock-based compensation	(644)	51	(2,160)
Amortization	13	—	—
Other	(3,747)	3,074	5,045
Net cash provided by operating activities	56,903	29,599	59,986
Cash flows from investing activities:			
Purchase of non-marketable securities	(23,025)	—	—
Net cash used in investing activities	(23,025)	—	—
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	40,000	—	—
Payments of long-term debt issuance costs	(535)	—	—
Issuance of stock under purchase and equity compensation plans	(2,267)	(749)	(6,229)
Proceeds from exercise of stock options	2,489	1,832	2,788
Payment of dividends	(26,888)	(24,816)	(23,530)
Repurchase of shares	(36,400)	(19,476)	—
Net cash used in financing activities	(23,601)	(43,209)	(26,971)
Net increase (decrease) in cash, cash equivalents and restricted cash	10,277	(13,610)	33,015
Cash, cash equivalents and restricted cash at beginning of the year	101,402	115,012	81,997
Cash, cash equivalents and restricted cash at end of the year	$ 111,679	$ 101,402	$ 115,012

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

There were no changes in or disagreements with accountants on accounting and financial disclosures.

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of December 31, 2021. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2021.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2021. KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on our internal control over financial reporting as of December 31, 2021, which report is included in this Item 9A below.

Changes in Internal Control Over Financial Reporting

There were no changes made in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
National Bank Holdings Corporation:

Opinion on Internal Control Over Financial Reporting

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated February 23, 2022 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company'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 company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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 misstatements. Also, projections of any evaluation 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.

KPMG LLP

Kansas City, Missouri
February 23, 2022

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2022 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

The Company's Supplemental Code of Ethics for CEO and Senior Financial Officers, which applies to the CEO, Chief Financial Officer and Principal Accounting Officer, is available at www.nationalbankholdings.com. Amendments to, and waivers of, the code of ethics are publicly disclosed as required by applicable law, regulation or rule.

Item 11. EXECUTIVE COMPENSATION.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2022 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2022 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2022 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The Information required by this Item is incorporated herein by reference to our Proxy Statement (Schedule 14A) for our 2022 Annual Meeting of Shareholders to be filed with the SEC within 120 days of our fiscal year-end.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this report:

(1) Financial Statements:

	Page
Consolidated Statements of Financial Condition	74
Consolidated Statements of Operations	75
Consolidated Statements of Comprehensive Income	76
Consolidated Statements of Changes in Shareholders' Equity	77
Consolidated Statements of Cash Flows	78
Notes to Consolidated Financial Statements	79

(2) Financial Statement Schedules:

All schedules are omitted as such information is inapplicable or is included in the financial statements.

(b) The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are listed below:

Exhibit No	Description
2.1*	Agreement and Plan Merger, dated as of June 23, 2017, by and among Peoples, Inc., National Bank Holdings Corporation, the Significant Stockholders (as defined herein) and Winton A. Winter, Jr., solely in his capacity as the Holders' Representative (incorporated herein by reference to Exhibit 2.1 to our Form 8-K dated June 23, 2017 and filed on June 27, 2017)
3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed on August 22, 2012)
3.2	Second Amended and Restated By-Laws (incorporated herein by reference to Exhibit 3.2 to our Form 10-Q, filed on November 7, 2014)
4.1	Specimen common stock certificate (incorporated herein by reference to Exhibit 4.1 to our Form S-1 Registration Statement (Registration No. 333-177971), filed on August 22, 2012)
4.2	Description of Capital Stock (incorporated herein by reference to Exhibit 4.2 to our Form 10-K, filed on February 26, 2020)
4.3	Form of 3.00% Fixed-to-Floating Rate Subordinated Note due 2031 (incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated and filed on November 5, 2021)
10.1	Form of Indemnification Agreement by and between NBH Holdings Corp. and each of its directors and executive officers (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration Statement No. 333-177971), filed on September 10, 2012)^
10.2	Employment Agreement, dated May 22, 2010, by and between G. Timothy Laney and NBH Holdings Corp. (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (Registration Statement No. 333-177971), filed on September 10, 2012)^

10.3	First Amendment to Employment Agreement, dated November 17, 2015, by and between G. Timothy Laney and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on November 20, 2015)^
10.4	Amended and Restated Employment Agreement, dated November 17, 2015, by and between Richard U. Newfield, Jr. and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.4 to our Form 8-K, filed on November 20, 2015)^
10.5	Employment Agreement, dated November 17, 2015, by and between Zsolt K. Besskó and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.5 to our Form 8-K, filed on November 20, 2015)^
10.6	Employment Agreement, dated May 2, 2018, by and between Aldis Birkans and National Bank Holdings Corporation (incorporated herein by reference to Exhibit 10.2 to our Form 8-K, filed on May 2, 2018)^
10.7	Transition Agreement, dated May 5, 2020, by and between National Bank Holdings Corporation and Zsolt K. Besskó (incorporated herein by reference to Exhibit 10.1 to our Form 8-K, filed on May 5, 2020) ^
10.8	Employment Agreement, dated May 5, 2020, by and between National Bank Holdings Corporation and Angela N. Petrucci (incorporated herein by reference to Exhibit 10.2 to our Form 10-Q, filed on August 5, 2020) ^
10.9	Change of Control Agreement applicable to executive officers not party to an employee agreement (incorporated herein by reference to Exhibit 10.17 to our form 10-K, filed on February 28, 2018)^
10.10	Support Agreement, dated as of June 23, 2017, by and among Peoples, Inc., National Bank Holdings Corporation and the undersigned stockholders of Peoples, Inc. (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated June 23, 2017 and filed on June 27, 2017)
10.11	NBH Holdings Corp. 2009 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.2 to our Form S-1 Registration Statement (Registration No. 333-177971), filed on November 14, 2011)^
10.12	Amendment to the NBH Holdings Corp. 2009 Equity Incentive Plan dated February 22, 2017 (incorporated herein by reference to Exhibit 10.10 to our form 10-K, filed on February 24, 2017)^
10.13	National Bank Holdings Corporation Employee Stock Purchase Plan (incorporated herein by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 30, 2015)^
10.14	National Bank Holdings Corporation 2014 Omnibus Incentive Plan (incorporated herein by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 31, 2014)^
10.15	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement (For Management) (incorporated herein by reference to Exhibit 10.13 to our Form 10-K, filed on March 1, 2019)^
10.16	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Restricted Stock Award Agreement (For Management) (incorporated herein by reference to Exhibit 10.14 to our Form 10-K, filed on March 1, 2019)^

10.17	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Nonqualified Stock Option Agreement (For Management) (incorporated herein by reference to Exhibit 10.15 to our Form 10-K, filed on March 1, 2019)^
10.18	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Restricted Stock Award Agreement (For Non-Employee Directors) (incorporated herein by reference to Exhibit 10.4 to our Form 10-Q, filed on May 9, 2014)^
10.19	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement (TSR) (For Management) (incorporated herein by reference to Exhibit 10.3 to our Form 10-Q, filed on August 5, 2020)^
10.20	Form of National Bank Holdings Corporation 2014 Omnibus Incentive Plan Performance Stock Unit Award Agreement (ROTA) (For Management) (incorporated herein by reference to Exhibit 10.4 to our Form 10-Q, filed on August 5, 2020)^
10.21	Form of Subordinated Note Purchase Agreement, dated November 5, 2021 by and among National Bank Holding Corporation and the Purchaser named therein (incorporated herein by reference to Exhibit 10.1 to our Form 8-K dated and filed on November 5, 2021)
21.1	Subsidiaries of National Bank Holdings Corporation
23.1	Consent of KPMG LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

^ Indicates a management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on February 23, 2022, on its behalf by the undersigned, thereunto duly authorized.

National Bank Holdings Corporation

By /s/ G. Timothy Laney

G. Timothy Laney

Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 23, 2022, by the following persons on behalf of the registrant and in the capacities indicated.

/s/ G. TIMOTHY LANEY

G. Timothy Laney
Chairman, President and Chief Executive Officer
(principal executive officer)

/s/ ALDIS BIRKANS

Aldis Birkans
Chief Financial Officer
(principal financial officer)

/s/ NICOLE VAN DENABEELE

Nicole Van Denabeele
Chief Accounting Officer
(principal accounting officer)

/s/ RALPH W. CLERMONT

Ralph W. Clermont, Lead Director

/s/ ROBERT E. DEAN

Robert E. Dean, Director

/s/ ALKA GUPTA

Alka Gupta, Director

/s/ FRED J. JOSEPH

Fred J. Joseph, Director

/s/ PATRICK G. SOBERS

Patrick G. Sobers, Director

/s/ MICHO F. SPRING

Micho F. Spring, Director

/s/ BURNEY S. WARREN, III

Burney S. Warren, III, Director

/s/ ART ZEILE

Art Zeile, Director

Corporate Headquarters
National Bank Holdings Corporation
7800 East Orchard Road, Suite 300
Greenwood Village, CO 80111
Tel: 720.554.6640
www.nationalbankholdings.com

Stock Exchange Listings
NYSE
Symbol: NBHC

Independent Accountants
KPMG LLP
Kansas City, MO

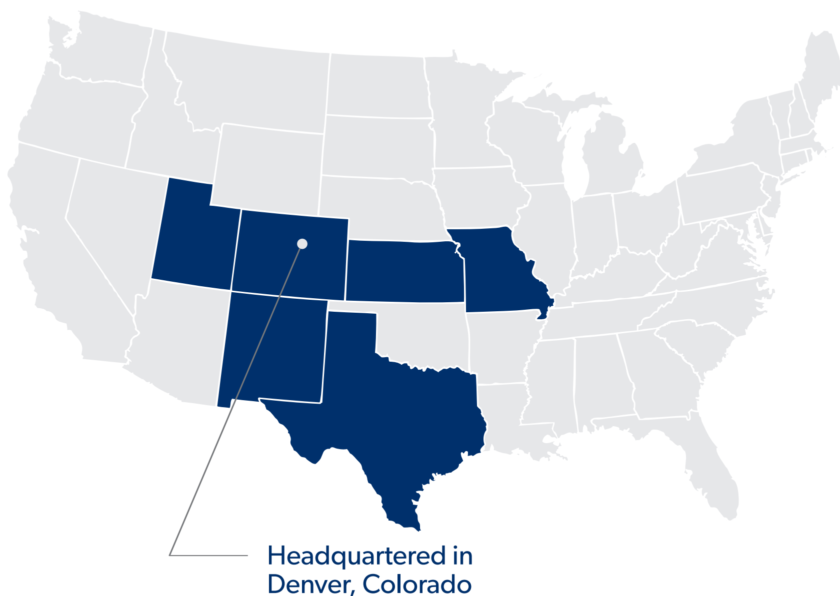
Transfer Agent, Registrar and Dividend Disbursing Agent
Equiniti (EQ Shareowner Services)
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Tel (Inside US): 800-468-9716
Tel (Outside US): 651-450-4064
www.equiniti.com

ABOUT NATIONAL BANK HOLDINGS CORPORATION

National Bank Holdings Corporation is a bank holding company created to build a leading community bank franchise delivering high-quality client service and committed to stakeholder results. Through its bank subsidiary, NBH Bank, National Bank Holdings Corporation operates a network of 81 banking centers[1]. Our core markets are Colorado, the greater Kansas City region, Texas, Utah and New Mexico. More information about National Bank Holdings Corporation can be found at www.nationalbankholdings.com.

OUR FAMILY OF BRANDS[2]

NBH Bank operates under one charter with the following brand names: Community Banks of Colorado and Community Banks Mortgage, a division of NBH Bank in Colorado, Bank Midwest and Bank Midwest Mortgage in Kansas and Missouri, and Hillcrest Bank and Hillcrest Bank Mortgage in Texas, Utah and New Mexico.



LOCATIONS AND MARKET SHARE[1]

COMMUNITY BANKS OF COLORADO

Largest publicly traded bank headquartered in Colorado

Ranks 3rd in market share of Colorado headquartered banks

40 banking centers

1% deposit market share across Colorado

BANK MIDWEST

Ranks 8th in banking centers in Kansas City MSA

34 banking centers

3% deposit market share in Kansas City MSA

HILLCREST BANK

7 locations, including 2 commercial offices located in Austin, TX, Dallas TX; and 5 banking centers located in Albuquerque, NM, Taos, NM and Salt Lake City, UT

[1]Financial information and rank as of June 30, 2021 per S&P Global. NBH banking centers as of December 31, 2021. [2]NBH Bank, Community Banks of Colorado, Bank Midwest, Hillcrest Bank, and the corresponding logo marks, are registered trademarks and service marks, as applicable, of National Bank Holdings Corporation.

Where common sense lives.®