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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, 2020

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 29, 2020: 25,701,115

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	March 31, 2020 (Unaudited)	December 31, 2019
ASSETS		
Cash and due from banks	**$ 52,988**	$ 68,605
Short-term investments	**79,593**	30,776
Total cash and cash equivalents	**132,581**	99,381
Securities available-for-sale (carried at fair value)	**624,325**	608,233
Real estate mortgage loans held-for-sale	**7,982**	4,527
Loans, net of allowance for loan losses of $53,609 and $50,652	**4,032,129**	4,015,176
Land, premises and equipment, net	**60,945**	60,365
Bank owned life insurance	**83,037**	83,848
Federal Reserve and Federal Home Loan Bank stock	**13,772**	13,772
Accrued interest receivable	**15,433**	15,391
Goodwill	**4,970**	4,970
Other assets	**54,904**	41,082
Total assets	**$ 5,030,078**	$ 4,946,745
LIABILITIES		
Noninterest bearing deposits	**$ 1,057,994**	$ 983,307
Interest bearing deposits	**3,223,709**	3,150,512
Total deposits	**4,281,703**	4,133,819
Borrowings		
Federal Home Loan Bank advances	**75,000**	170,000
Miscellaneous borrowings	**10,500**	0
Total borrowings	**85,500**	170,000
Accrued interest payable	**10,082**	11,604
Other liabilities	**46,221**	33,222
Total liabilities	**4,423,506**	4,348,645
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value 25,701,115 shares issued and 25,234,572 outstanding as of March 31, 2020 25,623,016 shares issued and 25,444,275 outstanding as of December 31, 2019	**113,337**	114,858
Retained earnings	**484,857**	475,247
Accumulated other comprehensive income	**22,550**	12,059
Treasury stock at cost (466,543 shares as of March 31, 2020, 178,741 shares as of December 31, 2019)	**(14,261)**	(4,153)
Total stockholders' equity	**606,483**	598,011
Noncontrolling interest	**89**	89
Total equity	**606,572**	598,100
Total liabilities and equity	**$ 5,030,078**	$ 4,946,745

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

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

	Three Months Ended March 31,	
	2020	2019
NET INTEREST INCOME		
Interest and fees on loans		
Taxable	**$ 46,054**	$ 48,866
Tax exempt	**222**	251
Interest and dividends on securities		
Taxable	**1,973**	2,497
Tax exempt	**2,006**	1,642
Other interest income	**184**	238
Total interest income	**50,439**	53,494
Interest on deposits	**11,199**	13,883
Interest on borrowings		
Short-term	**362**	950
Long-term	**24**	452
Total interest expense	**11,585**	15,285
NET INTEREST INCOME	**38,854**	38,209
Provision for loan losses	**6,600**	1,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**32,254**	37,009
NONINTEREST INCOME		
Wealth advisory fees	**1,859**	1,620
Investment brokerage fees	**417**	386
Service charges on deposit accounts	**2,772**	4,287
Loan and service fees	**2,408**	2,404
Merchant card fee income	**669**	622
Bank owned life insurance income (loss)	**(292)**	444
Mortgage banking income	**586**	222
Net securities gains	0	23
Other income	**2,358**	1,517
Total noninterest income	**10,777**	11,525
NONINTEREST EXPENSE		
Salaries and employee benefits	**11,566**	12,207
Net occupancy expense	**1,387**	1,366
Equipment costs	**1,417**	1,349
Data processing fees and supplies	**2,882**	2,425
Corporate and business development	**1,111**	1,206
FDIC insurance and other regulatory fees	**267**	406
Professional fees	**1,147**	937
Other expense	**2,312**	2,577
Total noninterest expense	**22,089**	22,473
INCOME BEFORE INCOME TAX EXPENSE	**20,942**	26,061
Income tax expense	**3,643**	4,379
NET INCOME	**$ 17,299**	$ 21,682
BASIC WEIGHTED AVERAGE COMMON SHARES	**25,622,988**	25,491,750
BASIC EARNINGS PER COMMON SHARE	**$ 0.68**	$ 0.85
DILUTED WEIGHTED AVERAGE COMMON SHARES	**25,735,826**	25,665,510
DILUTED EARNINGS PER COMMON SHARE	**$ 0.67**	$ 0.84

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited - in thousands)

	Three months ended March 31,	
	2020	2019
Net income	**$ 17,299**	$ 21,682
Other comprehensive income		
Change in securities available-for-sale:		
Unrealized holding gain on securities available-for-sale arising during the period	**13,219**	10,960
Reclassification adjustment for gains included in net income	**0**	(23)
Net securities gain activity during the period	**13,219**	10,937
Tax effect	**(2,775)**	(2,297)
Net of tax amount	**10,444**	8,640
Defined benefit pension plans:		
Amortization of net actuarial loss	**63**	50
Net gain activity during the period	**63**	50
Tax effect	**(16)**	(12)
Net of tax amount	**47**	38
Total other comprehensive income, net of tax	**10,491**	8,678
Comprehensive income	**$ 27,790**	$ 30,360

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

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders’ Equity	Noncontrolling Interest	Total Equity
	Shares	Stock						
Balance at January 1, 2019	25,128,773	$ 112,383	$ 419,179	$ (6,191)	$ (3,756)	$ 521,615	$ 89	$ 521,704
Adoption of ASU 2017-08			(1,327)			(1,327)		(1,327)
Comprehensive income:								
Net income			21,682			21,682		21,682
Other comprehensive income, net of tax				8,678		8,678		8,678
Cash dividends declared and paid, $0.26 per share			(6,581)			(6,581)		(6,581)
Cashless exercise of warrants	224,066	0				0		0
Treasury shares purchased under deferred directors’ plan	(4,578)	195			(195)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,699	(118)			118	0		0
Stock activity under equity compensation plans	88,867	(2,089)				(2,089)		(2,089)
Stock based compensation expense		1,200				1,200		1,200
Balance at March 31, 2019	25,442,827	$ 111,571	$ 432,953	$ 2,487	$ (3,833)	$ 543,178	$ 89	$ 543,267
Balance at January 1, 2020	**25,444,275**	**$ 114,858**	**$ 475,247**	**$ 12,059**	**$ (4,153)**	**$ 598,011**	**$ 89**	**$ 598,100**
Comprehensive income:								
Net income			**17,299**			**17,299**		**17,299**
Other comprehensive income, net of tax				**10,491**		**10,491**		**10,491**
Cash dividends declared and paid, $0.30 per share			**(7,689)**			**(7,689)**		**(7,689)**
Treasury shares purchased under share repurchase plan	**(289,101)**				**(10,012)**	**(10,012)**		**(10,012)**
Treasury shares purchased under deferred directors’ plan	**(4,449)**	**215**			**(215)**	**0**		**0**
Treasury shares sold and distributed under deferred directors' plan	**5,748**	**(119)**			**119**	**0**		**0**
Stock activity under equity compensation plans	**78,099**	**(2,030)**				**(2,030)**		**(2,030)**
Stock based compensation expense		**413**				**413**		**413**
Balance at March 31, 2020	**25,234,572**	**$ 113,337**	**$ 484,857**	**$ 22,550**	**$ (14,261)**	**$ 606,483**	**$ 89**	**$ 606,572**

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	2020	2019
Cash flows from operating activities:		
Net income	$ **17,299**	$ 21,682
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	**1,514**	1,417
Provision for loan losses	**6,600**	1,200
Amortization of loan servicing rights	**167**	122
Net change in loan servicing rights valuation allowance	**246**	0
Loans originated for sale, including participations	**(16,801)**	(7,454)
Net gain on sales of loans	**(420)**	(258)
Proceeds from sale of loans, including participations	**13,601**	6,835
Net loss on sales of premises and equipment	**21**	1
Net gain on sales and calls of securities available-for-sale	**0**	(23)
Net securities amortization	**946**	817
Stock based compensation expense	**413**	1,200
Losses (earnings) on life insurance	**292**	(444)
Gain on life insurance	**(570)**	(841)
Tax benefit of stock award issuances	**(71)**	(529)
Net change:		
Interest receivable and other assets	**(1,175)**	(1,342)
Interest payable and other liabilities	**(2,547)**	1,276
Total adjustments	**2,216**	1,977
Net cash from operating activities	**19,515**	23,659
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	**0**	13,693
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	**16,393**	16,026
Purchases of securities available-for-sale	**(20,211)**	(22,183)
Purchase of life insurance	**(232)**	(5,362)
Net increase in total loans	**(23,588)**	(24,356)
Proceeds from sales of land, premises and equipment	**18**	10
Purchases of land, premises and equipment	**(2,133)**	(2,091)
Proceeds from life insurance	**0**	1,483
Net cash from investing activities	**(29,753)**	(22,780)
Cash flows from financing activities:		
Net increase in total deposits	**147,884**	103,372
Net increase in short-term borrowings	**10,500**	46,445
Payments on short-term FHLB borrowings	**(170,000)**	(170,000)
Proceeds from long-term FHLB borrowings	**75,000**	0
Common dividends paid	**(7,689)**	(6,581)
Payments related to equity incentive plans	**(2,030)**	(2,089)
Purchase of treasury stock	**(10,227)**	(195)
Net cash from financing activities	**43,438**	(29,048)
Net change in cash and cash equivalents	**33,200**	(28,169)
Cash and cash equivalents at beginning of the period	**99,381**	216,922
Cash and cash equivalents at end of the period	$ **132,581**	$ 188,753
Cash paid during the period for:		
Interest	$ **13,107**	$ 13,896
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	**35**	0
Securities purchases payable	**0**	8,725
Right-of-use assets obtained in exchange for lease liabilities	**0**	5,483

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 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, 2020 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2020. The Company’s 2019 Annual Report on Form 10-K should be read in conjunction with these statements.

Adoption of New Accounting Standards

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment." These amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company adopted this new accounting standard on January 1, 2020.

Adopting this standard did not have an impact on the Company's financial condition or results of operations.

In August 2018, the FASB issued ASU No. 2018-13 "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." These amendments modify the disclosure requirements in Topic 820 as follows:

Removals: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements.

Modifications: for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of

liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

Additions: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

The guidance is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should all be applied prospectively for only the most recent interim or annual period presented in the initial year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company adopted ASU 2018-13 on January 1, 2020 and it did not have a material impact on its financial condition or results of operations.

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” These amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contact with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The guidance is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2018-15 on January 1, 2020 and it did not have a material impact on its financial condition or results of operations.

Newly Issued But Not Yet Effective Accounting Standards

In June 2016, the FASB issued guidance related to credit losses on financial instruments. This update, commonly referred to as the current expected credit losses methodology (“CECL”), will change the accounting for credit losses on loans and debt securities. Under the new guidance, the Company’s measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. For loans, this measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model previously required, but still permitted, under GAAP, which delays recognition until it is probable a loss has been incurred. In addition, the guidance will modify the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which will allow for reversal of credit impairments in future periods. This guidance is effective, subject to optional delay discussed below, for the Company for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years.

Under a provision provided by the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), the Company elected to delay the adoption of FASB’s new rule covering the CECL standard until the earlier of the termination date of the national emergency declared by President Trump under the National Emergencies Act on March 13, 2020, related to the outbreak of COVID-19, and December 31, 2020. Once the delay provision has been terminated, adoption will be retroactive to January 1, 2020. During 2019, the Company implemented the CECL methodology and ran it concurrently with the historical incurred method. While the Company has not finalized the impact of implementing CECL, the Company expects to recognize a one-time cumulative effect adjustment to the allowance and beginning retained earnings, net of tax, upon adoption. Once final, the calculation will require approval by the loan review committee and governance in accordance with the Company’s internal controls over financial reporting. Additionally, the Company has evaluated the need to recognize an allowance for credit impairment for available-for-sale debt securities. The impact on available-for-sale debt securities is subject to a limitation, which is based on the fair value of the debt securities. When evaluating the credit quality of our existing portfolio, the Company does not expect the allowance for credit impairment for available-for-sale securities to be significant. The future impact of CECL on the Company’s allowance for credit losses and provision expense subsequent to the initial adoption will depend on changes in the loan portfolio, economic conditions and refinements to key assumptions including forecasting and qualitative factors.

In August 2018, the FASB issued ASU 2018-14 "Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans." The ASU updates the annual disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans by adding, clarifying and removing certain disclosures. These amendments are effective for fiscal years ending after December 15, 2020, for public business entities, and are to be applied on a retrospective basis to all periods presented. Management does not anticipate ASU 2018-14 will have a material impact on its financial statements.

In December 2019, the FASB issued ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." These amendments remove specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intraperiod tax allocation; exceptions to accounting for basis differences where there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. It also improves financial statement preparers' application of income tax- related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacts changes in tax laws in interim periods. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company is assessing ASU 2019-12 and its impact on its financial statements.

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 working group to lead the transition from LIBOR to a planned adoption of the Secured Overnight Financial Rate ("SOFR"). The Company has identified loans that will renew prior to 2021 and will obtain updated reference rate language at the time of renewal. Loans maturing after 2021 will need loan modifications and fallback language has been implemented for newly originated loans. The guidance under ASC-848 will be available for a limited time, generally through December 31, 2022. The Company expects to adopt the LIBOR transition relief allowed under this standard.

Reclassifications

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

Information related to the fair value and amortized cost of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income is provided in the tables below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
March 31, 2020				
Mortgage-backed securities: residential	**$ 280,674**	**$ 12,766**	**$ (170)**	**$ 293,270**
Mortgage-backed securities: commercial	**41,003**	**811**	**0**	**41,814**
State and municipal securities	**272,205**	**17,068**	**(32)**	**289,241**
Total	**$ 593,882**	**$ 30,645**	**$ (202)**	**$ 624,325**
December 31, 2019				
Mortgage-backed securities: residential	$ 283,817	$ 4,751	$ (387)	$ 288,181
Mortgage-backed securities: commercial	36,712	262	(2)	36,972
State and municipal securities	270,480	12,828	(228)	283,080
Total	$ 591,009	$ 17,841	$ (617)	$ 608,233

Information regarding the fair value and amortized cost of available-for-sale debt securities by maturity as of March 31, 2020 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)	Amortized Cost	Fair Value
Due in one year or less	**$ 3,924**	**$ 3,946**
Due after one year through five years	**15,371**	**15,741**
Due after five years through ten years	**27,257**	**28,584**
Due after ten years	**225,653**	**240,970**
	272,205	**289,241**
Mortgage-backed securities	**321,677**	**335,084**
Total debt securities	**$ 593,882**	**$ 624,325**

Securities proceeds, gross gains and gross losses are presented below.

(dollars in thousands)	Three months ended March 31, 2020	2019
Sales of securities available-for-sale		
Proceeds	**$ 0**	$ 13,693
Gross gains	**0**	70
Gross losses	**0**	(47)
Number of securities	**0**	17

In accordance with ASU No. 2017-08, 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 carrying values of $214.9 million and $59.3 million were pledged as of March 31, 2020 and December 31, 2019, respectively, as collateral for borrowings from the Federal Home Loan Bank and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of March 31, 2020 and December 31, 2019 is presented below. 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.

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2020						
Mortgage-backed securities: residential	**$ 3,021**	**$ 69**	**$ 5,134**	**$ 101**	**$ 8,155**	**$ 170**
Mortgage-backed securities: commercial	**2,214**	**0**	**0**	**0**	**2,214**	**0**
State and municipal securities	**4,509**	**32**	**0**	**0**	**4,509**	**32**
Total temporarily impaired	**$ 9,744**	**$ 101**	**$ 5,134**	**$ 101**	**$ 14,878**	**$ 202**
December 31, 2019						
Mortgage-backed securities: residential	$ 23,436	$ 112	$ 14,174	$ 275	$ 37,610	$ 387
Mortgage-backed securities: commercial	4,591	2	0	0	4,591	2
State and municipal securities	14,188	228	0	0	14,188	228
Total temporarily impaired	$ 42,215	$ 342	$ 14,174	$ 275	$ 56,389	$ 617

The total number of securities with unrealized losses as of March 31, 2020 and December 31, 2019 is presented below.

	Less than 12 months	12 months or more	Total
March 31, 2020			
Mortgage-backed securities: residential	**1**	**2**	**3**
Mortgage-backed securities: commercial	**1**	**0**	**1**
State and municipal securities	**4**	**0**	**4**
Total temporarily impaired	**6**	**2**	**8**
December 31, 2019			
Mortgage-backed securities: residential	7	6	13
Mortgage-backed securities: commercial	1	0	1
State and municipal securities	11	0	11
Total temporarily impaired	19	6	25

The following factors are considered in determining whether or not the impairment of these securities is other-than-temporary. In making this determination, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer, as well as the underlying fundamentals of the relevant market and the outlook for such market in the near future. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. As of March 31, 2020 and December 31, 2019, all of the securities in the Company's portfolio were backed by the U.S. government, government agencies, government sponsored entities or were A-rated or better, except for certain non-local or local municipal securities, which are not rated. For the government, government agency, government-sponsored entity and municipal securities, management did not believe that there would be credit losses or that full principal would not be received. Management considers the unrealized losses on these securities to be primarily interest rate driven and does not expect material losses given current market conditions unless the securities are sold. However, at this time management does not have the intent to sell, and it is more likely than not that the Company will not be required to sell these securities before the recovery of their amortized cost basis.

NOTE 3. LOANS

(dollars in thousands)	**March 31, 2020**		December 31, 2019	
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 730,767**	**17.9 %**	$ 709,849	17.5 %
Non-working capital loans	**697,952**	**17.1**	717,019	17.6
Total commercial and industrial loans	**1,428,719**	**35.0**	1,426,868	35.1
Commercial real estate and multi-family residential loans:				
Construction and land development loans	**334,524**	**8.2**	287,641	7.1
Owner occupied loans	**572,057**	**14.0**	573,665	14.1
Nonowner occupied loans	**584,418**	**14.3**	571,364	14.0
Multifamily loans	**269,479**	**6.6**	240,652	5.9
Total commercial real estate and multi-family residential loans	**1,760,478**	**43.1**	1,673,322	41.1
Agri-business and agricultural loans:				
Loans secured by farmland	**145,542**	**3.5**	174,380	4.3
Loans for agricultural production	**183,855**	**4.5**	205,151	5.0
Total agri-business and agricultural loans	**329,397**	**8.0**	379,531	9.3
Other commercial loans	**104,286**	**2.5**	112,302	2.8
Total commercial loans	**3,622,880**	**88.6**	3,592,023	88.3
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	**173,431**	**4.3**	177,227	4.4
Open end and junior lien loans	**181,541**	**4.4**	186,552	4.6
Residential construction and land development loans	**12,146**	**0.3**	12,966	0.3
Total consumer 1-4 family mortgage loans	**367,118**	**9.0**	376,745	9.3
Other consumer loans	**97,096**	**2.4**	98,617	2.4
Total consumer loans	**464,214**	**11.4**	475,362	11.7
Subtotal	**4,087,094**	**100.0 %**	4,067,385	100.0 %
Less: Allowance for loan losses	**(53,609)**		(50,652)	
Net deferred loan fees	**(1,356)**		(1,557)	
Loans, net	**$ 4,032,129**		$ 4,015,176	

The recorded investment in loans does not include accrued interest.

The Company had $1.5 million in residential real estate loans in the process of foreclosure as of March 31, 2020, compared to $1.6 million as of December 31, 2019.

NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables present the activity in the allowance for loan losses by portfolio segment for the three-month periods ended March 31, 2020 and 2019:

(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, 2020								
Beginning balance, January 1	**$ 25,789**	**$ 15,796**	**$ 3,869**	**$ 447**	**$ 2,086**	**$ 345**	**$ 2,320**	**$ 50,652**
Provision for credit losses	**2,628**	**2,750**	**(167)**	**74**	**395**	**175**	**745**	**6,600**
Loans charged-off	**(3,735)**	**0**	**0**	**0**	**(13)**	**(101)**	**0**	**(3,849)**
Recoveries	**57**	**112**	**2**	**0**	**7**	**28**	**0**	**206**
Net loans charged-off	**(3,678)**	**112**	**2**	**0**	**(6)**	**(73)**	**0**	**(3,643)**
Ending balance	**$ 24,739**	**$ 18,658**	**$ 3,704**	**$ 521**	**$ 2,475**	**$ 447**	**$ 3,065**	**$ 53,609**

(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, 2019								
Beginning balance, January 1	$ 22,518	$ 15,393	$ 4,305	$ 368	$ 2,292	$ 283	$ 3,294	$ 48,453
Provision for loan losses	1,493	18	(161)	5	45	85	(285)	1,200
Loans charged-off	(83)	0	0	0	(82)	(119)	0	(284)
Recoveries	102	36	2	0	11	42	0	193
Net loans charged-off	19	36	2	0	(71)	(77)	0	(91)
Ending balance	$ 24,030	$ 15,447	$ 4,146	$ 373	$ 2,266	$ 291	$ 3,009	$ 49,562

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2020 and December 31, 2019:

(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**
March 31, 2020								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	**$ 6,676**	**$ 502**	**$ 57**	**$ 0**	**$ 427**	**$ 0**	**$ 0**	**$ 7,662**
Collectively evaluated for impairment	**18,063**	**18,156**	**3,647**	**521**	**2,048**	**447**	**3,065**	**45,947**
Total ending allowance balance	**$ 24,739**	**$ 18,658**	**$ 3,704**	**$ 521**	**$ 2,475**	**$ 447**	**$ 3,065**	**$ 53,609**
Loans:								
Loans individually evaluated for impairment	**$ 15,726**	**$ 4,127**	**$ 430**	**$ 0**	**$ 2,695**	**$ 0**	**$ 0**	**$ 22,978**
Loans collectively evaluated for impairment	**1,412,920**	**1,754,085**	**329,067**	**104,163**	**365,666**	**96,859**	**0**	**4,062,760**
Total ending loans balance	**$ 1,428,646**	**$ 1,758,212**	**$ 329,497**	**$ 104,163**	**$ 368,361**	**$ 96,859**	**$ 0**	**$ 4,085,738**

(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
December 31, 2019								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 9,324	$ 538	$ 90	$ 0	$ 426	$ 6	$ 0	$ 10,384
Collectively evaluated for impairment	16,465	15,258	3,779	447	1,660	339	2,320	40,268
Total ending allowance balance	$ 25,789	$ 15,796	$ 3,869	$ 447	$ 2,086	$ 345	$ 2,320	$ 50,652
Loans:								
Loans individually evaluated for impairment	$ 19,580	$ 4,998	$ 445	$ 0	$ 2,789	$ 17	$ 0	$ 27,829
Loans collectively evaluated for impairment	1,407,246	1,665,842	379,186	112,166	375,210	98,349	0	4,037,999
Total ending loans balance	$ 1,426,826	$ 1,670,840	$ 379,631	$ 112,166	$ 377,999	$ 98,366	$ 0	$ 4,065,828

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2020:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 1,097	$ 1,097	$ —
Non-working capital loans	2,012	619	—
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,284	2,103	—
Agri-business and agricultural loans:			
Loans secured by farmland	603	283	—
Consumer 1-4 family loans:			
Closed end first mortgage loans	403	322	—
Open end and junior lien loans	49	49	—
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	5,140	3,433	1,431
Non-working capital loans	13,211	10,577	5,245
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,024	2,024	502
Agri-business and agricultural loans:			
Loans secured by farmland	147	147	57
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,635	1,638	371
Open end and junior lien loans	635	634	46
Residential construction loans	51	52	10
Other consumer loans	0	0	0
Total	$ 29,291	$ 22,978	$ 7,662

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2019:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 22	$ 22	$ —
Non-working capital loans	2,130	735	—
Commercial real estate and multi-family residential loans:			
Owner occupied loans	3,189	3,010	—
Agri-business and agricultural loans:			
Loans secured by farmland	603	283	—
Loans for ag production	15	15	—
Consumer 1-4 family loans:			
Closed end first mortgage loans	411	330	—
Open end and junior lien loans	121	121	—
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,214	6,214	3,089
Non-working capital loans	13,230	12,609	6,235
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,988	1,988	538
Agri-business and agricultural loans:			
Loans secured by farmland	147	147	90
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,643	1,646	363
Open end and junior lien loans	641	640	53
Residential construction loans	51	52	10
Other consumer loans	17	17	6
Total	$ 30,422	$ 27,829	$ 10,384

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2020:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 380	$ 0	$ 0
Non-working capital loans	558	1	1
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,144	5	4
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	325	1	1
Open end and junior lien loans	85	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	5,287	0	0
Non-working capital loans	11,719	90	90
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,999	30	30
Agri-business and agricultural loans:			
Loans secured by farmland	147	0	0
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,641	21	20
Open end and junior lien loans	638	0	0
Residential construction loans	52	0	0
Total	$ 25,258	$ 148	$ 146

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2019:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 155	$ 1	$ 0
Non-working capital loans	1,549	29	24
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,621	11	8
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	380	1	1
Open end and junior lien loans	193	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,487	72	59
Non-working capital loans	11,416	132	128
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,080	13	12
Agri-business and agricultural loans:			
Loans secured by farmland	147	2	1
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,598	12	12
Other consumer loans	43	1	1
Total	$ 25,952	$ 274	$ 246

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

(dollars in thousands)	Loans Not Past Due	30 - 89 Days Past Due	Greater than 90 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Total
Commercial and industrial loans:						
Working capital lines of credit loans	**$ 725,870**	**$ 449**	**$ 0**	**$ 4,529**	**$ 4,978**	**$ 730,848**
Non-working capital loans	**693,515**	**99**	**0**	**4,184**	**4,283**	**697,798**
Commercial real estate and multi-family residential loans:						
Construction and land development loans	**333,699**	**0**	**0**	**0**	**0**	**333,699**
Owner occupied loans	**568,122**	**430**	**0**	**3,186**	**3,616**	**571,738**
Nonowner occupied loans	**583,709**	**0**	**0**	**0**	**0**	**583,709**
Multifamily loans	**269,066**	**0**	**0**	**0**	**0**	**269,066**
Agri-business and agricultural loans:						
Loans secured by farmland	**145,124**	**0**	**0**	**430**	**430**	**145,554**
Loans for agricultural production	**183,943**	**0**	**0**	**0**	**0**	**183,943**
Other commercial loans	**104,163**	**0**	**0**	**0**	**0**	**104,163**
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	**171,452**	**785**	**19**	**819**	**1,623**	**173,075**
Open end and junior lien loans	**182,388**	**66**	**43**	**683**	**792**	**183,180**
Residential construction loans	**12,052**	**2**	**0**	**52**	**54**	**12,106**
Other consumer loans	**96,736**	**114**	**9**	**0**	**123**	**96,859**
Total	**$ 4,069,839**	**$ 1,945**	**$ 71**	**$ 13,883**	**$ 15,899**	**$ 4,085,738**

The following table presents the aging of the recorded investment in past due loans as of December 31, 2019 by class of loans:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 90 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 703,737	$ 10	$ 0	$ 6,236	$ 6,246	$ 709,983
Non-working capital loans	710,557	4	0	6,282	6,286	716,843
Commercial real estate and multi-family residential loans:						
Construction and land development loans	286,534	0	0	0	0	286,534
Owner occupied loans	569,303	0	0	4,056	4,056	573,359
Nonowner occupied loans	570,687	0	0	0	0	570,687
Multifamily loans	240,260	0	0	0	0	240,260
Agri-business and agricultural loans:						
Loans secured by farmland	173,959	0	0	430	430	174,389
Loans for agricultural production	205,228	0	0	14	14	205,242
Other commercial loans	112,166	0	0	0	0	112,166
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	174,902	1,099	45	827	1,971	176,873
Open end and junior lien loans	187,255	188	0	761	949	188,204
Residential construction loans	12,870	0	0	52	52	12,922
Other consumer loans	98,176	173	0	17	190	98,366
Total	$ 4,045,634	$ 1,474	$ 45	$ 18,675	$ 20,194	$ 4,065,828

Troubled Debt Restructurings:

Troubled debt restructured loans are included in the totals for impaired loans. The Company has allocated $2.6 million and $2.5 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2020 and December 31, 2019, respectively. The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring.

(dollars in thousands)	March 31, 2020	December 31, 2019
Accruing troubled debt restructured loans	$ 5,852	$ 5,909
Nonaccrual troubled debt restructured loans	**2,311**	3,188
Total troubled debt restructured loans	**$ 8,163**	$ 9,097

During the three months ended March 31, 2020, certain loans were modified as troubled debt restructurings. The modified terms of these loans include one or a combination of the following: inadequate compensation for the terms of the restructure or renewal; a modification of the repayment terms which delays principal repayment for some period; or renewal terms offered to borrowers in financial distress where no additional credit enhancements were obtained at the time of renewal.

The following table presents loans by class modified as new troubled debt restructurings that occurred during the three months ended March 31, 2020:

(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Repayment Terms Number of Loans	Modified Repayment Terms Extension Period or Range (in months)
Troubled Debt Restructurings					
Commercial and industrial loans:					
Non-working capital loans	1	788	122	1	0
Total	1	$ 788	$ 122	1	0

For the three month period ended March 31, 2020, the troubled debt restructurings described above increased the allowance for loan losses by $122,000, and charge-offs of $666,000 were recorded.

As of March 31, 2020, total deferrals attributed to COVID-19 were $99.8 million representing 77 borrowers. This represented 2% of the total loan portfolio. Of that total 50 were commercial loan borrowers representing $99.3 million in loans, or 3% of commercial loans and 27 were retail loan borrowers representing $528,000, or less than 1% of total retail loans. Of the total deferrals, 95% are for three-month deferrals of principal only. In accordance with the March 22, 2020 Joint Interagency Regulatory Guidance, these were not considered to be troubled debt restructurings and were excluded from the table above.

During the three months ended March 31, 2019, certain loans were modified as troubled debt restructurings. The modified terms of these loans include one or a combination of the following: inadequate compensation for the terms of the restructure or renewal; a modification of the repayment terms which delays principal repayment for some period; or renewal terms offered to borrowers in financial distress where no additional credit enhancements were obtained at the time of renewal.

Additional concessions were granted to borrowers with previously identified troubled debt restructured loans during the period. One of the loans is for a commercial real estate building where the cash flow does not support the loan with a recorded investment of $533,000. The other loan is for commercial and industrial non-working capital purposes and this borrower had a recorded investment of $70,000 that was subsequently paid off prior to March 31, 2019. These concessions are not included in the table on the next page.

The following table presents loans by class modified as new troubled debt restructurings that occurred during the three months ended March 31, 2019:

(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Repayment Terms Number of Loans	Modified Repayment Terms Extension Period or Range (in months)
Troubled Debt Restructurings					
Commercial and industrial loans:					
Working capital lines of credit loans	1	35	35	1	0
Total	1	$ 35	$ 35	1	0

For the three-month period ended March 31, 2019, the troubled debt restructuring described above did not impact the allowance for loan losses and no charge-off was recorded.

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 not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be Pass rated loans with the exception of consumer troubled debt restructurings 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.

As of March 31, 2020, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 651,403	$ 54,559	$ 24,527	$ 0	$ 359	$ 730,848
Non-working capital loans	653,230	17,834	21,406	0	5,328	697,798
Commercial real estate and multi-family residential loans:						
Construction and land development loans	333,699	0	0	0	0	333,699
Owner occupied loans	527,818	33,555	10,365	0	0	571,738
Nonowner occupied loans	582,374	758	577	0	0	583,709
Multifamily loans	269,066	0	0	0	0	269,066
Agri-business and agricultural loans:						
Loans secured by farmland	138,247	5,879	1,428	0	0	145,554
Loans for agricultural production	172,730	11,213	0	0	0	183,943
Other commercial loans	104,163	0	0	0	0	104,163
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	44,863	0	1,960	0	126,252	173,075
Open end and junior lien loans	11,016	0	683	0	171,481	183,180
Residential construction loans	0	0	52	0	12,054	12,106
Other consumer loans	27,439	0	0	0	69,420	96,859
Total	$ 3,516,048	$ 123,798	$ 60,998	$ 0	$ 384,894	$ 4,085,738

As of December 31, 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 631,728	$ 40,551	$ 37,278	$ 0	$ 426	$ 709,983
Non-working capital loans	673,370	18,782	19,381	0	5,310	716,843
Commercial real estate and multi-family residential loans:						
Construction and land development loans	286,534	0	0	0	0	286,534
Owner occupied loans	535,496	14,804	23,059	0	0	573,359
Nonowner occupied loans	569,315	781	591	0	0	570,687
Multifamily loans	240,260	0	0	0	0	240,260
Agri-business and agricultural loans:						
Loans secured by farmland	165,005	7,952	1,432	0	0	174,389
Loans for agricultural production	191,489	13,738	15	0	0	205,242
Other commercial loans	112,166	0	0	0	0	112,166
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	47,405	0	1,976	0	127,492	176,873
Open end and junior lien loans	10,845	0	762	0	176,597	188,204
Residential construction loans	0	0	51	0	12,871	12,922
Other consumer loans	27,250	0	17	0	71,099	98,366
Total	$ 3,490,863	$ 96,608	$ 84,562	$ 0	$ 393,795	$ 4,065,828

NOTE 5. BORROWINGS

For the periods ended March 31, 2020 and December 31, 2019, the Company had advances outstanding from the Federal Home Loan Bank ("FHLB") in the amount of $75.0 million and $170.0 million, respectively. The outstanding FHLB advance at March 31, 2020 is a

ten-year

fixed-rate putable advance with a rate of 0.39

% and is due on March 4, 2030. The outstanding FHLB advance at December 31, 2019 was a short-term fixed rate advance with a rate of 1.61

% and was due on January 7, 2020. All FHLB notes require monthly interest payments and are secured by residential real estate loans and securities.

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. Funds provided under the agreement may be used to repurchase shares of the Company's common stock under the share repurchase program, which was authorized by the Company's board of directors on January 14, 2020. The Company had drawn $10.5 million on this line at a rate of Prime minus 150 basis points, or 1.75

%, as of March 31, 2020. There were

no

amounts drawn against this line as of December 31, 2019.

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 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 differences 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).

Impaired loans: Impaired loans with specific allocations of the allowance for loan losses are generally based on the fair value of the underlying collateral if 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 impaired 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 0-50% 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 35-65%, depending on the marketability of the goods (b) finished goods are generally discounted by 30-60%, 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 50-100%, 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 30-70% 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, 2020, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was $3.8 million, carried at amortized cost less $246,000 in a valuation reserve, or $3.6 million. These residential mortgage loans have a weighted average interest rate of 3.90%, 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 valuation model 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, 2020, the constant prepayment speed ("PSA") used was 166 and discount rate used was 9.4%. At December 31, 2019, the PSA used was 118 and the discount rate used was 9.4%.

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 table below presents the balances of assets measured at fair value on a recurring basis:

	March 31, 2020			
	Fair Value Measurements Using			Assets
(dollars in thousands)	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Mortgage-backed securities: residential	$ 0	$ 293,270	$ 0	$ 293,270
Mortgage-backed securities: commercial	0	41,814	0	41,814
State and municipal securities	0	289,096	145	289,241
Total Securities	0	624,180	145	624,325
Mortgage banking derivative	0	1,307	0	1,307
Interest rate swap derivative	0	21,565	0	21,565
Total assets	$ 0	$ 647,052	$ 145	$ 647,197
Liabilities:				
Mortgage banking derivative	0	544	0	544
Interest rate swap derivative	0	21,599	0	21,599
Total liabilities	$ 0	$ 22,143	$ 0	$ 22,143

(dollars in thousands)	December 31, 2019 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Assets:				
Mortgage-backed securities: residential	$ 0	$ 288,181	$ 0	$ 288,181
Mortgage-backed securities: commercial	0	36,972	0	36,972
State and municipal securities	0	282,935	145	283,080
Total Securities	0	608,088	145	608,233
Mortgage banking derivative	0	198	0	198
Interest rate swap derivative	0	7,263	0	7,263
Total assets	$ 0	$ 615,549	$ 145	$ 615,694
Liabilities:				
Mortgage banking derivative	0	14	0	14
Interest rate swap derivative	0	7,860	0	7,860
Total liabilities	$ 0	$ 7,874	$ 0	$ 7,874

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

The table below presents the balances of assets measured at fair value on a nonrecurring basis:

(dollars in thousands)	**March 31, 2020 Fair Value Measurements Using Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
Assets				
Impaired loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 0**	**$ 0**	**$ 2,002**	**$ 2,002**
Non-working capital loans	**0**	**0**	**5,332**	**5,332**
Commercial real estate and multi-family residential loans:				
Owner occupied loans	**0**	**0**	**1,527**	**1,527**
Agri-business and agricultural loans:				
Loans secured by farmland	**0**	**0**	**90**	**90**
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	**0**	**0**	**459**	**459**
Open end and junior lien loans	**0**	**0**	**587**	**587**
Residential construction loans	**0**	**0**	**42**	**42**
Total impaired loans	**$ 0**	**$ 0**	**$ 10,039**	**$ 10,039**
Other real estate owned	**0**	**0**	**0**	**0**
Total assets	**$ 0**	**$ 0**	**$ 10,039**	**$ 10,039**

(dollars in thousands)	December 31, 2019 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Assets				
Impaired loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	$ 0	$ 0	$ 3,126	$ 3,126
Non-working capital loans	0	0	6,374	6,374
Commercial real estate and multi-family residential loans:				
Construction and land development loans	0	0	43	43
Owner occupied loans	0	0	1,449	1,449
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	57	57
Other commercial loans	0	0	0	0
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	0	0	474	474
Open end and junior lien loans	0	0	587	587
Other consumer loans	0	0	11	11
Total impaired loans	$ 0	$ 0	$ 12,121	$ 12,121
Other real estate owned	0	0	0	0
Total assets	$ 0	$ 0	$ 12,121	$ 12,121

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, 2020:

(dollars in thousands)	**Fair Value**	**Valuation Methodology**	**Unobservable Inputs**	**Average**	**Range of Inputs**
Impaired loans: Commercial and industrial	**$ 7,334**	**Collateral based measurements**	**Discount to reflect current market conditions and ultimate collectability**	**48 %**	**7% -100%**
Impaired loans: Commercial real estate	**1,527**	**Collateral based measurements**	**Discount to reflect current market conditions and ultimate collectability**	**25 %**	**7% -52%**
Impaired loans: Agribusiness and agricultural	**90**	**Collateral based measurements**	**Discount to reflect current market conditions and ultimate collectability**	**39 %**	
Impaired loans: Consumer 1-4 family mortgage	**1,088**	**Collateral based measurements**	**Discount to reflect current market conditions and ultimate collectability**	**14 %**	**5% -100%**

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, 2019:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Impaired loans:					
Commercial and industrial	$ 9,500	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	53 %	1%-100%
Impaired loans:					
Commercial real estate	1,492	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	27 %	7%-61%
Impaired loans:					
Agribusiness and agricultural	57	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	61 %	
Impaired loans:					
Consumer 1-4 family mortgage	1,061	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	14 %	5%-100%
Impaired loans:					
Other consumer	11	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	36 %	

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of $17.4 million, with a valuation allowance of $7.4 million at March 31, 2020. The change in the fair value of impaired loans resulted in increases in the provision for loan losses of $142,000 over the three months ended March 31, 2020. The decreases was primarily due to a $3.7 million charge-off taken on an impaired commercial relationship. At March 31, 2019, impaired loans had a gross carrying amount of $19.1 million, with a valuation allowance of $9.3 million. The change in the fair value of impaired loans resulted in a reduction in the provision for loan losses of $200,000 over the three months ended March 31, 2019.

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments. Items which are not financial instruments are not included.

	March 31, 2020				
	Carrying	**Estimated Fair Value**			
(dollars in thousands)	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Cash and cash equivalents	**$ 132,581**	**$ 129,750**	**$ 2,831**	**$ 0**	**$ 132,581**
Securities available-for-sale	**624,325**	**0**	**624,180**	**145**	**624,325**
Real estate mortgages held-for-sale	**7,982**	**0**	**8,141**	**0**	**8,141**
Loans, net	**4,032,129**	**0**	**0**	**4,036,193**	**4,036,193**
Federal Reserve and Federal Home Loan Bank Stock	**13,772**	**N/A**	**N/A**	**N/A**	**N/A**
Accrued interest receivable	**15,433**	**0**	**3,575**	**11,858**	**15,433**
Financial Liabilities:					
Certificates of deposit	**(1,273,413)**	**0**	**(1,289,272)**	**0**	**(1,289,272)**
All other deposits	**(3,008,290)**	**(3,008,290)**	**0**	**0**	**(3,008,290)**
Other short-term borrowings	**(10,500)**	**0**	**(10,500)**	**0**	**(10,500)**
Federal Home Loan Bank advances	**(75,000)**	**0**	**(64,166)**	**0**	**(64,166)**
Standby letters of credit	**(915)**	**0**	**0**	**(915)**	**(915)**
Accrued interest payable	**(10,082)**	**(61)**	**(10,021)**	**0**	**(10,082)**

(dollars in thousands)	December 31, 2019 Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 99,381	$ 96,603	$ 2,778	$ 0	$ 99,381
Securities available-for-sale	608,233	0	608,088	145	608,233
Real estate mortgages held-for-sale	4,527	0	4,614	0	4,614
Loans, net	4,015,176	0	0	3,979,006	3,979,006
Federal Reserve and Federal Home Loan Bank Stock	13,772	N/A	N/A	N/A	N/A
Accrued interest receivable	15,391	0	3,729	11,662	15,391
Financial Liabilities:					
Certificates of deposit	(1,192,067)	0	(1,202,060)	0	(1,202,060)
All other deposits	(2,941,752)	(2,941,752)	0	0	(2,941,752)
Federal Home Loan Bank advances	(170,000)	0	(169,998)	0	(169,998)
Standby letters of credit	(915)	0	0	(915)	(915)
Accrued interest payable	(11,604)	(102)	(11,502)	0	(11,604)

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, 2020 and December 31, 2019.

(dollars in thousands)	**March 31, 2020** 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	**$ 21,565**	**$ 0**	**$ 21,565**	**$ 0**	**$ 0**	**$ 21,565**
Total Assets	**$ 21,565**	**$ 0**	**$ 21,565**	**$ 0**	**$ 0**	**$ 21,565**
Liabilities						
Interest Rate Swap Derivatives	**$ 21,599**	**$ 0**	**$ 21,599**	**$ 0**	**$ (21,370)**	**$ 229**
Total Liabilities	**$ 21,599**	**$ 0**	**$ 21,599**	**$ 0**	**$ (21,370)**	**$ 229**

(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	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Position	Net Amount
	December 31, 2019					
Assets						
Interest Rate Swap Derivatives	$ 7,263	$ 0	$ 7,263	$ 0	$ 0	$ 7,263
Total Assets	$ 7,263	$ 0	$ 7,263	$ 0	$ 0	$ 7,263
Liabilities						
Interest Rate Swap Derivatives	$ 7,860	$ 0	$ 7,860	$ 0	$ (7,560)	$ 300
Total Liabilities	$ 7,860	$ 0	$ 7,860	$ 0	$ (7,560)	$ 300

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, including 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, 2020	Three Months Ended March 31, 2019
Weighted average shares outstanding for basic earnings per common share	**25,622,988**	25,491,750
Dilutive effect of stock based awards and warrants	**112,838**	173,760
Weighted average shares outstanding for diluted earnings per common share	**25,735,826**	25,665,510
Basic earnings per common share	**$ 0.68**	$ 0.85
Diluted earnings per common share	**$ 0.67**	$ 0.84

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) net of tax for the three months ended March 31, 2020 and 2019:

(dollars in thousands)	**Unrealized Gains and Losses on Available-for-Sales Securities**	**Defined Benefit Pension Items**	**Total**
Balance at January 1, 2020	**$ 13,607**	**$ (1,548)**	**$ 12,059**
Other comprehensive income before reclassification	**10,444**	**0**	**10,444**
Amounts reclassified from accumulated other comprehensive income	**0**	**47**	**47**
Net current period other comprehensive income	**10,444**	**47**	**10,491**
Balance at March 31, 2020	**$ 24,051**	**$ (1,501)**	**$ 22,550**

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sales Securities	Defined Benefit Pension Items	Total
Balance at January 1, 2019	$ (4,796)	$ (1,395)	$ (6,191)
Other comprehensive income before reclassification	8,663	0	8,663
Amounts reclassified from accumulated other comprehensive income	(23)	38	15
Net current period other comprehensive income	8,640	38	8,678
Balance at March 31, 2019	$ 3,844	$ (1,357)	$ 2,487

Reclassifications out of accumulated comprehensive income for the three months ended March 31, 2020 are as follows:

Details about Accumulated Other Comprehensive Income 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	**$ (63)**	Other expense
Tax effect	**16**	Income tax expense
	(47)	Net of tax
Total reclassifications for the period	**$ (47)**	Net income

Reclassifications out of accumulated comprehensive income for the three months ended March 31, 2019 are as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Unrealized gains and losses on available-for-sale securities	$ 23	Net securities gains
Tax effect	0	Income tax expense
	23	Net of tax
Amortization of defined benefit pension items	(50)	Other expense
Tax effect	12	Income tax expense
	(38)	Net of tax
Total reclassifications for the period	$ (15)	Net income

NOTE 10. LEASES

The Company leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2029 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 practical expedient of the standard. The following is a maturity analysis of the operating lease liabilities as of March 31, 2020:

Years ending December 31, (in thousands)	Operating lease Obligation
2020	$ 425
2021	581
2022	595
2023	606
2024	622
2025 and thereafter	2,873
Total undiscounted lease payments	5,702
Less imputed interest	(703)
Lease liability	$ 4,999
Right-of-use asset	$ 4,999

	Three months ended March 31, 2020	Three months ended March 31, 2019
Lease cost		
Operating lease cost	$ 128	$ 119
Short-term lease cost	6	6
Total lease cost	$ 134	$ 125
Other information		
Operating cash outflows from operating leases	$ 128	
Weighted-average remaining lease term - operating leases	9.6 years	
Weighted average discount rate - operating leases	2.8 %	

NOTE 11. COVID-19 AND CURRENT ECONOMIC CONDITIONS

On March 11, 2020, the World Health Organization announced that the COVID-19 outbreak was deemed a pandemic, and on March 13, 2020, the President declared the ongoing COVID-19 pandemic of sufficient magnitude to warrant an emergency declaration. The extent of COVID-19's effect on the Company's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, and when state and local economies will return to operational norms, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. In addition, we rely upon our third-party vendors to conduct business and to process, record and monitor transactions. If any of these vendors are unable to continue to provide us with these services, it could negatively impact our ability to serve our customers. Furthermore, the outbreak could negatively impact our employees and customers' ability to engage in banking and other financial transactions. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of a COVID-19 outbreak in our market areas. The fair value of certain assets could be impacted by the effects of COVID-19. The carrying value of goodwill, right-of-use lease assets, other real estate owned and mortgage servicing rights could decrease resulting in future impairment losses. Management will continue to evaluate current economic conditions to determine if a triggering event would impact the current valuations for these assets. As a result, it not currently possible to ascertain the overall impact of COVID-19 on the Company's business. However, if the pandemic continues to evolve into a prolonged worldwide health crisis, the disease could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

As of April 22, 2020, total COVID-19 related deferrals had increased to $467.1 million, representing 404 borrowers or 11% of the total loan portfolio. Of that total, 267 were commercial loan borrowers representing $459.8 million in loans, or 13% of total commercial loans. 137 were retail loan borrowers representing $7.3 million, or 2% of total retail loans. 85% of these loan deferrals are for three-month deferrals of principal only.

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

OVERVIEW

Net income in the first three months of 2020 was $17.3 million, down 20.2% from $21.7 million for the comparable period of 2019. Diluted income per common share was $0.67 in the first three months of 2020, down 20.2% from $0.84 in the comparable period of 2019. The decrease was primarily due to the Company recording a provision for loan losses of $6.6 million for the first quarter of 2020, an increase of $5.4 million, or 450% compared to $1.2 million for the first quarter of 2019. The provision increase was driven primarily by the economic impact of the Coronavirus Disease 2019 (“COVID-19”) pandemic on the Company’s loan customers using the incurred model. Pretax pre-provision earnings in the first three months of 2020 was $27.5 million, an increase of $281,000, or 1.0%, compared to $27.3 million for the comparable period of 2019. 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 11.51% in the first three months of 2020 versus 16.59% in the comparable period of 2019. Annualized return on average total assets was 1.40% in the first three months of 2020 versus 1.80% in the comparable period of 2019. The average equity to average assets ratio was 12.17% in the first three months of 2020 versus 10.86% in the comparable period of 2019.

Total assets were $5.030 billion as of March 31, 2020 versus $4.947 billion as of December 31, 2019, an increase of $83.3 million, or 1.7%. This increase was primarily due to a $33.2 million increase in cash and cash equivalents, an increase of $17.0 million in net loans, a $16.1 million increase in securities available-for-sale and an increase of $13.8 million in other assets driven by higher valuations on the Company’s back-to-back interest rate swap portfolio. Balance sheet growth was primarily funded through growth in deposits during 2020. Core deposits increased $151.8 million while total borrowings decreased by $84.5 million since December 31, 2019. Total equity increased by $8.5 million due primarily to net income of $17.3 million, an increase in accumulated other comprehensive income of $10.5 million, offset by share repurchases of $10.0 million and dividends declared and paid of $0.30 per share totaling $7.7 million.

Impact of COVID-19 . The progression of the COVID-19 pandemic in the United States has potentially had an adverse impact on our financial condition and results of operations as of and for the three months ended March 31, 2020, and may have a complex and significant adverse impact on the economy, the banking industry and our Company in future fiscal periods, all subject to a high degree of uncertainty.

Effects on Market Areas
. The broad suspension of business activities in the state is likely to lead to a significant increase in the state’s unemployment rate, which was 3.6% in January 2020 according to the Indiana Department of Workforce Development. Because these developments commenced late in the first quarter, and because the public health effects of COVID-19 are generally expected to peak later this year in the communities in which we operate, we believe the economic consequences of the pandemic are difficult to quantify and are expected to continue to worsen.

Policy and Regulatory Developments . Federal, state and local governments and regulatory authorities have enacted and issued a range of policy responses to the COVID-19 pandemic, including the following:

- The Federal Reserve decreased the range for the Federal Funds Target Rate by 0.50% on March 3, 2020, and by another 1.0% on March 16, 2020, reaching a current range of 0.0 – 0.25%.
- On March 27, 2020, President Trump signed the Coronavirus Aid, Relief and Economic Security Act, or CARES Act, which established a $2.0 trillion economic stimulus package, including cash payments to individuals, supplemental unemployment insurance benefits and a $349 billion loan program administered through the U.S. Small Business Administration (SBA), referred to as the Paycheck Protection Program, or PPP program, which was subsequently increased by $320 billion on April 24, 2020. Under the PPP program, small businesses, sole proprietorships, independent contractors and self-employed individuals may apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Bank is participating as a lender in the PPP program. In addition, the CARES Act provides financial institutions the option to temporarily suspend certain requirements under GAAP related to loan modifications and classification as TDRs for a limited period of time to account for the effects of COVID-19.

Additionally, the CARES Act allows for financial institutions to defer the application of FASB's new rule covering the Current Expected Credit Losses standard.

- On April 7, 2020, federal banking regulators issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally do not need to categorize COVID-19-related modifications as TDRs, and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs. Loan modifications made through March 31, 2020 are disclosed within Note 4 – Allowance for Loan Losses and Credit Quality.

Effects on Our Business. The COVID-19 pandemic and the specific developments referred to above is expected to have a significant impact on our business. As a result, we anticipate that our financial condition, capital levels and results of operations could be significantly adversely affected, as described in further detail below.

COVID-19 Crisis Management. As an Essential Service Provider, Lake City Bank has continued to provide uninterrupted service to its clients throughout the COVID-19 crisis. On March 2, 2020 the Company's Management Committee initiated plans in response to the emerging risk related to the pandemic.

From the beginning, our management of the crisis has focused on protecting the health and well-being of our employees and clients while continuing to provide our clients with full access to banking services. As the operational risk related to the COVID-19 crisis evolved, the Company took proactive measures to manage operational risk, including the following:

- Activated the Incident Response Team (IRT) pursuant to the Company's Business Continuity/Disaster Recovery Plans on March 16, 2020;
- Initiated a proactive communication plan with our primary regulators;
- Initiated a proactive outreach to critical vendors and partners to ensure operational continuity; and
- Initiated actions to ensure that technology capacity was sufficient to maintain operational continuity.

In addition, the Company has taken the following actions to provide for uninterrupted service to clients:

- Activated three primary disaster recovery sites and one secondary disaster recovery site;
- Activated limited lobby access in each of the Company's 50 offices on Saturday, March 21, 2020; and
- Distributed staff between the Company's facilities and disaster recovery sites, and initiated work-from-home arrangements.

In order to ensure open and transparent communication with clients, the Company has expanded its communication strategy through email, social media, website updates and alerts and online and mobile banking alerts.

Transactions in the Company's 50 offices are down approximately 30% since the start of the crisis. The Company has experienced nominal increase in its customers' already strong adoption and activation rates of digital solutions offered through its mobile and online banking platforms. The Company has also experienced meaningful increases in certain digital applications from February 2020 to March 2020. Retail banking internet bill pay activities are up 11%, remote mobile deposit activities are up 19% and Zelle transactions are up 19% during this period.

Active Management of Credit Risk

On March 2, 2020, leadership in Commercial Banking and Credit Administration initiated a review of industries that the Company believed were most likely to be impacted by emerging COVID-19 events. The initial review identified approximately 19% of the total loan portfolio and included the following industries: recreational vehicle - 4%, nursing home and assisted living - 4%, hotel and accommodations - 2%, self-storage - 2%, automotive, boating, trailer and truck - 2%, transportation and trucking contractors - 1%, C&I building construction - 1%, restaurants - 2% and entertainment and recreation - 1%. The Company has no direct exposure

to oil and gas and limited exposure to retail shopping centers. As the COVID-19 crisis impact evolved, the Company has taken the following actions to manage emerging credit risk:

- Expanded the universe of industries and clients under review to significantly broaden the scope;
- Accelerated planning related to the Company's upcoming semi-annual Loan Portfolio Meetings; and
- Actively worked with borrowers on COVID-19 related loan deferral requests, as detailed below.

The Company's commercial loan portfolio is highly diversified and no industry sector represents more than 8% of the bank's loan portfolio as of March 31, 2020. Agri-business and agricultural loans represented the highest specific industry concentration at 8% of total loans. Commercial Banking and Credit Administration teams continue to actively work with customers to understand their business challenges and credit needs during this time.

COVID-19 Related Loan Deferrals

The Company's active management of credit risk has historically provided for appropriate and fair deferral of payments for troubled borrowers. While the March 22, 2020 Joint Interagency Regulatory Guidance provides for a potential relaxation of regulatory definitions, it has not had a material impact on the Company's decisions related to individual borrower circumstances.

As of March 31, 2020, total deferrals attributed to COVID-19 were $99.8 million, representing 77 borrowers or 2% of the total loan portfolio. Of that total, 50 were commercial loan borrowers representing $99.3 million in loans, or 3% of total commercial loans. 27 were retail loan borrowers representing $528,000, or 0.1% of total retail loans. 95% of the total loan deferrals were three-month deferrals of principal only.

As of April 22, 2020, total COVID-19 related deferrals had increased to $467.1 million, representing 404 borrowers or 11% of the total loan portfolio. Of that total, 267 were commercial loan borrowers representing $459.8 million in loans, or 13% of total commercial loans. 137 were retail loan borrowers representing $7.3 million, or 2% of total retail loans. 85% of these loan deferrals are for three-month deferrals of principal only.

The Company's retail loan portfolio is comprised of 1-4 family mortgage loans, home equity lines of credit and other direct and indirect installment loans. A third party vendor manages the Company's retail and commercial credit card program and the Company does not have any balance sheet exposure with respect to this program except for nominal recourse on limited commercial card accounts.

The Company expects that COVID-19 loan deferrals will increase at least through the second quarter of 2020.

Liquidity Preparedness

Throughout the COVID-19 crisis, the Company has been monitoring liquidity preparedness. Critical to this effort has been the monitoring of commercial and retail borrowers line of credit utilization. Our commercial and retail line of credit utilization at March 31, 2020 was 48% versus 46% at December 31, 2019. As of April 22, 2020, this line utilization had declined to 44%. We do not believe that we have experienced any unusual usage activity under these available credit facilities because of the COVID-19 crisis.

The Company has a long-standing liquidity plan in place that ensures that appropriate liquidity resources to fund the balance sheet. Nonetheless, given the uncertainties related to the effects of the COVID-19 crisis on liquidity, the Company has taken the following additional actions:

- Increased committed availability under the Federal Home Loan Bank of Indianapolis credit facility;
- Increased committed availability under the Federal Reserve Bank Discount Window;
- Completed actions required to activate participation in the Federal Reserve Bank PPP Lending Facility; and
- Confirmed availability of Federal Fund lines with correspondent bank partners.

Deferment of Current Expected Credit Loss Standard Implementation

As permitted by the CARES Act, the Company elected to defer its application of FASB's new rule covering CECL. During 2019, the Company implemented the CECL methodology and ran it concurrently with the historical incurred method. Based upon the Company's informed experience with both methodologies, the Company elected to retain the incurred method for the time being for the following reasons:

- Management has more experience with the incurred method and believes that the incurred method is currently the more accurate methodology to ensure that the loan loss reserve is appropriately estimated pursuant to the Company's historical approach;
- Management believes that the incurred methodology provides the Company the ability to leverage both objective data analysis and subjective analysis based upon management's familiarity with its borrowers and the economic environment in its markets;
- Management believes that the incurred method provides for more informed loan-by-loan evaluation of non–impaired Watch List loans; and
- Management believes that the incurred methodology will provide investors in the Company with a more accurate ability to understand the appropriateness of the loan loss reserve compared to prior periods, particularly in a time of severe uncertainty such as the COVID-19 crisis.

The Company will continue to monitor developments related to CECL adoption and will manage the process accordingly.

The Paycheck Protection Program

The Small Business Administration (SBA) and the United States Treasury Department formally announced the Paycheck Protection Program (PPP) on March 31, 2020 as part of the CARES Act. The SBA began accepting applications under the program on Friday, April 3, 2020, and Lake City Bank filed its first application on behalf of a client that morning.

When the SBA first closed the window on the program on April 16, 2020, Lake City Bank had received approval on 1,677 client loans totaling $530 million under the Paycheck Protection Program. The bank completed funding of these commitments under the program on April 24, 2020. The Company received approval on more than 99% of its completed client applications prior to the SBA closing the window on applications and had a pipeline of less than 50 clients in process. 55% of the loans made by the Company under the PPP were for loans less than $100,000 and 87% of the loans made by the Company, were for loans less than $500,000. The Company intends to continue accepting and processing applications under the PPP for as long as any capacity remains available.

CRITICAL ACCOUNTING POLICIES

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 loan losses and the valuation and other-than-temporary impairment of investment securities.

Allowance for Loan Losses

The Company maintains an allowance for loan losses to provide for probable incurred credit losses. Loan 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 loan losses is taken based on management's ongoing evaluation of the appropriate allowance balance. A formal evaluation of the adequacy of the loan 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 loan 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 allocation for specific watch list credits in determining the appropriate level of the loan 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 loan losses that generally includes consideration of the following factors: changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrowers' ability to repay. Consideration is not limited to these factors although they represent the most commonly cited factors. With respect to 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, allocations are assigned based upon historical experience subject to a floor, unless the rate of loss is expected to be greater than historical losses as noted below. A detailed analysis is performed on loans that are classified but determined not to be impaired which incorporates different scenarios where the risk that the borrower will be unable or unwilling to repay its debt in full or on time is combined with an estimate of loss in the event the borrower cannot pay to develop non-specific allocations for such loan pools. These allocations may be adjusted based on the other factors cited above. An appropriate level of general allowance for pooled loans is determined by portfolio segment using historical loss percentages subject to a floor, supplemented with other environmental factors based on the risks present for each portfolio segment. These factors include consideration of the following: levels of, and trends in, delinquencies and impaired 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 the following could affect the overall process: 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 loan 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 the loan is impaired. Considerations with respect to specific allocations for these individual credits include, but are not limited to, the following: (a) does the customer's cash flow or net worth appear insufficient to repay the loan; (b) is there adequate collateral to repay the loan; (c) has the loan been criticized in a regulatory examination; (d) is the loan impaired; (e) are there other reasons where the ultimate collectability of the loan is in question; or (f) are there unique loan characteristics that require special monitoring.

Allocations are also applied to categories of loans considered not to be individually impaired, 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. In addition, general allocations are made for other pools of loans, including non-classified loans. These general pooled loan allocations are performed for portfolio segments of commercial and industrial, commercial real estate and multi-family, agri-business and agricultural, other commercial, consumer 1-4 family mortgage and other consumer loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a three-year historical average for loan losses for these portfolios, subject to a floor, and are adjusted for economic factors and portfolio trends.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes an unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as the level of classified credits, economic uncertainties, industry trends impacting specific portfolio segments, broad portfolio quality trends and trends in the composition of the Company's large commercial loan portfolio and related large dollar exposures to individual borrowers.

Valuation and Other-Than-Temporary Impairment of Available-for-Sale Investment Securities

The fair values of securities available-for-sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges 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. Different judgments and assumptions used in pricing could result in different estimates of value. The fair value of certain securities is determined using unobservable inputs, primarily observable inputs of similar securities.

At the end of each reporting period, securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with current accounting guidance. Impairment is other-than-temporary if the decline in the fair value of the security is below its amortized cost and it is probable that all amounts due according to the contractual terms of a debt security will not be received.

Significant judgments are required in determining impairment, which includes making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates.

We consider the following factors when determining other-than-temporary impairment for a security or investment:

- the length of time and the extent to which the market value has been less than amortized cost;
- the financial condition and near-term prospects of the issuer;
- the underlying fundamentals of the relevant market and the outlook for such market for the near future; and
- our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value.

The assessment of whether a decline exists that is other-than-temporary, involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. If, in management's judgment, other-than-temporary impairment exists, the cost basis of the security will be written down to the computed net present value, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings (as if the loss had been realized in the period of other-than-temporary impairment).

RESULTS OF OPERATIONS

Overview

Selected income statement information for the three months ended March 31, 2020 and 2019 is presented in the following table:

(dollars in thousands)	Three Months Ended March 31, 2020	2019
Income Statement Summary:		
Net interest income	**$ 38,854**	$ 38,209
Provision for loan losses	**6,600**	1,200
Noninterest income	**10,777**	11,525
Noninterest expense	**22,089**	22,473
Other Data:		
Efficiency ratio (1)	**44.51 %**	45.19 %
Dilutive EPS	**$ 0.67**	$ 0.84
Tangible capital ratio (2)	**11.99 %**	11.04 %
Net charge-offs to average loans	**0.36 %**	0.01 %
Net interest margin	**3.35 %**	3.45 %
Noninterest income to total revenue	**21.71 %**	23.17 %
Pretax Pre-Provision Earnings (2) (3)	**$ 27,542**	$ 27,261

(1) Noninterest expense/Net interest income plus Noninterest income.

(2) Non-GAAP financial measure. The Company believes that providing 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 . See reconciliation on the next page.

(3) Non-GAAP financial measure. Pretax pre-provision earnings is calculated by adding net interest income to noninterest income and subtracting noninterest expense.

See reconciliation on the next page.

(dollars in thousands)	Three Months Ended March 31, 2020	2019
Total Equity	$ **606,572**	$ 543,267
Less: Goodwill	**(4,970)**	(4,970)
Plus: Deferred tax assets related to goodwill	**1,181**	1,191
Tangible Common Equity	**602,783**	539,488
Total Assets	$ **5,030,078**	$ 4,891,885
Less: Goodwill	**(4,970)**	(4,970)
Plus: Deferred tax assets related to goodwill	**1,181**	1,191
Tangible Assets	**5,026,289**	4,888,106
Tangible Common Equity/Tangible Assets	**11.99 %**	11.04 %
Net Interest Income	$ **38,854**	$ 38,209
Noninterest Income	**10,777**	11,525
Noninterest Expense	**(22,089)**	(22,473)
Pretax Pre-Provision Earnings	$ **27,542**	$ **27,261**

Net Income

Net income was $17.3 million in the first three months of 2019, a decrease of $4.4 million, or 20.2%, versus net income of $21.7 million in the first three months of 2019. The decrease was primarily due to the Company recording a provision for loan losses of $6.6 million for the first quarter of 2020, an increase of $5.4 million, or 450% compared to $1.2 million for the first quarter of 2019. The provision increase was driven primarily by the economic impact of the Coronavirus Disease 2019 ("COVID-19") pandemic on the Company's loan customers. In addition, noninterest income decreased by $748,000. These decreases were offset by an increase in net interest income of $645,000, a decrease in noninterest expense of $384,000 and a decrease in income tax expense of $736,000.

We anticipate that our net income for future fiscal periods will continue to be impacted as a result of the economic developments resulting from the COVID-19 pandemic. Specifically, while we are not yet able to measure the impact of COVID-19 crisis on our borrowers, we anticipate provision expense may remain elevated as the economic impact of COVID-19 may negatively affect them. In addition, due to the asset-sensitive nature of the Company's balance sheet, declines in interest rates, including the Federal Reserve Bank's recent reductions to the target Federal Funds Rate, will cause a reduction in our net interest income and resulting net interest margin. In addition, the Company anticipates that some of the lower-cost borrowings under the PPP loan program will be used to pay-

down higher cost borrowings currently in the Company's loan portfolio for a period of time. Net interest margin compression will benefit from loan fees arising from the PPP loan program. In addition, borrowers that meet the loan forgiveness requirements outlined in the program could result in loan balance paydowns for the Bank and an acceleration in fee income accretion. The timing and impact to net interest margin will be contingent on how quickly the PPP loans are forgiven and/or repaid over the course of the next two years. The Company also anticipates that customers may use fewer fee-based financial services due to the decline in economic activity as well as COVID-19 mitigation efforts such as stay-at-home orders.

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, 2020 Average Balance	2020 Interest Income	2020 Yield (1)/ Rate	2019 Average Balance	2019 Interest Income	2019 Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	**$ 4,036,147**	**$ 46,054**	**4.59 %**	$ 3,893,035	$ 48,866	5.09 %
Tax exempt (1)	**23,027**	**277**	**4.84**	24,989	314	5.10
Investments: (1)						
Available-for-sale	**618,876**	**4,513**	**2.93**	587,026	4,575	3.16
Short-term investments	**9,965**	**35**	**1.41**	4,696	26	2.25
Interest bearing deposits	**49,716**	**149**	**1.21**	41,204	212	2.09
Total earning assets	**$ 4,737,731**	**$ 51,028**	**4.33 %**	$ 4,550,950	$ 53,993	4.81 %
Less: Allowance for loan losses	**(55,782)**			(48,768)		
Nonearning Assets						
Cash and due from banks	**63,260**			164,820		
Premises and equipment	**60,661**			59,189		
Other nonearning assets	**161,268**			155,381		
Total assets	**$ 4,967,138**			$ 4,881,572		
Interest Bearing Liabilities						
Savings deposits	**$ 235,058**	**$ 51**	**0.09 %**	$ 247,309	$ 71	0.12 %
Interest bearing checking accounts	**1,719,038**	**4,734**	**1.11**	1,496,893	5,954	1.61
Time deposits:						
In denominations under $100,000	**280,233**	**1,370**	**1.97**	276,006	1,232	1.81

In denominations over $100,000	**978,114**	**5,044**	**2.07**	1,184,996	6,626	2.27
Miscellaneous short-term borrowings	**88,670**	**362**	**1.64**	190,118	950	2.03
Long-term borrowings and subordinated debentures	**23,901**	**24**	**0.40**	30,928	452	5.93
Total interest bearing liabilities	**$ 3,325,014**	**$ 11,585**	**1.40** %	$ 3,426,250	$ 15,285	1.81 %
Noninterest Bearing Liabilities						
Demand deposits	**991,651**			885,126		
Other liabilities	**46,200**			40,207		
Stockholders' Equity	**604,273**			529,989		
Total liabilities and stockholders' equity	**$ 4,967,138**			$ 4,881,572		
Interest Margin Recap						
Interest income/average earning assets		**51,028**	**4.33**		53,993	4.81
Interest expense/average earning assets		**11,585**	**0.98**		15,285	1.36
Net interest income and margin		**$ 39,443**	**3.35** %		$ 38,708	3.45 %

(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 $589,000 and $499,000 in the three-month periods ended March 31, 2020 and 2019, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended March 31, 2020 and 2019, are included as taxable loan interest income.

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

Net interest income increased $645,000, or 1.7%, for the three months ended March 31, 2020 compared with the first three months of 2019. The increased level of net interest income during the first three months of 2020 was largely driven by an increase in

average earning assets of $186.8 million, due primarily to loan growth of $141.2 million and growth in investment securities of $31.9 million. Average loans outstanding increased $141.2 million to $4.059 billion during the three months ended March 31, 2020 compared to $3.918 billion during the same period of 2019, with most of the growth being in commercial loans. The earning asset growth was funded through an increase in deposits. Average deposits increased $113.8 million to $4.204 billion during the three months ended March 31, 2020 compared to $4.090 billion for the same period of 2019. During this same period average core deposits increased $179.0 million and average brokered deposits decreased $65.2 million. We define "core deposits" as total deposits (including all deposits by municipalities and other government agencies), excluding brokered deposits. Average borrowings decreased by $108.5 million to $112.6 million in the three months ended March 31, 2020, compared to $221.0 million during the same period of 2019.

The tax equivalent net interest margin was 3.35% for the first three months of 2020 compared to 3.45% during the first three months of 2019. The yield on earning assets totaled 4.33% during the three months ended March 31, 2020 compared to 4.81% in the same period of 2019. Cost of funds (expressed as a percentage of average earning assets) totaled 0.98% during the first three months of 2020 compared to 1.36% in the same period of 2019.   The lower margin in the first quarter of 2020 was due to lower yields on loans and securities, partially offset by a lower cost of funds, driven by the Federal Reserve decreasing the target Federal Funds Rate in the second half of 2019, as well as two Federal Reserve emergency cuts to the target Federal Funds Rate during March 2020. The two emergency cuts reduced the target Federal Funds Rate by 150 basis points and brought the target Federal Funds Rate back to the zero bound range of 0% to 0.25%. The full impact of the March emergency cuts on net interest margin will be realized in the second quarter of 2020.

Provision for Loan Losses

The Company elected to delay the adoption of FASB's new rule covering the Current Expected Credit Loss ("CECL") standard as permitted by the CARES Act. The Company expects to adopt CECL on the earlier of the termination of the national emergency declaration, or December 31, 2020, whichever comes first, with an effective date of January 1, 2020.

Under the incurred loan loss methodology, the Company recorded a provision for loan loss expense of $6.6 million in the three-month period ended March 31, 2020, compared to a provision of $1.2 million during the comparable period of 2019. Net charge-offs were $3.6 million in the three month period ended March 31, 2020, compared to $91,000 during the comparable periods of 2019. This activity was driven primarily by one commercial manufacturing borrower that was on nonaccrual status and had a loan loss reserve allocation of $4.2 million as of December 31, 2019. The $3.7 million charge-off was due to the restructuring of this relationship during the first quarter of 2020. The primary factor impacting management's decision to record a higher provision in the first three months of 2020 was the emerging economic impact of the COVID-19 pandemic on the Company's loan customers. Some of the Company's commercial loan customers have been forced to temporarily suspend or reduce operations and some of the Company's retail customers are currently without a paycheck, which impairs their abilities to make debt payments. As a result, the Company has granted loan deferrals to customers which represent 11% of commercial loans and 1% of retail loans as of March 31, 2020. In accordance with provisions of the CARES Act as well as the interagency guidance, loan deferrals granted to our customers that have been made as a result of the impact of COVID-19 and who were not past due are not considered troubled debt restructurings and are therefore not included in the troubled debt restructurings totals as of March 31, 2020. See "Note 4 – Allowance for Loan Losses and Credit Quality."

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 allocation for specific watch list credits. Management's overall view on current credit quality was also a factor in the determination of the provision for loan 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.

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Noninterest Income

Noninterest income categories for the three-month periods ended March 31, 2020 and 2019 are shown in the following tables:

(dollars in thousands)	Three Months Ended March 31, 2020	2019	Dollar Change	Percent Change
Wealth advisory fees	**$ 1,859**	$ 1,620	$ 239	14.8 %
Investment brokerage fees	**417**	386	31	8.0
Service charges on deposit accounts	**2,772**	4,287	(1,515)	(35.3)
Loan and service fees	**2,408**	2,404	4	0.2
Merchant card fee income	**669**	622	47	7.6
Bank owned life insurance	**(292)**	444	(736)	(165.8)
Mortgage banking income	**586**	222	364	164.0
Net securities gains	**—**	23	(23)	NA
Other income	**2,358**	1,517	841	55.4
Total noninterest income	**$ 10,777**	$ 11,525	$ (748)	(6.5) %
Noninterest income to total revenue	**21.71 %**	23.17 %		

The Company’s noninterest income decreased $748,000, or 6.5%, to $10.8 million for the first quarter of 2020, compared to $11.5 million for the first quarter of 2019. Noninterest income was positively impacted by a $364,000 increase or 164.0% growth in mortgage banking income, a $266,000 increase, or 68.0% growth, in swap fee income generated from commercial lending transactions and a $239,000 increase, or 14.8% growth, in wealth management fees over the prior year first quarter. The credit valuation adjustments on interest rate swaps increased noninterest income by $735,000 in the first quarter 2020 compared to the first quarter of 2019. Offsetting these increases were decreases in service charges on deposit accounts driven by lower treasury management fees and decreases in bank owned life insurance income primarily due to a variable bank owned life insurance product that contains equity based investments. First quarter 2019 services charges on deposit accounts included $1.6 million in fees from a single commercial treasury management client. The treasury management client relationship was terminated in June 2019.

Future noninterest income may be impacted due to the effects of the COVID-19 pandemic. For example, reduced economic activity may result in lower merchant card fee income and lower interchange revenue that is reported in loan and service fees.

Noninterest Expense

Noninterest expense categories for the three-month periods ended March 31, 2020 and 2019 are shown in the following tables:

(dollars in thousands)	Three Months Ended March 31, 2020	2019	Dollar Change	Percent Change
Salaries and employee benefits	**$ 11,566**	$ 12,207	$ (641)	(5.3) %
Net occupancy expense	**1,387**	1,366	21	1.5
Equipment costs	**1,417**	1,349	68	5.0
Data processing fees and supplies	**2,882**	2,425	457	18.8
Corporate and business development	**1,111**	1,206	(95)	(7.9)
FDIC insurance and other regulatory fees	**267**	406	(139)	(34.2)
Professional fees	**1,147**	937	210	22.4
Other expense	**2,312**	2,577	(265)	(10.3)
Total noninterest expense	**$ 22,089**	$ 22,473	$ (384)	(1.7) %

The Company’s noninterest expense decreased $384,000, or 1.7%, to $22.1 million in the first quarter of 2020, compared to $22.5 million in the first quarter of 2019. Salaries and employee benefits decreased on a year over year basis primarily due to lower

incentive-based compensation expense. Offsetting the decreases were increases in data processing fees and supplies driven by the company's continued investment in customer focused, technology-based solutions and ongoing cybersecurity and data management enhancements.

Future noninterest expense may be reduced due to the COVID-19 pandemic. For example, continued protracted economic activity may reduce balance sheet growth and resulting revenue growth which could decrease the amount the Company pays in incentive-based compensation. In addition, the COVID-19 mitigation efforts may lead to the postponement of certain of the Company's growth initiatives.

The Company's income tax expense decreased $736,000 in the three-month period ended March 31, 2020, compared to the same period in 2019. The effective tax rate was 17.4% in the three-month period ended March 31, 2020, compared to 16.8% in the comparable period of 2019, due primarily to reduced tax benefit associated with the vesting of employee long-term incentive stock awards.

FINANCIAL CONDITION

Overview

Total assets of the Company were $5.030 billion as of March 31, 2020, an increase of $83.3 million, or 1.7%, when compared to $4.947 billion as of December 31, 2019. Overall asset growth was primarily driven by a $33.2 million, or 33.4%, increase in cash and cash equivalents to $132.6 million at December 31, 2020 from $99.4 million at December 31, 2019, an increase of $17.0 million or 0.4% in net loans to $4.032 billion at March 31, 2020 from $4.015 billion at December 31, 2019, an increase of $16.1 million, or 2.6%, in securities available-for-sale to $624.3 million at March 31, 2020 from $608.2 million at December 31, 2019 and an increase of $13.8 million, or 33.6%, in other assets driven by higher valuations on the Company's swap portfolio. Total deposits increased $147.9 million, or 3.6%, while total borrowings decreased by $84.5 million, or 49.7%. The increase is deposits was primarily driven by growth in core deposits of $151.8 million offset by a decrease in wholesale funding of $3.9 million. Core deposits were $4.172 billion as of March 31, 2020 compared to $4.020 billion as of December 31, 2019, an increase of $151.8 million, or 3.8%. Additionally, commercial deposits increased by $106.0 million, or 8.3%, to $1.382 billion at March 31, 2020 compared to $1.276 billion at December 31, 2019.

Uses of Funds

Total Cash and Cash Equivalents

Total cash and cash equivalents increased by $33.2 million, or 33.4% to $132.6 million at March 31, 2020, from $99.4 million at December 31, 2019. Cash and cash equivalents at March 31, 2020 reflect larger items in the process of clearing such as public funds checks outstanding for matured certificates of deposit which were distributed in the form of checks. Short-term investments include cash on deposit that earn interest such as excess liquidity maintained at the Federal Reserve Bank. Cash and cash equivalents balances will vary depending on the cyclical nature of the bank's liquidity position.

Investment Portfolio

The amortized cost and the fair value of securities as of March 31, 2020 and December 31, 2019 were as follows:

	March 31, 2020		December 31, 2019	
(dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Mortgage-backed securities: residential	**$ 280,674**	**$ 293,270**	$ 283,817	$ 288,181
Mortgage-backed securities: commercial	**41,003**	**41,814**	36,712	36,972
State and municipal securities	**272,205**	**289,241**	270,480	283,080
Total	**$ 593,882**	**$ 624,325**	$ 591,009	$ 608,233

At March 31, 2020 and December 31, 2019, there were no holdings of securities of any one issuer, other than the U.S. government, 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 investment 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 other-than-temporary impairment.

Purchases of securities available for sale totaled $20.2 million in the first three months of 2020. The purchases consisted primarily of state and municipal securities and purchases of mortgage-backed securities issued by government sponsored entities. Paydowns from prepayments and scheduled payments of $13.4 million were received in the first three months of 2020, and the amortization of premiums, net of the accretion of discounts, was $946,000. The increase in net amortization expense from the prior year is being driven by increased prepayment speeds given the current rate environment. Maturities and calls of securities totaled $3.0 million in the first three months of 2020. No other-than-temporary impairment was recognized in the first three months of 2020.

Purchases of securities available for sale totaled $22.2 million in the first three months of 2019. The purchases consisted primarily of state and municipal securities and also purchases of mortgage-backed securities issued by government sponsored entities. Paydowns from prepayments and scheduled payments of $10.0 million were received in the first three months of 2019, and the amortization of premiums, net of the accretion of discounts, was $817,000. Sales of securities totaled $13.7 million in the first three months of 2019. Maturities and calls of securities totaled $6.0 million in the first three months of 2019. No other-than-temporary impairment was recognized in the first three months of 2019.

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 to an acceptable level. 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 $3.5 million, or 76.3%, to $8.0 million at March 31, 2020, from $4.5 million at December 31, 2019. 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 all of the qualifying mortgage loans it originates on the secondary market. Proceeds from sales of residential mortgages totaled $13.6 million in the first three months of 2020 compared to $6.8 million in the first three months of 2019. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $336.1 million and $337.9 million, respectively, as of March 31, 2020 and December 31, 2019.

Loan Portfolio

The loan portfolio by portfolio segment as of March 31, 2020 and December 31, 2019 is summarized as follows:

(dollars in thousands)	**March 31, 2020**		December 31, 2019		Current Period Change
Commercial and industrial loans	**$ 1,428,719**	**35.0** %	$ 1,426,868	35.1 %	$ 1,851
Commercial real estate and multi-family residential loans	**1,760,478**	**43.1**	1,673,322	41.1	87,156
Agri-business and agricultural loans	**329,397**	**8.0**	379,531	9.3	(50,134)
Other commercial loans	**104,286**	**2.5**	112,302	2.8	(8,016)
Consumer 1-4 family mortgage loans	**367,118**	**9.0**	376,745	9.3	(9,627)
Other consumer loans	**97,096**	**2.4**	98,617	2.4	(1,521)
Subtotal, gross loans	**4,087,094**	**100.0** %	4,067,385	100.0 %	19,709
Less: Allowance for loan losses	**(53,609)**		(50,652)		(2,957)
Net deferred loan fees	**(1,356)**		(1,557)		201
Loans, net	**$ 4,032,129**		$ 4,015,176		$ 16,953

Total loans, excluding real estate mortgage loans held-for-sale and deferred fees, increased by $19.7 million to $4.087 billion at March 31, 2020 from $4.067 billion at December 31, 2019. The increase was concentrated in the commercial real estate and commercial and industrial categories and reflects the Company’s long-standing strategic plan that is focused on expanding and growing the commercial lending business throughout our market areas. The increase was partially offset by loan repayments in agri-business and agricultural loans which have declined since year-end due to seasonal loan repayments as well as declines in volume due to the impact of the flattened yield curve and clients opting for long-term fixed rate financing from other financial services firms.

The following table summarizes the Company’s non-performing assets as of March 31, 2020 and December 31, 2019:

(dollars in thousands)	**March 31, 2020**	December 31, 2019
Nonaccrual loans including nonaccrual troubled debt restructured loans	**$ 13,883**	$ 18,675
Loans past due over 90 days and still accruing	**71**	45
Total nonperforming loans	**$ 13,954**	$ 18,720
Other real estate owned		

	351	316
Repossessions	**11**	—
Total nonperforming assets	**$ 14,316**	$ 19,036
Impaired loans including troubled debt restructurings	**$ 22,932**	$ 27,763
Nonperforming loans to total loans	**0.34 %**	0.46 %
Nonperforming assets to total assets	**0.28 %**	0.38 %
Performing troubled debt restructured loans	**$ 5,852**	$ 5,909
Nonperforming troubled debt restructured loans (included in nonaccrual loans)	**2,311**	3,188
Total troubled debt restructured loans	**$ 8,163**	$ 9,097

Total nonperforming assets decreased by $4.7 million, or 24.8%, to $14.3 million during the three-month period ended March 31, 2020. The ratio of nonperforming assets to total assets at March 31, 2020 decreased from 0.38% at December 31, 2019 to 0.28% at March 31, 2020. The decrease in nonperforming assets was primarily due to a $3.7 million charge-off taken on a single commercial manufacturing borrower. The borrower was on nonaccrual status and had a loan loss reserve allocation of $4.2 million as of December 31, 2019.

A loan is impaired when full payment under the original loan terms is not expected. Impairment for smaller loans that are similar in nature and which are not in nonaccrual or troubled debt restructured status, such as residential mortgage, consumer, and credit card loans, is determined based on the class of loans and impairment is determined on an individual loan basis for other loans. If

a loan is impaired, 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 impaired loans decreased by $4.8 million, or 17.4%, to $22.9 million at March 31, 2020 from $27.8 million at December 31, 2019. The decrease in the impaired loans category was primarily due to the $3.7 million charge-off on the single commercial relationship that was on nonaccrual status as of December 31, 2019.

As a result of the COVID-19 pandemic, we anticipate that our commercial, commercial real estate, residential and consumer borrowers will continue to encounter economic difficulties, which could lead to increases in our levels of nonperforming assets, impaired loans and troubled debt restructurings.

Loans are charged against the allowance for loan 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 probable incurred credit losses relating to specifically identified loans based on an evaluation of the loans by management, as well as other probable incurred losses inherent 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. An appropriate level of general allowance is determined after considering the following factors: application of historical loss percentages, 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 loan losses for any assets where management has identified conditions or circumstances that indicate an asset is impaired. If an asset or portion thereof is classified as a loss, the Company's policy is to either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss or charge-off such amount.

At March 31, 2020, the allowance for loan losses was 1.31% of total loans outstanding, versus 1.25% of total loans outstanding at December 31, 2019. At March 31, 2020, management believed the allowance for loan losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions continue to deteriorate due to the COVID-19 pandemic, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the allowance for loan losses. The process of identifying probable incurred credit losses is a subjective process. Therefore, the Company maintains a general allowance to cover probable credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve includes the considerations below.

The Company has a relatively high percentage of commercial and commercial real estate loans 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 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.

As of March 31, 2020, based on management's review of the loan portfolio, the Company had 97 credits totaling $183.8 million on the classified loan list versus 103 credits totaling $180.2 million on December 31, 2019. The increase in classified loans for the first three months of 2020 resulted primarily from one commercial borrower. As of March 31, 2020, the Company had $123.8 million of assets classified as Special Mention, $61.0 million classified as Substandard, $0 classified as Doubtful and $0 classified as Loss as compared to $96.6 million, $84.6 million, $0 and $0, respectively, at December 31, 2019.

Allowance estimates are developed by management after taking into account actual loss experience adjusted for current economic conditions. The Company has regular discussions regarding this methodology with regulatory authorities. Allowance estimates are considered a prudent measurement of the risk in the Company's loan portfolio and are applied to individual loans based on loan type. In accordance with the incurred loan loss reserve accounting guidance, the allowance is provided for losses that have been incurred as of the balance sheet date and is based on past events and current economic conditions and does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

For a more thorough discussion of the allowance for loan losses methodology see the Critical Accounting Policies section of this Item 2.

The allowance for loan losses increased 5.8%, or $3.0 million, from $50.7 million at December 31, 2019 to $53.6 million at March 31, 2020. Pooled loan allocations increased from $40.3 million at December 31, 2019 to $45.9 million at March 31, 2020, which was primarily due to management's view of current credit quality, the current economic environment and loan growth. Impaired loan allocations were $7.7 million at March 31, 2020 and $10.4 million at December 31, 2019. The unallocated component of the allowance for loan losses was $3.1 million at March 31, 2020 and $2.3 million at December 31, 2019. Until the COVID-19 pandemic impacted the U.S. economy during the first quarter of 2020, general trends in the overall economy and credit quality had been stable. The Company believes that the unallocated component is appropriate given the high level of uncertainty that exists regarding near term economic conditions. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as the level of classified credits, economic uncertainties, industry trends impacting specific portfolio segments, broad portfolio quality trends and trends in the composition of the Company's large commercial loan portfolio and related large dollar exposures to individual borrowers.

Most of the Company's recent loan growth has been 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 loan loss allocations. Management believes that it is prudent to continue to provide for loan losses in a manner consistent with its historical approach due to the loan growth described above and current economic conditions.

Loan growth for the first three months of 2020 has been moderate and prior to the COVID-19 pandemic, economic conditions in the Company's markets had been stable. Watch list loans are stable at $183.8 million compared to $180.2 million at December 31, 2019, which represents 4.50% of total loans at March 31, 2020 compared to 4.43% at December 31, 2019. Prior to the impact of the COVID-19 pandemic, economic growth, concentrated in commercial real estate activity and manufacturing was occurring, but was not robust. The Company's continued growth strategy promotes diversification among industries as well as continued focus on the enforcement of a disciplined credit culture and a conservative position in loan work-out situations. The Company believes that historical industry-specific issues in the Company's markets have been stable prior to COVID-19.

Management is actively monitoring the loan portfolio for industry concentrations that we believe are most likely to be impacted by emerging COVID-19 events. Approximately 19% of the total loan portfolio contains industries that could be adversely impacted by the effects of COVID-19 and include the following: recreational vehicle - 4%, nursing home and assisted living - 4%, hotel and accommodations - 2%, self-storage - 2%, automotive, boating, trailer and truck - 2%, transportation and trucking contractors - 1%, C&I building construction - 1%, restaurants - 2% and entertainment and recreation - 1%. The Company has no direct exposure to oil and gas and limited exposure to retail shopping centers. Commercial bankers and credit officers are actively working with customers to understand their business challenges and credit needs during this time. We expect loan deferrals will increase during 2020 if the negative economic impact of COVID-19 is a prolonged event.

As of March 31, 2020, total deferrals attributed to COVID-19 were $99.8 million, representing 77 borrowers or 2% of the total loan portfolio. Of that total, 50 were commercial loan borrowers representing $99.3 million in loans, or 3% of total commercial loans. 27 were retail loan borrowers representing $528,000, or 0.1% of total retail loans. 95% of the total loan deferrals were three-month deferrals of principal only.

As of April 22, 2020, total COVID-19 related deferrals had increased to $467.1 million, representing 404 borrowers or 11% of the total loan portfolio. Of that total, 267 were commercial loan borrowers representing $459.8 million in loans, or 13% of total commercial loans. 137 were retail loan borrowers representing $7.3 million, or 2% of total retail loans. 85% of these loan deferrals are for three-month deferrals of principal only.

Sources of Funds

The average daily deposits and borrowings together with average rates paid on those deposits and borrowings for the three months ended March 31, 2020 and 2019 are summarized in the following table:

	Three months ended March 31,			
	2020		2019	
(dollars in thousands)	Balance	Rate	Balance	Rate
Noninterest bearing demand deposits	**$ 991,651**	**0.00 %**	$ 885,126	0.00 %
Savings and transaction accounts:				
Savings deposits	**235,058**	**0.09**	247,309	0.12
Interest bearing demand deposits	**1,719,038**	**1.11**	1,496,893	1.61
Time deposits:				
Deposits of $100,000 or more	**978,114**	**2.07**	1,184,996	2.27
Other time deposits	**280,233**	**1.97**	276,006	1.81
Total deposits	**$ 4,204,094**	**1.07 %**	$ 4,090,330	1.38 %
FHLB advances and other borrowings	**112,571**	**1.38**	221,046	2.57
Total funding sources	**$ 4,316,665**	**1.08 %**	$ 4,311,376	1.44 %

Deposits and Borrowings

As of March 31, 2020, total deposits increased by $147.9 million, or 3.6%, from December 31, 2019. Core deposits increased by $151.8 million to $4.172 billion as of March 31, 2020 from $4.020 billion as of December 31, 2019. Total brokered deposits were $109.6 million at March 31, 2020 compared to $113.5 million at December 31, 2019 reflecting a $4.0 million decrease during the first three months of 2020.

Since December 31, 2019, the change in core deposits was comprised of increases in commercial deposits of $106.0 million, retail deposits of $40.5 million and public funds deposits of $5.3 million. Total public funds deposits, including public funds transaction accounts, were $1.132 billion at March 31, 2020 and $1.127 billion at December 31, 2019.

The following table summarizes deposit composition at March 31, 2020 and December 31, 2019:

(dollars in thousands)	March 31, 2020	December 31, 2019	Current Period Change
Retail	**$ 1,657,598**	$ 1,617,133	$ 40,465
Commercial	**1,382,091**	1,276,048	106,043
Public funds	**1,132,439**	1,127,111	5,328

Core deposits	**$ 4,172,128**	$ 4,020,292	$ 151,836
Brokered deposits	**109,575**	113,527	(3,952)
Total deposits	**$ 4,281,703**	$ 4,133,819	$ 147,884

Total borrowings decreased by $84.56 million, or 49.7%, from December 31, 2019, primarily due to short-term FHLB advance repayments of $170.0 million and long-term FHLB fundings of $75.0 million. The Company also drew $10.5 million on its line of credit with a correspondent bank during the first quarter of 2020. The Company utilizes wholesale funding, including brokered deposits and Federal Home Loan Bank advances, to supplement funding of assets, which is primarily used for loan and investment securities growth. Additionally, management has completed the actions required to activate participation in the Federal Reserve Ban's PPP Lending Facility. Management anticipates that the Company's deposit balances may fluctuate more than usual during the remainder of 2020 due to the impact of PPP loan fundings, which are made to PPP loan recipient deposit accounts. In addition, there will be fluctuations due to IRS stimulus payments direct deposited into the accounts of retail customers. The timing and use of these funds in addition to draws on unfunded commitments could increase our need to borrow throughout the year.

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Capital

As of March 31, 2020, total stockholders’ equity was $606.5 million, an increase of $8.5 million, or 1.4%, from $598.0 million at December 31, 2019. In addition to net income of $17.3 million, other increases in equity during the first three months of 2020 included a $10.5 million change in accumulated other comprehensive income component of equity, which was primarily driven by a net increase in the fair value of available-for-sale securities. Offsetting the increases to stockholders’ equity were decreases due to the repurchase of 289,101 common shares for $10.0 million under the share repurchase plan reauthorized by the Company’s board of directors on January 14, 2020. Dividends declared and paid in the amount of $7.7 million as well as $2.0 million in stock activity under equity compensation plans. On March 10, 2020, the Company announced the activation of its share repurchase plan, which was reauthorized by the board of directors on January 14, 2020. During the first quarter of 2020, the Company repurchased 289,101 shares of its common stock for $10 million at a weighted average price per share of $34.63. Share repurchases under the repurchase plan were temporarily suspended, with $20 million of authorization remaining available under the plan .

The impact on equity by 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, 2020, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

The actual capital amounts and ratios of the Company and the Bank as of March 31, 2020 and December 31, 2019, are presented in the table below:

	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**	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of March 31, 2020:								
Total Capital (to Risk Weighted Assets)								
Consolidated	**$ 632,663**	**14.23 %**	**$ 356,225**	**8.00 %**	**$ 467,546**	**N/A**	**N/A**	**N/A**
Bank	**$ 627,291**	**14.11 %**	**$ 355,739**	**8.00 %**	**$ 466,907**	**10.50 %**	**$ 444,674**	**10.00 %**
Tier I Capital (to Risk Weighted Assets)								
Consolidated	**$ 578,963**	**13.02 %**	**$ 267,169**	**6.00 %**	**$ 378,489**	**N/A**	**N/A**	**N/A**
Bank	**$ 573,591**	**12.90 %**	**$ 266,804**	**6.00 %**	**$ 377,973**	**8.50 %**	**$ 355,739**	**8.00 %**
Common Equity Tier 1 (CET1)								
Consolidated	**$ 578,963**	**13.02 %**	**$ 200,377**	**4.50 %**	**$ 311,697**	**N/A**	**N/A**	**N/A**
Bank	**$ 573,591**	**12.90 %**	**$ 200,103**	**4.50 %**	**$ 311,272**	**7.00 %**	**$ 289,038**	**6.50 %**
Tier I Capital (to Average Assets)								
Consolidated	**$ 578,962**	**11.67 %**	**$ 198,507**	**4.00 %**	**$ 198,507**	**N/A**	**N/A**	**N/A**
Bank	**$ 573,591**	**11.65 %**	**$ 196,997**	**4.00 %**	**$ 196,997**	**4.00 %**	**$ 246,247**	**5.00 %**
As of December 31, 2019:								
Total Capital (to Risk Weighted Assets)								
Consolidated	$ 631,723	14.36 %	$ 351,894	8.00 %	$ 461,862	N/A	N/A	N/A
Bank	$	%	$	%	$ 460,985	%	$	%

	616,386	14.04	351,227	8.00		10.500	439,034	10.00
Tier I Capital (to Risk Weighted Assets)								
Consolidated	$ 580,982	13.21 %	$ 263,921	6.00 %	$ 373,887	N/A	N/A	N/A
Bank	$ 565,645	12.88 %	$ 263,420	6.00 %	$ 373,179	8.500 %	$ 351,227	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	$ 580,982	13.21 %	$ 197,941	4.50 %	$ 307,908	N/A	N/A	N/A
Bank	$ 565,645	12.88 %	$ 197,565	4.50 %	$ 307,324	7.000 %	$ 285,372	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	$ 580,982	11.67 %	$ 199,099	4.00 %	$ 199,099	N/A	N/A	N/A
Bank	$ 565,645	11.43 %	$ 197,923	4.00 %	$ 197,923	4.00 %	$ 247,404	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 the COVID-19 pandemic, including its effects on our customers, local economic conditions, our operations and vendors, and the responses of federal, state and local governmental authorities;
- the effects of future economic, business and market conditions and changes, both domestic and foreign, including the effects of federal trade policies;
- governmental monetary and fiscal policies;
- 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;
- 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;
- the phase out of LIBOR by the end of 2021 and establishment of a new reference rate
- changes in borrowers’ credit risks and payment behaviors;
- changes in the availability and cost of credit and capital in the financial markets;
- the effects of disruption and volatility in capital markets on the value of our investment portfolio;
- cyber-security risks and or cyber-security damage that could result from attacks on the Company’s or third-party service providers networks or data of the Company;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in technology or products that may be more difficult or costly, or less effective than anticipated;
- 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;
- the risk of trade policy and tariffs could impact loan demand from the manufacturing sector
- the failure of assumptions and estimates used in our reviews of our loan portfolio, underlying the establishment of reserves for possible loan losses, our analysis of our capital position and other estimates;
- changes in the scope and cost of FDIC insurance, the state of Indiana’s Public Deposit Insurance Fund and other coverages;
- changes in accounting policies, rules and practices;
- 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; and
- the risks noted in the Risk Factors discussed under Item 1A of Part 1 of this Annual Report on Form 10-K, 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 2019. 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 its 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 its 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 25 basis points, rising 25 basis points, rising 50 basis points, rising 100 basis points, rising 200 basis points and rising 300 basis points are listed below based upon the Company's rate sensitive assets and liabilities at March 31, 2020. 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 (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	$ 156,048	$ 152,637	$ 157,972	$ 159,752	$ 163,560	$ 171,478	$ 179,428
Variance from Base		$ (3,411)	$ 1,924	$ 3,704	$ 7,512	$ 15,430	$ 23,380
Percent of change from Base		(2.19)%	1.23%	2.37%	4.81%	9.89%	14.98%

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, 2020. 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, 2020, 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

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 1A. Risk Factors

The outbreak of Coronavirus Disease 2019 ("COVID-19") is having an adverse impact on our business and results of operations, and could have an adverse impact on our financial condition and capital levels, any of which could be material. Further, the spread of the outbreak could lead to a prolonged economic recession or other severe disruptions in the U.S. economy, may disrupt banking and other financial activity in the areas in which we operate and could potentially create widespread business continuity issues for us.

The spread of COVID-19 has had a significant economic impact on the communities in which we operate, our borrowers and depositors, and the national economy generally, including a severe curtailment of business activity and widespread levels of unemployment in our Indiana markets. We expect this impact to worsen and last for a significant and indeterminate period. These developments have adversely affected our business and results of operations, and we believe they could adversely impact our financial condition and capital levels, the amounts of which cannot be determined and could be material. In particular, certain of our borrowers and depositors are in or have exposure to industries that have reduced or suspended operations, or are located in areas that have been subject to stay-at-home orders. A prolonged stay-at-home order, or any other continued decrease in economic activity as a result of COVID-19, would have a negative adverse impact on our borrowers and their financial condition, which could impact their ability to meet their financial obligations and could result in elevated levels of delinquencies, defaults, foreclosures and loan losses. See "Note 11 – COVID-19 and Current Economic Conditions" for additional information.

In addition, the COVID-19 pandemic could have a material impact on our operations. We rely upon our third-party vendors to conduct business and to process, record and monitor transactions. If any of these vendors are unable to continue to provide us with these services, it could negatively impact our ability to serve our customers. Furthermore, the outbreak could negatively impact our employees and customers' ability to engage in banking and other financial transactions and could create widespread business continuity issues for us. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of a COVID-19 outbreak in our market areas.

We may experience increases to, and volatility in, the balance of the allowance for credit losses and related provision expense due to the adoption of the current expected credit losses ("CECL") methodology.

We adopted CECL effective January 1, 2020, and, as permitted by the CARES Act, have delayed compliance until the earlier of the termination date of the national emergency declared by President Trump under the National Emergencies Act on March 31, 2020, related to the outbreak of COVID-19, and December 31, 2020. Relative to the incurred loss methodology that we currently use, the CECL methodology requires increased use of judgments and dependence on forward-looking information and forecasts, any of which may prove to be incorrect. For this reason, and due to the effects of the COVID-19 pandemic and the uncertain duration of the permitted delay referred to above, we are not able to estimate the amount of increase in our allowance for credit losses upon our compliance with this standard.

The CECL methodology differs substantially from the incurred loss methodology currently used in that it is forward looking, requiring measurement to occur when a financial asset is first added to the balance sheet and periodically thereafter. The measurements will require increased use of management judgments as well as forward-looking information and forecasts. Although every effort is made to ensure that the judgements are correct and the forecasts accurate, the future is uncertain, and there can be no guarantee that the judgments and forecasts will prove to be correct.

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

None

ISSUER PURCHASES OF EQUITY SECURITIES

On January 8, 2019, the Company's board of directors approved a share repurchase program, 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 expired on December 31, 2019, and it was reauthorized by the Company’s board of directors on January 14, 2020 through January 31, 2021, with an aggregate purchase price cap of $30 million. 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.

During the first quarter of 2020, the Company repurchased 289,101 shares of its common stock for $10 million at a weighted average price per share of $34.63. On March 24, 2020, the share repurchases were temporarily suspended and $20 million of authorization remains available and outstanding.

The following table provides information as of March 31, 2020 with respect to shares of common stock repurchased by the Company during the quarter then ended:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31	3,352	$ 48.49	0	$ 30,000,000
February 1-29	1,097	48.21	0	30,000,000
March 1-31	289,101	34.63	289,101	19,988,273
Total	293,550	$ 34.84	289,101	$ 19,988,273

(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 were purchased in the ordinary course of business and consistent with past practice.

The shares purchased during March were purchased under the share repurchase program described above.

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, 2020 and December 31, 2019; (ii) Consolidated Statements of Income for the three months ended March 31, 2020 and March 31, 2019; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2020 and March 31, 2019; (iv) Consolidated Statements of Changes in Stockholders’ Equity for the three months ended March 31, 2020 and March 31, 2019; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and March 31, 2019; and (vi) Notes to Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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 30, 2020	/s/ David M. Findlay David M. Findlay – President and Chief Executive Officer
Date: April 30, 2020	/s/ Lisa M. O'Neill Lisa M. O'Neill – Executive Vice President and Chief Financial Officer (principal financial officer)
Date: April 30, 2020	/s/ Brok A. Lahrman Brok A. Lahrman – Senior Vice President and Chief Accounting Officer (principal accounting officer)

Exhibit 31.1

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 30, 2020

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

Exhibit 31.2

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 30, 2020

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

Exhibit 32.1

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, 2020 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 30, 2020

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.

Exhibit 32.2

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, 2020 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 30, 2020

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.