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

FORM 10-Q

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from _____ to _____

Commission File Number: 0-11487

LAKELAND FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana
(State or Other Jurisdiction
of Incorporation or Organization)

35-1559596
(IRS Employer
Identification No.)

**202 East Center Street,
Warsaw, Indiana**
(Address of principal executive offices)

46580
(Zip Code)

(574) 267-6144

(Registrant's Telephone Number, Including Area Code)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, No par value	LKFN	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Number of shares of common stock outstanding at April 20, 2023: 25,430,917

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets — March 31, 2023 and December 31, 2022	1
Consolidated Statements of Income — three months ended March 31, 2023 and 2022	2
Consolidated Statements of Comprehensive Income (Loss) — three months ended March 31, 2023 and 2022	3
Consolidated Statements of Changes in Stockholders' Equity — three months ended March 31, 2023 and 2022	4
Consolidated Statements of Cash Flows — three months ended March 31, 2023 and 2022	5
Notes to the Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	45
Item 4. Controls and Procedures	46
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	47
Item 1A. Risk Factors	47
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 3. Defaults Upon Senior Securities	47
Item 4. Mine Safety Disclosures	47
Item 5. Other Information	48
Item 6. Exhibits	48
SIGNATURES	49

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS (dollars in thousands, except share data)

	March 31, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and due from banks	\$ 67,342	\$ 80,992
Short-term investments	86,179	49,290
Total cash and cash equivalents	153,521	130,282
Securities available-for-sale, at fair value	1,108,281	1,185,528
Securities held-to-maturity, at amortized cost (fair value of \$115,533 and \$111,029, respectively)	128,651	128,242
Real estate mortgage loans held-for-sale	508	357
Loans, net of allowance for credit losses of \$71,215 and \$72,606	4,683,713	4,637,790
Land, premises and equipment, net	58,707	58,097
Bank owned life insurance	107,026	108,407
Federal Reserve and Federal Home Loan Bank stock	15,795	15,795
Accrued interest receivable	26,883	27,994
Goodwill	4,970	4,970
Other assets	123,474	134,909
Total assets	\$ 6,411,529	\$ 6,432,371
LIABILITIES		
Noninterest bearing deposits	\$ 1,548,066	\$ 1,736,761
Interest bearing deposits	3,969,662	3,723,859
Total deposits	5,517,728	5,460,620
Federal Funds purchased	0	22,000
Federal Home Loan Bank advances	200,000	275,000
Total borrowings	200,000	297,000
Accrued interest payable	5,425	3,186
Other liabilities	86,370	102,678
Total liabilities	5,809,523	5,863,484
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
25,896,764 shares issued and 25,430,917 outstanding as of March 31, 2023		
25,825,127 shares issued and 25,349,225 outstanding as of December 31, 2022	125,840	127,004
Retained earnings	658,629	646,100
Accumulated other comprehensive income (loss)	(167,370)	(188,923)
Treasury stock at cost (465,847 shares as of March 31, 2023, 475,902 shares as of December 31, 2022)	(15,182)	(15,383)
Total stockholders' equity	601,917	568,798
Noncontrolling interest	89	89
Total equity	602,006	568,887
Total liabilities and equity	\$ 6,411,529	\$ 6,432,371

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

CONSOLIDATED STATEMENTS OF INCOME (unaudited - dollars in thousands, except share and per share data)

	Three Months Ended March 31,	
	2023	2022
NET INTEREST INCOME		
Interest and fees on loans		
Taxable	\$ 69,542	\$ 39,735
Tax exempt	901	169
Interest and dividends on securities		
Taxable	3,513	3,278
Tax exempt	4,300	4,606
Other interest income	964	246
Total interest income	<u>79,220</u>	<u>48,034</u>
Interest on deposits	24,918	3,081
Interest on borrowings		
Short-term	2,783	0
Long-term	0	73
Total interest expense	<u>27,701</u>	<u>3,154</u>
NET INTEREST INCOME	51,519	44,880
Provision for credit losses	4,350	417
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	47,169	44,463
NONINTEREST INCOME		
Wealth advisory fees	2,200	2,287
Investment brokerage fees	534	519
Service charges on deposit accounts	2,630	2,809
Loan and service fees	2,846	2,889
Merchant card fee income	877	815
Bank owned life insurance income (loss)	691	(83)
Interest rate swap fee income	0	50
Mortgage banking income (loss)	(99)	509
Net securities gains	16	0
Other income	619	892
Total noninterest income	<u>10,314</u>	<u>10,687</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	16,063	14,392
Net occupancy expense	1,572	1,629
Equipment costs	1,438	1,411
Data processing fees and supplies	3,452	3,081
Corporate and business development	1,431	1,219
FDIC insurance and other regulatory fees	795	439
Professional fees	2,121	1,559
Other expense	2,562	3,239
Total noninterest expense	<u>29,434</u>	<u>26,969</u>
INCOME BEFORE INCOME TAX EXPENSE	28,049	28,181
Income tax expense	3,771	4,539
NET INCOME	\$ 24,278	\$ 23,642
BASIC WEIGHTED AVERAGE COMMON SHARES	25,583,026	25,515,271
BASIC EARNINGS PER COMMON SHARE	\$ 0.95	\$ 0.93
DILUTED WEIGHTED AVERAGE COMMON SHARES	25,742,885	25,690,372
DILUTED EARNINGS PER COMMON SHARE	\$ 0.94	\$ 0.92

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited - dollars in thousands)

	Three Months Ended March 31,	
	2023	2022
Net income	\$ 24,278	\$ 23,642
Other comprehensive income (loss)		
Change in available-for-sale and transferred securities:		
Unrealized holding gain (loss) on securities available-for-sale arising during the period	26,793	(138,995)
Reclassification adjust for amortization of unrealized losses on securities transferred to held-to-maturity	491	0
Reclassification adjustment for gains included in net income	(16)	0
Net securities gain (loss) activity during the period	27,268	(138,995)
Tax effect	(5,726)	29,188
Net of tax amount	21,542	(109,807)
Defined benefit pension plans:		
Amortization of net actuarial loss	15	36
Net gain activity during the period	15	36
Tax effect	(4)	(9)
Net of tax amount	11	27
Total other comprehensive income (loss), net of tax	21,553	(109,780)
Comprehensive income (loss)	\$ 45,831	\$ (86,138)

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited - dollars in thousands, except share and per share data)

	Three Months Ended							
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Stock						
Balance at January 1, 2022	25,300,793	\$ 120,615	\$ 583,134	\$ 16,093	\$ (15,025)	\$ 704,817	\$ 89	\$ 704,906
Comprehensive loss:								
Net income			23,642			23,642		23,642
Other comprehensive income (loss), net of tax				(109,780)		(109,780)		(109,780)
Cash dividends declared and paid, \$0.40 per share			(10,198)			(10,198)		(10,198)
Treasury shares purchased under deferred directors' plan	(2,587)	212			(212)	0		0
Treasury shares sold and distributed under deferred directors' plan	8,555	(221)			221	0		0
Stock activity under equity compensation plans	39,388	(1,728)				(1,728)		(1,728)
Stock based compensation expense		2,260				2,260		2,260
Balance at March 31, 2022	25,346,149	\$ 121,138	\$ 596,578	\$ (93,687)	\$ (15,016)	\$ 609,013	\$ 89	\$ 609,102
Balance at January 1, 2023	25,349,225	\$ 127,004	\$ 646,100	\$ (188,923)	\$ (15,383)	\$ 568,798	\$ 89	\$ 568,887
Comprehensive income:								
Net income			24,278			24,278		24,278
Other comprehensive income (loss), net of tax				21,553		21,553		21,553
Cash dividends declared and paid, \$0.46 per share			(11,749)			(11,749)		(11,749)
Treasury shares purchased under deferred directors' plan	(2,800)	204			(204)	0		0
Treasury shares sold and distributed under deferred directors' plan	12,855	(405)			405	0		0
Stock activity under equity compensation plans	71,637	(3,124)				(3,124)		(3,124)
Stock based compensation expense		2,161				2,161		2,161
Balance at March 31, 2023	25,430,917	\$ 125,840	\$ 658,629	\$ (167,370)	\$ (15,182)	\$ 601,917	\$ 89	\$ 602,006

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Three Months Ended March 31,	2023	2022
Cash flows from operating activities:		
Net income	\$ 24,278	\$ 23,642
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,538	1,516
Provision for credit losses	4,350	417
Amortization of loan servicing rights	133	223
Net change in loan servicing rights valuation allowance	0	(360)
Loans originated for sale, including participations	(795)	(12,468)
Net gain on sales of loans	(34)	(513)
Proceeds from sale of loans, including participations	672	18,058
Net (gain) loss on sales of premises and equipment	(4)	1
Net gain on sales and calls of securities available-for-sale	(16)	0
Net securities amortization	1,192	1,654
Stock based compensation expense	2,161	2,260
Losses (earnings) on life insurance	(691)	83
Tax benefit of stock award issuances	(720)	(500)
Net change:		
Interest receivable and other assets	501	(2,822)
Interest payable and other liabilities	(5,122)	16,513
Total adjustments	3,165	24,062
Net cash from operating activities	27,443	47,704
Cash flows from investing activities:		
Proceeds from sale of securities available-for-sale	87,471	0
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	19,500	29,647
Proceeds from maturities, calls and principal paydowns of securities held-to-maturity	5	0
Purchases of securities available-for-sale	(4,046)	(292,127)
Purchase of life insurance	(153)	(43)
Net (increase) decrease in total loans	(50,273)	(66,537)
Proceeds from sales of land, premises and equipment	11	0
Purchases of land, premises and equipment	(2,155)	(1,091)
Proceeds from redemption of Federal Home Loan Bank stock	0	932
Net cash from investing activities	50,360	(329,219)
Cash flows from financing activities:		
Net increase (decrease) in total deposits	57,108	85,216
Net increase (decrease) in short-term borrowings	(22,000)	0
Proceeds from short-term FHLB borrowings	(75,000)	0
Common dividends paid	(11,749)	(10,198)
Payments related to equity incentive plans	(3,124)	(1,728)
Purchase of treasury stock	(204)	(212)
Sale of treasury stock	405	221
Net cash from financing activities	(54,564)	73,299
Net change in cash and cash equivalents	23,239	(208,216)
Cash and cash equivalents at beginning of the period	130,282	683,240
Cash and cash equivalents at end of the period	153,521	475,024
Cash paid during the period for:		
Interest	\$ 25,462	\$ 3,470
Supplemental non-cash disclosures:		
Securities purchases payable	0	2,146
Right-of-use assets obtained in exchange for lease liabilities	0	1,612

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

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the "Company"), which has two wholly owned subsidiaries, Lake City Bank (the "Bank") and LCB Risk Management, a captive insurance company. Also included in this report are results for the Bank's wholly owned subsidiary, LCB Investments II, Inc. ("LCB Investments"), which manages the Bank's investment securities portfolio. LCB Investments owns LCB Funding, Inc. ("LCB Funding"), a real estate investment trust. All significant inter-company balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2023. The Company's 2022 Annual Report on Form 10-K should be read in conjunction with these statements.

Adoption of New Accounting Standards

On March 31, 2022, the FASB issued ASU 2022-02, "*Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*." The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of an existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in update 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company elected to early adopt the provisions of the ASU related to the discontinuance of TDR reporting, with retrospective application of modification reporting effective starting January 1, 2022. The Company adopted the provisions related to reporting of current-period gross write-offs within the vintage disclosures effective January 1, 2023. The adoption of the provisions contained within ASU 2022-02 did not have a material impact on the consolidated financial statements.

On March 28, 2022, the FASB issued ASU 2022-01, "*Derivatives and Hedging (ASC 815): Fair Value Hedging - Portfolio Layer Method*." ASC 815 previously permitted only prepayable financial assets and one or more beneficial interests secured by a portfolio of prepayable financial instruments to be included in a last-of-layer closed portfolio. The amendment in this update allows nonrepayable financial assets to also be included in a closed portfolio hedged using the portfolio layer method. That expanded scope allows an entity to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets, thereby allowing consistent accounting for similar hedges. The guidance became effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company adopted ASU 2022-01 on January 1, 2023, which did not have a material impact on the consolidated financial statements.

Newly Issued But Not Yet Effective Accounting Standards

On March 12, 2020, the FASB issued Accounting Standards Update (ASU) 2020-04, "*Reference Rate Reform (ASC 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*." ASC 848 contains optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The Company has formed a cross-functional project team to lead the transition from LIBOR to a planned adoption of reference rates which could include Secured Overnight Financing Rate ("SOFR"), amongst others. The Company has identified certain loans that renewed prior to 2021 and obtained updated reference rate language at the time of the renewal. Additionally, management is utilizing the timeline guidance published by the Alternative Reference Rates Committee to develop and achieve internal milestones during this transitional period. The Company's policy is to adhere to the International Swaps and Derivatives Association 2020 IBOR Fallbacks Protocol that was released on October 23, 2020.

The Company discontinued the use of new LIBOR-based loans by December 31, 2021, according to regulatory guidelines. The Company is working to transition LIBOR-based loans to an alternative reference rate before June 30, 2023. On December 22, 2022, the FASB issued ASU 2022-06, "*Reference Rate Reform (ASC 848): Deferral of the Sunset Date of Topic 848*", which definitively provided a sunset date of December 31, 2024 for the relief guidance allowed under Topic 848. The ASU was effective immediately upon issuance. The Company adopted the LIBOR transition relief allowed under this standard, and does not expect final adoption to have a material impact on the consolidated financial statements.

On March 28, 2023, the FASB issued ASU 2023-02, "*Investments-Equity Method and Joint Ventures (ASC 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*." ASU 2014-01, "*Investments-Equity Method and Joint Ventures (ASC 323): Accounting for Investments in Qualified Affordable Housing Projects*", previously introduced the option to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits when certain requirements are met; however, this guidance limited the proportional amortization method to investments in low-income-housing tax credit (LIHTC) structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the income statement as a component of net income tax expense (benefit). Equity investments in other tax credit structures are typically accounted for using the equity method, which results in investment income, gains and losses, and tax credits being presented gross on the income statement in their respective line items.

The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax benefits in the income statement as a component of income tax expense (benefit). To qualify for the proportional amortization method, all of the following conditions must be met: (1) It is probable that the income tax credits allocated to the tax equity investor will be available; (2) The tax equity investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying project; (3) Substantially all of the projected benefits are from income tax credits and

other income tax benefits. Projected benefits included income tax credits, other income tax benefits, and other non-income tax -related benefits. The projected benefits are determined on a discounted basis, using a discount rate that is consistent with the cash flow assumptions used by the tax equity investor in making its decision to invest in the project; (4) The tax equity investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive; and (5) The tax equity investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the tax equity investor's liability is limited to its capital investment. An accounting policy election is allowed to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. The amendments in this update require specific disclosures that must be applied to all investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method. The amendments require that a reporting entity disclose certain information in annual and interim reporting periods that enable investors to understanding the following information about its investments that generate income tax credits and other income tax benefits from a tax credit program including: (1) The nature of its tax equity investments; and (2) The effect of its tax equity investments and related income tax credits and other income tax benefits on its financial position and results of operations.

For public business entities, the amendments in this update are effective for fiscal years beginning after December 31, 2023, including interim periods within those fiscal years. Early adoption is permitted in any interim period. If early adoption is elected, it shall adopt them as of the beginning of the fiscal year that includes the interim period of adoption. The amendments in this update must be applied on either a modified retrospective or a retrospective basis. The Company is currently evaluating the impact of this standard for its LIHTC investments and the impact to noninterest income and income tax expense within the consolidated financial statements.

Reclassification

Certain amounts appearing in the consolidated financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2. SECURITIES

Debt securities purchased with the intent and ability to hold to their maturity are classified as held-to-maturity securities. All other investment securities are classified as available-for-sale securities.

Available-for-Sale Securities

Information related to the amortized cost, fair value and allowance for credit losses of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) is provided in the table below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
March 31, 2023					
U.S. Treasury securities	\$ 3,363	\$ 2	\$ (13)	\$ 0	\$ 3,352
U.S. government sponsored agencies	153,928	0	(25,933)	0	127,995
Mortgage-backed securities: residential	561,865	81	(77,484)	0	484,462
State and municipal securities	577,603	93	(85,224)	0	492,472
Total	<u>\$ 1,296,759</u>	<u>\$ 176</u>	<u>\$ (188,654)</u>	<u>\$ 0</u>	<u>\$ 1,108,281</u>
December 31, 2022					
U.S. Treasury securities	\$ 3,057	\$ 0	\$ (23)	\$ 0	\$ 3,034
U.S. government sponsored agencies	156,184	0	(29,223)	0	126,961
Mortgage-backed securities: residential	578,175	67	(85,934)	0	492,308
State and municipal securities	663,367	157	(100,299)	0	563,225
Total	<u>\$ 1,400,783</u>	<u>\$ 224</u>	<u>\$ (215,479)</u>	<u>\$ 0</u>	<u>\$ 1,185,528</u>

Held-to-Maturity Securities

Information related to the amortized cost, fair value and allowance for credit losses of securities held-to-maturity and the related gross unrealized gains and losses is presented in the table below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
March 31, 2023					
State and municipal securities	<u>\$ 128,651</u>	<u>\$ 0</u>	<u>\$ (13,118)</u>	<u>\$ 0</u>	<u>\$ 115,533</u>
December 31, 2022					
State and municipal securities	<u>\$ 128,242</u>	<u>\$ 0</u>	<u>\$ (17,213)</u>	<u>\$ 0</u>	<u>\$ 111,029</u>

On April 1, 2022, the Company elected to transfer securities from available-for-sale to held-to-maturity as an overall balance sheet management strategy. The fair value of securities transferred was \$127.0 million from available-for-sale to held-to-maturity. The unrealized loss on the securities transferred from available-for-sale to held-to-maturity was \$24.4 million (\$19.3 million, net of tax) based on the fair value of the securities on the transfer date and was \$22.4 million (\$17.7 million, net of tax) at March 31, 2023. The Company has the current intent and ability to hold the transferred securities until maturity. Any net unrealized gain or loss on the transferred securities included in accumulated other comprehensive income (loss) at the time of the transfer will be amortized over the remaining life of the underlying security as an adjustment to the yield on those securities. There were no securities transferred from available-for-sale to held-to-maturity during the three months ended March 31, 2023 or March 31, 2022.

Information regarding the amortized cost and fair value of available-for-sale and held-to-maturity debt securities by maturity as of March 31, 2023 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

(dollars in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 3,275	\$ 3,265	\$ 0	\$ 0
Due after one year through five years	4,727	4,729	0	0
Due after five years through ten years	35,349	33,808	0	0
Due after ten years	691,543	582,017	128,651	115,533
	734,894	623,819	128,651	115,533
Mortgage-backed securities	561,865	484,462	0	0
Total debt securities	\$ 1,296,759	\$ 1,108,281	\$ 128,651	\$ 115,533

Available-for-sale securities proceeds, gross gains and gross losses are presented below.

(dollars in thousands)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	Sales of securities available-for-sale	
Proceeds	\$ 87,471	\$ 0
Gross gains	411	0
Gross losses	(395)	0
Number of securities	81	0

In accordance with ASU No. 2017-8, purchase premiums for callable securities are amortized to the earliest call date and premiums on non-callable securities as well as discounts are recognized in interest income using the interest method over the terms of the securities or over the estimated lives of mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with fair values of \$855.0 million and \$298.2 million were pledged as of March 31, 2023 and December 31, 2022, respectively, as collateral for borrowings from the Federal Home Loan Bank ("FHLB") and Federal Reserve Bank and for other purposes as permitted or required by law.

Unrealized Loss Analysis on Available-for-Sale and Held-to-Maturity Securities

Information regarding available-for-sale securities with unrealized losses as of March 31, 2023 and December 31, 2022 is presented on the following page. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2023						
U.S. Treasury securities	\$ 1,373	\$ 6	\$ 791	\$ 7	\$ 2,164	\$ 13
U.S. government sponsored agencies	0	0	127,995	25,933	127,995	25,933
Mortgage-backed securities: residential	29,080	1,120	452,186	76,364	481,266	77,484
State and municipal securities	48,383	1,431	421,798	83,793	470,181	85,224
Total available-for-sale	<u>\$ 78,836</u>	<u>\$ 2,557</u>	<u>\$ 1,002,770</u>	<u>\$ 186,097</u>	<u>\$ 1,081,606</u>	<u>\$ 188,654</u>
December 31, 2022						
U.S. Treasury securities	\$ 3,034	\$ 23	\$ 0	\$ 0	\$ 3,034	\$ 23
U.S. government sponsored agencies	8,420	1,350	118,541	27,873	126,961	29,223
Mortgage-backed securities: residential	165,897	18,637	323,727	67,297	489,624	85,934
State and municipal securities	277,967	33,405	244,436	66,894	522,403	100,299
Total available-for-sale	<u>\$ 455,318</u>	<u>\$ 53,415</u>	<u>\$ 686,704</u>	<u>\$ 162,064</u>	<u>\$ 1,142,022</u>	<u>\$ 215,479</u>

Information regarding held-to-maturity securities with unrealized losses as of March 31, 2023 is presented below. The table divides the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2023						
State and municipal securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 115,533</u>	<u>\$ 13,118</u>	<u>\$ 115,533</u>	<u>\$ 13,118</u>
December 31, 2022						
State and municipal securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 111,029</u>	<u>\$ 17,213</u>	<u>\$ 111,029</u>	<u>\$ 17,213</u>

The total number of securities with unrealized losses as of March 31, 2023 and December 31, 2022 is presented below.

	Available-for-sale			Held-to-maturity		
	Less than 12 months	12 months or more	Total	Less than 12 months	12 months or more	Total
March 31, 2023						
U.S. Treasury securities	3	2	5	0	0	0
U.S. government sponsored agencies	0	17	17	0	0	0
Mortgage-backed securities: residential	32	98	130	0	0	0
State and municipal securities	57	363	420	0	41	41
Total temporarily impaired	<u>92</u>	<u>480</u>	<u>572</u>	<u>0</u>	<u>41</u>	<u>41</u>
December 31, 2022						
U.S. Treasury securities	7	0	7	0	0	0
U.S. government sponsored agencies	1	16	17	0	0	0
Mortgage-backed securities: residential	95	41	136	0	0	0
State and municipal securities	269	223	492	0	41	41
Total temporarily impaired	<u>372</u>	<u>280</u>	<u>652</u>	<u>0</u>	<u>41</u>	<u>41</u>

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for-sale debt securities in an unrealized loss position, management first assesses whether it intends to sell, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through the consolidated income statement. For available-for-sale debt securities that do not meet the above criteria and for held-to-maturity securities, management evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, management compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. For available-for-sale debt securities, any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of applicable taxes.

No allowance for credit losses for available-for-sale or held-to-maturity debt securities was recorded at March 31, 2023 or December 31, 2022. Accrued interest receivable on securities totaled \$7.6 million and \$8.9 million at March 31, 2023 and December 31, 2022, respectively, and is excluded from the estimate of credit losses.

The U.S. government sponsored agencies and mortgage-backed securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies, and have a long history of no credit losses. Therefore, for those securities, we do not record expected credit losses. State and municipal securities credit losses are benchmarked against highly rated municipal securities of similar duration, as published by Moody's, resulting in an immaterial allowance for credit losses.

NOTE 3. LOANS

(dollars in thousands)	March 31, 2023		December 31, 2022	
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 636,171	13.4 %	\$ 650,948	13.8 %
Non-working capital loans	823,447	17.3	842,101	17.9
Total commercial and industrial loans	<u>1,459,618</u>	<u>30.7</u>	<u>1,493,049</u>	<u>31.7</u>
Commercial real estate and multi-family residential loans:				
Construction and land development loans	591,812	12.4	517,664	11.0
Owner occupied loans	750,840	15.8	758,091	16.0
Nonowner occupied loans	705,830	14.8	706,107	15.0
Multifamily loans	217,274	4.5	197,232	4.2
Total commercial real estate and multi-family residential loans	<u>2,265,756</u>	<u>47.5</u>	<u>2,179,094</u>	<u>46.2</u>
Agri-business and agricultural loans:				
Loans secured by farmland	178,683	3.8	201,200	4.3
Loans for agricultural production	214,299	4.5	230,888	4.9
Total agri-business and agricultural loans	<u>392,982</u>	<u>8.3</u>	<u>432,088</u>	<u>9.2</u>
Other commercial loans:				
	132,284	2.8	113,593	2.4
Total commercial loans	<u>4,250,640</u>	<u>89.3</u>	<u>4,217,824</u>	<u>89.5</u>
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	221,616	4.7	212,742	4.5
Open end and junior lien loans	175,907	3.7	175,575	3.7
Residential construction and land development loans	20,393	0.4	19,249	0.4
Total consumer 1-4 family mortgage loans	<u>417,916</u>	<u>8.8</u>	<u>407,566</u>	<u>8.6</u>
Other consumer loans				
	89,734	1.9	88,075	1.9
Total consumer loans	<u>507,650</u>	<u>10.7</u>	<u>495,641</u>	<u>10.5</u>
Subtotal	<u>4,758,290</u>	<u>100.0 %</u>	<u>4,713,465</u>	<u>100.0 %</u>
Less: Allowance for credit losses	(71,215)		(72,606)	
Net deferred loan fees	(3,362)		(3,069)	
Loans, net	<u>\$ 4,683,713</u>		<u>\$ 4,637,790</u>	

The recorded investment in loans does not include accrued interest, which totaled \$18.4 million at both March 31, 2023 and December 31, 2022.

The Company had \$558,000 and \$306,000 in residential real estate loans in the process of foreclosure as of March 31, 2023 and December 31, 2022, respectively.

NOTE 4. ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY

The Company maintains an allowance for credit losses to provide for expected credit losses. Losses are charged against the allowance when management believes that the principal is uncollectable. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance are made for specific loans and for pools of similar types of loans, although the entire allowance is available for any loan that, in management's judgment, should be charged against the allowance. A provision for credit losses is taken based on management's ongoing evaluation of the appropriate allowance balance. A formal evaluation of the adequacy of the credit loss allowance is conducted monthly. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The level of credit loss provision is influenced by growth in the overall loan portfolio, emerging market risk, emerging concentration risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss analysis. In addition, management gives consideration to changes in the facts and circumstances

of watch list credits, which includes the security position of the borrower, in determining the appropriate level of the credit loss provision. Furthermore, management's overall view on credit quality is a factor in the determination of the provision.

The determination of the appropriate allowance is inherently subjective, as it requires significant estimates by management. The Company has an established process to determine the adequacy of the allowance for credit losses that generally includes consideration of changes in the nature and volume of the loan portfolio and overall portfolio quality, along with current and forecasted economic conditions that may affect borrowers' ability to repay. Consideration is not limited to these factors although they represent the most commonly cited factors. To determine the specific allocation levels for individual credits, management considers the current valuation of collateral and the amounts and timing of expected future cash flows as the primary measures. Management also considers trends in adversely classified loans based upon an ongoing review of those credits. With respect to pools of similar loans, an appropriate level of general allowance is determined by portfolio segment using a probability of default-loss given default ("PD/LGD") model, subject to a floor. A default can be triggered by one of several different asset quality factors, including past due status, nonaccrual status, material modification status or if the loan has had a charge-off. This PD is then combined with a LGD derived from historical charge-off data to construct a default rate. This loss rate is then supplemented with adjustments for reasonable and supportable forecasts of relevant economic indicators, particularly the unemployment rate forecast from the Federal Open Market Committee's Summary of Economic Projections, and other environmental factors based on the risks present for each portfolio segment. These environmental factors include consideration of the following: levels of, and trends in, delinquencies and nonperforming loans; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedure, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. It is also possible that these factors could include social, political, economic, and terrorist events or activities. All of these factors are susceptible to change, which may be significant. As a result of this detailed process, the allowance results in two forms of allocations, specific and general. These two components represent the total allowance for credit losses deemed adequate to cover probable losses inherent in the loan portfolio.

Commercial loans are subject to a dual standardized grading process administered by the credit administration function. These grade assignments are performed independent of each other and a consensus is reached by credit administration and the loan review officer. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that indicate it should be evaluated on an individual basis. Considerations with respect to specific allocations for these individual credits include, but are not limited to, the following: (a) the sufficiency of the customer's cash flow or net worth to repay the loan; (b) the adequacy of the discounted value of collateral relative to the loan balance; (c) whether the loan has been criticized in a regulatory examination; (d) whether the loan is nonperforming; (e) any other reasons the ultimate collectability of the loan may be in question; or (f) any unique loan characteristics that require special monitoring.

Allocations are also applied to categories of loans considered not to be individually analyzed, but for which the rate of loss is expected to be consistent with or greater than historical averages. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values. These general pooled loan allocations are performed for portfolio segments of commercial and industrial; commercial real estate, multi-family, and construction; agri-business and agricultural; other commercial loans; and consumer 1-4 family mortgage and other consumer loans. General allocations of the allowance are determined by a historical loss rate based on the calculation of each pool's probability of default-loss given default, subject to a floor. The length of the historical period for each pool is based on the average life of the pool. The historical loss rates are supplemented with consideration of economic conditions and portfolio trends.

Due to the imprecise nature of estimating the allowance for credit losses, the Company's allowance for credit losses includes an immaterial unallocated component. The unallocated component of the allowance for credit losses incorporates the Company's judgmental determination of potential expected losses that may not be fully reflected in other allocations. As a practical expedient, the Company has elected to disclose accrued interest separately from loan principal balances on the consolidated balance sheet. Additionally, when a loan is placed on non-accrual, interest payments are reversed through interest income.

For off balance sheet credit exposures outlined in the ASU at 326-20-30-11, it is the Company's position that nearly all of the unfunded amounts on lines of credit are unconditionally cancellable, and therefore not subject to having a liability recorded.

The following tables present the activity in the allowance for credit losses by portfolio segment for the periods ended:

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended March 31, 2023								
Beginning balance, January 1	\$ 35,290	\$ 27,394	\$ 4,429	\$ 917	\$ 3,001	\$ 1,021	\$ 554	\$ 72,606
Provision for credit losses	1,504	1,642	192	117	394	215	286	4,350
Loans charged-off	(5,644)	0	0	0	0	(252)	0	(5,896)
Recoveries	40	0	0	0	3	112	0	155
Net loans (charged-off) recovered	(5,604)	0	0	0	3	(140)	0	(5,741)
Ending balance	\$ 31,190	\$ 29,036	\$ 4,621	\$ 1,034	\$ 3,398	\$ 1,096	\$ 840	\$ 71,215

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended March 31, 2022								
Beginning balance, January 1	\$ 30,595	\$ 26,535	\$ 5,034	\$ 1,146	\$ 2,866	\$ 1,147	\$ 450	\$ 67,773
Provision for credit losses	730	319	(273)	(88)	(248)	(55)	32	417
Loans charged-off	(19)	(597)	0	0	(22)	(102)	0	(740)
Recoveries	16	0	0	0	10	50	0	76
Net loans (charged-off) recovered	(3)	(597)	0	0	(12)	(52)	0	(664)
Ending balance	\$ 31,322	\$ 26,257	\$ 4,761	\$ 1,058	\$ 2,606	\$ 1,040	\$ 482	\$ 67,526

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for Special Mention, Substandard and Doubtful grade loans and annually on Pass grade loans over \$250,000.

The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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

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

Loans are considered to be "Pass" rated when they are reviewed as part of the previously described process and do not meet the criteria above, which are evaluated and listed with Substandard commercial grade loans and consumer nonaccrual loans which are evaluated individually and listed with "Not Rated" loans. Loans listed as Not Rated are consumer loans or commercial loans with consumer characteristics included in groups of homogenous loans which are analyzed for credit quality indicators utilizing delinquency status.

The following table summarizes the risk category of loans by loan segment and origination date as of March 31, 2023:

(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Term Total	Revolving	Total
Commercial and industrial loans:									
Working capital lines of credit loans:									
Pass	\$ 0	\$ 2,124	\$ 2,593	\$ 1,481	\$ 0	\$ 0	\$ 6,198	\$ 556,280	\$ 562,478
Special Mention	0	0	0	0	0	0	0	60,734	60,734
Substandard	0	200	75	0	294	0	569	12,481	13,050
Total	0	2,324	2,668	1,481	294	0	6,767	629,495	636,262
Working capital lines of credit loans:									
Current period gross write offs	0	0	0	0	0	0	0	115	115
Non-working capital loans:									
Pass	43,158	281,527	114,682	80,677	43,048	19,298	582,390	207,400	789,790
Special Mention	228	438	2,710	182	1,516	4,197	9,271	3,774	13,045
Substandard	0	4,657	847	5,005	63	3,517	14,089	0	14,089
Not Rated	481	2,689	1,362	1,149	347	100	6,128	0	6,128
Total	43,867	289,311	119,601	87,013	44,974	27,112	611,878	211,174	823,052
Non-working capital loans:									
Current period gross write offs	0	5,400	0	0	118	0	5,518	11	5,529
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	11,178	21,680	10,108	13,394	307	0	56,667	532,319	588,986
Total	11,178	21,680	10,108	13,394	307	0	56,667	532,319	588,986
Construction and land development loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Owner occupied loans:									
Pass	41,335	133,261	161,199	133,597	71,267	148,460	689,119	37,815	726,934
Special Mention	0	709	9,240	0	340	9,400	19,689	0	19,689
Substandard	228	293	105	1,484	367	1,161	3,638	0	3,638
Total	41,563	134,263	170,544	135,081	71,974	159,021	712,446	37,815	750,261
Owner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Nonowner occupied loans:									
Pass	14,636	183,211	122,667	135,383	90,727	77,127	623,751	70,798	694,549
Special Mention	4,311	0	6,538	0	0	0	10,849	0	10,849
Total	18,947	183,211	129,205	135,383	90,727	77,127	634,600	70,798	705,398
Nonowner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Multifamily loans:									
Pass	24,397	38,336	25,633	36,606	34,018	30,589	189,579	7,484	197,063
Special Mention	0	19,935	0	0	0	0	19,935	0	19,935
Total	24,397	58,271	25,633	36,606	34,018	30,589	209,514	7,484	216,998
Multifamily loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Agri-business and agricultural loans:									
Loans secured by farmland:									
Pass	10,479	36,609	26,692	28,470	9,103	24,951	136,304	38,774	175,078
Special Mention	0	0	0	1,676	1,760	15	3,451	0	3,451
Substandard	0	0	0	0	0	135	135	0	135
Total	10,479	36,609	26,692	30,146	10,863	25,101	139,890	38,774	178,664
Loans secured by farmland:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Loans for agricultural production:									
Pass	4,692	6,438	29,344	21,411	3,305	12,161	77,351	125,107	202,458
Special Mention	0	946	224	7,248	928	0	9,346	2,594	11,940
Total	4,692	7,384	29,568	28,659	4,233	12,161	86,697	127,701	214,398
Loans for agricultural production:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other commercial loans:									
Pass	14,621	26,709	39,515	17,279	133	11,139	109,396	19,727	129,123
Special Mention	0	0	0	0	0	2,916	2,916	0	2,916

Total	14,621	26,709	39,515	17,279	133	14,055	112,312	19,727	132,039
Other commercial loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Consumer 1-4 family mortgage loans:									
Closed end first mortgage loans:									
Pass	1,845	10,792	12,589	11,867	4,727	6,621	48,441	4,404	52,845
Special Mention	0	0	0	544	0	0	544	0	544
Substandard	0	0	96	0	0	305	401	0	401
Not Rated	16,117	56,666	42,402	18,380	5,104	28,844	167,513	0	167,513
Total	17,962	67,458	55,087	30,791	9,831	35,770	216,899	4,404	221,303
Closed end first mortgage loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Open end and junior lien loans:									
Pass	0	137	529	351	0	74	1,091	6,903	7,994
Substandard	0	0	0	0	29	48	77	138	215
Not Rated	4,234	40,983	12,227	2,560	3,303	3,183	66,490	103,040	169,530
Total	4,234	41,120	12,756	2,911	3,332	3,305	67,658	110,081	177,739
Open end and junior lien loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Residential construction loans:									
Not Rated	965	15,099	1,739	884	283	1,337	20,307	0	20,307
Total	965	15,099	1,739	884	283	1,337	20,307	0	20,307
Residential construction loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other consumer loans:									
Pass	2,006	846	1,699	408	0	0	4,959	16,793	21,752
Substandard	0	0	0	0	209	0	209	0	209
Not Rated	6,118	22,920	13,291	8,145	2,950	3,326	56,750	10,810	67,560
Total	8,124	23,766	14,990	8,553	3,159	3,326	61,918	27,603	89,521
Other consumer loans:									
Current period gross write offs	0	106	62	6	7	1	182	70	252
Total period gross write offs	0	5,506	62	6	125	1	5,700	196	5,896
Total Loans	\$ 201,029	\$ 907,205	\$ 638,106	\$ 528,181	\$ 274,128	\$ 388,904	\$ 2,937,553	\$ 1,817,375	\$ 4,754,928

As of March 31, 2023, \$1.5 million in PPP loans were included in the "Pass" category of non-working capital commercial and industrial loans. These loans were included in this risk rating category because they are fully guaranteed by the Small Business Administration ("SBA").

The following table summarizes the risk category of loans by loan segment and origination date as of December 31, 2022:

(dollars in thousands)	2022	2021	2020	2019	2018	Prior	Term Total	Revolving	Total
Commercial and industrial loans:									
Working capital lines of credit loans:									
Pass	\$ 2,207	\$ 2,718	\$ 1,601	\$ 0	\$ 0	\$ 0	\$ 6,526	\$ 597,108	\$ 603,634
Special Mention	0	0	0	0	0	0	0	36,410	36,410
Substandard	200	0	0	300	0	0	500	10,495	10,995
Total	2,407	2,718	1,601	300	0	0	7,026	644,013	651,039
Non-working capital loans:									
Pass	272,273	124,600	91,850	47,711	9,981	13,670	560,085	240,490	800,575
Special Mention	448	1,620	0	109	159	2,961	5,297	2,153	7,450
Substandard	11,831	872	5,021	194	1,351	3,979	23,248	4,171	27,419
Not Rated	2,891	1,550	1,254	413	120	23	6,251	0	6,251
Total	287,443	128,642	98,125	48,427	11,611	20,633	594,881	246,814	841,695
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	26,889	19,944	14,026	356	0	0	61,215	453,953	515,168
Total	26,889	19,944	14,026	356	0	0	61,215	453,953	515,168
Owner occupied loans:									
Pass	113,656	179,014	139,880	97,353	65,519	97,335	692,757	40,533	733,290
Special Mention	2,960	7,608	0	446	1,491	8,054	20,559	0	20,559
Substandard	308	105	1,491	373	1,161	229	3,667	0	3,667
Total	116,924	186,727	141,371	98,172	68,171	105,618	716,983	40,533	757,516
Nonowner occupied loans:									
Pass	194,294	125,190	134,661	91,907	15,109	64,874	626,035	68,603	694,638
Special Mention	0	11,024	0	0	0	0	11,024	0	11,024
Total	194,294	136,214	134,661	91,907	15,109	64,874	637,059	68,603	705,662
Multifamily loans:									
Pass	38,460	25,741	36,929	35,695	2,046	28,866	167,737	7,349	175,086
Special Mention	21,855	0	0	0	0	0	21,855	0	21,855
Total	60,315	25,741	36,929	35,695	2,046	28,866	189,592	7,349	196,941
Agri-business and agricultural loans:									
Loans secured by farmland:									
Pass	38,344	28,684	29,741	9,656	8,145	19,638	134,208	63,094	197,302
Special Mention	260	0	1,676	1,780	0	15	3,731	0	3,731
Substandard	0	0	0	0	0	145	145	0	145
Total	38,604	28,684	31,417	11,436	8,145	19,798	138,084	63,094	201,178
Loans for agricultural production:									
Pass	6,040	30,262	22,167	3,625	9,248	4,539	75,881	143,599	219,480
Special Mention	947	243	7,262	928	0	0	9,380	2,129	11,509
Total	6,987	30,505	29,429	4,553	9,248	4,539	85,261	145,728	230,989
Other commercial loans:									
Pass	27,097	4,815	17,911	147	931	10,985	61,886	48,295	110,181
Special Mention	0	0	0	0	0	3,160	3,160	0	3,160
Total	27,097	4,815	17,911	147	931	14,145	65,046	48,295	113,341
Consumer 1-4 family mortgage loans:									
Closed end first mortgage loans:									
Pass	8,768	12,809	12,289	4,805	4,045	3,860	46,576	5,634	52,210
Special Mention	0	0	552	0	0	0	552	0	552
Substandard	0	0	0	0	83	1,944	2,027	0	2,027
Not Rated	57,404	44,331	20,023	5,936	2,970	27,004	157,668	0	157,668
Total	66,172	57,140	32,864	10,741	7,098	32,808	206,823	5,634	212,457
Open end and junior lien loans:									
Pass	137	541	357	63	75	0	1,173	5,841	7,014
Substandard	0	0	0	31	49	0	80	111	191
Not Rated	44,472	13,597	3,014	3,616	1,476	2,252	68,427	101,750	170,177
Total	44,609	14,138	3,371	3,710	1,600	2,252	69,680	107,702	177,382
Residential construction loans:									
Not Rated	14,463	2,167	897	291	129	1,223	19,170	0	19,170

Total	14,463	2,167	897	291	129	1,223	19,170	0	19,170
Other consumer loans:									
Pass	1,344	1,841	432	600	0	948	5,165	16,152	21,317
Substandard	0	0	0	210	0	0	210	0	210
Not Rated	24,395	14,563	9,168	3,606	2,755	1,352	55,839	10,492	66,331
Total	25,739	16,404	9,600	4,416	2,755	2,300	61,214	26,644	87,858
TOTAL	\$ 911,943	\$ 653,839	\$ 552,202	\$ 310,151	\$ 126,843	\$ 297,056	\$ 2,852,034	\$ 1,858,362	\$ 4,710,396

As of December 31, 2022, \$1.5 million in PPP loans were included in the "Pass" category of non-working capital commercial and industrial loans. These loans were included in this risk rating category because they are fully guaranteed by the SBA.

Nonaccrual and Past Due Loans:

The Company does not record interest on nonaccrual loans until principal is recovered. For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectability of principal or interest. Interest accrued but not received is reversed against earnings. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for a prescribed period, and future payments are reasonably assured.

The following table presents the aging of the amortized cost basis in past due loans as of March 31, 2023 by class of loans and loans past due 90 days or more and still accruing by class of loan:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 89 Days Past Due and Accruing	Total Accruing	Total Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Total
Commercial and industrial loans:							
Working capital lines of credit loans	\$ 628,672	\$ 1,750	\$ 0	\$ 624,582	\$ 5,840	\$ 75	\$ 636,262
Non-working capital loans	815,150	31	0	807,310	7,871	747	823,052
Commercial real estate and multi-family residential loans:							
Construction and land development loans	588,986	0	0	588,986	0	0	588,986
Owner occupied loans	747,217	0	0	744,173	3,044	1,454	750,261
Nonowner occupied loans	705,398	0	0	705,398	0	0	705,398
Multifamily loans	216,998	0	0	216,998	0	0	216,998
Agri-business and agricultural loans:							
Loans secured by farmland	178,529	0	0	178,394	135	0	178,664
Loans for agricultural production	214,398	0	0	214,398	0	0	214,398
Other commercial loans	132,039	0	0	132,039	0	0	132,039
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	220,501	373	25	220,495	404	252	221,303
Open end and junior lien loans	177,388	138	0	177,313	213	213	177,739
Residential construction loans	20,307	0	0	20,307	0	0	20,307
Other consumer loans	89,203	111	0	89,107	207	5	89,521
Total	\$ 4,734,786	\$ 2,403	\$ 25	\$ 4,719,500	\$ 17,714	\$ 2,746	\$ 4,754,928

As of March 31, 2023 there were an insignificant number of loans 30-89 days past due or greater than 89 days past due on nonaccrual. Additionally, interest income recognized on nonaccrual loans was insignificant during the three month period ended March 31, 2023.

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 2022 by class of loans and loans past due 90 days or more and still accruing by class of loan:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 89 Days Past Due and Accruing	Total Accruing	Total Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Total
Commercial and industrial loans:							
Working capital lines of credit loans	\$ 649,529	\$ 68	\$ 0	\$ 649,597	\$ 1,442	\$ 0	\$ 651,039
Non-working capital loans	830,033	39	1	830,073	11,622	727	841,695
Commercial real estate and multi-family residential loans:							
Construction and land development loans	515,168	0	0	515,168	0	0	515,168
Owner occupied loans	754,451	0	0	754,451	3,065	1,469	757,516
Nonowner occupied loans	705,662	0	0	705,662	0	0	705,662
Multifamily loans	196,941	0	0	196,941	0	0	196,941
Agri-business and agricultural loans:							
Loans secured by farmland	201,033	0	0	201,033	145	0	201,178
Loans for agricultural production	230,989	0	0	230,989	0	0	230,989
Other commercial loans	113,341	0	0	113,341	0	0	113,341
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	211,736	306	122	212,164	293	225	212,457
Open end and junior lien loans	176,758	436	0	177,194	188	188	177,382
Residential construction loans	19,170	0	0	19,170	0	0	19,170
Other consumer loans	87,333	316	0	87,649	209	6	87,858
Total	\$ 4,692,144	\$ 1,165	\$ 123	\$ 4,693,432	\$ 16,964	\$ 2,615	\$ 4,710,396

As of December 31, 2022 there were an insignificant number of loans 30-89 days past due or greater than 89 days past due on nonaccrual. Additionally, interest income recognized on nonaccrual loans was insignificant during the year ended December 31, 2022.

When management determines that foreclosure is probable, expected credit losses for collateral dependent loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. A loan is considered collateral dependent when the borrower is experiencing financial difficulty and the loan is expected to be repaid substantially through the operation or sale of the collateral. The class of loan represents the primary collateral type associated with the loan. Significant quarter over quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraisal value.

The following tables present the amortized cost basis of collateral dependent loans by class of loan as of:

(dollars in thousands)	March 31, 2023			
	Real Estate	General Business Assets	Other	Total
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 50	\$ 5,640	\$ 0	\$ 5,690
Non-working capital loans	527	7,017	229	7,773
Commercial real estate and multi-family residential loans:				
Owner occupied loans	765	1,484	0	2,249
Agri-business and agricultural loans:				
Loans secured by farmland	0	135	1,161	1,296
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	404	0	0	404
Open end and junior lien loans	213	0	0	213
Other consumer loans	0	0	5	5
Total	\$ 1,959	\$ 14,276	\$ 1,395	\$ 17,630

(dollars in thousands)	December 31, 2022			
	Real Estate	General Business Assets	Other	Total
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 50	\$ 5,402	\$ 0	\$ 5,452
Non-working capital loans	544	18,109	229	18,882
Commercial real estate and multi-family residential loans:				
Owner occupied loans	413	1,491	1,161	3,065
Agri-business and agricultural loans:				
Loans secured by farmland	0	145	0	145
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	2,030	0	0	2,030
Open end and junior lien loans	188	0	0	188
Other consumer loans	0	0	7	7
Total	\$ 3,225	\$ 25,147	\$ 1,397	\$ 29,769

Loan Modifications Made to Borrowers Experiencing Financial Difficulty:

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon origination. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made at the time of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness that is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses. Additionally, the Company may allow a loan to go interest only for a specified period of time.

During the three months ended March 31, 2023 and March 31, 2022, no loans received a material modification based on borrower financial difficulty.

NOTE 5. BORROWINGS

For the period ended March 31, 2023, the Company had an advance outstanding from the Federal Home Loan Bank ("FHLB") in the amount of \$200.0 million. The outstanding advance was a fixed rate bullet advance with an interest rate of 4.86% and matured April 4, 2023. For the period ended December 31, 2022, the Company had a fixed rate bullet advance from the FHLB with an interest rate of 4.21% of \$275.0 million that matured on January 5, 2023.

On August 2, 2019 the Company entered into an unsecured revolving credit agreement with another financial institution allowing the Company to borrow up to \$30.0 million; this credit agreement was subsequently amended and renewed on July 30, 2022. Funds provided under the agreement may be used to repurchase shares of the Company's common stock under the share repurchase program, which was reauthorized by the Company's board of directors on April 11, 2023 and expires on April 30, 2025, and for general operations. The credit agreement includes a negative pledge agreement whereby the Company agrees not to pledge or otherwise encumber the stock of the Bank. The credit agreement has a one year term which may be amended, extended, modified or renewed. There were no outstanding borrowings on the credit agreement at March 31, 2023 and December 31, 2022.

NOTE 6. FAIR VALUE DISCLOSURES

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

- Level 1** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3** Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Securities: Securities available-for-sale are valued primarily by a third party pricing service. The fair values of securities available-for-sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or pricing models which utilize significant observable inputs such as matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). These models utilize the market approach with standard inputs that include, but are not limited to benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain municipal securities that are not rated and observable inputs about the specific issuer are not available, fair values are estimated using observable data from other municipal securities presumed to be similar or other market data on other non-rated municipal securities (Level 3 inputs).

The Company's Finance Department, which is responsible for all accounting and SEC disclosure compliance, and the Company's Treasury Department, which is responsible for investment portfolio management and asset/liability modeling, are the two areas that determine the Company's valuation policies and procedures. Both of these areas report directly to the Executive Vice President and Chief Financial Officer of the Company. For assets or liabilities that may be considered for Level 3 fair value measurement on a recurring basis, these two departments and the Executive Vice President and Chief Financial Officer determine the appropriate level of the assets or liabilities under consideration. If there are new assets or liabilities that are determined to be Level 3 by this group, the Risk Management Committee of the Company and the Audit Committee of the Board are made aware of such assets at their next scheduled meeting.

Securities pricing is obtained on securities from a third party pricing service and all security prices are tested annually against prices from another third party provider and reviewed with a market value price tolerance variance that varies by sector: municipal securities +/-5%, government MBS/CMO +/-3% and U.S. treasuries +/-1%. If any securities fall outside the tolerance threshold and have a variance of \$100,000 or more, a determination of materiality is made for the amount over the threshold. Any security that would have a material threshold difference would be further investigated to determine why the variance exists and if any action is needed concerning the security pricing for that individual security. Changes in market value are reviewed monthly in aggregate by security type and any material changes are reviewed to determine why they exist. At least annually, the pricing methodology of the pricing service is received and reviewed to support the fair value levels used by the Company. A detailed pricing evaluation is requested and reviewed on any security determined to be fair valued using unobservable inputs by the pricing service.

Mortgage banking derivative: The fair values of mortgage banking derivatives are based on observable market data as of the measurement date (Level 2).

Interest rate swap derivatives: Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The fair value of interest rate swap derivatives is determined by pricing or valuation models using observable market data as of the measurement date (Level 2).

Collateral dependent loans: Collateral dependent loans with specific allocations of the allowance for credit losses are generally based on the fair value of the underlying collateral when repayment is expected solely from the collateral. Fair value is determined using several methods. Generally, the fair value of real estate is based on appraisals by qualified third party appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and result in a Level 3 classification of the inputs for determining fair value. In addition, the Company's management routinely applies internal discount factors to the value of appraisals used in the fair value evaluation of collateral dependent loans. The deductions to the appraisals take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. Commercial real estate is generally discounted from its appraised value by 30-50% with the higher discounts applied to real estate that is determined to have a thin trading market or to be specialized collateral. In addition to real estate, the Company's management evaluates other types of collateral as follows: (a) raw and finished inventory is discounted from its cost or book value by 40-60%, depending on the marketability of the goods (b) finished goods are generally discounted by 40-60%, depending on the ease of marketability, cost of transportation or scope of use of the finished good (c) work in process inventory is typically discounted by 60%-100%, depending on the length of manufacturing time, types of components used in the completion process, and the breadth of the user base (d) equipment is valued at a percentage of depreciated book value or recent appraised value, if available, and is typically discounted at 20-50% after various considerations including age and condition of the equipment, marketability, breadth of use, and whether the equipment includes unique components or add-ons; and (e) marketable securities are discounted by 10%-30%, depending on the type of investment, age of valuation report and general market conditions. This methodology is based on a market approach and typically results in a Level 3 classification of the inputs for determining fair value.

Mortgage servicing rights: As of March 31, 2023, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was \$2.5 million, carried at amortized cost and no valuation reserve. These residential mortgage loans have a weighted average interest rate of 3.5%, a weighted average maturity of 20 years and are secured by homes generally within the Company's market area of Northern Indiana and Indianapolis. A third-party valuation is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees and float income. The most significant assumption used to value MSRs is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At March 31, 2023, the constant prepayment speed ("PSA") used was 157 and discount rate used was 9.5%. At December 31, 2022, the PSA used was 159 and the discount rate used was 9.5%.

Other real estate owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are reviewed by the Company's internal appraisal officer. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable properties used to determine value. Such adjustments are usually significant and result in a Level 3 classification. In addition, the Company's management may apply discount factors to the appraisals to take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Real estate mortgage loans held-for-sale: Real estate mortgage loans held-for-sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors, and result in a Level 2 classification.

The tables below present the balances of assets measured at fair value on a recurring basis:

(dollars in thousands)	March 31, 2023			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
U.S. Treasury securities	\$ 3,352	\$ 0	\$ 0	\$ 3,352
U.S. government sponsored agency securities	0	127,995	0	127,995
Mortgage-backed securities: residential	0	484,462	0	484,462
State and municipal securities	0	490,437	2,035	492,472
Total securities available-for-sale	3,352	1,102,894	2,035	1,108,281
Mortgage banking derivative	0	47	0	47
Interest rate swap derivative	0	30,011	0	30,011
Total assets	\$ 3,352	\$ 1,132,952	\$ 2,035	\$ 1,138,339
Liabilities:				
Mortgage banking derivative	\$ 0	\$ 4	\$ 0	\$ 4
Interest rate swap derivative	0	30,013	0	30,013
Total liabilities	\$ 0	\$ 30,017	\$ 0	\$ 30,017

(dollars in thousands)	December 31, 2022			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
U.S. Treasury securities	\$ 3,034	\$ 0	\$ 0	\$ 3,034
U.S. government sponsored agency securities	0	126,961	0	126,961
Mortgage-backed securities: residential	0	492,308	0	492,308
State and municipal securities	0	561,150	2,075	563,225
Total securities available-for-sale	3,034	1,180,419	2,075	1,185,528
Mortgage banking derivative	0	43	0	43
Interest rate swap derivative	0	36,920	0	36,920
Total assets	\$ 3,034	\$ 1,217,382	\$ 2,075	\$ 1,222,491
Liabilities:				
Mortgage banking derivative	\$ 0	\$ 0	\$ 0	\$ 0
Interest rate swap derivative	0	36,921	0	36,921
Total liabilities	\$ 0	\$ 36,921	\$ 0	\$ 36,921

The fair value of Level 3 available-for-sale securities was immaterial and thus did not require additional recurring fair value disclosure.

The tables below present the balances of assets measured at fair value on a nonrecurring basis:

(dollars in thousands)	March 31, 2023			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 2,858	\$ 2,858
Non-working capital loans	0	0	2,559	2,559
Commercial real estate and multi-family residential loans:				
Owner occupied loans	0	0	429	429
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	33	33
Total collateral dependent loans	0	0	5,879	5,879
Other real estate owned	0	0	100	100
Total assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,979</u>	<u>\$ 5,979</u>

(dollars in thousands)	December 31, 2022			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 3,178	\$ 3,178
Non-working capital loans	0	0	8,354	8,354
Commercial real estate and multi-family residential loans:				
Owner occupied loans	0	0	425	425
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	35	35
Total collateral dependent loans	0	0	11,992	11,992
Other real estate owned	0	0	100	100
Total assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,092</u>	<u>\$ 12,092</u>

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at March 31, 2023:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	\$ 5,417	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	66 %	40%-99%
Collateral dependent loans:					
Commercial real estate and multi-family residential loans	429	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	56 %	37%-76%
Collateral dependent loans:					
Agri-business and agricultural	33	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	76 %	
Other real estate owned	100	Appraisals	Discount to reflect current market conditions and ultimate collectability	68 %	

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2022:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	\$ 11,532	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	62 %	29%-99%
Collateral dependent loans:					
Commercial real estate and multi-family residential loans	425	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	57 %	37%-76%
Collateral dependent loans:					
Agri-business and agricultural	35	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	76 %	
Other real estate owned	100	Appraisals	Discount to reflect current market conditions and ultimate collectability	68 %	

The following tables contain the estimated fair values and the related carrying values of the Company's financial instruments. Items that are not financial instruments are not included.

(dollars in thousands)	March 31, 2023				
	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$ 153,521	\$ 152,800	\$ 721	\$ 0	\$ 153,521
Securities available-for-sale	1,108,281	3,352	1,102,894	2,035	1,108,281
Securities held-to-maturity	128,651	0	115,533	0	115,533
Real estate mortgages held-for-sale	508	0	518	0	518
Loans, net	4,683,713	0	0	4,505,890	4,505,890
Mortgage banking derivative	47	0	47	0	47
Interest rate swap derivative	30,011	0	30,011	0	30,011
Federal Reserve and Federal Home Loan Bank Stock	15,795	N/A	N/A	N/A	N/A
Accrued interest receivable	26,883	0	8,532	18,351	26,883
Financial Liabilities:					
Certificates of deposit	764,163	0	762,852	0	762,852
All other deposits	4,753,565	4,753,565	0	0	4,753,565
Mortgage banking derivative	4	0	4	0	4
Interest rate swap derivative	30,013	0	30,013	0	30,013
Standby letters of credit	216	0	0	216	216
Accrued interest payable	5,425	420	5,005	0	5,425

(dollars in thousands)	December 31, 2022				
	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$ 130,282	\$ 129,069	\$ 1,213	\$ 0	\$ 130,282
Securities available-for-sale	1,185,528	3,034	1,180,419	2,075	1,185,528
Securities held-to-maturity	128,242	0	111,029	0	111,029
Real estate mortgages held-for-sale	357	0	372	0	372
Loans, net	4,637,790	0	0	4,454,678	4,454,678
Mortgage banking derivative	43	0	43	0	43
Interest rate swap derivative	36,920	0	36,920	0	36,920
Federal Reserve and Federal Home Loan Bank Stock	15,795	N/A	N/A	N/A	N/A
Accrued interest receivable	27,994	0	9,598	18,396	27,994
Financial Liabilities:					
Certificates of deposit	626,186	0	621,206	0	621,206
All other deposits	4,834,434	4,834,434	0	0	4,834,434
Federal Funds purchased	22,000	22,000	0	0	22,000
Federal Home Loan Bank advances	275,000	275,000	0	0	275,000
Interest rate swap derivative	36,921	0	36,921	0	36,921
Standby letters of credit	249	0	0	249	249
Accrued interest payable	3,186	486	2,700	0	3,186

NOTE 7. OFFSETTING ASSETS AND LIABILITIES

The following tables summarize gross and net information about financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to an enforceable master netting arrangement at March 31, 2023 and December 31, 2022.

(dollars in thousands)	March 31, 2023					
	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Position	
Assets						
Interest Rate Swap Derivatives	\$ 30,011	\$ 0	\$ 30,011	\$ 0	\$ (27,385)	\$ 2,626
Total Assets	<u>\$ 30,011</u>	<u>\$ 0</u>	<u>\$ 30,011</u>	<u>\$ 0</u>	<u>\$ (27,385)</u>	<u>\$ 2,626</u>
Liabilities						
Interest Rate Swap Derivatives	\$ 30,013	\$ 0	\$ 30,013	\$ 0	\$ (90)	\$ 29,923
Total Liabilities	<u>\$ 30,013</u>	<u>\$ 0</u>	<u>\$ 30,013</u>	<u>\$ 0</u>	<u>\$ (90)</u>	<u>\$ 29,923</u>

December 31, 2022

(dollars in thousands)	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Position	Net Amount
Assets						
Interest Rate Swap Derivatives	\$ 36,920	\$ 0	\$ 36,920	\$ 0	\$ (34,185)	\$ 2,735
Total Assets	\$ 36,920	\$ 0	\$ 36,920	\$ 0	\$ (34,185)	\$ 2,735
Liabilities						
Interest Rate Swap Derivatives	\$ 36,921	\$ 0	\$ 36,921	\$ 0	\$ (90)	\$ 36,831
Total Liabilities	\$ 36,921	\$ 0	\$ 36,921	\$ 0	\$ (90)	\$ 36,831

If an event of default occurs causing an early termination of an interest rate swap derivative, any early termination amount payable to one party by the other party may be reduced by set-off against any other amount payable by the one party to the other party. If a default in performance of any obligation of a repurchase agreement occurs, each party will set-off property held in respect of transactions against obligations owing in respect of any other transactions.

NOTE 8. EARNINGS PER SHARE

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period, which includes shares held in treasury on behalf of participants in the Company's Directors Fee Deferral Plan, and share repurchases. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock based awards and warrants, none of which were antidilutive.

	Three Months Ended March 31,	
	2023	2022
Weighted average shares outstanding for basic earnings per common share	25,583,026	25,515,271
Dilutive effect of stock based awards	159,859	175,101
Weighted average shares outstanding for diluted earnings per common share	25,742,885	25,690,372
Basic earnings per common share	\$ 0.95	\$ 0.93
Diluted earnings per common share	\$ 0.94	\$ 0.92

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the three months ended March 31, 2023 and 2022, all shown net of tax:

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sales Securities	Defined Benefit Pension Items	Total
	Balance at January 1, 2023	\$ (188,154)	\$ (769)
Other comprehensive income (loss) before reclassification	21,167	0	21,167
Amounts reclassified from accumulated other comprehensive income (loss)	375	11	386
Net current period other comprehensive income (loss)	21,542	11	21,553
Balance at March 31, 2023	\$ (166,612)	\$ (758)	\$ (167,370)

(dollars in thousands)	Unrealized Gains and Losses on Available- for-Sales Securities	Defined Benefit Pension Items	Total
Balance at January 1, 2022	\$ 17,056	\$ (963)	\$ 16,093
Other comprehensive income (loss) before reclassification	(109,807)	0	(109,807)
Amounts reclassified from accumulated other comprehensive income (loss)	0	27	27
Net current period other comprehensive income (loss)	(109,807)	27	(109,780)
Balance at March 31, 2022	<u>\$ (92,751)</u>	<u>\$ (936)</u>	<u>\$ (93,687)</u>

Reclassifications out of other accumulated comprehensive loss for the three months ended March 31, 2023 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	\$ (491)	Interest income
Realized gains and (losses) on available-for-sale securities	16	Net securities gains
Tax effect	100	Income tax expense
	<u>(375)</u>	Net of tax
Amortization of defined benefit pension items	(15)	Other expense
Tax effect	4	Income tax expense
	<u>(11)</u>	Net of tax
Total reclassifications for the period	<u>\$ (386)</u>	Net income

Reclassifications out of other accumulated comprehensive income for the three months ended March 31, 2022 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of defined benefit pension items	\$ (36)	Other expense
Tax effect	9	Income tax expense
	<u>(27)</u>	Net of tax
Total reclassifications for the period	<u>\$ (27)</u>	Net income

NOTE 10. LEASES

The Company leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2037 and some include renewal options. Many of these leases require the payment of property taxes, insurance premiums, maintenance, utilities and other costs. In many cases, rentals are subject to increase in relation to a cost-of-living index. The Company accounts for lease and non-lease components together as a single lease component. The Company determines if an arrangement is a lease at inception. Operating leases are recorded as a right-of-use ("ROU") lease assets and are included in other assets on the consolidated balance sheet. The Company's corresponding lease obligations are included in other liabilities on the consolidated balance sheet. ROU lease assets represent the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases are leases having a term of twelve months or less. The Company recognizes short-term leases on a straight-line basis and does not record a related lease asset or liability for such leases, as allowed as a practical expedient of the standard.

The following is a maturity analysis of the operating lease liabilities as of March 31, 2023:

Years ending December 31, (in thousands)	Operating Lease Obligation
2023	\$ 547
2024	744
2025	756
2026	730
2027	753
2028 and thereafter	2,185
Total undiscounted lease payments	5,715
Less imputed interest	(566)
Lease liability	\$ 5,149
Right-of-use asset	\$ 5,149

(dollars in thousands)	Three Months Ended March 31,	
	2023	2022
Lease cost		
Operating lease cost	\$ 178	\$ 170
Short-term lease cost	4	6
Total lease cost	\$ 182	\$ 176
Other information		
Operating cash outflows from operating leases	\$ 178	\$ 170
Weighted-average remaining lease term - operating leases	7.0 years	8.9 years
Weighted average discount rate - operating leases	2.5 %	2.5 %

NOTE 11. LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

The Bank discovered potentially fraudulent activity by a former treasury management client involving multiple banks. The former client subsequently filed several related bankruptcy cases, captioned *In re Interlogic Outsourcing, Inc., et al.*, which are pending in the United States Bankruptcy Court for the Western District of Michigan. On April 27, 2021, the bankruptcy court entered an order approving an amended plan of liquidation, which was filed by the former client, other debtors and bankruptcy plan proponents, and approving the consolidation of the assets in the aforementioned cases under the Khan IOI Consolidated Estate Trust. On August 9, 2021, the liquidating trustee for the bankruptcy estates filed a complaint against the Bank and the Company, and agreed to stay prosecution of the action through August 31, 2022. The original complaint focused on a series of business transactions among the client, related entities and the Bank, which the liquidating trustee alleged are voidable under applicable federal bankruptcy and state law. The complaint also addressed treatment of the Bank's claims filed in the bankruptcy cases.

On August 31, 2022, the trustee filed his amended complaint against the former client, the Bank, the Company, four officers of the Bank and one independent director of the Bank. The amended complaint alleges that the former client engaged in a check kiting scheme involving multiple banks. The amended complaint alleges that a series of business transactions among the client, his related entities and the Bank are voidable under applicable bankruptcy and state laws. The amended complaint also alleges that the Bank, the Company and the five individual bank representatives who are named as defendants violated various federal and state laws in assisting the former client in his check kiting scheme. On October 26, 2022, the trustee filed his second amended complaint which was virtually identical to his amended complaint. On January 5, 2023, the Bank, the Company and the five individual bank representatives filed motions to dismiss the second amended complaint. The motions are being briefed and will then be considered by the court. The hearing for the parties to argue the Company's motion to dismiss the Trustee's second amended complaint was held on April 17, 2023. The judge took the matter under advisement and a ruling is expected within 30 days of the hearing. Based on current information, we have determined that a material loss is neither probable nor estimable at this time, and the Bank, the Company and the five individual Bank representatives who are named as defendants intend to vigorously defend themselves against all allegations asserted in this amended complaint.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Net income in the first three months of 2023 was \$24.3 million, which increased \$636,000, or 2.7%, from \$23.6 million for the comparable period of 2022. Diluted income per common share was \$0.94 in the first three months of 2023, up 2.2% from \$0.92 in the comparable period of 2022. The increase in net income for 2023 was primarily due to growth in net interest income of \$6.6 million, offset by an increase to the provision for credit losses of \$3.9 million, a decrease in noninterest income of \$373,000 and an increase in noninterest expense of \$2.5 million. Pretax pre-provision earnings in the first three months of 2023 were \$32.4 million, an increase of \$3.8 million, or 13.3%, compared to \$28.6 million for the comparable period of 2022. Pretax pre-provision earnings is a non-GAAP measure calculated by adding net interest income to noninterest income and subtracting noninterest expense.

Annualized return on average total equity was 16.81% in the first three months of 2023 versus 14.04% in the comparable period of 2022. Annualized return on average total assets was 1.54% in the first three months of 2023 versus 1.44% for the comparable period of 2022. The Company's average equity to average assets ratio was 9.13% in the first three months of 2023 versus 10.26% in the comparable period of 2022. Equity has been negatively impacted by unrealized losses from the available-for-sale investment securities portfolio, which are reported as a component of accumulated other comprehensive income (loss).

The Company's tangible common equity to tangible assets ratio, which is a non-GAAP financial measure, was 9.34% at March 31, 2023, compared to 9.22% at March 31, 2022 and 8.79% at December 31, 2022. Tangible equity and tangible assets have been impacted by declines in the market value of the company's available-for-sale investment securities portfolio. The market value decline is a result of rising interest rates caused by the tightening of monetary policy by the Federal Reserve beginning in March of 2022 to combat elevated levels of inflation affecting the U.S. economy. The rising interest rate environment has generated unrealized losses in the available-for-sale investment securities portfolio which are reflected in the company's reported accumulated other comprehensive income (loss). Unrealized losses from available-for-sale investment securities were \$188.5 million as of March 31, 2023, compared to unrealized losses of \$117.4 million at March 31, 2022 and improved from unrealized losses of \$215.3 million at December 31, 2022. When excluding the impact of securities market value adjustments on tangible common equity and tangible assets, the Company's adjusted tangible common equity to adjusted tangible assets ratio, which is a non-GAAP financial measure, was 11.56% at March 31, 2023 compared to 10.44% at March 31, 2022 and 11.30% at December 31, 2022.

Total assets were \$6.412 billion as of March 31, 2023 versus \$6.432 billion as of December 31, 2022, a decrease of \$20.8 million. Balance sheet contraction was driven primarily by decreases in available-for-sale securities, noninterest bearing deposits and borrowings during the first three months of 2023. Available-for-sale securities decreased \$77.2 million, noninterest bearing deposits decreased \$188.7 million and total borrowings decreased \$97.0 million. Offsetting these decreases were increases to short-term investments of \$36.9 million, loans, net of the allowance for credit losses, of \$45.9 million and interest bearing deposits of \$245.8 million. Total equity increased by \$33.1 million, or 5.8%, due primarily to an increase to accumulated other comprehensive income (loss) of \$21.6 million. The increase in accumulated other comprehensive income (loss) was due to an improvement in available-for-sale securities fair market values during the first quarter of 2023. The change in total equity was also impacted by net income of \$24.3 million and dividends declared and paid of \$0.46 per share, totaling \$11.7 million.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for credit losses. See "Note 4 – Allowance for Credit Losses and Credit Quality" for more information on this critical accounting policy.

RESULTS OF OPERATIONS

Overview

Selected income statement information for the three months ended March 31, 2023 and 2022 is presented in the following table:

(dollars in thousands)	Three Months Ended March 31,	
	2023	2022
Income Statement Summary:		
Net interest income	\$ 51,519	\$ 44,880
Provision for credit losses	4,350	417
Noninterest income	10,314	10,687
Noninterest expense	29,434	26,969
Other Data:		
Efficiency ratio (1)	47.60 %	48.53 %
Diluted EPS	\$ 0.94	\$ 0.92
Average Equity/Average Assets	9.13 %	10.26 %
Tangible capital ratio (2)	9.34 %	9.22 %
Adjusted tangible capital ratio (3)	11.56 %	10.44 %
Net charge offs to average loans	0.49 %	0.06 %
Net interest margin	3.54 %	2.93 %
Noninterest income to total revenue	16.68 %	19.23 %
Pretax pre-provision earnings (4)	\$ 32,399	\$ 28,598

(1) Noninterest expense/net interest income plus noninterest income.

(2) Non-GAAP financial measure. The Company believes that disclosing non-GAAP financial measures provides investors with information useful to understanding the Company's financial performance. Additionally, these non-GAAP measures are used by management for planning and forecasting purposes, including measures based on "tangible common equity," which is "total equity" excluding intangible assets, net of deferred tax, and "tangible assets," which is "total assets" excluding intangible assets, net of deferred tax. The tangible capital ratio is calculated by excluding the balance of goodwill, net of deferred taxes. See reconciliation on the next page.

(3) Non-GAAP financial measure. Calculated by removing the fair market value adjustment impact of the available-for-sale investment securities portfolio from tangible equity and tangible assets. Management believes this is an important measure because it provides better comparability to prior periods. See reconciliation on the next page.

(4) Non-GAAP financial measure. Pretax pre-provision earnings is calculated by adding net interest income to noninterest income and subtracting noninterest expense. Management believes this is an important measure because it may enable investors to identify the trends in the Company's earnings exclusive of the effects of tax and provision expense, which may vary significantly from period to period. See reconciliation on the next page.

A reconciliation of non-GAAP measures is provided below (in thousands, except for per share data).

(dollars in thousands)	As of and For The	
	Three Months Ended March 31,	
	2023	2022
Total Equity	\$ 602,006	\$ 609,102
Less: Goodwill	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	1,167	1,167
Tangible Common Equity (A)	598,203	605,299
AOCI Market Value Adjustment	166,612	92,751
Adjusted Tangible Common Equity (C)	764,815	698,050
Total Assets	\$ 6,411,529	\$ 6,572,259
Less: Goodwill	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	1,167	1,167
Tangible Assets (B)	6,407,726	6,568,456
Market Value Adjustment	210,901	117,406
Adjusted Tangible Assets (D)	6,618,627	6,685,862
Ending Common Shares Issued (E)	25,607,663	25,527,896
Tangible Book Value per Common Share (A/E)	\$ 23.36	\$ 23.71
Tangible Capital Ratio (A/B)	9.34 %	9.22 %
Adjusted Tangible Capital Ratio (C/D)	11.56 %	10.44 %
Net Interest Income	\$ 51,519	\$ 44,880
Noninterest Income	10,314	10,687
Noninterest Expense	(29,434)	(26,969)
Pretax Pre-Provision Earnings	\$ 32,399	\$ 28,598

Net Income

Net income was \$24.3 million in the first three months of 2023, an increase of \$636,000, or 2.7%, versus net income of \$23.6 million in the first three months of 2022. The increase in net income for 2023 was primarily due to growth in net interest income of \$6.6 million, or 14.8%, offset by a decrease to the provision for credit losses of \$3.9 million, a decrease to noninterest income of \$373,000, or 3.5%, and an increase to noninterest expense of \$2.5 million, or 9.1%.

Net Interest Income

The following table sets forth consolidated information regarding average balances and rates:

(fully tax equivalent basis, dollars in thousands)	Three Months Ended March 31,					
	2023			2022		
	Average Balance	Interest	Yield (1)/Rate	Average Balance	Interest	Yield (1)/Rate
Earning Assets						
Loans:						
Taxable (2)(3)	\$ 4,667,867	\$ 69,542	6.04 %	\$ 4,278,894	\$ 39,735	3.77 %
Tax exempt (1)	57,560	1,126	7.93	22,032	213	3.92
Investments:						
Securities (1)	1,250,189	8,956	2.91	1,514,024	9,108	2.44
Short-term investments	2,242	22	3.98	2,143	1	0.11
Interest bearing deposits	89,718	942	4.26	574,982	245	0.17
Total earning assets	\$ 6,067,576	\$ 80,588	5.39 %	\$ 6,392,075	\$ 49,302	3.13 %
Less: Allowance for credit losses	(73,266)			(68,051)		
Nonearning Assets						
Cash and due from banks	76,578			71,905		
Premises and equipment	58,319			59,309		
Other nonearning assets	282,873			196,705		
Total assets	\$ 6,412,080			\$ 6,651,943		
Interest Bearing Liabilities						
Savings deposits	\$ 392,567	\$ 71	0.07 %	\$ 408,314	\$ 75	0.07 %
Interest bearing checking accounts	2,757,120	21,402	3.15	2,642,003	1,862	0.29
Time deposits:						
In denominations under \$100,000	180,502	642	1.44	198,257	346	0.71
In denominations over \$100,000	494,873	2,803	2.30	633,947	798	0.51
Miscellaneous short-term borrowings	241,870	2,783	4.67	26	0	0.00
Long-term borrowings and subordinated debentures	0	0	0.00	75,000	73	0.40
Total interest bearing liabilities	\$ 4,066,932	\$ 27,701	2.76 %	\$ 3,957,547	\$ 3,154	0.32 %
Noninterest Bearing Liabilities						
Demand deposits	1,662,530			1,966,117		
Other liabilities	97,014			45,587		
Stockholders' Equity	585,604			682,692		
Total liabilities and stockholders' equity	\$ 6,412,080			\$ 6,651,943		
Interest Margin Recap						
Interest income/average earning assets		80,588	5.39		49,302	3.13 %
Interest expense/average earning assets		27,701	1.85		3,154	0.20 %
Net interest income and margin		\$ 52,887	3.54 %		\$ 46,148	2.93 %

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 21 percent tax rate. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") adjustment applicable to nondeductible interest expenses. Taxable equivalent basis adjustments were \$1.37 million and \$1.27 million in the three-month periods ended March 31, 2023 and March 31, 2022, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended March 31, 2023 and 2022, are included as taxable loan interest income.

(3) Nonaccrual loans are included in the average balance of taxable loans.

Net interest income increased \$6.6 million, or 14.8%, to \$51.5 million for the three months ended March 31, 2023, compared with \$44.9 million for the first three months of 2022. Growth in average loans and an improvement in loan yields were the primary drivers behind the \$31.3 million increase in tax-equivalent interest income between the two quarters. An improvement in yields in securities and cash and cash equivalents also contributed to the increase in net interest income. Interest expense, which increased by \$24.5 million, partially offset the positive impact of increased loan and securities interest income, driven by increased funding costs from deposits and borrowings. Average earning assets declined by \$324.5 million, due primarily to a reduction in investment securities of \$263.8 million and a decrease in demand deposits of \$303.6 million. Offsetting the contraction in average deposits was an increase in average short-term borrowings of \$241.8 million, offset by a decrease in average long-term borrowings of \$75.0 million.

Average loans outstanding increased \$424.5 million to \$4.725 billion during the three months ended March 31, 2023, compared to \$4.301 billion during the same period of 2022. The earning asset contraction was offset by a decrease in deposits. Average total deposits decreased \$361.0 million to \$5.488 billion during the three months ended March 31, 2023, compared to \$5.849 billion for the same period of 2022. The decrease in average deposits was driven by a decrease in average noninterest bearing deposits, which decreased \$303.6 million, or 15.4%, from \$1.967 billion for the three months ended March 31, 2022, to \$1.663 billion for the same period of 2023. Offsetting the contraction in average deposits was an increase in average short-term borrowings of \$241.8 million, offset by a decrease in average long-term borrowings of \$75.0 million.

The tax equivalent net interest margin was 3.54% for the three months ended March 31, 2023, compared to 2.93% during the first three months of 2022, representing a 61 basis point expansion between the two quarters. The net interest margin expansion was driven by a 475 basis point increase to the target Federal Funds rate implemented by the Federal Reserve through a series of rate increases beginning in March of 2022. The target Federal Funds rate increased from a zero-bound range of 0.00%-0.25% in March 2022 to a range of 4.75%-5.00% at March 31, 2023. The impact of the higher interest rate increased earning asset yields by 226 basis points to 5.39% for the first quarter of 2023, up from 3.13% for the first quarter of 2022. However, this increase was offset by an increase in the company's funding costs as excess customer liquidity was utilized and the competition for deposits increased throughout the industry. Interest expense as a percentage of average earning assets increased to 1.85% for the first quarter of 2023 from a historical low of 0.20% for the first quarter of 2022, an increase of 165 basis points. Cost of funds may continue to rise throughout 2023 as a result of market competition for deposits.

Provision for Credit Losses

The Company recorded provision for credit losses expense of \$4.4 million for the three months ended March 31, 2023 compared to provision expense of \$417,000 during the comparable period of 2022. The increase in provision during the first quarter of 2023 compared to the first quarter of 2022 was primarily attributable to increases in the qualitative and environmental risk factors for certain segments of the Company's loan portfolio that could be impacted by higher borrowing costs and the potential economic weakness in the Company's markets. Net charge-offs were \$5.7 million during the three month period ended March 31, 2023 compared to net recoveries of \$664,000 during the comparable period of 2022. The increase in charge offs in the first quarter of 2023 compared to the first quarter of 2022 was the result of a further charge off of \$5.5 million attributable to a single commercial customer. The \$10.7 million credit was downgraded in late December 2022, and a partial charge off of \$3.7 million was recognized at that time. The remaining \$7.0 million was placed on nonaccrual status pending additional due diligence and financial analysis related to the borrower's debt service capacity. During the first quarter of 2023, the outlook for repayment of the loan weakened significantly and resulted in the additional charge off of \$5.5 million. The charge off amount was fully allocated in the allowance for credit losses.

Additional factors considered by management included key loan quality metrics, including reserve coverage of nonperforming loans and economic conditions in the Company's markets, and changes in the facts and circumstances of watch list credits, which includes the security position of the borrower. Management's overall view on current credit quality was also a factor in the determination of the provision for credit losses. The Company's management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest Income

Noninterest income categories for the three-month period ended March 31, 2023 and 2022 are shown in the following table:

(dollars in thousands)	Three Months Ended March 31,			
	2023	2022	Dollar Change	Percent Change
Wealth advisory fees	\$ 2,200	\$ 2,287	\$ (87)	(3.8)%
Investment brokerage fees	534	519	15	2.9
Service charges on deposit accounts	2,630	2,809	(179)	(6.4)
Loan and service fees	2,846	2,889	(43)	(1.5)
Merchant card fee income	877	815	62	7.6
Bank owned life insurance income (loss)	691	(83)	774	(932.5)
Interest rate swap fee income	0	50	(50)	(100.0)
Mortgage banking income (loss)	(99)	509	(608)	(119.4)
Net securities gains	16	0	16	100.0
Other income	619	892	(273)	(30.6)
Total noninterest income	\$ 10,314	\$ 10,687	\$ (373)	(3.5)%
Noninterest income to total revenue	16.7 %	19.2 %		

The Company's noninterest income decreased \$373,000, or 3.5%, to \$10.3 million for the three months ended March 31, 2023 compared to \$10.7 million in the prior year period. The decrease in noninterest income was primarily driven by a decline in mortgage banking income of \$608,000, from reduced levels of mortgage financing activity because of the increased rate environment. Additionally, a decrease in other income of \$273,000, or 30.6%, and decreased service charges on deposit accounts of \$179,000, or 6.4%, contributed to the decrease in noninterest income. The decrease in other income was the result of less income from partnership investments during the comparable quarters and the decrease in service charges on deposit accounts was primarily the result of increased earning credit rating for commercial depositors related to commercial treasury management fees. Offsetting these decreases was an increase in bank owned life insurance income of \$774,000. Bank owned life insurance income benefited by improved market performance of the company's variable life insurance policies, which track to the overall performance of the equity markets. In addition, increased general account bank owned life insurance income resulted from the purchase of insurance policies during the fourth quarter of 2022.

Noninterest Expense

Noninterest expense categories for the three-month period ended March 31, 2023 and 2022 are shown in the following tables:

(dollars in thousands)	Three Months Ended March 31, 2023			
	2023	2022	Dollar Change	Percent Change
Salaries and employee benefits	\$ 16,063	\$ 14,392	\$ 1,671	11.6 %
Net occupancy expense	1,572	1,629	(57)	(3.5)
Equipment costs	1,438	1,411	27	1.9
Data processing fees and supplies	3,452	3,081	371	12.0
Corporate and business development	1,431	1,219	212	17.4
FDIC insurance and other regulatory fees	795	439	356	81.1
Professional fees	2,121	1,559	562	36.0
Other expense	2,562	3,239	(677)	(20.9)
Total noninterest expense	\$ 29,434	\$ 26,969	\$ 2,465	9.1 %
Efficiency ratio	47.6 %	48.5 %		

The Company's noninterest expense increased by \$2.5 million, or 9.1%, to \$29.4 million for the three months ended March 31, 2023, from \$27.0 million for the three months ended March 31, 2022. Salaries and employee benefits expense contributed \$1.7 million, or 11.6%, of the increase in noninterest expense primarily as a result of increased salaries and wages and health insurance expense. Variable compensation expense, which is tied to market performance of the company's variable bank owned life insurance policies, increased due to improved market performance and also contributed to the increase in salaries and employee benefits expense. Additionally, professional fees increased \$562,000, or 36.0%, data processing fees and supplies increased \$371,000, or 12.0%, FDIC insurance and other regulatory fees increased \$356,000, or 81.1%, and corporate and business development expense increased \$212,000, or 17.4%. The increase in professional fees was a result of increased interest charges associated with the bank's swap collateral positions as well as continued investment in technology solutions for our retail and commercial digital applications. This increased investment in technology was also primarily responsible for the increase in data processing fees and supplies expense. The increase to FDIC insurance and other regulatory fees was caused by a blanket increase to the assessment rate used by the FDIC to calculate insurance premiums, effective during the first quarter of 2023. Corporate and business development expense was impacted by increased spending for advertising and other corporate and business development activities. These increases were offset by a decrease to other expense of \$677,000, or 20.9%, driven by a decrease in accruals pertaining to ongoing legal matters between the two periods. See "Note 11 – Loss Contingencies" for additional details. The Company's efficiency ratio was 47.6% for the three months ended March 31, 2023 compared to 48.5% for the first three months of 2021.

The Company's income tax expense decreased \$768,000, or 16.9%, in the three months ended March 31, 2023 compared to the same period in 2022. The effective tax rate was 13.4% in the three months ended March 31, 2023, compared to 16.1% for the comparable period of 2022. The year-to-date effective tax rate is reduced by income from tax-advantaged sources such as federally tax exempt municipal bond interest income as well as a tax benefit from stock-based compensation vesting of shares for plan participants.

FINANCIAL CONDITION

Overview

Total assets were \$6.412 billion as of March 31, 2023 versus \$6.432 billion as of December 31, 2022, a decrease of \$20.8 million. Balance sheet contraction was driven primarily by decreases in available-for-sale securities, noninterest bearing deposits and borrowings during the first three months of 2023. Available-for-sale securities decreased \$77.2 million, noninterest bearing deposits decreased \$188.7 million and total borrowings decreased \$97.0 million. Offsetting these decreases were increases to short-term investments of \$36.9 million, loans, net of the allowance for credit losses, of \$45.9 million and interest bearing deposits of \$245.8 million.

Uses of Funds

Total Cash and Cash Equivalents

Total cash and cash equivalents increased by \$23.2 million, or 17.8%, to \$153.5 million at March 31, 2023, from \$130.3 million at December 31, 2022. Cash and cash equivalents include short-term investments. The increase in cash and cash equivalents at March 31, 2023 was driven by an increase in interest bearing short-term investment accounts of \$36.9 million, or 74.8%, offset by a decrease in cash and due from banks of \$13.7 million, or 16.9%. These fluctuations are reflective of a normalization of activity as excess levels of liquidity experienced throughout 2021 and 2022 have decreased through deployments of cash to the investment securities portfolio and utilization of excess cash balances by deposit customers.

Investment Portfolio

The amortized cost and the fair value of securities as of March 31, 2023 and December 31, 2022 were as follows:

(dollars in thousands)	March 31, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-Sale				
U.S Treasury securities	\$ 3,363	\$ 3,352	\$ 3,057	\$ 3,034
U.S government sponsored agencies	153,928	127,995	156,184	126,961
Mortgage-backed securities: residential	561,865	484,462	578,175	492,308
State and municipal securities	577,603	492,472	663,367	563,225
Total available-for-sale	\$ 1,296,759	\$ 1,108,281	\$ 1,400,783	\$ 1,185,528
Held-to-Maturity				
State and municipal securities	\$ 128,651	\$ 115,533	\$ 128,242	\$ 111,029
Total Investment Portfolio	\$ 1,425,410	\$ 1,223,814	\$ 1,529,025	\$ 1,296,557

At March 31, 2023 and December 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. government agencies and government sponsored entities, in an amount greater than 10% of stockholders' equity. Management is aware that, as interest rates rise, any unrealized loss in the available-for-sale investment securities portfolio will increase, and as interest rates fall the unrealized gain in the investment portfolio will rise. Since the majority of the bonds in the investment portfolio are fixed-rate, with only a few adjustable-rate bonds, we would expect our investment portfolio to follow this market value pattern. This is taken into consideration when evaluating the gain or loss of investment securities in the portfolio and the potential for an allowance for credit losses.

Purchases of securities available-for-sale totaled \$4.0 million in the first three months of 2023. The purchases consisted of U.S. Treasury securities and mortgage-backed securities issued by government sponsored entities. Investment securities represented 19.3% of total assets on March 31, 2023, compared to 20.4% of total assets on December 31, 2022. The ratio of investment securities as a percentage of total assets remains elevated over historical levels of approximately 14%. The increase in this ratio resulted from the deployment of excess liquidity during 2021 and 2022 to the investment securities portfolio as an earning asset alternative of excess balance sheet liquidity stemming from increased levels of core deposits from government stimulus programs. The Company expects the investment securities portfolio to represent a lower percentage of total assets over time as proceeds from pay downs, sales and maturities of these investment securities are used to fund loan portfolio growth and for other general liquidity purposes. Paydowns from prepayments and scheduled payments of \$13.0 million were received in the first three months of 2023, and the amortization of premiums, net of the accretion of discounts, was \$1.2 million. Maturities and calls of securities totaled \$6.1 million in the first three months of 2023. Sales of available-for-sale investment securities totaled \$87.5 million in the first three months of 2023 and resulted in net gains of \$16,000. No allowance for credit losses was recognized for available-for-sale or held-to-maturity securities as of March 31, 2023 and December 31, 2022.

The fair value of the available-for-sale investment securities portfolio as of March 31, 2023 included net unrealized losses of \$188.5 million compared to net unrealized losses of \$215.3 million as of December 31, 2022. Unrealized losses in the available-for-sale investment securities portfolio resulted from the declines in market values of the investment securities. These declines were driven by the rising interest rate environment as a result of the Federal Reserve's monetary tightening policy to combat elevated levels of inflation affecting the U.S. economy.

The investment portfolio is managed by a third-party firm to provide for an appropriate balance between liquidity, credit risk, interest rate risk management and investment return and to limit the Company's exposure to credit risk in the investment securities portfolio. The Company does not trade or invest in or sponsor certain unregistered investment companies defined as hedge funds and private equity funds under what is commonly referred to as the "Volcker Rule" of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Real Estate Mortgage Loans Held-for-Sale

Real estate mortgage loans held-for-sale increased by \$151,000, or 42.3%, to \$508,000 at March 31, 2023, from \$357,000 at December 31, 2022. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. The Company generally sells conforming qualifying mortgage loans it originates on the secondary market. Proceeds from sales of residential mortgages totaled \$672,000 in the first three months of 2023 compared to \$18.1 million in the first three months of 2022. Management expects the volume of loans originated for sale in the secondary market to remain at reduced levels due to the rise in mortgage rates. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were \$355.9 million and \$364.3 million as of March 31, 2023 and December 31, 2022, respectively.

Loan Portfolio

The loan portfolio by portfolio segment as of March 31, 2023 and December 31, 2022 is summarized as follows:

(dollars in thousands)	March 31, 2023		December 31, 2022		Current Period Change
Commercial and industrial loans	\$ 1,459,618	30.7 %	\$ 1,493,049	31.7 %	\$ (33,431)
Commercial real estate and multi-family residential loans	2,265,756	47.5	2,179,094	46.2	86,662
Agri-business and agricultural loans	392,982	8.3	432,088	9.2	(39,106)
Other commercial loans	132,284	2.8	113,593	2.4	18,691
Consumer 1-4 family mortgage loans	417,916	8.8	407,566	8.6	10,350
Other consumer loans	89,734	1.9	88,075	1.9	1,659
Subtotal, gross loans	4,758,290	100.0 %	4,713,465	100.0 %	44,825
Less: Allowance for credit losses	(71,215)		(72,606)		1,391
Net deferred loan fees	(3,362)		(3,069)		(293)
Loans, net	<u>\$ 4,683,713</u>		<u>\$ 4,637,790</u>		<u>\$ 45,923</u>

Total loans, excluding real estate mortgage loans held-for-sale and deferred fees, increased by \$44.8 million to \$4.758 billion at March 31, 2023 from \$4.713 billion at December 31, 2022. The increase was primarily driven by originations of loans concentrated in the commercial real estate and multi-family residential, other commercial, and consumer 1-4 family mortgage loans categories and was offset by paydowns in commercial and industrial loans and the agri-business and agricultural loans segments, the latter of which traditionally experiences seasonal fluctuations in activity.

The following table summarizes the Company's non-performing assets as of March 31, 2023 and December 31, 2022:

(dollars in thousands)	March 31, 2023	December 31, 2022
Nonaccrual loans	\$ 17,715	\$ 16,964
Loans past due over 90 days and still accruing	25	123
Total nonperforming loans	17,740	17,087
Other real estate owned	100	100
Repossessions	82	37
Total nonperforming assets	<u>\$ 17,922</u>	<u>\$ 17,224</u>
Individually analyzed loans	\$ 18,188	\$ 31,327
Nonperforming loans to total loans	0.37 %	0.36 %
Nonperforming assets to total assets	0.28 %	0.27 %

Total nonperforming assets increased by \$698,000, or 4.1%, to \$17.9 million during the three month period ended March 31, 2023. The ratio of nonperforming assets to total assets increased from 0.27% at December 31, 2022 to 0.28% at March 31, 2023.

A loan is individually analyzed when full payment under the original loan terms is not expected. The analysis for smaller loans that are similar in nature and which are not in nonaccrual or modified status, such as residential mortgage, consumer, and credit card loans, is determined based on the class of loans. If a loan is individually analyzed, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows or at the fair value of collateral if repayment is expected solely from the collateral. Total individually analyzed loans decreased by \$13.1 million, or 41.9%, to \$18.2 million at March 31, 2023 from \$31.3 million at December 31, 2022.

Loans are charged against the allowance for credit losses when management believes that the principal is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb current expected credit losses relating to specifically identified loans based on an evaluation of the loans by management, as well as other current expected losses in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrower's ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. General allowance is determined after considering the following factors: application of loss percentages using a probability of default/loss given default approach subject to a floor, emerging market risk, commercial loan focus and large credit concentrations, new industry lending activity and current economic conditions. Federal regulations require insured institutions to classify their own assets on a regular basis. The regulations provide for three categories of classified loans: Substandard, Doubtful and Loss. The regulations also contain a Special Mention category. Special Mention applies to loans that do not currently expose an insured institution to a sufficient degree of risk to warrant classification as Substandard, Doubtful or Loss but do possess credit deficiencies or potential weaknesses deserving management's close attention. The Company's policy is to establish a specific allowance for credit losses for any assets where management has identified conditions or circumstances that indicate an asset is nonperforming. If an asset or portion, thereof is classified as a loss, the Company's policy is to either establish specified allowances for credit losses in the amount of 100% of the portion of the asset classified loss or charge-off such amount.

At March 31, 2023, the allowance for credit losses was 1.50% of total loans outstanding, versus 1.54% of total loans outstanding at December 31, 2022. At March 31, 2023, management believed the allowance for credit losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions deteriorate, certain borrowers may experience difficulty and the level of nonperforming loans, charge offs and delinquencies could rise and require increases in the allowance for credit losses. The process of identifying credit losses is a subjective process.

The Company has a relatively high percentage of commercial and commercial real estate loans, which are extended to businesses with a broad range of revenue and within a wide variety of industries. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by utilizing relatively conservative credit structures, by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and market area. The Company has limited exposure to commercial office space borrowers. Loans totaling \$33.6 million for this sector represent 0.71% of total loans at March 31, 2023.

As of March 31, 2023, based on management's review of the loan portfolio, the Company had 59 credit relationships totaling \$174.9 million on the classified loan list versus 58 credit relationships totaling \$161.0 million as of December 31, 2022. The increase in classified loans for the first three months of 2023 resulted primarily from borrower risk rating downgrades of pass rated loans to the non-individually analyzed portion of the watch list. As of March 31, 2023, the Company had \$142.6 million of assets classified as Special Mention, \$32.3 million classified as Substandard, \$0 classified as Doubtful and \$0 classified as Loss as compared to \$115.7 million, \$45.3 million, \$0 and \$0, respectively, at December 31, 2022. Watch list loans as a percentage of total loans increased to 3.68% as of March 31, 2023, up from a historical low at 3.42% as of December 31, 2022.

Allowance estimates are developed by management after taking into account actual loss experience adjusted for current economic conditions and a reasonably supportable forecast period. The Company has annual discussions regarding this methodology with regulatory authorities. Allowance estimates are considered a prudent measurement of the risk in the Company's loan portfolio based upon loan segment. In accordance with applicable accounting guidance, the allowance is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. For a more thorough discussion of the allowance for credit losses methodology see the ("Critical Accounting Policies") section of this Item 2.

The allowance for credit losses decreased \$1.4 million, from \$72.6 million at December 31, 2022 to \$71.2 million at March 31, 2023. The decrease was a result of net charge offs recorded during the quarter of \$5.7 million, offset by provision expense of \$4.4 million. Of the \$5.7 million in net charge offs, \$5.5 million was attributable to the previously described deteriorated commercial relationship which was reserved for in the allowance for credit losses. The increased provision expense recorded during the first quarter of 2023 was primarily attributable to increases in the qualitative and environmental risk factors for certain segments of the Company's loan portfolio that could be impacted by higher borrowing costs and the potential economic weakness in the Company's markets. As the bulk of the Company's lending activity is concentrated in the commercial loan portfolio, which can result in overall asset quality being influenced by a small number of credits, management has historically considered growth and portfolio composition when determining credit loss allocations.

Sources of Funds

The Company's sources of funds include a diversified deposit base gathered throughout the Company's footprint and includes approximately 130,000 commercial, retail and public funds deposit accounts. While the traditional base of core deposits represents the primary source of funding for the Company, the Company has access to a robust array of other liquidity sources, including secured borrowings available from the Federal Home Loan Bank, the Federal Reserve Bank Discount Window and the Federal Reserve Bank Term Funding Program. In addition, the Company has access to unsecured borrowing capacity through long established relationships within the brokered deposit markets, Federal Funds lines from correspondent bank partners and Insured Cash Sweep (ICS) one-way buy funds available from the Intrafi network. As of March 31, 2023, the Company had access to \$3.03 billion in unused liquidity available from these aggregate sources compared to \$2.99 billion at December 31, 2022.

The average daily deposits and borrowings together with average rates paid on those deposits and borrowings for the three months ended March 31, 2023 and 2022 are summarized in the following table:

(dollars in thousands)	Three months ended March 31,			
	2023		2022	
	Balance	Rate	Balance	Rate
Noninterest bearing demand deposits	\$ 1,662,530	0.00 %	\$ 1,966,117	0.00 %
Savings and transaction accounts:				
Savings deposits	392,567	0.07	408,314	0.07
Interest bearing demand deposits	2,757,120	3.15	2,642,003	0.29
Time deposits:				
Deposits of \$100,000 or more	494,873	2.30	633,947	0.51
Other time deposits	180,502	1.44	198,257	0.71
Total deposits	\$ 5,487,592	1.84 %	\$ 5,848,638	0.21 %
FHLB advances and other borrowings	241,870	4.67	75,026	0.39
Total funding sources	\$ 5,729,462	1.96 %	\$ 5,923,664	0.22 %

Average total deposits were \$5.488 billion for the first quarter of 2023, a decrease of \$361.0 million, or 6.2%, from the first quarter of 2022. Average total borrowings were \$241.9 million for the first quarter of 2023, an increase of \$166.8 million from the first quarter of 2023.

Deposits and Borrowings

As of March 31, 2023, total deposits increased by \$57.1 million, or 1.0%, from December 31, 2022. Core deposits, which excludes brokered deposits, decreased by \$93.5 million, or 1.7%, to \$5.357 billion as of March 31, 2023 from \$5.451 billion as of December 31, 2022. Total brokered deposits were \$160.7 million at March 31, 2023 compared to \$10.0 million at December 31, 2022.

The following table summarizes deposit composition at March 31, 2023 and December 31, 2022:

(dollars in thousands)	March 31, 2023	Percentage of Total	December 31, 2022	Percentage of Total	Current Period Change
Retail	\$ 1,894,707	34.3 %	\$ 1,934,787	35.4 %	\$ (40,080)
Commercial	2,105,512	38.2	2,085,934	38.2	19,578
Public funds	1,356,851	24.6	1,429,872	26.2	(73,021)
Core deposits	\$ 5,357,070	97.1 %	\$ 5,450,593	99.8 %	\$ (93,523)
Brokered deposits	160,658	2.9	10,027	0.2	150,631
Total deposits	<u>\$ 5,517,728</u>	<u>100.0 %</u>	<u>\$ 5,460,620</u>	<u>100.0 %</u>	<u>\$ 57,108</u>

Commercial, retail and public funds deposit composition remained stable between March 31, 2023 and December 31, 2022. On March 31, 2023 and December 31, 2022, commercial deposits represented 38% of total deposits. Retail deposits represented 34% at March 31, 2023 versus 35% at December 31, 2022. Public Funds deposits represented 25% at March 31, 2023 versus 26% at December 31, 2022. Commercial deposits grew \$19.6 million, or 0.9%, from \$2.086 billion at December 31, 2022; retail deposits contracted \$40.1 million, or 2.1%, from \$1.935 billion at December 31, 2022; and public funds deposits contracted \$73.0 million, or 5.1%, from \$1.430 billion at December 31, 2022. Commercial checking accounts increased in number of accounts and balances since year end and average balances per account remain elevated above pre-pandemic levels. Retail checking accounts have increased, but balances have declined. Average retail checking account balances per account have declined modestly but remain elevated above pre-pandemic levels. Public Fund accounts are unchanged, but balances have decreased. Average public fund checking account balances are lower on a linked quarter basis but remain elevated as compared to pre-pandemic levels.

Uninsured deposits, not covered by FDIC deposit insurance or the Indiana Public Deposit Insurance Fund (PDIF), were 29% of total deposits as of March 31, 2023, versus 30% as of December 31, 2022. Deposits not insured by FDIC Insurance coverage (including the public fund deposits that are covered by the PDIF) were 54% as of March 31, 2023, versus 56% at December 31, 2022. As of March 31, 2023, and December 31, 2022, 98% of deposit accounts have deposit balances less than \$250,000 and 2% of accounts have deposit balances greater than \$250,000.

Utilization of other sources of liquidity totaled \$360.7 million at March 31, 2023, compared to \$307.0 million at December 31, 2022, an increase of \$53.7 million, or 17.5%. Brokered deposits of \$160.7 million at March 31, 2023 drove the increase up \$150.6 million from \$10.0 million at December 31, 2022. Total borrowings decreased \$97.0 million, or 32.7%, from \$297.0 million at December 31, 2022 to \$200.0 million at March 31, 2023, driven by a decrease in Federal Funds purchased of \$22.0 million, and a decrease in FHLB advances of \$75.0 million, or 27.3%.

Capital

As of March 31, 2023, total stockholders' equity was \$602.0 million, an increase of \$33.1 million, or 5.8%, from \$568.9 million at December 31, 2022. Net income of \$24.3 million increased equity. In addition, an increase of \$21.6 million in accumulated other comprehensive income (loss), primarily driven by a net increase in the fair value of available-for-sale securities, contributed to the increase. Dividends declared and paid of \$0.46 per share, or \$11.7 million, offset the increase to total stockholders' equity.

The impact on equity for other comprehensive income (loss) is not included in regulatory capital. The banking regulators have established guidelines for leverage capital requirements, expressed in terms of Tier 1, or core capital, as a percentage of average assets, to measure the soundness of a financial institution. In addition, banking regulators have established risk-based capital guidelines for U.S. banking organizations. As of March 31, 2023, the Company's capital levels remained characterized as "well-capitalized".

The actual capital amounts and ratios of the Company and the Bank as of March 31, 2023 and December 31, 2022, are presented in the table below. Capital ratios for March 31, 2023 are preliminary until the Call Report and FR Y-9C are filed.

(dollars in thousands)	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2023:								
Total Capital (to Risk Weighted Assets)								
Consolidated	\$ 832,907	15.21 %	\$ 438,191	8.00 %	\$ 575,126	N/A	N/A	N/A
Bank	\$ 810,361	14.83 %	\$ 437,037	8.00 %	\$ 573,611	10.50 %	\$ 546,296	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	\$ 764,316	13.95 %	\$ 328,643	6.00 %	\$ 465,578	N/A	N/A	N/A
Bank	\$ 741,948	13.58 %	\$ 327,778	6.00 %	\$ 464,352	8.50 %	\$ 437,037	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	\$ 764,316	13.95 %	\$ 246,483	4.50 %	\$ 383,417	N/A	N/A	N/A
Bank	\$ 741,948	13.58 %	\$ 245,833	4.50 %	\$ 382,407	7.00 %	\$ 355,092	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	\$ 764,316	11.56 %	\$ 264,374	4.00 %	\$ 264,374	N/A	N/A	N/A
Bank	\$ 741,948	11.25 %	\$ 263,730	4.00 %	\$ 263,730	4.00 %	\$ 329,663	5.00 %
As of December 31, 2022:								
Total Capital (to Risk Weighted Assets)								
Consolidated	\$ 821,008	15.07 %	\$ 435,786	8.00 %	\$ 571,969	N/A	N/A	N/A
Bank	\$ 801,044	14.74 %	\$ 434,758	8.00 %	\$ 570,620	10.50 %	\$ 543,448	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	\$ 752,751	13.82 %	\$ 326,840	6.00 %	\$ 463,023	N/A	N/A	N/A
Bank	\$ 732,966	13.49 %	\$ 326,069	6.00 %	\$ 461,930	8.50 %	\$ 434,758	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	\$ 752,751	13.82 %	\$ 245,130	4.50 %	\$ 381,313	N/A	N/A	N/A
Bank	\$ 732,966	13.49 %	\$ 244,551	4.50 %	\$ 380,413	7.00 %	\$ 353,241	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	\$ 752,751	11.50 %	\$ 261,859	4.00 %	\$ 261,859	N/A	N/A	N/A
Bank	\$ 732,966	11.22 %	\$ 261,222	4.00 %	\$ 261,222	4.00 %	\$ 326,527	5.00 %

FORWARD-LOOKING STATEMENTS

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the federal securities law. Forward-looking statements are not historical facts and are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “project,” “possible,” “continue,” “plan,” “intend,” “estimate,” “may,” “will,” “would,” “could,” “should” or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain and, accordingly, the reader is cautioned not to place undue reliance on any forward-looking statement made by the Company. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including, without limitation:

- the effects of future economic, business and market conditions and changes, including prevailing interest rates and the rate of inflation;
- governmental monetary and fiscal policies and the impact the current economic environment will have on these;
- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities and other interest sensitive assets and liabilities;
- changes in borrowers’ credit risks and payment behaviors;
- the failure of assumptions and estimates used in our reviews of our loan portfolio, underlying the establishment of reserves for possible credit losses, our analysis of our capital position and other estimates;
- the effects of disruption and volatility in capital markets on the value of our investment portfolio;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the risks related to the recent failures of Silicon Valley Bank and Signature Bank, including the effects on FDIC premiums, increased regulation, and increased deposit volatility;
- the timing and scope of any legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators;
- changes in the scope and cost of FDIC insurance, the state of Indiana’s Public Deposit Insurance Fund and other coverages;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the risk of labor availability, trade policy and tariffs, as well as supply chain constraints could impact loan demand from the manufacturing sector;
- changes in the availability and cost of credit and capital in the financial markets;
- the outcome of pending litigation and other claims we may be subject to from time to time;
- the anticipated phase out of most LIBOR tenors by mid-2023 and establishment of a new reference rate or rates;
- risk of cyber-security attacks that could result in damage to the Company’s or third-party service providers’ networks or data of the Company;
- changes in technology or products that may be more difficult or costly, or less effective than anticipated;
- the effects of any employee or customer fraud;
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- changes in accounting policies, rules and practices;

- the effects of war or other conflicts, acts of terrorism or other catastrophic events, including storms, droughts, tornados and flooding, that may affect general economic conditions, including agricultural production and demand and prices for agricultural goods and land used for agricultural purposes, generally and in our markets; and
- the risks noted in the Risk Factors discussed under Item 1A of Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2022, as well as other risks and uncertainties set forth from time to time in the Company's other filings with the SEC.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk represents the Company's primary market risk exposure. The Company does not have a material exposure to foreign currency exchange risk, does not have any material amount of derivative financial instruments and does not maintain a trading portfolio. The Corporate Risk Committee of the Board of Directors annually reviews and approves the policy used to manage interest rate risk. The policy was last reviewed and approved in July 2022. The policy sets guidelines for balance sheet structure, which are designed to protect the Company from the impact that interest rate changes could have on net income but do not necessarily indicate the effect on future net interest income. The Company, through the Bank's Asset and Liability Committee, manages interest rate risk by monitoring the computer simulated earnings impact of various rate scenarios and general market conditions. The Company then modifies its long-term risk parameters by attempting to generate the types of loans, investments, and deposits that currently fit the Company's needs, as determined by the Asset and Liability Committee. This computer simulation analysis measures the net interest income impact of various interest rate scenario changes during the next twelve months. The Company continually evaluates the assumptions used in the model. The current balance sheet structure is considered to be within acceptable risk levels.

Interest rate scenarios for the base, falling 400 basis points, falling 300 basis points, falling 200 basis points, falling 100 basis points, falling 50 basis points, falling 25 basis points, rising 25 basis points, rising 50 basis points, rising 100 basis points, rising 200 basis points, rising 300 basis points and rising 400 basis points are listed below based upon the Company's rate sensitive assets and liabilities at March 31, 2023. The net interest income shown represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

The base scenario is an annual calculation that is highly dependent on numerous assumptions embedded in the model. While the base sensitivity analysis incorporates management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For certain assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity core deposit products, such as savings, money market, NOW and demand deposits reflect management's best estimate of expected future behavior.

(dollars in thousands)	Base	Falling (300 Basis Points)	Falling (200 Basis Points)	Falling (100 Basis Points)	Falling (50 Basis Points)	Falling (25 Basis Points)	Rising (25 Basis Points)	Rising (50 Basis Points)	Rising (100 Basis Points)	Rising (200 Basis Points)	Rising (300 Basis Points)
Net interest income	\$ 214,182	\$ 186,075	\$ 196,844	\$ 206,171	\$ 210,302	\$ 212,288	\$ 215,708	\$ 217,218	\$ 220,226	\$ 226,224	\$ 232,332
Variance from Base		\$ (28,107)	\$ (17,338)	\$ (8,011)	\$ (3,880)	\$ (1,894)	\$ 1,526	\$ 3,036	\$ 6,044	\$ 12,042	\$ 18,150
Percent of change from Base		(13.12)%	(8.09)%	(3.74)%	(1.81)%	(0.88)%	0.71 %	1.42 %	2.82 %	5.62 %	8.47 %

ITEM 4 – CONTROLS AND PROCEDURES

As required by Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of March 31, 2023. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended March 31, 2023, there were no changes to the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

Lakeland Financial Corporation and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings and other matters in which claims for monetary damages are asserted. On an ongoing basis management, after consultation with legal counsel, assesses the Company's liabilities and contingencies in connection with such proceedings. For those matters where it is probable that the Company will incur losses and the amounts of the losses can be reasonably estimated, the Company records an expense and corresponding liability in its consolidated financial statements. To the extent the pending or threatened litigation could result in exposure in excess of that liability, the amount of such excess is not currently estimable. Although the Company does not believe that the outcome of pending legal matters will be material to the Company's consolidated financial position, it cannot rule out the possibility that such outcomes will be material to the consolidated results of operations for a particular reporting period in the future.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. of Part I of the Company's Form 10-K for the year ended December 31, 2022. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

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

None

ISSUER PURCHASES OF EQUITY SECURITIES

On April 11, 2023, the Company's board of directors reauthorized and extended a share repurchase program through April 30, 2025, under which the Company is authorized to repurchase, from time to time as the Company deems appropriate, shares of the Company's common stock with an aggregate purchase price of up to \$30 million. Repurchases may be made in the open market, through block trades or otherwise, and in privately negotiated transactions. The repurchase program does not obligate the Company to repurchase any dollar amount or number of shares, and the program may be extended, modified, suspended or discontinued at any time. There were no repurchases under this plan during the three months ended March 31, 2023.

The following table provides information as of March 31, 2023 with respect to shares of common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b)
January 1 - 31	1,685	\$ 72.70	0	\$ 19,998,273
February 1 - 28	1,115	72.58	0	19,998,273
March 1 - 31	0	0	0	19,998,273
Total	2,800	\$ 72.65	0	\$ 19,998,273

- (a) The shares purchased during January and February were credited to the deferred share accounts of non-employee directors under the Company's directors' deferred compensation plan. These shares are held in treasury stock of the Company and were purchased in the ordinary course of business and consistent with past practice.
- (b) Following the renewal and extension of the Company's share repurchase program on April 11, 2023, the maximum dollar value of shares that may be repurchased under the program is \$30 million.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None

Item 6. Exhibits

- 31.1 [Certification of Chief Executive Officer Pursuant to Rule 13a-14\(a\)/15d-14\(a\)](#)
- 31.2 [Certification of Chief Financial Officer Pursuant to Rule 13a-14\(a\)/15d-14\(a\)](#)
- 32.1 [Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 Interactive Data File
Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022; (ii) Consolidated Statements of Income for the three months ended March 31, 2023 and March 31, 2022; (iii) Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2023 and March 31, 2022; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2023 and March 31, 2022; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2023 and March 31, 2022; and (vi) Notes to Unaudited Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

LAKELAND FINANCIAL CORPORATION
(Registrant)

Date: April 26, 2023

/s/ David M. Findlay

David M. Findlay – President and
Chief Executive Officer

Date: April 26, 2023

/s/ Lisa M. O’Neill

Lisa M. O’Neill – Executive Vice President and
Chief Financial Officer
(principal financial officer)

Date: April 26, 2023

/s/ Brok A. Lahrman

Brok A. Lahrman – Senior Vice President and Chief Accounting Officer
(principal accounting officer)

I, David M. Findlay, Chief Executive Officer of Lakeland Financial Corporation, certify that:

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

Date: April 26, 2023

/s/ David M. Findlay
David M. Findlay
Chief Executive Officer

I, Lisa M. O'Neill, Chief Financial Officer of Lakeland Financial Corporation, certify that:

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

Date: April 26, 2023

/s/ Lisa M. O'Neill
Lisa M. O'Neill
Chief Financial Officer

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

In connection with the Quarterly Report of Lakeland Financial Corporation (the “Company”) on Form 10-Q for the period ending March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David M. Findlay, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David M. Findlay
David M. Findlay
Chief Executive Officer
April 26, 2023

A signed original of this written statement required by Section 906 has been provided to Lakeland Financial Corporation and will be retained by Lakeland Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of Lakeland Financial Corporation (the “Company”) on Form 10-Q for the period ending March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lisa M. O’Neill, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lisa M. O’Neill
Lisa M. O’Neill
Chief Financial Officer
April 26, 2023

A signed original of this written statement required by Section 906 has been provided to Lakeland Financial Corporation and will be retained by Lakeland Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.