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

FORM 10-K

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

For the fiscal year ended December 31, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-11487

LAKELAND FINANCIAL CORPORATION

Indiana	**35-1559596**
(State of incorporation)	(I.R.S. Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of principal executive offices)

Telephone: (574) 267-6144

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

Common Stock, no par value	**LKFN**	**The Nasdaq Stock Market, LLC**
(Title of class)	(Trading symbol)	(Name of each exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No__

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes __No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such other 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No __

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on the Nasdaq Global Select Market on June 30, 2022, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $1,614,362,675.

Number of shares of common stock outstanding at February 15, 2023: 25,428,963

DOCUMENTS INCORPORATED BY REFERENCE

Part III - Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 11, 2023 are incorporated by reference into Part III hereof.

LAKELAND FINANCIAL CORPORATION
Annual Report on Form 10-K
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PART I

ITEM 1. BUSINESS

The Company

Lakeland Financial Corporation (“Lakeland Financial”), an Indiana corporation incorporated in 1983, is a bank holding company headquartered in Warsaw, Indiana that provides, through its wholly owned subsidiary Lake City Bank (the “Bank” and together with Lakeland Financial, the “Company”), a broad array of financial products and services throughout its Northern and Central Indiana markets. The Company offers commercial and consumer banking services, as well as trust and wealth management, brokerage, and treasury management commercial services. The Company serves a diverse customer base, including commercial customers across a wide variety of industries including, among others, commercial real estate, manufacturing, agriculture, construction, retail, wholesale, finance and insurance, accommodation and food services and health care. The Company is not dependent upon any single industry or customer. At December 31, 2022, Lakeland Financial had consolidated total assets of $6.4 billion and was the seventh largest independent bank holding company headquartered in the State of Indiana.

Company’s Business. Lakeland Financial is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended. Lakeland Financial owns all of the outstanding stock of the Bank, a full-service commercial bank organized under Indiana law. Lakeland Financial conducts no business except that which is incident to its ownership of the outstanding stock of the Bank and the operation of the Bank. Although Lakeland Financial is a corporate entity, legally separate and distinct from its affiliates, bank holding companies such as Lakeland Financial are required to act as a source of financial strength for their subsidiary banks. The principal source of Lakeland Financial’s income is dividends from the Bank. There are certain regulatory restrictions on the extent to which subsidiary banks can pay dividends or otherwise supply funds to their holding companies. See “Supervision and Regulation of the Company” below for further discussion of these matters. Lakeland Financial’s executive offices are located at 202 East Center Street, Warsaw, Indiana 46580, and its telephone number is (574) 267-6144.

Bank’s Business. The Bank was originally organized in 1872 and has continuously operated under the laws of the State of Indiana since its organization. As of December 31, 2022, the Bank had 52 offices in fifteen counties, including 46 offices in northern Indiana and six offices in central Indiana, in the Indianapolis market. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”) to the maximum extent provided under federal law and FDIC regulations. The Bank’s activities cover all traditional facets of commercial banking, including deposit products, commercial and consumer lending, retail and merchant credit card services, corporate treasury management services, and wealth advisory, trust and brokerage services. On January 31, 2022, the Bank opened its 52nd branch in downtown Elkhart.

The Bank’s business strategy is focused on building long-term relationships with its customers based on in person, top-quality service, high ethical standards and safe and sound lending. The Bank operates as a community-based financial services organization augmented by experienced, centralized support in select critical areas. The Bank’s local market orientation is reflected in its regional management, which divides the Bank’s market area into five distinct geographic regions, each headed by a retail and commercial regional manager. This arrangement allows decision making to be as close to the customer as possible and enhances responsiveness to local banking needs. Despite this local-market, community-based focus, the Bank offers many of the products and services available at much larger regional and national competitors. While our strategy encompasses all phases of traditional community banking, including consumer lending and wealth advisory and trust services, we focus on building expansive commercial relationships and developing retail and commercial deposit gathering strategies through relationship-based client services. Substantially all of the Bank’s assets and income are located in and derived from the United States.

The Company is not a party to any collective bargaining agreements, and employee relations are considered good.

Operating Segment. While the Company has assigned certain management responsibilities by region and business line, the Company’s chief decision-makers monitor and evaluate financial performance on a Company-wide basis. The majority of the Company’s revenue is from the business of banking and the Company’s assigned regions have similar economic characteristics, products, services and customers. Accordingly, all of the Company’s operations are considered by management to be aggregated in one reportable operating segment.

Expansion Strategy. Since 1990, the Company has expanded from 17 offices in four Indiana counties to 52 offices in fifteen Indiana counties primarily through de novo branching. During this period, the Company has grown its assets from $286 million to $6.4 billion, a compound annual growth rate of 10%. Mergers and acquisitions have not played a role in this growth as the Company's expansion strategy has been driven by organic growth. The Company has opened eight de novo branches in the past eight years and plans to continue expansion in the Indianapolis market and additional markets that are in close proximity to the Company's Indiana footprint.

Over the past twenty-five years, the Company has primarily targeted growth in the larger cities located in Northern Indiana and the Indianapolis market in Central Indiana and areas that are two hours from a Lake City Bank branch. The Company believes these areas offer above average growth potential with attractive demographics and potential for commercial lending and deposit gathering opportunities. The Company considers expanding into a market when the Company believes that market would be receptive to its strategic plan to deliver broad-based financial services to businesses with a commitment to local communities. When entering new markets, the Company believes it is critical to attract experienced local management and staff with a similar philosophy in order to provide a basis for success.

Competition. The financial services industry is highly competitive. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits, lending limits and customer convenience. Our competitors include national, regional and community banks, e-commerce and other Fintech or nonbanking companies offering financial services, as well as thrifts, credit unions, farm credit services, finance companies, personal loan companies, brokerage firms, investment companies, insurance companies, mortgage banking companies, credit card issuers and mutual fund companies. Many of these competitors enjoy fewer regulatory constraints and some may have lower cost structures.

Human Capital. The Bank is committed to being the acknowledged and recognized leader in Indiana community banking. We achieve this mission only through the hard work and dedication of our employees. The Bank team is 652 people strong, including 610 full-time, 30 part-time, and 12 seasonal/temporary employees as of December 31, 2022.

Diversity and Inclusiveness. The Bank is committed to social and governance responsibility, and in 2020, the management team added "inclusivity" as the eighth core value defining our organizational culture. The Bank's employee Code of Conduct supports diversity and inclusion efforts in our workplace, and a Diversity and Inclusion Task Force is charged with developing and promoting initiatives throughout the corporation. In 2022, every employee participated in a foundational course to establish a base level of awareness and education on the topic of diversity and inclusion. In 2023 the effort continues with a host of interactive, informative courses being offered to continue the learning process around these important issues. Eighty-four percent of our employees identify as women or people of color. At present, women comprise 59% of the Bank's officers (267 officers – 158 women), 33% (8 of 25 members) of Senior Leadership Council (which includes those with the title of "Senior Vice President" and above) and 44% (4 of 9 members) of the executive Management Committee. Additionally, three of our 11 board members identify as women or people of color.

Employee Engagement and Development. A positive workplace culture is vital to the Bank's success. By supporting, respecting, engaging, and appreciating employees, the Bank has built a team well-equipped to show the same commitment to its customers. Building and strengthening this positive workplace culture starts with Lake City University. Founded in 1999, Lake City University is dedicated to helping employees thrive professionally and personally. In 2022, the Bank employees averaged 26.34 hours per employee of instruction through the program. From courses to improve technical skills, product knowledge, and customer service to classes focused on an employee's well-being, like personal financial planning and benefits education, Lake City University supports and promotes the personal and professional growth of all the Bank employees. In 2022, 153 employees were promoted and 170 employees were hired externally, demonstrating a commitment to the professional development of Lake City Bank employees.

In addition to the substantial investment in employee professional development, the Bank's benefit and compensation programs are designed to ensure we recruit and retain top talent. The Bank offers employees a comprehensive health benefits package, a 401(k) match of up to 6% of an employee's salary to encourage retirement savings and tuition reimbursement that 28 employees took advantage of in 2022. The Bank also structures its bonus program for officers to create meaningful performance-based incentives. These programs, combined with an intentional focus to create a positive, values-based culture ensures the Bank team will continue as the acknowledged and recognized leader in Indiana community banking.

Impact of Strong Labor Market. Indiana has a strong labor market, with an unemployment rate of 3.1% as of December 31, 2022. The U.S. Census Bureau announced Indiana's population grew by 4.7% between 2010 and 2020, and manufacturing jobs increased 1.5% from December 2019 to December 2021. In this tight labor market, the Company has focused on hiring and retaining talented employees, which has increased compensation expense during 2022.

Forward-looking Statements

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

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

- the effects of future economic, business and market conditions and changes, including prevailing interest rates, the rate of inflation and the effects of the COVID-19 pandemic;
- governmental monetary and fiscal policies and the impact the current economic environment will have on these;
- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, availability of wholesale funding and the values and liquidity of loan collateral, securities and other interest sensitive assets and liabilities;
- changes in borrowers’ credit risks and payment behaviors;
- the failure of assumptions and estimates used in our reviews of our loan portfolio, underlying the establishment of reserves for possible credit losses, our analysis of our capital position and other estimates;
- the effects of disruption and volatility in capital markets on the value of our investment portfolio;
- the risk of labor availability, trade policy and tariffs, as well as supply chain constraints could impact loan demand from the manufacturing sector;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- changes in the scope and cost of FDIC insurance, the state of Indiana’s Public Deposit Insurance Fund and other coverages;
- changes in the availability and cost of credit and capital in the financial markets;
- the outcome of pending litigation and other claims we may be subject to from time to time;
- the anticipated phase out of the remaining LIBOR tenors by mid-2023 and implementation of a new reference rate or rates;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- 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;
- risk of cyber-security attacks that could result in damage to the Company’s or third-party service providers' networks or data of the Company;
- changes in technology or products that may be more difficult or costly, or less effective than anticipated;
- the effects of any employee or customer fraud;

- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- changes in accounting policies, rules and practices;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events, including storms, droughts, tornados and flooding, that may affect general economic conditions, including agricultural production and demand and prices for agricultural goods and land used for agricultural purposes, generally and in our markets; and
- the risks noted in the Risk Factors discussed under Item 1A of Part 1 of 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 Securities and Exchange Commission (the "SEC").

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

Internet Website

The Company maintains an internet site at www.lakecitybank.com. The Company makes available free of charge, in the Investor Relations section on this site, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and other statements and reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. All such documents filed with the SEC are also available for free on the SEC's website (www.sec.gov). The Company's Articles of Incorporation, Bylaws, Code of Conduct and the charters of the various committees of the Company's board of directors are also available on the Investor Relations section of the website at investors.lakecitybank.com.

SUPERVISION AND REGULATION

General

FDIC-insured institutions, like the Bank, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Indiana Department of Financial Institutions (the "DFI"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the FDIC and the Consumer Financial Protection Bureau (the "CFPB"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury ("Treasury") have an impact on our business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to our operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of our business, the kinds and amounts of investments we may make, required capital levels relative to our assets, the nature and amount of collateral for loans, the establishment of branches, our ability to merge, consolidate and acquire, dealings with our insiders and affiliates and our payment of dividends. In reaction to the global financial crisis and particularly following passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), we experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused our compliance and risk management processes, and the costs thereof, to increase. Then, in May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act ("Regulatory Relief Act") was enacted by Congress in part to provide regulatory relief for community banks and their holding companies. To that end, the law eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving us of any requirement to engage in mandatory stress tests, maintain a risk committee or comply with the Volcker Rule's complicated prohibitions on proprietary trading and ownership of private funds. We believe these reforms are favorable to our operations.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank, beginning with a discussion of the impact of the COVID-19 pandemic on the banking industry. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

COVID-19 Pandemic

The federal bank regulatory agencies, along with their state counterparts, issued a steady stream of guidance responding to the COVID-19 pandemic and took a number of unprecedented steps to help banks navigate the pandemic and mitigate its impact. These include, without limitation: requiring banks to focus on business continuity and pandemic planning; adding pandemic scenarios to stress testing; encouraging bank use of capital buffers and reserves in lending programs; permitting certain regulatory reporting extensions; reducing margin requirements on swaps; permitting certain otherwise prohibited investments in investment funds; issuing guidance to encourage banks to work with customers affected by the pandemic and encourage loan workouts; and providing credit under the Community Reinvestment Act ("CRA") for certain pandemic-related loans, investments and public service. Because of the need for social distancing measures, the agencies revamped the manner in which they conducted periodic examinations of their regulated institutions, including making greater use of off-site reviews.

Moreover, the Federal Reserve issued guidance encouraging banking institutions to utilize its discount window for loans and intraday credit extended by its Reserve Banks to help households and businesses impacted by the pandemic and announced numerous funding facilities. The FDIC also acted to mitigate the deposit insurance assessment effects of participating in the Paycheck Protection Program ("PPP") and the Federal Reserve's PPP Liquidity Facility and Money Market Mutual Fund Liquidity Facility.

Reference is made to the discussion of "Risks Relating to General Economic Conditions in the Risk Factors" section below for information on the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), PPP program and the Federal Reserve’s lending facilities and for discussions of the economic impact of the COVID-19 pandemic. In addition, information as to selected topics, such as the impact on capital requirements, dividend payments, reserves and CRA, is contained in the relevant sections of this Supervision and Regulation discussion.

The Role of Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects our earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously.

Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of "capital" divided by "total assets". The capital guidelines for U.S. banks beginning in 1989 have been based upon international capital accords (known as “Basel" rules) adopted by the Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accords recognized that bank assets for the purpose of the capital ratio calculations needed to be risk weighted (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations.

Following the global financial crisis, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rule"). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of binding regulations by each of the regulatory agencies. The Basel III Rule increased the required quantity and quality of capital and required more detailed categories of risk weighting of riskier, more opaque assets. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of risk in the calculation of risk weightings. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than "small bank holding companies" (generally holding companies with consolidated assets of less than $3 billion) and certain qualifying banking organizations that may elect a simplified framework (which we have not done). Thus, the Company and the Bank are each currently subject to the Basel III Rule as described below.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but, in requiring that forms of capital be of higher quality to absorb loss, it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and required deductions from Common Equity Tier 1 Capital in the event that such assets exceeded a percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule requires **minimum** capital ratios as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;

- A ratio of minimum Tier 1 Capital equal to 6% of risk-weighted assets;

- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and

- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital. The federal bank regulators released a joint statement in response to the COVID-19 pandemic reminding the industry that capital and liquidity buffers were meant to give banks the means to support the economy in adverse situations, and that the agencies would support banks that use the buffers for that purpose if undertaken in a safe and sound manner.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized." Bank regulatory agencies uniformly encourage banks to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating

significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the Federal Reserve, in order to be well-capitalized, a banking organization must maintain:

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more;
- A ratio of Total Capital to total risk-weighted assets of 10% or more; and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2022: (i) the Bank was not subject to a directive from the Federal Reserve to increase its capital and (ii) the Bank was well-capitalized, as defined by Federal Reserve regulations. As of December 31, 2022, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized. We are also in compliance with the capital conservation buffer.

Prompt Corrective Action. The concept of an institution being "well-capitalized" is part of a regulatory enforcement regime that provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of institutions based on the capital level of each particular institution. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Community Bank Capital Simplification. Community banks have long raised concerns with bank regulators about the regulatory burden, complexity, and costs associated with certain provisions of the Basel III Rule. In response, Congress provided an "off-ramp" for institutions, like us, with total consolidated assets of less than $10 billion. Section 201 of the Regulatory Relief Act instructed the federal banking regulators to establish a single "Community Bank Leverage Ratio" ("CBLR") of between 8 and 10%. Under the final rule, a community banking organization is eligible to elect the new framework if it has: less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9%. The bank regulatory agencies temporarily lowered the CBLR to 8% as a result of the COVID-19 pandemic. We may elect the CBLR framework at any time but have not currently determined to do so.

Supervision and Regulation of the Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, we are registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended ("BHCA"). We are legally obligated to act as a source of financial and managerial strength to the Bank and to commit resources to support the Bank in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve and are required to file with the Federal Reserve periodic reports of our operations and such additional information regarding us and the Bank as the Federal Reserve may require.

Acquisitions and Activities. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding

company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "The Role of Capital" above.

The BHCA generally prohibits us from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit us to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. We have elected to operate as a financial holding company. In order to maintain our status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and the Bank must have at least a satisfactory CRA rating. If the Federal Reserve determines that a financial holding company or any bank subsidiary is not well-capitalized or well-managed, the Federal Reserve will provide a period of time in which to achieve compliance, but, during the period of noncompliance, the Federal Reserve may place any additional limitations on the Company that it deems appropriate. Furthermore, if non-compliance is based on the failure of the Bank to achieve a satisfactory CRA rating, we would not be able to commence any new financial activities or acquire a company that engages in such activities.

Change in Control. Federal law prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. As a bank holding company, we are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see "The Role of Capital" above.

Dividend Payments. Our ability to pay dividends to our shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Indiana corporation, we are subject to the limitations of Indiana General Business Corporations Law, which prohibit us from paying dividends if we are, or by payment of the dividend would become, insolvent, or if the payment of dividends would render us unable to pay its debts as they become due in the usual course of business. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. These factors have come into consideration in the industry as a result of the COVID-19 pandemic. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities and changes in the discount rate on bank borrowings. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. Our common stock is registered with the SEC under the Exchange Act. Consequently, we are subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. It increased shareholder influence over boards of directors by requiring companies to give stockholders a nonbinding vote on executive compensation and so-called “golden parachute” payments, and authorizing the SEC to promulgate rules that would allow shareholders to nominate and solicit voters for their own candidates using a company’s proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Supervision and Regulation of the Bank

General. The Bank is an Indiana-chartered bank. The deposit accounts of the Bank are insured by the FDIC's Deposit Insurance Fund (“DIF”) to the maximum extent provided under federal law and FDIC regulations, currently $250,000 per insured depositor category. The Bank is also a member of the Federal Reserve System (a “member bank”). As an Indiana-chartered FDIC- insured member bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFI, the chartering authority for Indiana banks, the Federal Reserve, as the primary federal regulator of member banks, and the FDIC, as administrator of the DIF.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Bank that are not considered large and highly complex banking organizations, assessments are based on examination ratings and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking.

The reserve ratio is the FDIC insurance fund balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits. The reserve ratio reached 1.36% as of September 30, 2018, exceeding the statutory required minimum. As a result, the FDIC provided assessment credits to insured depository institutions, like the Bank, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The FDIC applied the small bank credits for quarterly assessment periods beginning July 1, 2019. However, the reserve ratio then fell to 1.30% in 2020 as a result of extraordinary insured deposit growth caused by an unprecedented inflow of more than $1 trillion in estimated insured deposits in the first half of 2020, stemming mainly from the COVID-19 pandemic stimulus programs. On September 15, 2020, the FDIC adopted a Restoration Plan to restore the reserve ratio to at least 1.35% within eight years. Although the FDIC could have ceased the small bank credits, it waived the requirement that the reserve ratio be at least 1.35% for full remittance of the remaining assessment credits, and it refunded all small bank credits as of September 30, 2020.

On October 18, 2022, the FDIC adopted a final rule, applicable to all insured depository institutions, to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning in the first quarterly assessment period of 2023. The increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio of the DIF reaches the statutory minimum of 1.35% by the statutory deadline of September 30, 2028. The new assessment rate schedules will remain in effect unless and until the reserve ratio meets or exceeds 2.00% in order to support growth in the DIF in progressing toward the FDIC's long-term goal of a 2.00% designated reserve ratio. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2.00% and again when it reaches 2.50%.

Supervisory Assessments. All Indiana banks are required to pay supervisory assessments to the DFI to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank’s total assets. During the year ended December 31, 2022, the Bank paid supervisory assessments to the DFI totaling approximately $255,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "The Role of Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio, or LCR, is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the Net Stable Funding Ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits). While these rules do not, and will not, apply to the Bank, we continue to review our liquidity risk management policies in light of developments.

Dividend Payments. Our primary source of funds is dividends from the Bank. Indiana law prohibits the Bank from paying dividends in an amount greater than its undivided profits. The Bank is required to obtain the approval of the DFI for the payment of any dividend if the total of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the Bank's net income for the year-to-date combined with its retained net income for the previous two years. Indiana law defines "retained net income" to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period. The Federal Reserve Act also imposes limitations on the amount of dividends that may be paid by state member banks, such as the Bank. Without Federal Reserve approval, a state member bank may not pay dividends in any calendar year that, in the aggregate, exceed that bank's calendar year-to-date net income plus the bank's retained net income for the two preceding calendar years. Moreover, the payment of dividends by any FDIC- insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and an FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its capital requirements under applicable guidelines as of December 31, 2022. Notwithstanding the availability of funds for dividends, however, the Federal Reserve and the DFI may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay unrestricted dividends will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "The Role of Capital" above.

State Bank Investments and Activities. The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Indiana law. However, under federal law, FDIC-insured institutions are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between the Bank and its "affiliates." The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The standards apply to internal

controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness standards prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. While regulatory standards do not have the force of law, if an institution operates in an unsafe and unsound manner, the FDIC-insured institution’s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator’s order is cured, the regulator may restrict the FDIC-insured institution’s rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with safety and soundness may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal and reputational risk. Bank regulators have identified key risk themes for 2023 as: credit risk management given the current interest rate environment and persistent inflationary concerns, cybersecurity risk, and commercial and residential real estate concentration risk management. The agencies will also be monitoring banks for their transition away from LIBOR (London Interbank Offered Rate) as a reference rate, Bank Secrecy Act/anti-money laundering (“AML”) compliance, cybersecurity, third-party and change management, climate and environmental, social and governance initiatives, digital assets and CRA performance. The Bank is expected to have active board and senior management oversight; adequate policies, procedures and limits; adequate risk measurement, monitoring and management information systems; and comprehensive internal controls.

Privacy and Cybersecurity. The Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require the Bank to periodically disclose its privacy policies and practices relating to sharing such information and permit consumers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact the Bank’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, as a part of its operational risk mitigation, the Bank is required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information and to require the same of its service providers. These security and privacy policies and procedures are in effect across all business lines and geographic locations.

Branching Authority. Indiana banks, such as the Bank, have the authority under Indiana law to establish branches anywhere in the State of Indiana, subject to receipt of all required regulatory approvals. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches has historically been permitted only in those states the laws of which expressly authorize such expansion. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Transaction Account Reserves. Federal law required FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts) to provide liquidity. Reserves were maintained on deposit at the Federal Reserve Banks. However, in March 2020, in an unprecedented move, the Federal Reserve announced that the banking system had ample reserves, and, as reserve requirements no longer played a significant role in this regime, it reduced all reserve tranches to zero percent, thereby freeing banks from the reserve maintenance requirement. The action permits the Bank to loan or invest funds that were previously unavailable. The Federal Reserve has indicated that it expects to continue to operate in an ample reserves regime for the foreseeable future.

Community Reinvestment Act Requirements. CRA requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank’s record of meeting the credit needs of its communities.

Applications for additional acquisitions would be affected by the evaluation of the Bank's effectiveness in meeting its CRA requirements. In a joint statement responding to the COVID-19 pandemic, the bank regulatory agencies announced favorable CRA consideration for banks providing retail banking services and lending activities in their assessment areas, consistent with safe and sound banking practices, that are responsive to the needs of low- and moderate-income individuals, small businesses, and small farms affected by the pandemic. Those activities include waiving certain fees, easing restrictions on out-of-state and non-customer checks, expanding credit products, increasing credit limits for creditworthy borrowers, providing alternative service options, and offering prudent payment accommodations. The joint statement also provided favorable CRA consideration for certain pandemic-related community development activities.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act") is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The USA PATRIOT Act, along with other legal authority, mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk.

Based on the Bank's loan portfolio as of December 31, 2022, it did not exceed the 300% guideline for commercial real estate loans nor did it exceed the 100% guideline for construction and land development loans.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act addressed mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." The Regulatory Relief Act provided relief in connection with mortgages for banks with assets of less than $10 billion, and, as a result, mortgages the Bank makes are now considered to be qualified mortgages if they are held in portfolio for the life of the loan. The CFPB has from time to time released additional rules as to qualified mortgages and the borrower's ability to repay, most recently in July of 2021. The CFPB's rules have not had a significant impact on the Bank's operations, except for higher compliance costs.

ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors:

Risks Relating to General Economic Conditions

A downturn in general economic or business conditions, nationally or in markets where our business is concentrated, could have an adverse effect on our business, results of operations and financial condition.

Our success depends upon the business activity, population, employment rates, income levels, deposits and real estate activity in our markets in northern and central Indiana. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, diminish the ability of our customers to repay their loans to us, decrease the value of any collateral securing our loans and generally adversely affect our financial condition and results of operations. Moreover, because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Monetary policies of the Federal Reserve could adversely affect our financial condition and results of operations.

In the current environment, economic and business conditions are significantly affected by U.S. monetary policy, particularly the actions of the Federal Reserve to raise short-term interest rates in an effort to fight elevated levels of inflation. The Federal Reserve is mandated to pursue the goals of maximum employment and price stability, and beginning in March 2022 it made a series of significant increases to the target Federal Funds rate as part of an effort to combat elevated levels of inflation affecting the U.S. economy, which is expected to continue in the near term. The significant increases to short-term interest rates has benefited our net interest income during 2022 due to loans repricing faster than deposits. However, the rising interest rate environment has negatively impacted the fair value of our investment securities portfolio, which had $215.3 million in net unrealized losses from available-for-sale investment securities at December 31, 2022. The investment securities net unrealized losses are recorded as a reduction of tangible equity and tangible book value per share. Higher interest rates can also negatively affect our customers' businesses and financial condition, and the value of collateral securing loans in our portfolio.

Given the complex factors affecting the strength of the U.S. economy, including uncertainties regarding the persistence of inflation, geopolitical developments such as the war in Ukraine and resulting disruptions in the global energy market, the effects of the pandemic in China, tight labor market conditions and supply chain issues, there is a meaningful risk that the Federal Reserve and other central banks may raise interest rates too much. Restrictive monetary policies could limit economic growth and potentially cause an economic recession. As noted above, this could decrease loan demand, harm the credit characteristics of our existing loan portfolio and decrease the value of collateral securing loans in the portfolio.

Continued elevated levels of inflation could adversely impact our business and results of operations.

The United States has recently experienced elevated levels of inflation, with the consumer price index climbing 6.5% in 2022. Continued high levels of inflation could have complex effects on our business and results of operations, some of which could be materially adverse. For example, elevated inflation harms consumer purchasing power, which could negatively affect our retail customers and the economic environment and, ultimately, many of our business customers, and could also negatively affect our levels of non-interest expense. In addition, if interest rates continue to rise in response to elevated levels of inflation, the value of our securities portfolio would be negatively impacted. Continued elevated levels of inflation could also cause increased volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients' ability to repay indebtedness. It is also possible that governmental responses to the current inflation environment could adversely affect our business, such as changes to monetary and fiscal policy that are too strict, or the imposition or threatened imposition of price controls. The duration and severity of the current inflationary period cannot be estimated with precision.

The COVID-19 pandemic could continue to have adverse effects on our business.

The COVID-19 pandemic has had a significant economic impact on the communities in which we operate, our borrowers and depositors, and the national economy generally. These effects have diminished in the past year, but future developments and uncertainties will be difficult to predict, such as the potential emergence of a new variant, the course of the pandemic in China and other major economies, the persistence of pandemic-related work and lifestyle changes, changes in consumer preferences associated with the emergence of the pandemic, and other market disruptions. Any such developments could have a complex and negative effect on our business, including with respect to the prevailing economic environment, our lending and investment activities, and our business operations.

Labor shortages and failure to attract and retain qualified employees could negatively impact our business, results of operations and financial condition.

A number of factors may adversely affect the labor force available to us or increase labor costs, including high employment levels, and decreased labor force size and participation rates. Although we have not experienced any material labor shortage to date, we have recently observed an overall tightening and competitive local labor market, especially for commercial lenders. As of December 31, 2022, Indiana's unemployment rate was 3.1%. A sustained labor shortage or increased turnover rates within our employee base could lead to increased costs, such as increased compensation expense to attract and retain employees.

In addition, if we are unable to hire and retain employees capable of performing at a high-level, or if mitigation measures we may take to respond to a decrease in labor availability have unintended negative effects, our business could be adversely affected. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on our operations, results of operations, liquidity or cash flows.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest bearing assets and the interest paid by us on our interest bearing liabilities. When interest rates rise the rate of interest we pay on our liabilities may rise more quickly than the rate of interest that we receive on our interest bearing assets, which may cause our profits to decrease. Conversely, when interest rates fall our interest bearing assets generally reprice more quickly than our interest bearing liabilities, given our asset-sensitive balance sheet, which may cause our net interest income to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, i.e. when short-term interest rates increase more than corresponding changes in long-term interest rates or when long-term interest rates decrease more than corresponding changes in short-term interest rates. In addition, when competition for deposits increases and deposit costs rise more quickly than loan yields, net interest income may be negatively impacted.

Interest rate increases often result in larger payment requirements for our borrowers, which increase the potential for default. At the same time, the value and marketability of any underlying assets securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on fixed rate loans, such as mortgages, as borrowers may seek to refinance these loans at lower rates.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal and interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Risks Relating to Our Business

If we do not effectively manage our credit risk, we may experience increased levels of nonperforming loans, charge offs and delinquencies, which could require further increases in our provision for credit losses.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. In general, these risks have increased as a result of the recent increases in prevailing interest rates and uncertainties associated with inflation, which have potentially increased the risk of a near-term decline in growth or an economic downturn. We cannot assure you that our loan application approval procedures, use of loan concentration limits, credit monitoring, use of independent reviews of outstanding loans or other procedures will reduce these credit risks. If the overall economic climate in the United States, generally, and our market areas, specifically, does not perform in the manner we expect, or even if it does, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the provision for credit losses, which would cause our net income and return on equity to decrease.

If our allowance for credit losses is not sufficient to absorb losses that may occur in our loan portfolio, our financial condition and liquidity could suffer.

We establish our allowance for credit losses and maintain it at a level considered adequate by management to absorb expected credit losses within the portfolio. 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. Additions to the allowance for credit losses, which are charged to earnings through the provision for credit losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in our market areas. The actual amount of credit losses is affected by changes in economic, operating and other conditions within our markets, which may be beyond our control, and such losses may exceed current estimates.

At December 31, 2022, our allowance for credit losses as a percentage of total loans was 1.54% and as a percentage of total nonperforming loans was 425%. Because of the nature of our loan portfolio and our concentration in commercial and industrial loans, which tend to be larger loans, the movement of a small number of loans to nonperforming status can have a significant impact on these ratios. Although a formal evaluation of the adequacy of the credit loss allowance is conducted monthly, we cannot predict credit losses with certainty and we cannot provide assurance that our allowance for credit losses will prove sufficient to cover actual credit losses in the future. Credit losses in excess of our reserves may adversely affect our business, results of operations and financial condition.

Commercial and industrial loans make up a significant portion of our loan portfolio.

Commercial and industrial loans were $1.493 billion, or approximately 32% of our total loan portfolio, as of December 31, 2022. Commercial and industrial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation of the borrower involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the general economy. For example, the cumulative effects of changes in the economy and overall business environment, labor availability shortages and supply chain constraints have adversely affected commercial and industrial loans, and we expect this trend to continue for certain portions of our loan portfolio, particularly if general economic conditions worsen.

Negative economic trends can also harm the value of security for our commercial and industrial loans. These loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, machinery or real estate. As a result of the recent increase in interest rates and other factors, we have observed a corresponding decline in the value of commercial real estate securing these loans. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers, which could decline in the case of an economic recession.

The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could adversely affect our business, results of operations and growth prospects. Historically, the Bank's largest charge offs have been in this segment of the loan portfolio.

Our loan portfolio includes commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate loans were $2.179 billion, or approximately 46% of our total loan portfolio as of December 31, 2022. The market value of real estate can fluctuate significantly in a short period of time as a result of interest rates and market conditions in the geographic area in which the real estate is located, and, as a general matter, some of these values have been significantly and negatively affected by the recent rise in prevailing interest rates.

Although a significant portion of such loans are secured by real estate as a secondary form of collateral, these developments and any future adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time of originating the loan, which could cause us to increase our provision for credit losses and adversely affect our operating results and financial condition.

Our loan portfolio has a notable concentration in agri-business, which has a higher level of uncontrolled risk.

Our agri-business loans, which totaled $432.1 million, or approximately 9% of our total loan portfolio as of December 31, 2022, are subject to risks outside of our or the borrower's control. Although our agriculture portfolio is well-diversified, the risks, specific to the agricultural industry, include decreases in livestock and crop prices, increases in labor and input prices, increase in stockpiles of agricultural commodities, the strength of the U.S. dollar, the potential impact of tariffs and other trade restrictions on commodities and the nature of climate and weather conditions. To the extent these or other factors affect the performance or financial condition of our agri-business borrowers, our results of operations and financial performance could suffer.

Our consumer loans generally have a higher degree of risk of default than our other loans.

At December 31, 2022, consumer loans totaled $88.1 million, or 2% of our total loan portfolio. Consumer loans typically have shorter terms and lower balances with higher yields as compared to commercial loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on these loans.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition and could result in further losses in the future.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, which adversely affects our net income and returns on assets and equity, increases our loan administration costs and adversely affects our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its current fair market value at the time of transfer, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and our regulatory capital requirements may increase in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and other nonperforming assets, our net interest income and provision expense may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Liquidity risks could affect operations and jeopardize our business, results of operations and financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial, negative effect on our liquidity. Our primary sources of funds consist of deposits, cash from operations and investment security maturities and sales. Additional liquidity is provided by brokered deposits, CD Option of IntraFi Network Deposits ("CD Option", formerly known as CDARS), American Financial Exchange overnight borrowings, IntraFi Network's insured cash sweep program. We are able to borrow from several federal funds lines at correspondent banks and are eligible borrowers from the Federal Reserve and the Federal Home Loan Bank (the "FHLB") subject to collateral availability. At December 31, 2022, $995.3 million of unpledged investment securities were eligible to serve as collateral for liquidity availability at FHLB and Federal Reserve Bank. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. In addition, increased competition with banks and credit unions in our fooprint, brokerage firms and online deposit gatherers for retail deposits may impact our ability to raise funds through deposits and could have a negative effect on our liquidity. For example, as customer deposit levels have decreased over the past year, we have observed that our sensitivity to rising deposits costs has increased as competition for deposits has risen.

Any decline in available funding could adversely impact our ability to originate loans, purchase investment securities, meet our expense obligations, pay dividends to our stockholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

Any action or steps to change coverages or eliminate Indiana's Public Deposit Insurance Fund could require us to find alternative, higher-cost funding sources to replace public fund deposits or to provide for collateralization of these deposits.

At December 31, 2022, approximately 26% of our deposits are concentrated in public funds from a small number of municipalities and government agencies located in the Bank's geographic footprint. A shift in funding away from public fund deposits would impact liquidity availability and could increase our cost of funds, as the alternate funding sources, such as brokered certificates of deposit, can be higher-cost, are less favorable deposits and could require additional collateral to be pledged. The inability to maintain these public funds on deposit could result in a material adverse effect on the Bank's liquidity and could materially impact our ability to grow and remain profitable.

Declines in asset values may result in impairment charges and adversely affect the value of our investment securities, financial performance and capital.

We maintain an investment securities portfolio that includes, but is not limited to, mortgage-backed securities and municipal securities. The market value of these investment securities may be affected by factors other than the underlying performance of the servicer of the securities or the mortgages underlying the securities, such as changes in the interest rate environment, negative trends in the residential and commercial real estate markets, ratings downgrades, adverse changes in the business climate and a lack of liquidity in the secondary market for certain investment securities. On a quarterly basis, we evaluate investment securities and other assets for credit and other impairment indicators. We may be required to record additional credit reserve charges if our investment securities suffer a decline in fair value that has resulted from credit losses or other factors. If we determine that a significant reserve is needed, we would be required to charge against earnings the credit-related portion, which could have a material adverse effect on our results of operations in the periods in which the write-offs occur. In addition, we may determine to sell securities in our available-for-sale investment securities portfolio, and any such sale could cause us to realize currently unrealized losses that resulted from the recent increases in the prevailing interest rates.

We may be adversely impacted by the discontinuance of LIBOR as a short-term interest rate utilized for loans and other financing agreements.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. In March 2021, the ICE Benchmark Administration, which administers LIBOR, announced that it would stop publishing all LIBOR tenors by June 30, 2023. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are continuing to work on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. The Company has material contracts that are indexed to USD-LIBOR and is monitoring this activity and evaluating the related risks. This includes identifying outstanding USD-LIBOR-based loans without ARRC recommended fallback language, internal training and education, and working with our core provider to ensure proper integration once an alternative reference is implemented. At December 31, 2022, the Bank had 95 commercial loans with an outstanding balance of $460.6 million to transition from a USD-LIBOR index. The Company has formed a cross-functional project team to lead the transition from LIBOR to adoption of alternative reference rates which include SOFR, CME Term SOFR, American Interbank Offered Rate, and Bloomberg Short-Term Bank Yield Index. Management is monitoring ARRC publications for best practices as the Company transitions legacy LIBOR loans by the June 30, 2023 deadline.

Risks Relating to Our Corporate Strategy

We may need to raise additional capital in the future to achieve our growth plans, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Accordingly, we may need to raise additional capital to support our future growth plans. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot make assurances of our ability to raise additional capital, if needed, on terms acceptable to us. In particular, if we were required to raise additional capital in the current interest rate environment, we believe the pricing and other terms investors may require in such an offering may not be attractive to use. If we cannot raise additional capital when needed, our financial condition and our ability to further expand our operations through internal growth or acquisitions could be materially impaired.

We may experience difficulties in managing our growth, and our growth strategy involves risks that may negatively impact our net income.

In addition to our continuing expansion in Indianapolis and larger cities in Northern Indiana, we may expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of all or part of other financial institutions, or by opening new branches in or within two hours of our contiguous geographic footprint. To the extent that we undertake acquisitions or new branch openings, we are likely to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

To the extent that we grow through acquisitions and branch openings, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching but may also involve additional risks, including:

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

We face intense competition in all phases of our business from other banks, financial institutions and nonbank financial service providers.

The banking and financial services business in our market is highly competitive. Our competitors include large national, regional and local community banks, credit unions, Fintech and nonbank financial service providers, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds and farm credit services. Many of these competitors are not subject to the same operating costs or regulatory restrictions as we are and are able to provide customers with a feasible alternative to traditional banking services.

Increased competition may also result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower, particularly in the case of incremental loan growth. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Moreover, we rely on deposits to be a low-cost source of funding, and a loss in our deposit base could cause us to incur higher funding costs from wholesale funding sources.

The financial services industry is constantly undergoing rapid technological changes with frequent introductions of new technology-driven products and services. We invest from time to time in investment funds that seek to promote the development of such new and emerging financial technologies. However, there can be no assurance that we will be able to effectively incorporate, or otherwise benefit from, such developments.

Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, possess larger lending limits and offer a broader range of financial services than we can offer.

Attractive acquisition opportunities may not be available to us in the future.

We expect that other banking and financial service companies, many of which have significantly greater resources than we do, will compete with us in acquiring other financial institutions if we pursue such acquisitions. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and stockholders' equity per share of our common stock.

Risks Relating to Regulation, Tax and Accounting

We may be materially and adversely affected by the highly regulated environment in which we operate.

We are subject to extensive federal and state regulation, supervision and examination. A more detailed description of the primary federal and state banking laws and regulations that affect us is contained in the section of this Annual Report on Form 10-K captioned “Supervision and Regulation”. Banking regulations are primarily intended to protect depositors’ funds, FDIC funds, customers and the banking system as a whole, rather than our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things.

As a bank holding company, we are subject to extensive regulation and supervision and undergo periodic examinations by our regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties and/or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur.

The laws, regulations, rules, standards, policies and interpretations governing us are constantly evolving and may change significantly over time. For example, on July 21, 2010, the Dodd-Frank Act was signed into law, which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations to be developed thereunder, includes provisions affecting large and small financial institutions alike, including several provisions that affect how community banks, thrifts and small bank and thrift holding companies operate. In addition, the Federal Reserve, in recent years, has adopted numerous new regulations addressing banks’ overdraft and mortgage lending practices. Further, the CFPB has broad powers to supervise and enforce consumer protection laws, and additional consumer protection legislation and regulatory activity is anticipated in the near future, including with respect to fees charged by banks and other financial companies. Any enforcement actions or other rule making in these areas could negatively affect our business and our ability to maintain or grow levels of noninterest income.

These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of our business activities and may change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs.

Regulations of the Federal Reserve could adversely affect our business, financial condition and results.

An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

We are required to maintain capital to meet regulatory requirements, and, if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

The Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. We face significant capital and other regulatory requirements as a financial institution, which were heightened with the implementation of the Basel III Rule and the phase-in of capital conservation buffer requirement. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

We may be subject to a higher consolidated effective tax rate if there is a change in tax laws relating to LCB Investments II, Inc. or if LCB Funding, Inc. fails to qualify as a real estate investment trust.

The Bank holds certain investment securities in its wholly owned subsidiary LCB Investments II, Inc., which is incorporated in Nevada. Pursuant to the State of Indiana’s current tax laws and regulations, we are not subject to Indiana income tax for income earned through that subsidiary. If there are changes in Indiana’s tax laws or interpretations thereof requiring us to pay state taxes for income generated by LCB Investments II, Inc., the resulting tax consequences could increase our effective tax rate or cause us to have a tax liability for prior years.

The Bank also holds certain commercial real estate loans, residential real estate loans and other loans in a real estate investment trust through LCB Investments II, Inc., which is incorporated in Maryland. Qualification as a real estate investment trust involves application of specific provisions of the Internal Revenue Code relating to various asset tests. If LCB Funding, Inc. fails to meet any of the required provisions for real estate investment trusts, it could no longer qualify as a real estate investment trust and the resulting tax consequences would increase our effective tax rate or cause us to have a tax liability for prior years. Additionally, changes to the State of Indiana's current tax laws and regulations for real estate investment trust income disallowance could increase our effective tax rate or cause us to have a tax liability for prior years.

Our accounting policies and methods are the basis for how we prepare our consolidated financial statements and how we report our financial condition and results of operations, and they require management to make estimates about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure they comply with GAAP and reflect management’s judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances. The application of that chosen accounting policy or method might result in the Company reporting different amounts than would have been reported under a different alternative. If management’s estimates or assumptions are incorrect, the Company may experience material losses.

Management has identified one accounting policy as being “critical” to the presentation of the Company’s financial condition and results of operations because it requires management to make particularly subjective and complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. This critical accounting policy relates to the allowance for credit losses. Because of the inherent uncertainty of this estimate, no assurance can be given that the application of alternative policies or methods might not result in the reporting of a different amount of the allowance for credit losses and, accordingly, net income.

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. In addition, trends in financial and business reporting, including environmental, social and governance (ESG) related disclosures, could require us to incur additional reporting expense. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. Changes in these standards are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

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 Loss ("CECL") methodology.

We adopted CECL, effective as of January 1, 2021, following the delayed adoption period permitted by the CARES Act and extended by the Consolidated Appropriations Act, 2021. The CECL methodology requires measurement of anticipated credit losses to occur when a financial asset is first added to the balance sheet and periodically thereafter. These measurements require significant use of management judgments as well as forward-looking information and forecasts. Any failure of these judgments or forecasts to be correct could negatively affect our results of operations and financial condition.

We may be adversely affected by changes in U.S. tax laws and regulations.

Any change in federal or state tax laws or regulations, including any increase in the federal corporate income tax rate from the current level of 21%, could negatively affect our business and results of operations, including as a result of our income tax expense and any impact to the profitability of our loan customers.

Risks Relating to our Operations

Our ability to attract and retain management and key personnel and any damage to our reputation may affect future growth and earnings.

Much of our success and growth has been influenced strongly by our ability to attract and retain management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain the executive officers, management teams, branch managers and loan officers at the Bank will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, results of operations and financial condition.

In addition, our business depends on earning and maintaining the trust of our customers and communities. Harm to our reputation could arise from numerous sources, including employee misconduct, compliance failures, litigation or our failure to deliver appropriate levels of service. If any events or circumstances occur which could undermine our reputation, there can be no assurance that the additional costs and expenses we may incur as a result would not have an adverse impact on our business.

We have a continuing need to adapt to technological change and we may not have the resources to effectively implement new technology.

The financial services industry is constantly undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market areas. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide assurances that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

The Company's information systems may experience an interruption or breach in security and cyber-attacks, all of which could have a material adverse effect on the Company's business.

The Company relies heavily on internal and outsourced technologies, communications, and information systems to conduct its business, particularly with respect to our core processing provider and our digital banking provider. Additionally, in the normal course of business, the Company collects, processes and retains sensitive and confidential information regarding our customers. As the Company's reliance on technology has increased, so have the potential risks of a technology-related operation interruption (such as disruptions in the Company's core provider, general ledger, deposit, loan, digital banking or other systems) or the occurrence of a cyber-attack (such as unauthorized access to the Company's systems). These risks have increased for all financial institutions as new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others have increased. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against financial institutions, particularly denial of service attacks, which are designed to disrupt key business services, such as customer-facing web sites and social engineering attacks that could influence an employee of the Company to click on a link that downloads malware or ransomware to the Company's system. The Company is not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. In addition, it is possible that we may not be able to detect security breaches on a timely basis, or at all, which could increase the costs and risks associated with any such breach.

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company's customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. In addition, the Company offers its customers protection against fraud and certain losses for unauthorized use of debit cards in order to stay competitive with other financial institutions. Offering such protection exposes the Company to losses that could adversely affect its business, financial condition and results of operations. Further cyber-attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on the Company's business. To the extent we are involved in any future cyber-attacks or other breaches, the Company's reputation could be affected, which could also have a material adverse effect on the Company's business, financial condition or results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding their own unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence, among others.

In addition, as a bank, we are susceptible to fraudulent activity that may be committed against us, third parties or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. For example, as previously disclosed, in the third quarter of 2019, the Bank discovered potentially fraudulent activity by a former treasury management client involving multiple banks. In the context of resulting bankruptcy proceedings involving the former client, the liquidating trustee has filed a complaint against the Bank, focused on a series of business transactions among the former client, related entities and the Bank.

We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors, cyber-attacks, and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, results of operations and financial condition.

The Company is or may become involved from time to time in suits, legal proceedings, information-gathering requests, investigations and proceedings by governmental and self-regulatory agencies that may lead to adverse consequences.

Many aspects of our business and operations involve the risk of legal liability, and in some cases we or our subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from our business activities. In addition, companies in our industry are frequently the subject of governmental and self-regulatory agency information-gathering requests, reviews, investigations and proceedings. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Accordingly, our ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies, which could adversely affect our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved SEC staff comments.

ITEM 2. PROPERTIES

The Company is headquartered in the main office building of the Bank at 202 E. Center Street, Warsaw, Indiana 46580. The Company operates in 59 locations, 51 of which are owned by the Bank and eight of which are leased from third parties.

None of the Company’s real property assets are the subject of any material encumbrances.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The quarterly high and low prices for the Company's common stock and the cash dividends declared and paid on that common stock are set forth in the table below.

	2022			2021		
	High*	**Low***	**Cash Dividend**	High*	Low*	Cash Dividend
Fourth quarter	**$ 83.57**	**$ 71.37**	**$ 0.40**	$ 80.77	$ 69.51	$ 0.34
Third quarter	**$ 81.27**	**$ 64.05**	**$ 0.40**	$ 73.04	$ 56.06	$ 0.34
Second quarter	**$ 79.14**	**$ 64.84**	**$ 0.40**	$ 70.25	$ 57.02	$ 0.34
First quarter	**$ 85.71**	**$ 72.78**	**$ 0.40**	$ 77.05	$ 53.02	$ 0.34

The common stock of the Company was first quoted on The Nasdaq Stock Market under the symbol "LKFN" on August 14, 1997. Currently, the Company's common stock is listed for trading on the Nasdaq Global Select Market under the symbol "LKFN." On February 15, 2023, the Company had approximately 310 stockholders of record.

The Company paid dividends on its common stock as set forth in the table above. The Company's ability to pay dividends to stockholders is largely dependent upon the dividends it receives from the Bank, and the Bank is subject to regulatory limitations on the amount of cash dividends it may pay. See "Supervision and Regulation – Dividend Payments" for additional information.

Equity Compensation Plan Information

The table below sets forth the following information as of December 31, 2022 for (i) all compensation plans previously approved by the Company's stockholders and (ii) all compensation plans not previously approved by the Company's stockholders:

(a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;

(b) the weighted-average exercise price of such outstanding options, warrants and rights; and

(c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

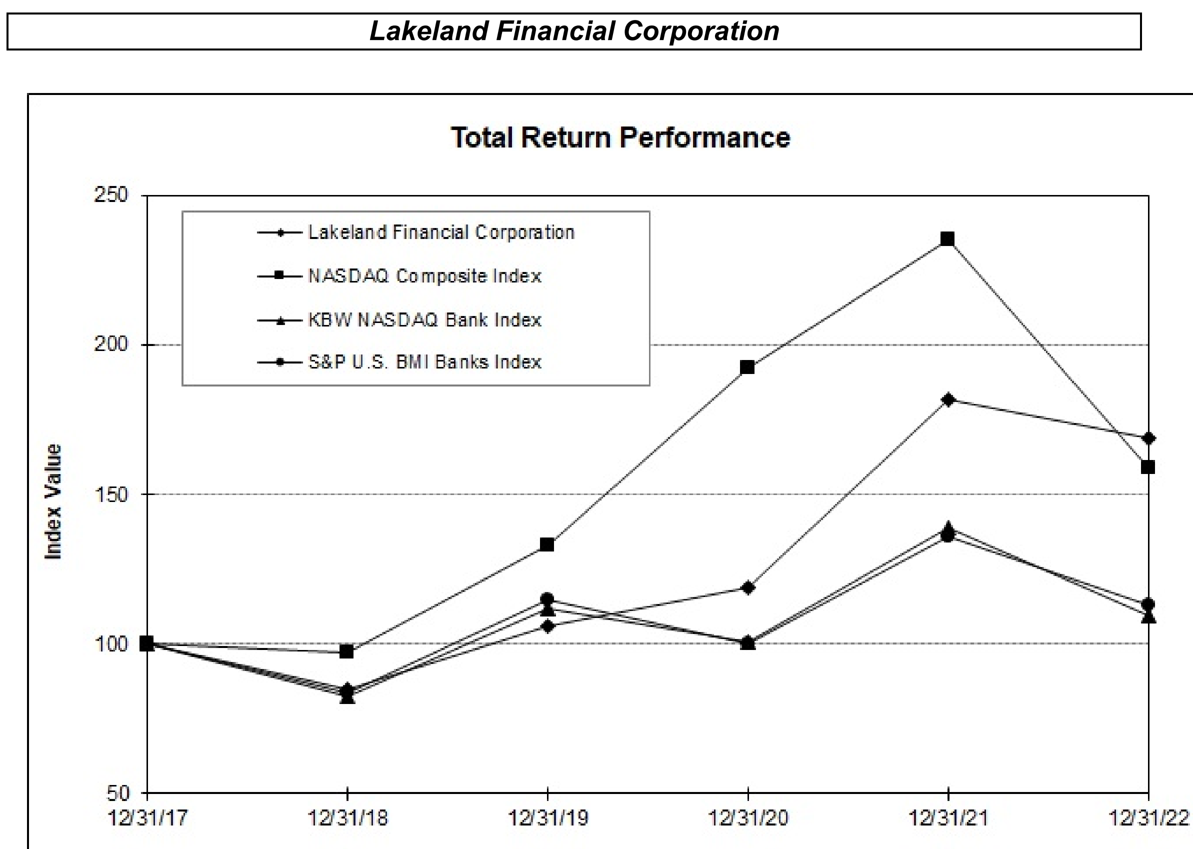
EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders[(1)]	0	$ 0	387,388
Equity compensation plans not approved by security holders	0	0	0
Total	0	$ 0	387,388

(1) Lakeland Financial Corporation 2017 Equity Incentive Plan was adopted on April 12, 2017 by the board of directors.

STOCK PRICE PERFORMANCE GRAPH

The graph below compares the cumulative total return of the Company, the Nasdaq Market Index, the KBW Nasdaq Bank Index, and the S&P U.S. BMI Banks Index.



	Period Ending					
Index	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Lakeland Financial Corporation	$ 100.00	$ 84.59	$ 105.73	$ 119.00	$ 181.75	$ 169.03
NASDAQ Composite Index	100.00	97.16	132.81	192.47	235.15	158.65
SNL U.S. Bank NASDAQ Index	100.00	82.29	112.01	100.46	138.97	109.23
S&P U.S. BMI Banks Index	100.00	83.54	114.74	100.10	136.10	112.89

The above returns assume that $100 was invested on December 31, 2017 and that all dividends were reinvested.

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. On April 13, 2021, the Company's board of directors reauthorized and extended the share repurchase program through April 30, 2023. As extended, the repurchase program has 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. There were no repurchases under this plan during the year ended December 31, 2022.

The following table provides information about purchases by the Company and its affiliates during the quarter ended December 31, 2022 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

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
10/01/22 - 10/31/22	0	$ 0.00	0	$ 19,998,273
11/01/22 - 11/30/22	909	81.81	0	19,998,273
12/01/22 - 12/31/22	0	0.00	0	19,998,273
Total	909	$ 81.81	0	$ 19,998,273

The shares purchased during the quarter were credited to the deferred share accounts of non-employee directors under the Company's directors' deferred compensation plan. These shares are held in treasury stock of the Company and were purchased in the ordinary course of business and consistent with past practice.

ITEM 6. SELECTED FINANCIAL DATA

The information previously required by Item 6 of this Form 10-K has been intentionally omitted, as permitted by the SEC in connection with its adoption of its final rules regarding the amendments to modernize, simplify, and enhance identified disclosure requirements of registrants.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Net income in 2022 was $103.8 million, up 8.4% from $95.7 million in 2021. Net income for 2021 was 13.5% higher than $84.3 million in 2020.

Diluted net income per common share was $4.04 in 2022, $3.74 in 2021 and $3.30 in 2020. Return on average total assets was 1.62% in 2022 versus 1.56% in 2021 and 1.55% in 2020. Return on average total equity was 17.40% in 2022 versus 14.19% in 2021 and 13.51% in 2020. The dividend payout ratio, with respect to diluted earnings per share, was 39.60% in 2022, 36.36% in 2021 and 36.36% in 2020. The average equity to average assets ratio was 9.28% in 2022 compared to 10.96% in 2021 and 11.51% in 2020.

Net income in 2022 was positively impacted by a $24.8 million increase in net interest income. Offsetting these positive impacts were a $5.9 million increase in noninterest expense, a $2.9 million decrease in noninterest income, and an $8.3 million increase in provision for credit losses.

Net income in 2021 was positively impacted by a $15.1 million increase in net interest income and a $13.7 million decrease in provision for credit losses. Offsetting these positive impacts were a $13.1 million increase in noninterest expense and a $2.1 million decrease in noninterest income.

Total assets were $6.432 billion as of December 31, 2022 versus $6.557 billion as of December 31, 2021, a decrease of $125.0 million or 1.9%. Early in 2022, the Company deployed $250.0 million of excess liquidity to the investment securities portfolio. Loan growth of $422.6 million during 2022 was funded by cash and cash equivalents as well as deposits. During the fourth quarter, deposit outflows from commercial and retail depositors contributed to the decline in deposits of $274.8 million during 2022. Borrowings increased $222.0 million during 2022. The increase was due to a $297.0 million increase in short-term borrowings at December 31, 2022, offset by the payoff of a $75.0 million long-term FHLB advance outstanding at December 31, 2021.

Total investment securities decreased $84.8 million during the year. The decrease was driven primarily by a decrease in market value of available-for-sale securities as a result of the increased rate environment driven by the Federal Reserve's monetary tightening policy. The decrease in fair value of available-for-sale investment securities was $236.9 million for the year 2022, from an unrealized gain position of $21.6 million at December 31, 2021 to an unrealized loss position of $215.3 million at December 31, 2022. In addition, the Company elected to transfer securities from available-for-sale to held-to-maturity as an overall balance sheet management strategy in 2022. The fair value of securities transferred during the second quarter of 2022 was $127.0 million, with $24.4 million in unrealized losses recorded in accumulated comprehensive income (loss) to be amortized over the remaining life of the securities transferred.

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 credit losses.

Allowance for Credit Losses

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

The level of credit loss provision is influenced by growth in the overall loan portfolio, emerging market risk, emerging concentration risk, commercial loan focus and large credit concentration, new industry lending activity, general economic

conditions and historical loss analysis. In addition, management gives consideration to changes in the facts and circumstances of watch list credits, which includes the security position of the borrower, in determining the appropriate level of the credit loss provision. Furthermore, management's overall view on credit quality is a factor in the determination of the provision.

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

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

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

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

The allowance is inherently uncertain as it represents the Company's expectation of the future collectability of loans in its portfolio; actual collections may be greater than or less than expectations. Actual collections may be impacted by wider economic conditions such as changes in the competitive environment or in the levels of business investment or consumer

spending, or by the quality of borrowers' management teams and the success of their strategy execution. Borrowers' ability to repay may also change due to the effects of government monetary or fiscal policy, which could affect the level of demand for borrowers' products or services.

The Company's allowance for credit losses is subject to changes in the inputs to the model, including the following: the number of delinquent loans, nonaccrual loans, material modification due to a borrower experiencing financial difficulty, or charge offs; the levels of charge offs and recoveries; projected unemployment rates and other economic indicators; the Company's collateral position on adversely classified loans; or management's qualitative judgment of the implication of trends in its loan portfolio or in the broader economy.

RESULTS OF OPERATIONS

Overview

In 2022, the Company continued to grow loans organically in its geographic footprint of northern Indiana and in central Indiana in the Indianapolis market. The Company had 52 branches as of December 31, 2022. The Company's net interest income was positively affected by the monetary tightening policy of the Federal Reserve during 2022. The rise in short-term interest rates and loan growth were the primary drivers of the 13.9% increase in net interest income for 2022. The increase in net interest income was the primary driver for the 8.4% increase in net income of $8.1 million, as noninterest expense increased 5.7%, noninterest income decreased 6.4% and the provision for credit losses increased 770.5%. Asset quality metrics remained stable with watch list loans as a percentage of total loans at a historic low of 3.42%. Fee based lines of business including treasury management services, commercial loan fees, interchange fee income and merchant interchange fee income positively contributed to growth in noninterest income. Overall, expense growth has reflected the Company's continued investment in people, technology and our branch infrastructure. The outlook for 2023 includes plans for continued loan growth, disciplined credit philosophy, continued investments in human capital, enhancements to the Lake City Bank digital platform, and targeted expansion of our branch network in the Indianapolis market with two new offices planned in the next 18 months.

Selected income statement information for the years ended December 31, 2022, 2021 and 2020 is presented in the following table.

(dollars in thousands)		2022		2021		2020
Income Statement Summary:						
Net interest income	**$**	**202,887**	$	178,088	$	163,008
Provision for credit losses		**9,375**		1,077		14,770
Noninterest income		**41,862**		44,720		46,843
Noninterest expense		**110,210**		104,287		91,205
Other Data:						
Efficiency ratio (1)		**45.03 %**		46.81 %		43.46 %
Dilutive EPS	**$**	**4.04**	$	3.74	$	3.30
Total equity	**$**	**568,887**	$	704,906	$	657,184
Tangible capital ratio (2)		**8.79 %**		10.70 %		11.21 %
Adjusted tangible capital ratio (3)		**11.30 %**		10.47 %		10.78 %
Net charge-offs to average loans		**0.10 %**		0.09 %		0.09 %
Net interest margin		**3.40 %**		3.07 %		3.19 %
Net interest margin excluding PPP loans (4)		**3.40 %**		2.95 %		3.19 %
Noninterest income to total revenue		**17.10 %**		20.07 %		22.32 %
Pretax Pre-Provision Earnings (5)	**$**	**134,539**	$	118,521	$	118,646

(1) Noninterest expense/Net interest income plus Noninterest income.
(2) Non-GAAP financial measure. Calculated by subtracting intangible assets, net of deferred tax, from total assets and total equity. Management believes this is an important measure because it is useful for planning and forecasting purposes. See reconciliation on the next page.
(3) Non-GAAP financial measure. Calculated by removing the fair market value adjustment impact of the available-for-sale investment securities portfolio from tangible equity and tangible assets. Management believes this is an important measure because it provides better comparability to prior periods. See reconciliation on the next page.

(4) Non-GAAP financial measure. Calculated by subtracting the impact PPP loans had on average earnings assets, loan interest income, average interest bearing liabilities, and interest expense. Management believes this is an important measure because it provide for better comparability to prior periods, given the expectation that PPP represents a limited governmental intervention in the lending market, designed to support small businesses through the pandemic, its low fixed interest rate of 1.0% and because the accretion of net loan fee income can be accelerated upon borrower forgiveness and repayment by the SBA. Management is actively monitoring net interest margin on a fully tax equivalent basis with and without PPP loan impact for the duration of this program. See reconciliation on the next page.

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

The Company believes that providing non-GAAP financial measures provides investors with information useful to understanding the company's financial performance. A reconciliation of these non-GAAP financial measures is provided below (dollars in thousands, except per share data).

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

	Year Ended		
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Total Equity	**$ 568,887**	$ 704,906	$ 657,184
Less: Goodwill	**(4,970)**	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	**1,167**	1,176	1,176
Tangible Common Equity	**565,084**	701,112	653,390
AOCI Market Value Adjustment	**188,154**	(17,056)	(29.182)
Adjusted Tangible Common Equity	**753,238**	684,056	653,361
Assets	**$ 6,432,371**	$ 6,557,323	$ 5,830,435
Less: Goodwill	**(4,970)**	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	**1,167**	1,176	1,176
Tangible Assets	**6,428,568**	6,553,529	5,826,641
Securities Market Value Adjustment	**238,170**	(21,589)	(36,939)
Adjusted Tangible Assets	**6,666,738**	6,531,940	5,789,702
Ending Common Shares Issued	**25,536,026**	25,488,508	25,424,307
Tangible Book Value Per Common Share	**$ 22.13**	$ 27.50	$ 25.70
Tangible Common Equity/Tangible Assets	**8.79 %**	10.70 %	11.21 %
Adjusted Tangible Common Equity/Adjusted Tangible Assets	**11.30 %**	10.47 %	10.78 %
Net Interest Income	**$ 202,887**	$ 178,088	$ 163,008
Plus: Noninterest Income	**41,862**	44,720	46,843
Minus: Noninterest Expense	**(110,210)**	(104,287)	(91,205)
Pretax Pre-Provision Earnings	**$ 134,539**	$ 118,521	$ 118,646

The impact of the Paycheck Protection Program on Net Interest Margin FTE is provided below (dollars in thousands).

	Year Ended		
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Total Average Earnings Assets	**$ 6,123,163**	$ 5,906,640	$ 5,184,836
Less: Average Balance of PPP Loans	**(7,942)**	(237,951)	(376,785)
Total Adjusted Earning Assets	**6,115,221**	5,668,689	4,808,051
Total Interest Income FTE	**$ 245,194**	$ 196,806	$ 195,549
Less: PPP Loan Income	**(772)**	(14,945)	(12,832)
Total Adjusted Interest Income FTE	**244,422**	181,861	182,717
Adjusted Earning Asset Yield, net of PPP Impact	**4.00 %**	3.21 %	3.80 %
Total Average Interest Bearing Liabilities	**$ 3,913,195**	$ 3,761,520	$ 3,437,338
Less: Average Balance of PPP Loans	**(7,942)**	(237,951)	(376,785)
Total Adjusted Interest Bearing Liabilities	**3,905,253**	$ 3,523,569	$ 3,060,553
Total Interest Expense FTE	**$ 36,680**	$ 15,131	$ 30,095
Less: PPP Cost of Funds	**(20)**	(595)	(956)
Total Adjusted Interest Expense FTE	**36,660**	14,536	29,139
Adjusted Cost of Funds, net of PPP Impact	**0.60 %**	0.26 %	0.61 %
Net Interest Margin FTE, net of PPP Impact	**3.40 %**	2.95 %	3.19 %

Net Income

Net income was $103.8 million in 2022, an increase of $8.1 million, or 8.4%, versus net income of $95.7 million in 2021. The increase in net income from 2021 to 2022 was primarily due to an increase in net interest income of $24.8 million, or 13.9%. Offsetting the increase in net interest income, noninterest expense increased $5.9 million, or 5.7%, noninterest income decreased $2.9 million, or 6.4%, and the provision for credit losses increased $8.3 million, or 770.5%. Net interest income for 2022 included $772,000 in PPP interest and fee income compared to $14.9 million for 2021. The increase in provision expense for 2022 was driven primarily by the downgrade of a single commercial relationship that occurred in late December 2022. The remaining increase in provision was driven by loan growth during the year.

Net income was $95.7 million in 2021, an increase of $11.4 million, or 13.5%, versus net income of $84.3 million in 2020. The increase in net income from 2020 to 2021 was primarily due to an increase in net interest income of $15.1 million, or 9.3%, and a decrease in the provision for credit losses of $13.7 million, or 92.7%. Noninterest expense increased $13.1 million, or 14.3%, and noninterest income decreased $2.1 million, or 4.5%. Net interest income for 2021 included $14.9 million in PPP interest and fee income. The decrease in provision expense for 2021 was driven by improved economic conditions, which were supported by government stimulus programs and accommodative Federal Reserve Board's Federal Open Market Committee ("FOMC") monetary policy.

Net Interest Income

The following table presents a three-year average balance sheet and, for each major asset and liability category, its related interest income and yield or its expense and rate for the years ended December 31, 2022, 2021 and 2020.

THREE YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	2022			2021			2020		
(fully tax equivalent basis, dollars in thousands)	**Average Balance**	**Interest Income**	**Yield (1)/ Rate**	Average Balance	Interest Income	Yield (1)/ Rate	Average Balance	Interest Income	Yield (1)/ Rate
Earning Assets									
Loans:									
Taxable (1)(2)	**$ 4,391,590**	**$ 202,004**	**4.60 %**	$ 4,406,456	$ 170,081	3.86 %	$ 4,405,994	$ 176,538	4.01 %
Tax exempt (3)	**35,576**	**2,094**	**5.89**	14,638	594	4.06	18,478	813	4.40
Investments: (3)									
Securities	**1,432,287**	**38,882**	**2.71**	1,068,325	25,582	2.39	633,956	17,830	2.81
Short-term investments	**2,266**	**30**	**1.32**	2,254	2	0.09	25,046	67	0.27
Interest bearing deposits	**261,444**	**2,184**	**0.84**	414,967	547	0.13	101,362	301	0.30
Total earning assets	**$ 6,123,163**	**$ 245,194**	**4.00 %**	$ 5,906,640	$ 196,806	3.33 %	$ 5,184,836	$ 195,549	3.77 %
Less: Allowance for credit losses	**(67,717)**			(72,083)			(56,824)		
Nonearning Assets									
Cash and due from banks	**72,302**			70,035			62,242		
Premises and equipment	**58,894**			59,667			60,492		
Other nonearning assets	**240,937**			189,521			174,050		
Total assets	**$ 6,427,579**			$ 6,153,780			$ 5,424,796		
Interest Bearing Liabilities									
Savings deposits	**$ 419,997**	**$ 327**	**0.08 %**	$ 360,915	$ 278	0.08 %	$ 270,010	$ 219	0.08 %
Interest bearing checking accounts	**2,689,572**	**31,182**	**1.16**	2,392,220	6,759	0.28	1,862,077	9,268	0.50
Time deposits:									
In denominations under $100,000	**185,215**	**1,289**	**0.70**	218,624	2,038	0.93	262,040	4,361	1.66
In denominations over $100,000	**579,797**	**3,483**	**0.60**	714,353	5,752	0.81	946,569	15,494	1.64
Miscellaneous short-term borrowings	**6,559**	**272**	**4.15**	408	7	1.72	34,347	506	1.47
Long-term borrowings and subordinated debentures	**32,055**	**127**	**0.40**	75,000	297	0.40	62,295	247	0.40
Total interest bearing liabilities	**$ 3,913,195**	**$ 36,680**	**0.94 %**	$ 3,761,520	$ 15,131	0.40 %	$ 3,437,338	$ 30,095	0.88 %
Noninterest Bearing Liabilities									
Demand deposits	**1,842,777**			1,671,172			1,309,901		
Other liabilities	**75,120**			46,451			53,384		
Stockholders' Equity	**596,487**			674,637			624,173		
Total liabilities and stockholders' equity	**$ 6,427,579**			$ 6,153,780			$ 5,424,796		
Interest Margin Recap									
Interest income/average earning assets		**245,194**	**4.00 %**		196,806	3.33 %		195,549	3.77 %
Interest expense/average earning assets		**36,680**	**0.60**		15,131	0.26		30,095	0.58
Net interest income and margin		**$ 208,514**	**3.40 %**		$ 181,675	3.07 %		$ 165,454	3.19 %

(1) Loan fees are included as taxable loan interest income. Net loan fees attributable to PPP loans were $692,000, $12.5 million and $9.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.
(2) Nonaccrual loans are included in the average balance of taxable loans.

(3) 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 $5.6 million, $3.6 million and $2.4 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table shows fluctuations in net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the years ended December 31.

NET INTEREST INCOME – RATE/VOLUME ANALYSIS (fully tax equivalent basis, dollars in thousands)

	2022 Over (Under) 2021 (1)			2021 Over (Under) 2020 (1)		
	Attributable to			Attributable to		
	Volume	**Rate**	**Total Change**	Volume	Rate	Total Change
Interest Income (2)						
Loans:						
Taxable	**$ (576)**	**$ 32,499**	**$ 31,923**	$ 18	$ (6,475)	$ (6,457)
Tax exempt	**1,141**	**359**	**1,500**	(158)	(61)	(219)
Investments:						
Securities	**9,552**	**3,748**	**13,300**	10,724	(2,972)	7,752
Short-term investments	**0**	**28**	**28**	(37)	(28)	(65)
Interest bearing deposits	**(272)**	**1,909**	**1,637**	493	(247)	246
Total interest income	**9,845**	**38,543**	**48,388**	11,040	(9,783)	1,257
Interest Expense						
Savings deposits	**46**	**3**	**49**	71	(12)	59
Interest bearing checking accounts	**941**	**23,482**	**24,423**	2,186	(4,695)	(2,509)
Time deposits:						
In denominations under $100,000	**(282)**	**(467)**	**(749)**	(636)	(1,687)	(2,323)
In denominations over $100,000	**(966)**	**(1,303)**	**(2,269)**	(3,172)	(6,570)	(9,742)
Miscellaneous short-term borrowings	**242**	**23**	**265**	(571)	72	(499)
Long-term borrowings and subordinated debentures	**(170)**	**0**	**(170)**	50	0	50
Total interest expense	**(189)**	**21,738**	**21,549**	(2,072)	(12,892)	(14,964)
Net Interest Income (tax equivalent)	**$ 10,034**	**$ 16,805**	**$ 26,839**	$ 13,112	$ 3,109	$ 16,221

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 2022, 2021 and 2020. The changes in net interest income are created by changes in interest rates and changes in the volumes of loans, investments, deposits and borrowings. In the table above, changes attributable to volume are computed using the change in volume from the prior year multiplied by the previous year’s rate, and changes attributable to rate are computed using the change in rate from the prior year multiplied by the previous year’s volume. The change in interest or expense due to both rate and volume has been allocated between factors in proportion to the relationship of the absolute dollar amounts of the change in each.

(2) 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 TEFRA adjustment applicable to nondeductible interest expense.

Net interest income increased by $24.8 million to $202.9 million in 2022 compared to 2021, partially due to a $216.5 million, or 3.7%, increase in average earning assets. The increase in average assets was primarily driven by a $364.0 million increase in average investment securities offset by a decrease in interest bearing deposits. The yield on average earning assets increased 67 basis points to 4.00% in 2022 from 3.33% in 2021. The higher earning asset yields and cost of funds were driven by the 425 basis points increase to the target Federal Funds rate implemented by the Federal Reserve Board beginning in 2022 to combat elevated levels of inflation affecting the U.S. economy. The target Federal Funds rate increased from a zero-bound range of 0.00% - 0.25% in March 2022 to a range of 4.25% - 4.50% at December 31, 2022. Additionally, net interest margin during the year ended December 31, 2022 was positively impacted by the recognition of nonaccrual interest resulting from the interest recovery of two nonaccrual commercial borrowers during the fourth quarter of 2022. The interest recovery was from

two loans placed on nonaccrual status in 2009 and 2021. The $1.9 million of nonaccrual interest income was recognized into loan interest income and contributed 3 basis points to the Company's net interest margin during 2022. The net interest margin increased to 3.40% in 2022 versus 3.07% in 2021. The net interest margin decreased to 3.07% in 2021 versus 3.19% in 2020, driven by margin compression from the lower interest rate environment and excess liquidity on the Company's balance sheet.

During 2022, average loans increased $6.1 million and average investment securities increased $364.0 million. The growth in average assets and average investment securities was funded by a reduction of interest bearing deposits of $153.5 million, growth in interest bearing liabilities of $151.7 million and growth in average demand deposits of $171.6 million. The increase in average deposits for 2022 resulted from excess liquidity on our customers' balance sheets resulting from a combination of PPP and economic stimulus. As a result of this excess liquidity on the Company's balance sheet, management deployed an additional $250 million into the available-for-sale investment securities portfolio during 2022, bringing total excess liquidity deployment to the investment securities portfolio of $902 million since the beginning of 2021.

The utilization of commercial and retail lines of credit remained unchanged at 42% in 2022 and 2021 and down from 43% at December 31, 2020. However, available lines of credit have increased by a record $651 million to $4.752 billion at December 31, 2022 compared to $4.101 billion at December 31, 2021, or 16% growth. While overall line usage as a percentage of total line availability remained unchanged, management remains encouraged because of the healthy expansion in overall line availability due to strong demand for traditional working capital from our commercial and industrial client base as well as continued development activity within our commercial real estate markets.

Provision for Credit Losses

The Company recorded a provision for credit losses of $9.4 million in 2022 compared to $1.1 million in 2021 and $14.8 million in 2020. The increased provision in 2022 was driven by provision expense of $7.0 million related to the downgrade of a single $10.7 million commercial relationship. The remainder of the increase was due to growth in the overall loan portfolio. The Company's allowance for credit losses as of December 31, 2022 was $72.6 million compared to $67.8 million as of December 31, 2021 and $61.4 million as of December 31, 2020. The allowance for credit losses represented 1.54% of total loans as of December 31, 2022 versus 1.58% at December 31, 2021 and 1.32% at December 31, 2020. The company's credit loss reserve to total loans, excluding PPP loans, was 1.54% at December 31, 2022 compared to 1.59% at December 31, 2021 and 1.45% at December 31, 2020. PPP loans are guaranteed by the United States SBA and have not been allocated for within the allowance for credit losses. Net charge-offs of $4.5 million, or 0.10%, and $3.8 million, or 0.09%, of average loans, were recorded in 2022 and 2021, respectively. The charge offs for 2022 and 2021 resulted primarily from a single commercial credit each year. Management believes the charge offs were isolated instances that were negatively impacted by unique circumstances resulting from the pandemic and are not reflective of deteriorating trends in the loan portfolio. The Company's management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions including inflation and the resulting impact on the interest rate environment, and other factors that may influence the assessment of the collectability of loans.

The Company adopted CECL on January 1, 2021. Prior to this date, provision expense was recorded under the incurred loss methodology. The day one impact of the adoption was an increase in the allowance for credit losses of $9.1 million, with an offset, net of taxes, to stockholders' equity.

Noninterest Income

The following table presents changes in the components of noninterest income for the years ended December 31, 2020, 2021 and 2022.

				% Change From Prior Year	
(dollars in thousands)	**2022**	2021	2020	**2022**	2021
Wealth advisory fees	**$ 8,636**	$ 8,750	$ 7,468	**(1.3)%**	17.2 %
Investment brokerage fees	**2,318**	1,975	1,670	**17.4 %**	18.3 %
Service charges on deposit accounts	**11,595**	10,608	10,110	**9.3 %**	4.9 %
Loan and service fees	**12,214**	11,922	10,085	**2.4 %**	18.2 %
Merchant and interchange fee income	**3,560**	3,023	2,408	**17.8 %**	25.5 %
Bank owned life insurance income	**432**	2,467	2,105	**(82.5)%**	17.2 %
Interest rate swap fee income	**579**	1,035	5,089	**(44.1)%**	(79.7)%
Mortgage banking income	**633**	1,418	3,911	**(55.4)%**	(63.7)%
Net securities gains	**21**	797	433	**(97.4)%**	84.1 %
Other income	**1,874**	2,725	3,564	**(31.2)%**	(23.5)%
Total noninterest income	**$ 41,862**	$ 44,720	$ 46,843	**(6.4)%**	(4.5)%
Noninterest income to total revenue	**17.1 %**	20.1 %	22.3 %		

Noninterest income was $41.9 million in 2022 versus $44.7 million in 2021, a decrease of $2.9 million, or 6.4%. Market value declines impacted the overall decrease in noninterest income. Bank owned life insurance income for the year ended December 31, 2022 decreased by $2.0 million, primarily due to declines in the market value of variable life insurance policies that are tied to the equity markets. A reduction of market value of $950,000 was recorded during 2022 compared to market value gains of $1.1 million for 2021. The valuation changes to the variable life insurance policies are offset by similar changes to the deferred compensation expense that is recognized in salary and employee benefits. Excluding the impact of the variable life insurance policy market value changes, noninterest income was $42.8 million for the year ended December 31, 2022, compared to $43.7 million for the year-ended December 31, 2021, a decline of $840,000, or 2.1%. In addition, other income decreased $851,000, mortgage banking income decreased by $785,000, gains on securities sales decreased by $776,000 and interest rate swap fee income decreased by $456,000. Notably, fee-based noninterest income increased by a cumulative $2.0 million primarily due to volume, including improvements in service charges on deposit accounts of $987,000, or 9.3%, merchant and interchange fee income of $537,000, or 17.8%, investment brokerage fees of $343,000, or 17.4%, and loan and service fees of $292,000, or 2.4%. Wealth advisory fees declined by $114,000, or 1.3%, and were negatively impacted by market value declines of 8.0% in trust assets from $2.5 billion at December 31, 2021 to $2.3 billion at December 31, 2022.

Noninterest income was $44.7 million in 2021 compared to $46.8 million in 2020, a decrease of $2.1 million, or 4.5%. The decrease was primarily driven by a $4.1 million decrease in interest rate swap fees generated from commercial lending transactions, as well as a $2.5 million decrease in mortgage banking income. Demand for interest rate swap arrangements decreased in 2021. The carrying value of mortgage servicing rights was negatively impacted by increased prepayment speeds, resulting from the low interest rate environment. Offsetting these decreases were an increase in loan service fees of $1.8 million, an increase in wealth advisory and investment brokerage fees of $1.6 million, an increase in merchant and interchange fees of $615,000, and an increase in service charges on deposit accounts of $498,000. The increases in fee income were driven by growth in fee-based business including from the wealth advisory group, merchant services, debit card interchange and institutional services areas due to higher transaction volumes and increased economic activity.

Noninterest Expense

The following table presents changes in the components of noninterest expense for the years ended December 31, 2020, 2021 and 2022.

				% Change From Prior Year	
(dollars in thousands)	**2022**	2021	2020	**2022**	2021
Salaries and employee benefits	**$ 58,530**	$ 57,882	$ 49,413	**1.1 %**	17.1 %
Net occupancy expense	**6,287**	5,728	5,851	**9.8 %**	(2.1)%
Equipment costs	**5,763**	5,530	5,766	**4.2 %**	(4.1)%
Data processing fees and supplies	**12,826**	12,674	11,864	**1.2 %**	6.8 %
Corporate and business development	**5,198**	4,262	3,093	**22.0 %**	37.8 %
FDIC insurance and other regulatory fees	**1,999**	2,242	1,707	**(10.8)%**	31.3 %
Professional fees	**6,483**	7,064	5,314	**(8.2)%**	32.9 %
Other expense	**13,124**	8,905	8,197	**47.4 %**	8.6 %
Total noninterest expense	**$ 110,210**	$ 104,287	$ 91,205	**5.7 %**	14.3 %

Noninterest expense increased by $5.9 million, or 5.7%, for the year ended December 31, 2022, to $110.2 million compared to $104.3 million for the year ended December 31, 2021. The increase was due primarily to an increase of $4.2 million in other expense caused by accruals for ongoing legal matters of $3.5 million. See "Note 1 – Summary of Significant Accounting Policies" for additional details regarding loss contingencies. Corporate and business development expense increased $936,000, or 22.0%, driven by increased corporate development spending, advertising expense and charitable and foundation contributions, including contributions associated with the Company's sesquicentennial celebration. Salaries and benefits expense increased $648,000, or 1.1%. Offsetting these increases was a decrease in professional fees of $581,000, or 8.2%, due to a decrease in legal expense incurred during the year. FDIC insurance and other regulatory fee expense decreased by $243,000, or 10.8%, due to declining deposits and reduced total assets of the Company.

Noninterest expense increased by $13.1 million, or 14.3%, to $104.3 million for the year ended December 31, 2021 as compared to $91.2 million for 2020. Salaries and employee benefits increased by $8.5 million due primarily to increased performace-based compensation, increased salaries and increased health insurance expense. Additionally, increased legal fees and costs associated with the digital platform conversion to LCB Digital contributed to an overall increase of $1.8 million in professional fees. Corporate and business development expenses increased as the 2021 economy re-opened, and client events and contributions increased in 2021.

Income Taxes

The Company recognized income tax expense in 2022 of $21.3 million, compared to $21.7 million in 2021 and $19.5 million in 2020. The effective tax rate was 17.1% in 2022, compared to 18.5% in 2021 and 18.8% in 2020. The effective tax rate declined due to the Indiana Financial Institution Tax rate being 5.0% in 2022, 5.5% in 2021 and 6.0% in 2020 as well as an increase in tax-free interest income from municipal securities and loans during 2022 and 2021. For a detailed analysis of the Company's income taxes see "Note 12 – Income Taxes".

CERTAIN STATISTICAL DISCLOSURES BY BANK HOLDING COMPANIES

We are required to provide certain statistical disclosures as a bank holding company under the SEC's Industry Guide 3. The following table provides certain of those disclosures.

	Year ended December 31,		
	2022	2021	2020
Return on average assets	**1.62 %**	1.56 %	1.55 %
Return on equity	**17.40 %**	14.19 %	13.51 %
Average equity to average assets	**9.28 %**	10.96 %	11.51 %
Dividend payout ratio	**39.60 %**	36.36 %	36.36 %

Return on average assets is computed by dividing net income by average assets for each indicated fiscal year. Average assets is computed by adding total assets as of each date during the indicated fiscal year and dividing by the number of days in the fiscal year.

Return on average total equity is computed by dividing net income by average equity for each indicated fiscal year. Average equity is computed by adding the total equity attributable to the Company as of each date during the indicated fiscal year and dividing by the number of days in the fiscal year.

Average equity to average assets is computed by dividing average equity by average assets for each indicated fiscal year, as calculated in accordance with the previous explanation.

Dividend payout ratio is computed by dividing dividends declared per common share by earnings per diluted common share for each indicated fiscal year.

Refer to the "Financial Condition - Loan Portfolio", "Financial Condition - Sources of Funds" and "Risk Management - Loan Portfolio" sections of this MD&A and to the Notes to Consolidated Financial Statements of this Form 10-K for the other required statistical disclosures.

FINANCIAL CONDITION

Overview

Total assets of the Company were $6.432 billion as of December 31, 2022, a decrease of $125.0 million, or 1.9%, when compared to $6.557 billion as of December 31, 2021. Total loans, excluding PPP loans, increased by $447.2 million, or 10.5%, to $4.709 billion as of December 31, 2022 from $4.262 billion at December 31, 2021. Total loans outstanding increased by $422.6 million, or 9.9%, to $4.710 billion at December 31, 2022 from $4.288 billion at December 31, 2021. PPP loans outstanding were $1.5 million as of December 31, 2022, compared to $26.2 million at December 31, 2021. Total deposits decreased $274.8 million, from $5.735 billion at December 31, 2021, to $5.461 billion at December 31, 2022, as retail and commercial depositors utilized excess liquidity on their balance sheets. Deposits contracted $274.8 million in 2022 and $203.5 million of that decrease occurred during the fourth quarter.

The $553.0 million decrease in cash and cash equivalents was utilized to fund $447.2 million in net organic loan growth during 2022. Additionally, the Company deployed $250.0 million for the purchase of available-for-sale investment securities during the first quarter of 2022. In mid 2022, the Company elected to utilize principal and interest cash flows from the investment securities portfolio to supplement liquidity for funding loans. Cash flows from the investment securities portfolio provided $114.0 million of liquidity during 2022. In addition, the Company utilized short-term borrowings of $297.0 million to offset deposit outflows.

Uses of Funds

Investment Portfolio

At year end 2022, 2021 and 2020, there were no holdings of securities of any one issuer, other than the U.S. government, government agencies and government sponsored agencies, in an amount greater than 10% of stockholders’ equity. See "Note 2 – Securities" for more information on these investments.

On April 1, 2022, the Company elected to transfer $151.4 million in net book value of municipal bonds from the available-for-sale securities portfolio to held-to-maturity as an overall balance sheet management strategy. The fair value of these securities transferred was $127.0 million.

Purchases of securities available-for-sale totaled $315.3 million in 2022, $835.0 million in 2021 and $216.5 million in 2020. Growth of the investment portfolio during the past three years served to provide an earning asset alternative for excess balance sheet liquidity stemming from increased levels of core deposits as a result of the U.S. government's COVID-19 pandemic stimulus programs. The Company deployed $250 million of excess liquidity to the investment securities portfolio during 2022, $652 million in 2021 and $100 million in 2020 to preserve net interest margin prior to the Federal Reserve Board's tightening cycle, which began in March of 2022. Investment securities represented 20% of total assets on December 31, 2022 compared to 21% on December 31, 2021 and 13% on December 31, 2020. Management expects the investment securities portfolio as a percentage of assets to decrease over time and return to historical levels of approximately 14% as the proceeds from paydowns and maturities of these investment securities are used to fund future loan portfolio growth.

Securities sales totaled $25.3 million in 2022, $14.0 million in 2021 and $8.0 million in 2020. Paydowns from prepayments and scheduled payments of $98.8 million, $113.1 million and $90.4 million were received in 2022, 2021 and 2020, and the amortization of premiums, net of the accretion of discounts, was $6.3 million, $5.0 million and $4.0 million, respectively. Maturities and calls of securities totaled $9.3 million, $24.7 million and $7.6 million in 2022, 2021 and 2020, respectively. No provision for allowance for credit loss was recorded in connection with the investment securities portfolio in 2022 or 2021, and no other-than-temporary impairment was recognized in 2020. The investment portfolio is managed to provide for an appropriate balance between liquidity, credit risk and investment return and to limit the Company's exposure to risk to an acceptable level. The longer duration of the investment security portfolio serves to balance the shorter duration of the loan portfolio.

The weighted average yields and maturity distribution for the securities portfolio at December 31, 2022, were as follows:

	Within One Year		After One Within Five Years		After Five Years Within Ten years		After Ten Years	
(fully tax equivalent basis, dollars in thousands)	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield
U.S. Treasury securities	$ 1,673	2.08 %	$ 1,361	2.46 %	$ 0	0.00 %	$ 0	0.00 %
U.S. government sponsor agency	0	0.00 %	0	0.00 %	4,209	1.00 %	122,752	1.57 %
Mortgage-backed securities: residential	4,960	3.40 %	6,579	3.32 %	36,979	2.51 %	443,790	2.12 %
State and municipal securities	1,386	3.60 %	5,070	4.44 %	51,228	3.43 %	616,570	3.02 %
Total Securities	$ 8,019	3.16 %	$ 13,010	3.67 %	$ 92,416	2.96 %	$ 1,183,112	2.62 %

The Company does not trade or invest in or sponsor certain unregistered investment companies defined as hedge funds and private equity funds in the Volcker Rule.

Real Estate Mortgage Loans Held For Sale

Real estate mortgages held for sale decreased by $7.1 million to $357,000 at December 31, 2022 from $7.5 million at December 31, 2021 as a result of reduced mortgage refinancing demand caused by the rising interest rate environment. 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 almost all of the conforming mortgage loans it originates in the secondary market. Proceeds from sales totaled $36.5 million in 2022, $126.4 million in 2021 and $114.2 million in 2020.

Loan Portfolio

The loan portfolio by class as of December 31, 2022, 2021 and 2020 was as follows:

(dollars in thousands)	2022	2021	2020
Commercial and industrial loans:			
Working capital lines of credit loans	**$ 650,948**	$ 652,861	$ 626,023
Non-working capital loans	**842,101**	736,608	1,165,355
Total commercial and industrial loans	**1,493,049**	1,389,469	1,791,378
Commercial real estate and multi-family residential loans:			
Construction and land development loans	**517,664**	379,813	362,653
Owner occupied loans	**758,091**	739,371	648,019
Nonowner occupied loans	**706,107**	588,458	579,625
Multi-family loans	**197,232**	247,204	304,717
Total commercial real estate and multi-family residential loans	**2,179,094**	1,954,846	1,895,014
Agri-business and agricultural loans:			
Loans secured by farmland	**201,200**	206,331	195,410
Loans for agricultural production	**230,888**	239,494	234,234
Total agri-business and agricultural loans	**432,088**	445,825	429,644
Other commercial loans	**113,593**	73,490	94,013
Total commercial loans	**4,217,824**	3,863,630	4,210,049
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	**212,742**	176,561	167,847
Open end and junior lien loans	**175,575**	156,238	163,664
Residential construction and land development loans	**19,249**	11,921	12,007
Total consumer 1-4 family mortgage loans	**407,566**	344,720	343,518
Other consumer loans	**88,075**	82,755	103,616
Total consumer loans	**495,641**	427,475	447,134
Gross loans	**4,713,465**	4,291,105	4,657,183
Less: Allowance for credit losses	**(72,606)**	(67,773)	(61,408)
Net deferred loan fees	**(3,069)**	(3,264)	(8,027)
Loans, net	**$ 4,637,790**	$ 4,220,068	$ 4,587,748

The ratio of loans to total loans by portfolio segment as of December 31, 2022, 2021 and 2020 was as follows:

	2022	2021	2020
Commercial and industrial loans	**31.68 %**	32.38 %	38.46 %
Commercial real estate and multi-family residential loans	**46.23 %**	45.56 %	40.69 %
Agri-business and agricultural loans	**9.17 %**	10.39 %	9.23 %
Other commercial loans	**2.41 %**	1.71 %	2.02 %
Consumer 1-4 family mortgage loans	**8.64 %**	8.03 %	7.38 %
Other consumer loans	**1.87 %**	1.93 %	2.22 %
Total Loans	**100.00 %**	100.00 %	100.00 %

In 2022, net loan balances increased by $417.7 million to $4.638 billion, and excludes approximately $28.7 million in loans originated for sale. In 2021, net loan balances decreased by $367.7 million to $4.220 billion, and excluded approximately $119.4 million in loans originated for sale. In 2020, net loan balances increased by $572.6 million to $4.588 billion, and excluded approximately $117.6 million in loans originated for sale. PPP loans of $1.5 million, $26.2 million and $412.0 million were included in non-working capital loans of commercial and industrial loans at December 31, 2022, 2021 and 2020, respectively.

The mix of The Company's loan portfolio consists primarily of commercial loans and the Bank's lending focus is on the commercial sector of the Lake City Bank footprint. Owner occupied commercial real estate loans represent in many instances the buildings and factories of our commercial and industrial borrowers. Commercial and industrial loans together with owner occupied commercial real estate loans represented 47.8% and 49.6% of total loans as of December 31, 2022 and 2021, respectively. Loans to the agriculture and agri-business sector of our Indiana footprint represent a significant loan segment of the overall loan portfolio. This loan segment is well diversified with loans to corn, soybean, poultry, dairy, swine, beef and egg growers.

The residential construction and land development loans class included construction loans totaling $12.0 million and $3.3 million as of December 31, 2022 and 2021. Increases in consumer loans during 2022 resulted from an increased focus on indirect lending to consumers and the introduction of a new adjustable rate mortgage product. The Bank generally sells conforming mortgage loans, which it originates locally, into the secondary market. These loans generally represent mortgage loans that are made to clients with long-term or substantial relationships with the Bank on terms consistent with secondary market requirements. The loan classifications are based on the nature of the loans as of the loan origination date. There were no foreign loans included in the loan portfolio for the periods presented.

Repricing opportunities of the loan portfolio occur either according to predetermined float rate indices, adjustable rate schedules included in the related loan agreements or upon maturity of each principal payment. The following table indicates the scheduled maturities of the loan portfolio as of December 31, 2022:

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multi-family Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Total	Percent
Within one year	$ 619,769	$ 520,497	$ 158,548	$ 15,116	$ 11,477	$ 19,654	$ 1,345,061	28.54 %
After one year, within five years	652,489	1,025,947	161,555	51,769	74,856	31,822	1,998,438	42.40 %
Over five years	207,727	629,585	111,840	46,708	320,752	36,390	1,353,002	28.70 %
Nonaccrual loans	13,064	3,065	145	0	481	209	16,964	0.36 %
Total loans	$ 1,493,049	$ 2,179,094	$ 432,088	$ 113,593	$ 407,566	$ 88,075	$ 4,713,465	100.00 %

At maturity, credits are reviewed and, if renewed, are renewed at rates and conditions that prevail at the time of maturity.

Based upon the table above, all loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 2022 amounted to $1.729 billion and $1.622 billion, respectively.

Bank Owned Life Insurance

Bank owned life insurance increased by $10.8 million to $108.4 million at December 31, 2022 and by $2.4 million to $97.7 million at December 31, 2021 from $95.2 million at December 31, 2020. The increase during 2022 was primarily due to the purchase of additional life insurance policies on officers of the Bank. The increase during 2021 was primarily due to investment returns on the life insurance policies of pre-existing life insurance policies. Bank owned life insurance investment income is used as an offset to the cost of life insurance purchased by the Bank as a benefit for bank officers.

Sources of Funds

The average daily deposits and borrowings together with the average rates paid on those deposits and borrowings for the years ended December 31, 2022, 2021 and 2020 are summarized in the following table:

	2022		2021		2020		% Balance Change From Prior Year	
(dollars in thousands)	**Balance**	**Rate**	Balance	Rate	Balance	Rate	**2022**	2021
Noninterest bearing demand deposits	**$ 1,842,777**	**0.00 %**	$ 1,671,172	0.00 %	$ 1,309,901	0.00 %	**10.27 %**	27.58 %
Savings and transaction accounts:								
Savings deposits	**419,997**	**0.08**	360,915	0.08	270,010	0.08	**16.37**	33.67
Interest bearing demand deposits	**2,689,572**	**1.16**	2,392,220	0.28	1,862,077	0.50	**12.43**	28.47
Time deposits:								
Deposits of $100,000 or more	**579,797**	**0.60**	714,353	0.81	946,569	1.64	**(18.84)**	(24.53)
Other time deposits	**185,215**	**0.70**	218,624	0.93	262,040	1.66	**(15.28)**	(16.57)
Total deposits	**$ 5,717,358**	**0.63 %**	$ 5,357,284	0.28 %	$ 4,650,597	0.63 %	**6.72 %**	15.20 %
FHLB advances and other borrowings	**38,614**	**1.03**	75,408	0.40	96,642	0.78	**(48.79)**	(21.97)
Total funding sources	**$ 5,755,972**	**0.64 %**	$ 5,432,692	0.28 %	$ 4,747,239	0.63 %	**5.95 %**	14.44 %

Time deposits as of December 31, 2022 will mature as follows:

(dollars in thousands)	$100,000 or more	$100,000 or less	Total	% of Total
Within three months	$ 98,463	$ 32,775	$ 131,238	20.96 %
Over three months, within six months	59,341	28,947	88,288	14.10
Over six months, within twelve months	113,361	46,573	159,934	25.54
Over twelve months	184,262	62,464	246,726	39.40
Total time certificates of deposit	$ 455,427	$ 170,759	$ 626,186	100.00 %

Deposits

Total deposits decreased by $274.8 million to $5.461 billion, at December 31, 2022 compared to December 31, 2021. The decrease in deposits was attributable to a decrease in core deposits. Total deposit contraction was led by a decrease of $243.7 million, or 11.2%, in retail deposits. In addition, commercial deposits decreased $176.3 million, or 7.8%, while public funds deposits increased by $145.2 million, or 11.3%. The decrease in deposits during 2022 reflects the normalization of excess liquidity in our customer's deposit accounts and occurred primarily during the fourth quarter of 2022. Rising inflation is considered a contributor to the decline in deposits during 2022 after the surge in deposits experienced during 2020 and 2021 from PPP funding and COVID-related stimulus programs.

Total deposits increased by $698.6 million to $5.735 billion, at December 31, 2021 compared to December 31, 2020. The growth in deposits consisted of $703.6 million in core deposit growth offset by a decrease of $5.0 million in brokered deposits. Total deposit growth was led by an increase of $321.9 million, or 16.6%, in commercial deposits. In addition, retail deposits increased by $259.5 million, or 13.5%, while public funds deposits increased by $122.2 million, or 10.5%. PPP loan proceeds to borrowers and government stimulus to consumers impacted the increase in deposits during 2021 as loan proceeds and other stimulus payments were deposited into customer checking and savings accounts at the Bank. Proceeds from the sale of customer businesses also contributed to the increase in deposits during 2021.

As previously noted, 26% of the Company's deposit base is attributable to public fund entities which primarily represent customers in the Company's geographic footprint. A majority of public fund balances represent customers with operating accounts at the Bank. A shift in funding away from public fund deposits could require the Company to execute alternative funding plans under the Contingency Funding Plan discussed in further detail under "Liquidity Risk". The following table presents total deposits by portfolio segment as of December 31, 2022, 2021 and 2020:

(dollars in thousands)	2022		2021		2020	
Commercial	**$ 2,085,934**	**38.2 %**	$ 2,262,229	39.4 %	$ 1,940,306	38.5 %
Retail	**1,934,787**	**35.4**	2,178,534	38.0	1,919,040	38.1
Public funds	**1,429,872**	**26.1**	1,284,641	22.3	1,162,457	23.0
Core deposits	**$ 5,450,593**	**99.7 %**	$ 5,725,404	99.7 %	$ 5,021,803	99.6 %
Brokered deposits	**10,027**	**0.3**	10,003	0.3	15,002	0.4
Total deposits	**$ 5,460,620**	**100.0 %**	$ 5,735,407	100.0 %	$ 5,036,805	100.0 %

FHLB Advances and Other Borrowings

During 2022, average total short-term borrowings increased by $6.2 million to $6.6 million, as the Company's excess liquidity position normalized after experiencing a reduction in cash and short-term investments. Ending balances of short-term and miscellaneous borrowings increased to $297.0 million at December 31, 2022, from $0 at December 31, 2021. Average total long-term borrowings decreased by $42.9 million to $32.1 million, due to the repayment of a $75.0 million long-term, putable FHLB advance. The FHLB excercised its putable option during the second quarter of 2022.

During 2021, average total short-term borrowings decreased by $33.9 million to $408,000, primarily due to lower short-term FHLB borrowings and lower usage of the Company's holding company line of credit. Ending balances of short-term and miscellaneous borrowings decreased by $10.5 million during 2021 to $0. The decrease was due to the payoff of the Company's holding company line of credit which was used in connection with its share repurchase activity during 2020. The holding company's line repayment was funded by a dividend from the Bank.

Capital

The Company believes that a strong, appropriately managed capital position is critical to support continued growth of loans and earnings. Capital is used primarily to fund continued organic loan growth and to support dividends to shareholders. The Company had a total risk-based capital ratio of 15.07%, a Tier I risk-based capital ratio of 13.82% and a common Tier 1 risk-based capital ratio of 13.82% as of December 31, 2022. These ratios met or exceeded the Federal Reserve Bank's "well-capitalized" minimums of 10.0%, 8.0% and 6.5%, respectively. The Company also had a Tier 1 leverage ratio of 11.50% and a tangible equity ratio of 8.79%. When excluding the impact of accumulated other comprehensive income (loss) on tangible common equity, the Company's adjusted tangible common equity to adjusted tangible assets was 11.30%. See "Note 15 – Capital Requirements and Restrictions on Retained Earnings" for more information.

The ability to maintain these ratios is a function of the balance between net income and a prudent dividend policy. Total stockholders' equity decreased by 19.3% to $568.9 million as of December 31, 2022 from $704.9 million as of December 31, 2021. The Company earned $103.8 million in 2022 and $95.7 million in 2021. The Company declared cash dividends of $1.60 per share in 2022, which decreased equity by $40.9 million. The Company declared cash dividends of $1.36 per share in 2021, which decreased equity by $34.7 million. Total stockholder's equity has been impacted by declines in the market value of the Company's available-for-sale investment securities portfolio. The market value decline, resulting from rising interest rates during 2022, has generated unrealized losses in the available-for-sale portfolio. Unrealized losses from the available-for-sale investment securities portfolio are recorded, net of tax, in accumulated other comprehensive income (loss) in the statement of stockholders' equity. Changes in the fair value of available-for-sale securities and the defined benefit pension plan negatively impacted equity by $205.0 million in 2022 compared to a decrease of $11.7 million in 2021. The impact to equity due to other comprehensive income (loss) is not included in regulatory capital.

RISK MANAGEMENT

Overview

The Company, with the oversight of the Corporate Risk Committee of the board of directors, has developed a company-wide risk management program intended to help identify, manage and mitigate the various business risks it faces. Following is a discussion addressing the risks identified as most significant to the Company – Credit, Liquidity, Interest Rate and Market Risk. Item 7A. includes additional discussion about market risk.

Credit Risk

Credit risk represents the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms. Our primary credit risks result from lending and to a lesser extent, investment activities.

Investment Portfolio

The Company's investment portfolio consists of U.S. treasuries, government agencies and municipal bonds subject to an investment security policy that is approved annually by the board of directors. During 2022, purchases in the securities portfolio consisted of primarily municipal bonds, agency securities and mortgage-backed securities. As of December 31, 2022, the Company's investment in U.S government sponsored mortgage-backed securities represented approximately 38% of total investment securities fair value consisting of Collateralized Mortgage Obligations, Commercial Mortgage-Backed Securities and mortgage pools issued by Ginnie Mae, Fannie Mae and Freddie Mac. Ginnie Mae, Fannie Mae and Freddie Mac securities are each guaranteed by their respective agencies as to principal and interest. All mortgage securities purchased by the Company in 2022 were within risk tolerances for price, prepayment, extension and original life risk characteristics contained in the Company's investment policy. As of December 31, 2022, all mortgage-backed securities were performing in a manner consistent with management's expectations at time of purchase. Municipal securities represent 52% of total investment securities fair value as of December 31, 2022 and were rated investment grade at the time of purchase and continue to be rated investment grade. The Company uses analytics provided by its third party portfolio advisor to evaluate and monitor credit risk for all investments on a quarterly basis. Based upon these analytics as of December 31, 2022, the securities in the combined available-for-sale and held-to-maturity portfolios had an effective duration of approximately 6.5 years. The analysis indicated a negative 17.98% change in market value in the event of a 300 basis point upward, instantaneous rate shock and an approximate positive 6.54% change in market value in the event of a 100 basis point downward, instantaneous rate shock.

Loan Portfolio

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 and by obtaining personal loan guarantees.

There were no loan concentrations within industries, which exceeded ten percent of total loans, except commercial real estate. Commercial real estate was $2.179 billion, or 46.2%, of total loans at December 31, 2022. The owner occupied commercial real estate portfolio generally represents the financing of factories and operational facilities for the Bank's commercial and industrial borrowers. The Company's in-house lending limit is $40.0 million. Manufacturing loans are included in the commercial and industrial loans total and are well diversified by industry. Agri-business and agricultural loans represent 9.2% of total loans as of December 31, 2022 and are not concentrated to any agricultural sector. Nearly all of the Bank's commercial, industrial, agricultural real estate mortgage, real estate construction mortgage and consumer loans are made within its geographic market areas and to diverse industries.

The following is a summary of nonperforming loans as of December 31, 2022 and 2021.

(dollars in thousands)	2022	2021
Amount of loans outstanding, net of deferred fees, December 31,	**$ 4,710,396**	$ 4,287,841
Commercial and industrial loans		
Past due accruing loans (90 days or more)	**1**	0
Nonaccrual loans(1)	**13,064**	10,562
Subtotal nonperforming loans	**13,065**	10,562
Commercial real estate and multi-family residential loans		
Past due accruing loans (90 days or more)	**0**	0
Nonaccrual loans(1)	**3,065**	3,634
Subtotal nonperforming loans	**3,065**	3,634
Agri-business and agricultural loans		
Past due accruing loans (90 days or more)	**0**	0
Nonaccrual loans(1)	**145**	335
Subtotal nonperforming loans	**145**	335
Other commercial loans		
Past due accruing loans (90 days or more)	**0**	0
Nonaccrual loans(1)	**0**	0
Subtotal nonperforming loans	**0**	**0**
Consumer 1-4 family mortgage loans		
Past due accruing loans (90 days or more)	**122**	117
Nonaccrual loans(1)	**481**	153
Subtotal nonperforming loans	**603**	270
Other consumer loans		
Past due accruing loans (90 days or more)	**0**	0
Nonaccrual loans(1)	**209**	289
Subtotal nonperforming loans	**209**	289
Total nonperforming loans	**$ 17,087**	$ 15,090
Ratio:		
Nonperforming loans to total loans	**0.36 %**	0.35 %

(1) Includes nonaccrual troubled debt restructured loans at December 31, 2021.

Nonperforming assets of the Company include nonperforming loans (as indicated above), nonaccrual investments and other real estate owned and repossessions, the total of which amounted to $17.2 million and $15.3 million at December 31, 2022 and 2021, respectively. Nonperforming loans increased by $2.0 million during 2022, due primarily to one commercial relationship, partially offset by paydowns and upgrades.

During the fourth quarter 2022, the Company downgraded a single $10.7 million commercial relationship that the Bank became aware of in early 2023. As a result of the deterioration of this credit, $3.7 million of the balance was charged off with the remaining $7.0 million placed on nonaccrual status. The relationship was downgraded due to the severe impact on the business caused by the improving conditions related to the COVID-19 pandemic. The borrower is a manufacturer of name brand home and commercial cleaning and disinfecting products that are sold through third party firms to regional and national grocery and retail chains. Demand for these products substantially declined during 2022 as the pandemic subsided. As a result, the borrower's largest customer encountered financial challenges, precipitated by the dramatic decline in demand for these products, and ceased operations. The credit is supported by an unlimited personal guarantee of the business owner and the Bank

is actively working with the borrower to structure a long-term repayment plan. Offsetting the increase to nonperforming assets caused by the placement of this credit on nonaccrual status were payoffs to other nonaccrual notes during 2022.

Loans for which the borrower appears to be unable or unwilling to repay its debt in full or on time, and the collateral is insufficient to cover all principal and accrued interest, will be reclassified as nonperforming to the extent they are unsecured, on or before the date when the loan becomes 90 days delinquent, with the exception of small dollar other consumer loans which are not placed on nonaccrual status since these loans are charged-off when they have been delinquent from 90 to 180 days, and when the related collateral, if any, is not sufficient to offset the indebtedness. When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued, all unpaid accrued interest is reversed and interest income is subsequently recorded only to the extent cash payments are received. Accrual status is resumed when all contractually due payments are brought current and future payments are reasonably assured.

A loan is individually analyzed when full payment under the original loan terms is not expected. Reserves are evaluated in total for smaller-balance loans of similar nature not in nonaccrual status such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans including material modifications made to borrowers experiencing financial difficulty. If a loan is individually analyzed, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flow or at the fair value of collateral if repayment is expected solely from the collateral.

Total nonperforming loans were $17.1 million, or 0.36% of total loans, at December 31, 2022 versus $15.1 million, or 0.35% of total loans, at December 31, 2021. There were 39 loans totaling $31.3 million classified as individually analyzed as of December 31, 2022 versus 34 loans totaling $25.6 million at the end of 2021. The increase in individually analyzed loans during 2022 resulted primarily from the downgrade of the previously described $10.7 million commercial loan relationship placed on nonaccrual status. The credit is supported by an unlimited personal guarantee of the business owner and the Bank is actively working with the borrower to structure a long-term repayment plan. Paydowns and upgrades of other individually analyzed loans offset the increase to individually analyzed loans for the year ended December 31, 2022.

Loans renegotiated as modifications to borrowers experiencing financial difficulty are those loans for which either the contractual interest rate has been reduced below market rates and/or other concessions to market terms are granted to the borrower because of a deterioration in the financial condition of the borrower which results in the inability of the borrower to meet the terms of the loan. No loans received a material modification as a result of borrower financial difficulty during the year ended December 31, 2022.

Prior to January 1, 2022, loans renegotiated as troubled debt restructurings are those for which either the contractual interest rate has been reduced below market rates and/or other concessions to market terms are granted to the borrower because of a deterioration in the financial condition of the borrower which results in the inability of the borrower to meet the terms of the loan.

As of December 31, 2021, there were 27 loans totaling $11.3 million renegotiated as troubled debt restructurings of which $217,000 were modified in 2021. Of these loans, $6.2 million were included in nonaccrual loans in the previous table and the remaining $5.1 million were performing under their modified terms. The Company has no commitments to lend additional funds to any of the borrowers.

The following is a summary of the credit loss experience for the years ended December 31, 2022, 2021 and 2020.

(dollars in thousands)	2022	2021	2020
Amount of loans outstanding, net of deferred fees, December 31,	**$ 4,710,396**	$ 4,287,841	$ 4,649,156
Average daily loans outstanding during the year ended December 31,	**$ 4,427,166**	$ 4,421,094	$ 4,424,472
Allowance for credit losses, January 1,	**$ 67,773**	$ 61,408	$ 50,652
Impact of adopting ASC 326	**0**	9,050	0
Loans charged-off:			
Commercial and industrial loans	**4,022**	5,575	4,524
Commercial real estate and multi-family residential loans	**597**	70	72
Agri-business and agricultural loans	**0**	0	0
Other commercial loans	**0**	0	0
Consumer 1-4 family mortgage loans	**42**	51	141
Other consumer loans	**473**	287	516
Total loans charged-off	**5,134**	5,983	5,253
Recoveries of loans previously charged-off:			
Commercial and industrial loans	**71**	1,559	428
Commercial real estate and multi-family residential loans	**277**	14	315
Agri-business and agricultural loans	**0**	320	0
Other commercial loans	**0**	0	0
Consumer 1-4 family mortgage loans	**52**	122	333
Other consumer loans	**192**	206	163
Total recoveries	**592**	2,221	1,239
Net loans charged-off (recovered)	**4,542**	3,762	4,014
Provision for credit loss charged to expense	**9,375**	1,077	14,770
Balance, December 31,	**$ 72,606**	$ 67,773	$ 61,408
Ratios:			
Net charge-offs to average daily loans outstanding:			
Commercial and industrial loans	**0.09 %**	0.09 %	0.09 %
Commercial real estate and multi-family residential loans	**0.01**	0.00	0.00
Agri-business and agricultural loans	**0.00**	0.00	0.00
Other commercial loans	**0.00**	0.00	0.00
Consumer 1-4 family mortgage loans	**0.00**	0.00	0.00
Other consumer loans	**0.00**	0.00	0.00
Total ratio of net charge-offs (recoveries)	**0.10 %**	0.09 %	0.09 %
Allowance for credit losses on loans to:			
Total loans	**1.54 %**	1.58 %	1.32 %
Total loans (excluding PPP loans)	**1.54 %**	1.59 %	1.45 %
Ratio of allowance for credit losses to nonperforming loans	**424.91 %**	449.13 %	507.42 %

The following is a summary of the allocation for credit losses as of December 31, 2022 and 2021.

(dollars in thousands)	2022	2021
Allocated allowance for credit losses:		
Commercial and industrial loans	**$ 35,290**	$ 30,595
Commercial real estate and multi-family residential loans	**27,394**	26,535
Agri-business and agricultural loans	**4,429**	5,034
Other commercial loans	**917**	1,146
Consumer 1-4 family mortgage loans	**3,001**	2,866
Other consumer loans	**1,021**	1,147
Total allocated allowance for credit losses	**72,052**	67,323
Unallocated allowance for credit losses	**554**	450
Total allowance for credit losses	**$ 72,606**	$ 67,773

At December 31, 2022, the allowance for credit losses was 1.54% of total loans outstanding, versus 1.58% of total loans outstanding at December 31, 2021. The allowance for credit losses was 1.54% of total loans outstanding, excluding PPP loans of $1.5 million, as of December 31, 2022 versus 1.59% of total loans outstanding, excluding PPP loans of $26.2 million, as of December 31, 2021. This reflects a more comparable ratio to prior periods, as PPP loans are fully guaranteed by the SBA and have not been allocated for within the allowance for credit losses calculation. Management believes the allowance for credit losses is at a level commensurate with the overall risk exposure of the loan portfolio. The process of identifying expected credit losses is a subjective process. Therefore, the Company maintains a general allowance to cover expected credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the credit loss reserve includes the considerations below.

Loans are charged against the allowance for credit losses when management believes that the principal is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate for expected credit losses relating to specifically identified loans based on an evaluation of the loans by management, as well as other expected credit 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 and forecasted 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 qualitative and environmental allowance is determined after considering the following factors: changes in the nature and volume of the loan portfolio, overall portfolio quality, changes in collateral strength 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. 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 is defined as loans that do not currently expose an insured institution to a sufficient degree of risk to warrant classification as Substandard, Doubtful or Loss but do possess credit deficiencies or potential weaknesses deserving management’s close attention. The Company’s policy is to establish a specific allowance for credit losses for any assets where management has identified conditions or circumstances that indicate an asset is nonperforming. If an asset or portion thereof is classified as loss, the Company’s policy is to either establish specific allocations for credit losses in the amount of 100% of the portion of the asset classified loss or charge-off such amount.

At December 31, 2022, on the basis of management’s review of the loan portfolio, the Company had 58 credits totaling $161.0 million on the classified loan list versus 81 credits totaling $234.5 million on December 31, 2021. These amounts represent outstanding balances, excluding deferred fees and costs. The decrease in classified loans during 2022 reflects the continued strengthening of the Company’s asset quality to historically strong levels and is reflective of the resilience of the Company's borrowers despite recent economic challenges presented by disruptions to the supply chain, the availability of labor, and elevated levels of inflation. As of December 31, 2022, the Company had $115.7 million of assets classified as Special Mention, $45.3 million classified as Substandard, $0 classified as Doubtful and $0 classified as Loss as compared to $176.6 million, $57.9 million, $0 and $0, respectively, at December 31, 2021. The balances reported in "Note 4 – Allowance for Credit Losses and Credit Quality" include deferred fees and costs.

There were no material modifications to borrowers experiencing financial difficulty performed during 2022 included in the classified loan amounts for December 31, 2022. Included in the classified loan amounts for December 31, 2021 were the following troubled debt restructured loans: 13 mortgage loans totaling $1.2 million with total allocations of $209,000, and 7 commercial loans totaling $3.9 million with total allocations of $1.6 million.

In accordance with Section 4013 of the CARES Act, loan deferrals granted to customers that resulted from the impact of COVID-19 and who were not past due at the time of deferral were not considered trouble debt restructurings as of December 31, 2021. This provision expired January 1, 2022 under the Consolidated Appropriations Act, 2021. At the time of the expiration of the provision, one retail borrower in the amount of $11,000 had a COVID-19 related deferral and was not considered to be a troubled debt restructuring.

Allowance estimates are developed by management taking into account actual loss experience, subject to a floor, adjusted for current economic conditions and a reasonably supportable forecast period. 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 based upon loan segment. In accordance with accounting guidance, the allowance is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. For a more thorough discussion of the allowance for credit losses methodology see the "Critical Accounting Policies" section of this Item 2.

The allowance for credit losses increased 7.1%, or $4.8 million, from $67.8 million at December 31, 2021 to $72.6 million at December 31, 2022 due primarily to provision expense of $7.0 million recorded in the fourth quarter related to the previously described commercial loan placed on nonaccrual status. Pooled loan allocations decreased $492,000 from $58.7 million at December 31, 2021 to $58.2 million at December 31, 2022. The unallocated component of the allowance for credit losses was $554,000 at December 31, 2022, which increased from $450,000 reported at December 31, 2021. The unallocated component of the allowance for credit losses incorporates the Company’s judgmental determination of expected losses that may not be fully reflected in other allocations.

The Company has experienced growth in total loans, excluding PPP loans, over the last several years with organic growth exclusive of PPP loans of $447.2 million, or 10.5%, from December 31, 2021 to December 31, 2022. The concentration of this loan growth was in the commercial loan portfolio, which can result in overall asset quality being influenced by a small number of credits. Management has historically considered growth and portfolio composition when determining credit loss allocations. Management believes that it is prudent to continue to provide for credit losses in a manner consistent with its historical approach due to the loan growth described above and current economic conditions.

Watch list loans were $73.5 million lower at $161.0 million as of December 31, 2022, compared to $234.5 million at December 31, 2021. Watch list loans represent 3.42% of total loans at December 31, 2022 compared to 5.47% at December 31, 2021. Watch list loans excluding PPP loans reached a historic low of 3.42% of total loans at December 31, 2022 compared to 5.50% at December 31, 2021. This reflects a more comparable ratio to prior periods, as PPP loans are fully guaranteed by the SBA and have not been allocated for within the allowance for credit losses calculation. The reduction in watch list loans resulted primarily from upgrades of $19.3 million and payoffs of $43.2 million. 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 portion in loan work-out situations.

Liquidity Risk

Liquidity risk arises from the possibility that the Company may not be able to satisfy current or future financial commitments or may become unduly reliant on alternative funding sources. Liquidity is monitored and closely managed by the ALCO Committee.

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. The liquidity structure is expressly detailed in the Company’s Contingency Funding Plan, which is discussed below. The Company relies on a number of different sources in order to meet these potential liquidity demands. The primary sources are increases in deposit accounts and cash flows from loan payments and the securities portfolio. The cash flow from the securities portfolio is expected to provide approximately $115.6 million of potential contingent funding in 2023.

During 2022, the Company's liquidity levels normalized as commercial and retail depositors utilized liquidity that had built up in their accounts during 2020 and 2021. Management expects future liquidity needs to be met by a combination of proceeds from paydowns, calls and maturities from the investment securities portfolio, deposit growth and borrowings.

The Company has approval of $3.292 billion in secondary funding sources available as of December 31, 2022, of which $307.0 million was utilized. The Company had $350.0 million of availability in federal funds lines with eleven correspondent banks, of which $22.0 million was drawn on as of December 31, 2022. The Company has board of directors approval to borrow up to $800.0 million at the FHLB, but given the Company's current collateral structure and outstanding borrowings as of December 31, 2022, the Company could have only borrowed up to $66.5 million under this authority. The Company has additional collateral that could be pledged to the FHLB of $486.2 million as of December 31, 2022 to generate additional liquidity. Further, the Company had available capacity at the Federal Reserve Bank of Chicago of up to $758.3 million given its current collateral structure at the Federal Reserve Bank discount window program and the terms of that facility at December 31, 2022, with no balances outstanding at December 31, 2022. The Company also has established relationships in the brokered time deposit and brokered money market sectors, as well as the IntraFi Network CD Option One-Way Buy program, to access these funds when desired with settlement of funds in one to two weeks' time. Additionally, the Bank has entered agreements with IntraFi Network relative to their Insured Cash Sweep One-Way Buy program. As of December 31, 2022, the total amount available to the Bank via this program was $100.0 million, of which $10.0 million was drawn. The Bank is also a member of the American Financial Exchange (AFX) where overnight fed funds purchased can be obtained from other banks on the exchange that have approved the Bank for an unsecured, overnight line. These funds are only available if the approving banks have an 'offer' out to sell that day. As of December 31, 2022, the total amount approved for the Bank via AFX banks was $319.0 million and none was outstanding at year end.

The Company had 91% of its securities in the available-for-sale portfolio at December 31, 2022, allowing the Company extensive flexibility to sell securities to meet funding demands. The remaining portion of investments securities were designated as held-to-maturity. Management believes the majority of the securities in investment portfolio are of high quality and marketable. Approximately 48% of this portfolio is comprised of U.S. government agency securities or mortgage-backed securities directly or indirectly backed by the U.S. government. At December 31, 2022, 93% of municipal securities owned by the Company were AAA or AA rated with a diversified geography of state issuer. In addition, the Company has historically sold the majority of its originated mortgage loans on the secondary market to reduce interest rate risk and to create an additional source of funding.

The Company has a formalized Contingency Funding Plan ("CFP"). The Board and management recognize the importance of liquidity during times of normal operations and in times of stress. The CFP was developed to ensure that the multiple liquidity sources available to the Company are readily available. The CFP specifically considers liquidity at the Bank and the Company level. The CFP identifies the potential funding sources at the Bank level, which includes the FHLB, the Federal Reserve Bank, brokered deposits, one-way buy products via the IntraFi Network (CD Option and ICS) and Federal Funds. The CFP also addresses the Bank's ability to liquidate its securities portfolio. The CFP funding sources at the holding company level include a holding company committed line of credit, as well as the ability to transfer securities from the investment subsidiary of the Bank to the Company. The Company's committed line of credit has availability up to $30.0 million, of which $0 was drawn upon as of December 31, 2022.

Further, the CFP identifies CFP team members and expressly details their respective roles. Potential risk scenarios are identified and the plan includes multiple scenarios, including short-term and long-term funding crisis situations. Under the long-term funding crisis, two additional scenarios are identified: a moderate risk scenario and a highly stressed scenario. The CFP details the responsibilities and the actions to be taken by the CFP team under each scenario. Quarterly reports to management and the Board under the CFP include an early warning indicator matrix and pro forma cash flows for the various scenarios.

The following table discloses information on the maturity of the Company's contractual long-term obligations as of December 31, 2022.

	Payments Due by Period				
(dollars in thousands)	Total	One year or less	1-3 years	3-5 years	After 5 years
Operating leases	$ 5,896	$ 727	$ 1,500	$ 1,484	$ 2,185
Pension and SERP plans	2,263	328	579	550	806
Total contractual long-term cash obligations	$ 8,159	$ 1,055	$ 2,079	$ 2,034	$ 2,991

During the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. The Company follows the same credit policy (including requiring collateral, if deemed appropriate) to make such commitments as it follows for those loans that are recorded in its financial statements.

The Company's exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments. Off-balance sheet transactions are more fully discussed in "Note 17 – Commitments, Off-Balance Sheet Risks and Contingencies".

The following table discloses information on the maturity of the Company's commitments.

	Amount of Commitment Expiration Per Period		
(dollars in thousands)	Total Amount Committed	One year or less	Over one year
Unused loan commitments	$ 2,654,071	$ 1,400,103	$ 1,253,968
Standby letters of credit	48,406	45,415	2,991
Total commitments and letters of credit	$ 2,702,477	$ 1,445,518	$ 1,256,959

Interest Rate Risk

Interest rate risk is the risk that the estimated fair value of the Company's assets, liabilities and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that net income will be significantly reduced by interest rate changes.

Interest rate risk represents the Company's primary market risk exposure. The Company does not have material exposure to foreign currency exchange risk and does not maintain a trading portfolio. The Corporate Risk Committee of the Board annually reviews and approves the ALCO policy and the Derivatives and Hedging policy used to manage interest rate risk. These policies set 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 it does not necessarily indicate the effect on future net interest income. Given the Company's mix of interest bearing liabilities and interest bearing assets on December 31, 2022 and using changes in the interest rate environment over a one-year period, the net interest margin could be expected to decline in a falling interest rate environment and increase in a rising interest rate environment. Earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board.

During 2022 the FOMC increased the target federal funds rate a total of 425 basis points through seven rate moves. Commencing in March 2022, rate increases were implemented at every remaining FOMC meeting for the year. The combined effect of these actions increased the target federal funds rate to a range of 4.25% to 4.50%. The FOMC statement released for the meeting in December 2022 repeated their commitment to lowering inflation to 2% and to further tightening, while also noting modest economic growth, strong employment growth and an unemployment rate that remains low. The FOMC anticipates that ongoing increases to the target range will be appropriate to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. The updated economic projections released at the December meeting project the median federal funds rate rising to 5.1% in 2023 before easing to 4.1% in 2024. Additionally, the longer run median forecast for the federal funds rate was left unchanged at 2.50%. The combined result of the increase in the yield on earning assets offset by an increase in the cost of funding earning assets led to increase net interest margin from 3.07% for 2021 to 3.40% for 2022 given the Company's asset sensitive balance sheet. The Company's yield on earning assets increased 67 basis points during 2022 as assets repriced at higher rates primarily due to the FOMC rate increases noted above and a significantly higher yield curve as when compared to 2021. The commercial loan portfolio represents 89% of the total loan portfolio. Approximately 67% of the commercial loan portfolio are variable rate loans which are primarily indexed to Prime, 1 Month Term SOFR, 1 Month LIBOR and FHLB indices. The rate paid on deposit accounts and purchased funds increased 36 basis points for 2022 mainly due to increased rates paid on public fund transactional accounts as these accounts are typically more sensitive to interest rates. The realized increase in the rate paid on deposit accounts and purchased funds was lessened by an increase in the average balance of non-interest bearing demand deposit accounts for 2022 verses 2021, primarily in commercial deposit accounts.

Future changes in the net interest margin will be dependent upon multiple factors including further actions by the FOMC during 2023 in response to inflation, economic conditions and geopolitical concerns, the results of any of the administration's changes to economic policy and laws, competitive pressures in the various markets served, and changes in the structure of the balance sheet as a result of changes in customer demands for products and services. In general, we expect loans to reprice quicker than deposits in a rising and falling rate environment as quantified in the sensitivity to market rates table in Item 7A.

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index ("CPI") coincides with changes in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding effect on interest rates or upon the cost of those goods and services normally purchased by the Company. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the reverse situation may occur.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Company's primary market risk exposure is interest rate risk. The Company does not have a material exposure to foreign currency exchange rate risk and does not maintain a trading portfolio.

The following table provides information regarding the Company's financial instruments that are sensitive to changes in interest rates. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities, as well as the Company's assumptions relative to the impact of interest-rate fluctuations on the prepayment of certain commercial, residential and home equity loans and mortgage-backed securities. Core deposits such as noninterest bearing deposits, interest bearing checking, savings and money market deposits that have no contractual maturity, are shown based on management's judgment and historical experience that indicates some portion of the balances are retained over time. Weighted-average variable rates are based upon rates existing at the reporting date.

(dollars in thousands)	2022 Principal/Notional Amount Maturing in: Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/2022
Rate sensitive assets:								
Fixed interest rate loans	$ 611,713	$ 378,532	$ 254,896	$ 145,491	$ 83,612	$ 122,762	$ 1,597,006	$ 1,541,036
Average interest rate	4.19 %	4.28 %	4.36 %	4.34 %	4.63 %	4.65 %		
Variable interest rate loans	$ 1,498,699	$ 489,011	$ 288,555	$ 221,376	$ 160,702	$ 455,047	$ 3,113,390	$ 2,999,754
Average interest rate	7.05 %	6.79 %	6.37 %	6.39 %	6.57 %	6.82 %		
Total loans	$ 2,110,412	$ 867,543	$ 543,451	$ 366,867	$ 244,314	$ 577,809	$ 4,710,396	$ 4,540,790
Average interest rate	6.22 %	5.70 %	5.43 %	5.58 %	5.91 %	6.36 %		
Fixed interest rate securities	$ 111,438	$ 71,094	$ 62,859	$ 62,190	$ 57,016	$ 1,164,428	$ 1,529,025	$ 1,296,557
Average interest rate	2.33 %	2.08 %	1.99 %	2.04 %	2.05 %	2.53 %		
Other interest-bearing assets	$ 49,290	$ 0	$ 0	$ 0	$ 0	$ 0	$ 49,290	$ 49,290
Average interest rate	3.73 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %		
Total earning assets	$ 2,271,140	$ 938,637	$ 606,310	$ 429,057	$ 301,330	$ 1,742,237	$ 6,288,711	$ 5,886,637
Average interest rate	5.97 %	5.42 %	5.07 %	5.06 %	5.18 %	3.79 %		
Rate sensitive liabilities:								
Noninterest bearing checking	$ 314,375	$ 155,094	$ 138,092	$ 123,173	$ 109,641	$ 896,386	$ 1,736,761	$ 1,736,761
Average interest rate	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %		
Savings & interest bearing checking	$ 552,144	$ 193,903	$ 174,028	$ 156,700	$ 141,564	$ 1,879,335	$ 3,097,674	$ 3,097,674
Average interest rate	2.50 %	1.90 %	1.96 %	2.02 %	2.08 %	2.73 %		
Time deposits	$ 379,459	$ 206,081	$ 15,132	$ 12,583	$ 12,546	$ 384	$ 626,185	$ 621,206
Average interest rate	0.76 %	2.11 %	1.60 %	1.00 %	2.11 %	0.99 %		
Total deposits	$ 1,245,978	$ 555,078	$ 327,252	$ 292,456	$ 263,751	$ 2,776,105	$ 5,460,620	$ 5,455,641
Average interest rate	1.34 %	1.45 %	1.12 %	1.13 %	1.22 %	1.85 %		
Fixed interest rate borrowings	$ 297,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 297,000	$ 275,000
Average interest rate	4.24 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %		
Total funds	$ 1,542,978	$ 555,078	$ 327,252	$ 292,456	$ 263,751	$ 2,776,105	$ 5,757,620	$ 5,752,641
Average interest rate	1.90 %	1.45 %	1.12 %	1.13 %	1.22 %	1.85 %		
Interest rate sensitivity gap by period	$ 728,162	$ 383,559	$ 279,058	$ 136,601	$ 37,579	$ (1,033,868)		
Cumulative rate sensitivity gap	$ 728,162	$ 1,111,721	$ 1,390,779	$ 1,527,380	$ 1,564,959	$ 531,091		
Cumulative rate sensitivity ratio								
at December 31, 2022	147.2 %	169.1 %	185.3 %	146.7 %	114.2 %	62.8 %		
at December 31, 2021	178.8 %	167.5 %	140.5 %	110.9 %	123.2 %	47.2 %		

The Company utilizes computer modeling software to stress test the balance sheet under a wide variety of interest rate scenarios. The model quantifies the income impact of changes in customer preference for products, basis risk between the assets and the liabilities that support them and the risk inherent in different yield curves as well as other factors. The ALCO committee reviews these possible outcomes and makes loan, investment and deposit decisions that maintain reasonable balance sheet structure in light of potential interest rate movements. It is the objective of the Company to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Company's asset/liability function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools: GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling, which are constructed, presented and monitored quarterly. Management believes that the Company's liquidity and interest sensitivity position at December 31, 2022, remained adequate to meet the Company's primary goal of achieving optimum interest margins while avoiding undue interest rate risk. The Company places a greater level of credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by the Company's management to have two major shortfalls. The GAP/Interest Rate Sensitivity Report fails to precisely gauge how often an interest rate sensitive product reprices, nor is it able to measure the magnitude of potential future rate movements. Although management does not consider GAP ratios in planning, the information can be used in a general fashion to look at asset and liability mismatches. The Company's cumulative repricing GAP ratio as of December 31, 2022 for the next 12 months using a scenario in which interest rates remained unchanged was a negative 6.49% of earning assets.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. The Company’s asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a twelve-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented below. The interest rate scenarios are used for analytical purposes and do not necessarily represent management’s view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Company.

The base scenario 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.

Results for the base, falling 300 basis points, falling 200 basis points, falling 100 basis points, falling 50 basis points, falling 25 basis points, rising 25 basis points, rising 50 basis points, rising 100 basis points, rising 200 basis points, and rising 300 basis points interest rate scenarios are listed below based upon the Company’s rate sensitive assets and liabilities at December 31, 2022. The net interest income shown represents cumulative net interest income over a twelve-month time horizon.

(dollars in thousands)	Base	Falling (300 Basis Points)	Falling (200 Basis Points)	Falling (100 Basis Points)	Falling (50 Basis Points)	Falling (25 Basis Points)	Rising (25 Basis Points)	Rising (50 Basis Points)	Rising (100 Basis Points)	Rising (200 Basis Points)	Rising (300 Basis Points)
Net interest income	$ 229,133	$ 198,763	$ 210,083	$ 220,508	$ 225,023	$ 227,183	$ 230,806	$ 232,466	$ 235,761	$ 242,422	$ 249,200
Variance from Base		($30,370)	($19,050)	($8,625)	($4,110)	($1,950)	$ 1,673	$ 3,333	$ 6,628	$ 13,289	$ 20,067
Percent of change from Base		(13.25)%	(8.31)%	(3.76)%	(1.79)%	(0.85)%	0.73 %	1.45 %	2.89 %	5.80 %	8.76 %

For more information on the Company’s interest rate sensitivity see the Interest Rate Risk discussion in Item 7A. above.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and the Board of Directors of Lakeland Financial Corporation
Warsaw, Indiana

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022 and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 4 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2021 due to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 326, Financial Instruments - Credit Losses ("ASC 326"). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinions

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

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

Allowance for Credit Losses (ACL) – Qualitative Adjustments

As described in Notes 1 and 4 to the consolidated financial statements and referred to in the change in accounting principle explanatory paragraph above, the Company adopted ASC 326 as of January 1, 2021, which among other things, required the Company to recognize expected credit losses over the contractual lives of financial asset carried at amortized costs, including loans receivables, utilizing the Current Expected Credit Losses ("CECL") methodology. As of December 31, 2022, the ACL balance was $72,606,000. Estimates of expected credit losses are based on relevant information about current conditions, past events, and reasonable and supportable forward-looking forecasts regarding collectability of the reported amounts. The Company utilized a Probability of Default/ Loss Given Default model derived from historical charge-off data to construct a loss rate for each identified loan segment. The loss rates, subject to a floor, are then adjusted, for reasonable and supportable forecasts of relevant economic indicators as well as other environmental factors based on the risks present for each portfolio segment. The environmental factors ("qualitative adjustments") include consideration of economic conditions and portfolio trends.

We have identified auditing the qualitative adjustments as a critical audit matter as management's determination of the qualitative adjustments used in the ACL is subjective and involves significant management judgments; and our audit procedures related to the qualitative adjustments involved a high degree of auditor judgment and required significant audit effort, including the need to involve more experienced audit personnel.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the qualitative adjustments used in the ACL calculation including controls addressing the:
    - Significant assumptions and judgments applied in the development of the qualitative adjustments.
    - Mathematical accuracy of the qualitative adjustments applied to the loan segments in the ACL calculation.
- Substantively testing management's determination of the qualitative adjustments used in the ACL estimate, including:
    - Testing management's process for developing the qualitative adjustments, which included assessing the relevance and reliability of data used to develop the qualitative adjustments, including evaluating their judgments and assumptions for reasonableness. Among other procedures, our evaluation considered evidence from internal and external sources.

- Analytically evaluating the qualitative adjustments for directional consistency, testing for reasonableness, and obtaining evidence for significant changes.
- Testing the mathematical accuracy of the qualitative adjustments applied to the loan segments in the ACL calculation.

/s/ Crowe LLP
Crowe LLP

We have served as the Company's auditor since 1983.

South Bend, Indiana
February 22, 2023

CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

December 31	2022	2021
ASSETS		
Cash and due from banks	**$ 80,992**	$ 51,830
Short-term investments	**49,290**	631,410
Total cash and cash equivalents	**130,282**	683,240
Securities available-for-sale, at fair value	**1,185,528**	1,398,558
Securities held-to-maturity, at amortized cost (fair value of $111,029 and $0 respectively)	**128,242**	0
Real estate mortgage loans held-for-sale	**357**	7,470
Loans, net of allowance for credit losses of $72,606 and $67,773	**4,637,790**	4,220,068
Land, premises and equipment, net	**58,097**	59,309
Bank owned life insurance	**108,407**	97,652
Federal Reserve and Federal Home Loan Bank Stock	**15,795**	13,772
Accrued interest receivable	**27,994**	17,674
Goodwill	**4,970**	4,970
Other assets	**134,909**	54,610
Total assets	**$ 6,432,371**	$ 6,557,323
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	**$ 1,736,761**	$ 1,895,481
Interest bearing deposits	**3,723,859**	3,839,926
Total deposits	**5,460,620**	5,735,407
Federal Funds purchased	**22,000**	0
Federal Home Loan Bank advances	**275,000**	75,000
Total borrowings	**297,000**	75,000
Accrued interest payable	**3,186**	2,619
Other liabilities	**102,678**	39,391
Total liabilities	**5,863,484**	5,852,417
Commitments, off-balance sheet risks and contingencies (Notes 1 and 17)		
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
25,825,127 shares issued and 25,349,225 outstanding as of December 31, 2022		
25,777,609 shares issued and 25,300,793 outstanding as of December 31, 2021	**127,004**	120,615
Retained earnings	**646,100**	583,134
Accumulated other comprehensive income (loss)	**(188,923)**	16,093
Treasury stock, at cost (475,902 shares and 476,816 shares as of December 31, 2022 and 2021, respectively)	**(15,383)**	(15,025)
Total stockholders' equity	**568,798**	704,817
Noncontrolling interest	**89**	89
Total equity	**568,887**	704,906
Total liabilities and equity	**$ 6,432,371**	$ 6,557,323

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

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

Years Ended December 31	2022	2021	2020
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	**$ 202,004**	$ 170,081	$ 176,538
Tax exempt	**1,664**	470	647
Interest and dividends on securities			
Taxable	**14,132**	9,086	6,973
Tax exempt	**19,553**	13,033	8,577
Other interest income	**2,214**	549	368
Total interest income	**239,567**	193,219	193,103
Interest on deposits	**36,281**	14,827	29,342
Interest on borrowings			
Short-term	**272**	7	506
Long-term	**127**	297	247
Total interest expense	**36,680**	15,131	30,095
NET INTEREST INCOME	**202,887**	178,088	163,008
Provision for credit losses	**9,375**	1,077	14,770
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**193,512**	177,011	148,238
NONINTEREST INCOME			
Wealth advisory fees	**8,636**	8,750	7,468
Investment brokerage fees	**2,318**	1,975	1,670
Service charges on deposit accounts	**11,595**	10,608	10,110
Loan and service fees	**12,214**	11,922	10,085
Merchant and interchange fee income	**3,560**	3,023	2,408
Bank owned life insurance income	**432**	2,467	2,105
Interest rate swap fee income	**579**	1,035	5,089
Mortgage banking income	**633**	1,418	3,911
Net securities gains	**21**	797	433
Other income	**1,874**	2,725	3,564
Total noninterest income	**41,862**	44,720	46,843
NONINTEREST EXPENSE			
Salaries and employee benefits	**58,530**	57,882	49,413
Net occupancy expense	**6,287**	5,728	5,851
Equipment costs	**5,763**	5,530	5,766
Data processing fees and supplies	**12,826**	12,674	11,864
Corporate and business development	**5,198**	4,262	3,093
FDIC insurance and other regulatory fees	**1,999**	2,242	1,707
Professional fees	**6,483**	7,064	5,314
Other expense	**13,124**	8,905	8,197
Total noninterest expense	**110,210**	104,287	91,205
INCOME BEFORE INCOME TAX EXPENSE	**125,164**	117,444	103,876
Income tax expense	**21,347**	21,711	19,539
NET INCOME	**$ 103,817**	$ 95,733	$ 84,337
BASIC WEIGHTED AVERAGE COMMON SHARES	**25,528,328**	25,475,994	25,469,242
BASIC EARNINGS PER COMMON SHARE	**$ 4.07**	$ 3.76	$ 3.31
DILUTED WEIGHTED AVERAGE COMMON SHARES	**25,712,538**	25,620,105	25,573,941
DILUTED EARNINGS PER COMMON SHARE	**$ 4.04**	$ 3.74	$ 3.30

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (in thousands)

Years Ended December 31	2022	2021	2020
Net income	**$ 103,817**	$ 95,733	$ 84,337
Other comprehensive income (loss)			
Change in available-for-sale and transferred securities:			
Unrealized holding gain (loss) on securities available-for-sale arising during the period	**(261,256)**	(14,553)	20,148
Reclassification adjustment for amortization of unrealized losses on securities transferred to held-to-maturity	**1,518**	0	0
Reclassification adjustment for gains included in net income	**(21)**	(797)	(433)
Net securities gain (loss) activity during the period	**(259,759)**	(15,350)	19,715
Tax effect	**54,549**	3,224	(4,140)
Net of tax amount	**(205,210)**	(12,126)	15,575
Defined benefit pension plans:			
Net gain (loss) on defined benefit pension plans	**115**	390	(105)
Amortization of net actuarial loss	**144**	242	251
Net gain (loss) on activity during the period	**259**	632	146
Tax effect	**(65)**	(157)	(36)
Net of tax amount	**194**	475	110
Total other comprehensive income (loss), net of tax	**(205,016)**	(11,651)	15,685
Comprehensive income (loss)	**$ (101,199)**	$ 84,082	$ 100,022

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

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

	Common Stock			Accumulated Other		Total		
	Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2020	25,444,275	$ 114,858	$ 475,247	$ 12,059	$ (4,153)	$ 598,011	$ 89	$ 598,100
Net income			84,337			84,337		84,337
Other comprehensive income, net of tax				15,685		15,685		15,685
Cash dividends declared, $1.20 per share			(30,579)			(30,579)		(30,579)
Treasury shares purchased under share repurchase plan	(289,101)	0			(10,012)	(10,012)		(10,012)
Treasury shares purchased under deferred directors' plan	(11,566)	535			(535)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,748	(119)			119	0		0
Stock activity under equity incentive plans	90,392	(2,137)				(2,137)		(2,137)
Stock based compensation expense		1,790				1,790		1,790
Balance at December 31, 2020	25,239,748	$ 114,927	$ 529,005	$ 27,744	$ (14,581)	$ 657,095	$ 89	$ 657,184
Impact of adopting ASC 326, net of tax			(6,951)			(6,951)		(6,951)
Net income			95,733			95,733		95,733
Other comprehensive loss, net of tax				(11,651)		(11,651)		(11,651)
Cash dividends declared, $1.36 per share			(34,653)			(34,653)		(34,653)
Treasury shares purchased under deferred directors' plan	(8,820)	559			(559)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,664	(115)			115	0		0
Stock activity under equity incentive plans	64,201	(1,914)				(1,914)		(1,914)
Stock based compensation expense		7,158				7,158		7,158
Balance at December 31, 2021	25,300,793	$ 120,615	$ 583,134	$ 16,093	$ (15,025)	$ 704,817	$ 89	$ 704,906
Net income			**103,817**			**103,817**		**103,817**
Other comprehensive loss, net of tax				**(205,016)**		**(205,016)**		**(205,016)**
Cash dividends declared, $1.60 per share			**(40,851)**			**(40,851)**		**(40,851)**
Treasury shares purchased under deferred directors' plan	**(7,641)**	**579**			**(579)**	**0**		**0**
Treasury shares sold and distributed under deferred directors' plan	**8,555**	**(221)**			**221**	**0**		**0**
Stock activity under equity incentive plans	**47,518**	**(1,780)**				**(1,780)**		**(1,780)**
Stock based compensation expense		**7,811**				**7,811**		**7,811**
Balance at December 31, 2022	**25,349,225**	**$ 127,004**	**$ 646,100**	**$ (188,923)**	**$ (15,383)**	**$ 568,798**	**$ 89**	**$ 568,887**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

Years Ended December 31	**2022**	2021	2020
Cash flows from operating activities:			
Net income	**$ 103,817**	$ 95,733	$ 84,337
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	**6,020**	6,105	6,042
Provision for credit losses	**9,375**	1,077	14,770
Net loss on sale and write down of other real estate owned	**96**	67	0
Amortization of loan servicing rights	**757**	2,282	772
Net change in loan servicing rights valuation allowance	**(715)**	0	715
Loans originated for sale, including participations	**(28,666)**	(119,439)	(117,600)
Net gain on sales of loans	**(1,028)**	(4,376)	(4,510)
Proceeds from sale of loans, including participations	**36,454**	126,391	114,244
Net (gain) loss on sale of premises and equipment	**7**	43	86
Net (gain) loss on sales and calls of securities available-for-sale	**(21)**	(797)	(433)
Net securities amortization	**6,342**	4,959	3,998
Stock based compensation expense	**7,811**	7,158	1,790
Earnings on life insurance	**(432)**	(2,467)	(2,105)
Gain on life insurance	**0**	(415)	(730)
Tax benefit of stock award issuances	**(514)**	(330)	(71)
Net change:			
Interest receivable and other assets	**(10,711)**	(1,852)	(6,315)
Interest payable and other liabilities	**40,750**	(371)	(7,762)
Total adjustments	**65,525**	18,035	2,891
Net cash from operating activities	**169,342**	113,768	87,228
Cash flows from investing activities:			
Proceeds from sale of securities available- for-sale	**25,332**	13,964	8,018
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	**108,129**	137,812	97,998
Proceeds from maturities, calls and principal paydowns of securities held-to-maturity	**30**	0	0
Purchases of securities available-for-sale	**(315,272)**	(835,001)	(216,478)
Purchase of life insurance	**(10,808)**	(711)	(10,409)
Net (increase) decrease in total loans	**(427,097)**	356,660	(587,377)
Proceeds from sales of land, premises and equipment	**6**	8	658
Purchases of land, premises and equipment	**(4,821)**	(6,167)	(5,719)
Proceeds from redemption of Federal Home Loan Bank stock	**932**	0	0
Purchases of Federal Home Loan Bank stock	**(2,955)**	0	0
Proceeds from sales of other real estate owned	**0**	946	0
Proceeds from life insurance	**0**	943	1,285
Net cash from investing activities	**(626,524)**	(331,546)	(712,024)
Cash flows from financing activities:			
Net increase (decrease) in total deposits	**(274,787)**	698,602	902,986
Net increase (decrease) in short-term borrowings	**22,000**	(10,500)	10,500
Payments on short-term FHLB borrowings	**0**	0	(170,000)
Proceeds from short-term FHLB borrowings	**275,000**	0	0
Payments on long-term FHLB borrowings	**(75,000)**	0	0
Proceeds from long-term FHLB borrowings	**0**	0	75,000
Common dividends paid	**(40,838)**	(34,640)	(30,566)
Preferred dividends paid	**(13)**	(13)	(13)
Payments related to equity incentive plan	**(1,780)**	(1,914)	(2,137)
Purchase of treasury stock	**(579)**	(559)	(10,547)
Sales of treasury stock	**221**	115	119
Net cash from financing activities	**(95,776)**	651,091	775,342
Net change in cash and cash equivalents	**(552,958)**	433,313	150,546
Cash and cash equivalents at beginning of the year	**683,240**	249,927	99,381
Cash and cash equivalents at end of the year	**$ 130,282**	$ 683,240	$ 249,927
Cash paid during the year for:			
Interest	**$ 36,113**	$ 18,471	$ 35,740
Income taxes	**20,580**	25,947	19,355
Supplemental non-cash disclosures:			
Loans transferred to other real estate owned	**0**	893	35
Property transferred to held for sale	**0**	0	0
Right-of-use assets obtained in exchange for lease liabilities	**1,612**	0	0

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation:

The consolidated financial statements include Lakeland Financial Corporation (the "Holding Company") and its wholly owned subsidiaries, Lake City Bank (the "Bank") and LCB Risk Management, Inc., together referred to as (the "Company"). On December 18, 2006, LCB Investments II, Inc. was formed as a wholly owned subsidiary of the Bank incorporated in Nevada to manage a portion of the Bank's investment portfolio beginning in 2007. On December 21, 2006, LCB Funding, Inc., a real estate investment trust incorporated in Maryland, was formed as a wholly owned subsidiary of LCB Investments II, Inc. On December 28, 2012, LCB Risk Management, Inc., a captive insurance company incorporated in Nevada, was formed as a wholly owned subsidiary of the Holding Company. All intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services through the Bank, a full-service commercial bank with 52 branch offices in fifteen counties in Northern and Central Indiana. The Company provides commercial, retail, trust and investment services to its customers. Commercial products include commercial loans and technology-driven solutions to meet commercial customers' treasury management needs such as mobile business banking and online treasury management services. Retail banking clients are provided a wide array of traditional retail banking services, including lending, deposit and investment services. Retail lending programs are focused on mortgage loans, home equity lines of credit and traditional retail installment loans. The Company provides credit card services to retail and commercial customers through its retail card program and merchant processing activity. The Company provides wealth advisory and trust clients with traditional personal and corporate trust services. The Company also provides retail brokerage services, including an array of financial and investment products such as annuities and life insurance. Other financial instruments, which represent potential concentrations of credit risk, include deposit accounts in other financial institutions.

Use of Estimates:

To prepare financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ.

Cash Flows:

Cash and cash equivalents include cash, demand deposits in other financial institutions and short-term investments and certificates of deposit with maturities of 90 days or less. Cash flows are reported net for customer loan and deposit transactions, and certain short-term borrowings.

Securities:

Securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over estimated lives for mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, nature of the security, the underlying collateral, and the financial condition of the issuer, among other factors. If this assessment indicates a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and a valuation allowance for securities losses is recorded for the credit loss, limited by the amount that the fair value is less than the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

amortized cost basis. Any impairment that has not been recorded through a valuation allowance for securities losses is recognized in other comprehensive income (loss).

Changes in the valuation allowance for securities losses are recorded as a component of credit loss expense. Losses are charged against the valuation allowance for securities losses when management believes the uncollectibility of the security is confirmed or when either criteria regarding intent or requirement to sell is met.

A portion of the municipal bond portfolio is classified as held-to-maturity. The Company measures expected credit losses on investment securities held-to-maturity on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Company considers (1) issuer bond ratings, (2) historical loss rates for given bond ratings, (3) the financial condition of the issuer, and (4) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities. Historical loss rates associated with securities having similar grades as those in the Company's portfolio have been insignificant. After completing this assessment, the Company determined any credit losses as of December 31, 2022 were not material to the consolidated financial statements.

Real Estate Mortgage Loans Held-for-Sale:

Loans held for sale are reported at the lower of cost or fair value on an aggregate basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loan sales occur on the delivery date agreed to in the relevant commitment agreement. The Company retains servicing on the majority of loans sold. The carrying value of loans sold is reduced by the amount allocated to the servicing right. The gain or loss on the sale of loans is the difference between the carrying value of the loans sold and the funds received from the sale.

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for credit losses.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. All classes of commercial and industrial, commercial real estate and multi-family residential, agri-business and agricultural, other commercial and consumer 1-4 family mortgage loans for which collateral is insufficient to cover all principal and accrued interest are reclassified as nonaccrual loans, on or before the date when the loan becomes 90 days delinquent. When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued, all unpaid accrued interest is reversed and interest income is subsequently recorded on the cash-basis or cost-recovery method. Accrual status is resumed when all contractually due payments are brought current and future payments are reasonably assured. Other consumer loans are not placed on a nonaccrual status since these loans are charged-off when they have been delinquent from 90 to 180 days, and when the related collateral, if any, is not sufficient to offset the indebtedness. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated and individually analyzed loans.

The recorded investment in loans is the loan balance net of unamortized deferred loan fees and costs. The total amount of accrued interest on loans as of December 31, 2022 and 2021 was $18.4 million and $10.0 million.

Allowance for Credit Losses:

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

The determination of the appropriate allowance is inherently subjective, as it requires significant estimates by management. The Company has an established process to determine the adequacy of the allowance for credit losses that generally includes consideration of changes in the nature and volume of the loan portfolio and overall portfolio quality, along

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

with current and forecasted economic conditions that may affect borrowers' ability to repay. Consideration is not limited to these factors although they represent the most commonly cited factors. To determine the specific allocation levels for individual credits, management considers the current valuation of collateral and the amounts and timing of expected future cash flows as the primary measures. Management also considers trends in adversely classified loans based upon an ongoing review of those credits. With respect to pools of similar loans, an appropriate level of general allowance is determined by portfolio segment using a probability of default-loss given default ("PD/LGD") model, subject to a floor. A default can be triggered by one of several different asset quality factors, including past due status, nonaccrual status, material modification to a borrower experiencing financial difficulty or if the loan has had a charge-off. This PD is then combined with a LGD derived from historical charge-off data to construct a loss rate. This loss rate is then supplemented with adjustments for reasonable and supportable forecasts of relevant economic indicators, particularly the unemployment rate forecast from the Federal Open Market Committee's Summary of Economic Projections, as well as portfolio trends based on the risks present for each portfolio segment. These environmental factors include consideration of portfolio trends and conditions; industry conditions; and effects of changes in credit concentrations. It is also possible that these factors could include social, political, economic, and terrorist events or activities. All of these factors are susceptible to change, which may be significant. As a result of this detailed process, the allowance results in two forms of allocations, specific and general. These two components represent the total allowance for credit losses deemed adequate to cover expected losses within 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 officer. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that indicate it should be evaluated on an individual basis. Considerations with respect to specific allocations for these individual credits include, but are not limited to, the following: (a) the sufficiency of the customer's cash flow or net worth to repay the loan; (b) the adequacy of the discounted value of collateral relative to the loan balance; (c) whether the loan has been criticized in a regulatory examination; (d) whether the loan is nonperforming; (e) any other reasons the ultimate collectability of the loan may be in question; or (f) any unique loan characteristics that require special monitoring.

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

Commercial and Industrial - Borrowers may be subject to industry conditions including decreases in product demand; increase in material or other production costs that cannot be immediately recaptured in the sales or distribution cycle; interest rate increases that could have an adverse impact on profitability; non-payment of credit that has been extended under normal vendor terms for goods sold or services; and interruption related to the importing or exporting of production materials or sold products.

Commercial Real Estate and Multi-Family Residential - Borrowers may be subject to potential adverse market conditions that cause a decrease in market value or lease rates; the potential for environmental impairment from events occurring on subject or neighboring properties; and obsolescence in location or function. Multi-Family Residential is also subject to adverse market conditions associated with a change in governmental or personal funding sources for tenants; over supply of units in a specific region; a shift in population; and reputational risks. Construction and Land Development risks include slower absorption than anticipated on speculative projects; deterioration in market conditions that may impact a project's value; unforeseen costs not considered in the original construction budget; or any other factors that may impact the completion or success of the project.

Agri-business and Agricultural - Borrowers may be subject to adverse market or weather conditions including changes in local or foreign demand; lower yields than anticipated; political or other impact on storage, distribution or use; foreign trade policies including tariffs; and exposure to increasing commodity prices which result in higher production, distribution or exporting costs.

Other Commercial - Borrowers may be subject to an interruption in the flow of funds to states and other political subdivisions for the purpose of debt repayments on loans held by the Bank.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consumer 1-4 Family Mortgage - Borrowers may be subject to adverse employment conditions in the local economy leading to increased default rates; decreased market values from oversupply in a geographic area; and impact to the borrowers' ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

Other Consumer - Borrowers may be subject to adverse employment conditions in the local economy which may lead to higher default rates; and decreases in the value of underlying collateral.

A loan is individually analyzed for specific allocation when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Allocations are analyzed individually or in total for smaller-balance loans of similar nature such as all classes of consumer 1-4 family and other consumer loans, and individually for all classes of commercial and industrial, commercial real estate and multi-family, agribusiness and agricultural and other commercial loans. 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. Factors considered by management in determining individual evaluation include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as individually evaluated. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is individually evaluated, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less anticipated costs to sell. All classes of commercial and industrial, commercial real estate and multifamily residential, agribusiness and agricultural, other commercial, consumer 1-4 family mortgage loans and other consumer loans that become delinquent beyond 90 days are analyzed and a charge-off is taken when it is determined that the underlying collateral, if any, is not sufficient to offset the indebtedness.

Loans, for which the terms have been modified for borrowers experiencing financial difficulties and a concession has been granted that could materially change the Company's expected future cash flows, are classified as individually evaluated and may be either accruing or non-accruing. Modifications to borrowers experiencing financial difficulties on nonaccrual status follow the same policy as described above for other loans. Individual evaluation for modifications to borrowers experiencing financial difficulty is measured at the present value of estimated future cash flows using the loan's effective rate at inception or at discounted collateral value for collateral dependent loans.

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

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

Investments in Limited Partnerships:

The Company enters into and invests in limited partnerships in order to invest in affordable housing projects to support Community Reinvestment Act activities and secondarily to obtain available tax benefits. The Company also invests in Small Business Investment Company Program funds. The Company is a limited partner in these investments and, as such, the Company is not involved in the management or operation of such investments. These investments are accounted for using the equity method of accounting. Under the equity method of accounting, the Company records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the consolidated balance sheet. These investments are evaluated for impairment when events indicate the carrying amount may not be recoverable. The investments recorded at December 31, 2022 and 2021 were $12.2 million and $9.4 million, respectively and are included with other assets in the consolidated balance sheet. The Company also has a commitment to fund an additional $3.9 million at December 31, 2022 in six of the limited partnerships compared to $2.2 million in five of the limited partnerships at December 31, 2021, which is included with other liabilities in the consolidated balance sheet.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreclosed Assets:

Assets acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed. At December 31, 2022 and 2021, the balance of other real estate owned was $100,000 and $196,000, respectively, and is included with other assets on the consolidated balance sheet.

Land, Premises and Equipment, Net:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the useful lives of the assets. Premises and improvements assets have useful lives between 5 and 40 years. Equipment and furniture assets have useful lives between 3 and 7 years.

Loan Servicing Rights:

Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in mortgage banking income. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The amortization of servicing rights is netted against mortgage banking income. Servicing fees were $1.2 million for the years ended 2022, 2021 and 2020. Late fees and ancillary fees related to loan servicing are not material.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as loan type, term and interest rate. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in the valuation allowance are reported with mortgage banking income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

The carrying value of mortgage servicing rights, which is included with other assets in the consolidated balance sheet, was $2.7 million and $2.4 million as of December 31, 2022 and 2021, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $364.3 million and $375.4 million at December 31, 2022 and 2021, respectively. Custodial escrow balances maintained in connection with serviced loans were $1.7 million at year end 2022 and 2021.

Servicing fee income (loss), which is included in loan and service fees on the income statement, is recorded for fees earned for servicing loans. Fees earned for servicing loans are based on a contractual percentage of the outstanding principal amount of the loan and are recorded as income when earned.

Transfers of Financial Assets:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgage Banking Derivatives:

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in fair values of these derivatives are included in mortgage banking income.

Interest Rate Swap Derivatives:

The Company offers a derivative product to certain creditworthy commercial banking customers. This product allows the commercial banking customers to enter into an agreement with the Company to swap a variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the borrower's interest rate exposure. The extension of credit incurred in connection with these derivative products is subject to the same approval and underwriting standards as traditional credit products. The Company limits its risk exposure by simultaneously entering into a similar, offsetting swap agreement with a separate, well-capitalized and highly rated counterparty previously approved by the Company's Asset Liability Committee. By using these interest rate swap arrangements, the Company is also better insulated from the interest rate risk associated with underwriting fixed-rate loans and is better able to meet customer demand for fixed rate loans. These derivative contracts are not designated against specific assets or liabilities and, therefore, do not qualify for hedge accounting. The derivatives are recorded as assets and liabilities on the balance sheet at fair value with changes in fair value recorded in non-interest income for both the commercial banking customer swaps and the related offsetting swaps. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with ASC 820), resulting in some potential volatility in earnings each period.

The notional amount of the combined interest rate swaps with customers and counterparties at December 31, 2022 and 2021 was $760.5 million and $796.0 million, respectively. The fair value of the interest rate swap asset was $36.9 million and $14.3 million and the fair value of the interest rate swap liability was $36.9 million and $14.3 million at December 31, 2022 and 2021, respectively.

The Company was a party in risk participation transactions of interest rate swaps. There were no total notional swaps at December 31, 2022 compared to $4.6 million at December 31, 2021.

Bank Owned Life Insurance:

At December 31, 2022 and 2021, the Company owned $102.5 million and $91.1 million, respectively, of life insurance policies on certain officers to provide a life insurance benefit for these officers. At December 31, 2022 and 2021, the Company also owned $5.9 million and $6.6 million, respectively, of variable life insurance on certain officers related to a deferred compensation plan. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, i.e., the cash surrender value adjusted for other changes or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets:

All goodwill on the Company's consolidated balance sheet resulted from business combinations prior to January 1, 2009 and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is not amortized, but assessed at least annually for impairment and any such impairment would be recognized in the period identified.

FHLB and Federal Reserve Bank Stock:

FHLB and Federal Reserve Bank stock are carried at cost in other assets, classified as a restricted security and are periodically evaluated for impairment based on ultimate recoverability of par value. Both cash and stock dividends are reported as income.

Long-term Assets:

Premises and equipment, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. There was no such impairment identified for the years ended December 31, 2022, 2021 and 2020.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefit Plans:

The Company has a noncontributory defined benefit pension plan, which covered substantially all employees until the plan was frozen effective April 1, 2000. Funding of the plan equals or exceeds the minimum funding requirement determined by the actuary. Pension expense is the net of interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Benefits are based on years of service and compensation levels.

The Company maintains a 401(k) profit sharing plan for all employees meeting certain age and service requirements. The Company contributions are based upon the percentage of budgeted net income earned during the year.

An employee deferred compensation plan is available to certain employees with returns based on investments in mutual funds.

The Company maintains a directors' deferred compensation plan. Effective January 1, 2003, the directors' deferred compensation plan was amended to restrict the deferral to be in stock only and deferred directors' fees are included in equity. The Company acquires shares on the open market and records such shares as treasury stock.

Revenue Recognition:

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following is a description of principal activities from which we generate revenue. Revenues are recognized as the Company satisfies its obligations with our customers, in an amount that reflects the consideration that we expect to receive in exchange for those services.

Wealth advisory fees

The Company provides wealth advisory services to its customers and earns fees from its contracts with trust customers to manage assets for investment and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly, quarterly, or annual services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed. Other related services, such as escrow accounts that are based on a fixed schedule, are recognized when the services are rendered.

Investment brokerage services

The Company provides investment brokerage services through a full service brokerage and investment and advisory firm, Cetera Investment Services LLC ("Cetera"). The Company receives commissions from Cetera on a monthly basis based upon customer activity for the month. The fees are recognized monthly and a receivable is recorded until commissions are generally paid by the 5th business day of the following month. Because the Company (i) acts as an agent in arranging the relationship between the customer and the Cetera and (ii) does not control the services to the customers, investment brokerage service fees are presented net of Cetera's related costs.

Service charges on deposit accounts

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

Interchange income

The Company provides the ability to transact on certain deposit accounts through the use of debit cards by outsourcing the services through third party service providers. Performance obligations are met on a transactional basis and income is recognized monthly based on transaction type and volume. Under the accounting standards in effect in the prior period, revenue was previously recognized net of the third party's costs. Under ASC 606, fees from interchange income related to its customers use of debit cards will be reported gross in loan and service fees under noninterest income. The cost of using third party providers for these interchange services are reported in data processing fees and supplies under noninterest expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gain on sale of other real estate owned ("OREO") financed by seller

On occasion, the Company underwrites a loan to purchase property owned by the Company. Under ASC 606, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Debit card incentive rebates

The Company receives incentive rebates based on debit card transaction volume. Performance obligations are met on a transactional basis and income is recognized monthly based on transaction volume. Under ASC 606, these rebates related to debit card transaction volume are reported as a contra expense in data processing fees and supplies under noninterest expense.

Stock Based Compensation:

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant adjusted for the present value of expected dividends is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. Certain of the restricted stock awards are performance based, as more fully discussed in Note 14 – Stock Based Compensation.

Income Taxes:

Annual consolidated federal and state income tax returns are filed by the Company. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Income tax expense is recorded based on the amount of taxes due on its tax return plus net deferred taxes computed based upon the expected future tax consequences of temporary differences between carrying amounts and tax basis of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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

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

Off-Balance Sheet Financial Instruments:

Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. The fair value of standby letters of credit is recorded as a liability during the commitment period.

Earnings Per Common Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, restricted stock awards and warrants. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements. The common shares included in treasury stock for 2022 and 2021 were 475,902 and 476,816 shares, respectively. Common stock that has been purchased under the directors' deferred compensation plan, described above, is included in the treasury stock total and represented 186,801 and 187,715 shares of treasury stock as of December 31, 2022 and 2021, respectively. Because these shares are held in trust for the participants,

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

they are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share. During the year ended December 31, 2020, the Company repurchased 289,101 of its common shares at a weighted average price of $34.63 per share. Treasury stock is carried at cost.

Comprehensive Income (Loss):

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale, reclassification adjustments for securities transferred to held-to-maturity, reclassification adjustments for gains on the sale of available-for-sale securities and changes in the funded status of the pension plan, which are also recognized as separate components of equity.

Loss Contingencies:

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

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

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

Restrictions on Cash:

The Federal Reserve Bank eliminated the reserve requirement for all depository institutions in March of 2020. Therefore, the Company was not required to have cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2022 and 2021.

Dividend Restriction:

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to its stockholders. These restrictions currently pose no practical limit on the ability of the Bank or Company to pay dividends at historical levels.

Fair Value of Financial Instruments:

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 5 - Fair Value. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Segments:

The Company’s chief decision-makers monitor and evaluate financial performance on a Company-wide basis. All of the Company’s financial service operations are similar and considered by management to be aggregated into one reportable operating segment. While the Company has assigned certain management responsibilities by region and business-line, the Company’s chief decision-makers monitor and evaluate financial performance on a Company-wide basis. The majority of the Company’s revenue is from the business of banking and the Company’s assigned regions have similar economic characteristics, products, services and customers. Accordingly, all of the Company’s operations are considered by management to be aggregated in one reportable operating segment.

Newly Issued Accounting Standards:

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Newly Proposed Accounting Standards

On August 22, 2022, the FASB released a proposed ASU, *"Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)."* The amendments in this proposed update would permit reporting entities to account for their tax equity investments, regardless of the program from which the tax credits are received, using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit). A reporting entity would make an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than to apply the proportional amortization method at the reporting entity level or to individual investments. The proposal would require specific disclosures for all tax equity investments in a program to which an entity has elected to apply the proportional amortization method. The proposed amendments call for application on a modified prospective or a retrospective basis. The proposed ASU includes an effective date for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2023. The Company plans to assess the impact of the proposed amendments on the consolidated financial statements once the final ASU is issued.

On October 6, 2022, the FASB released a proposed ASU, *"Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures."* The amendments in this proposed update would improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses on an interim and annual basis. Significant expense categories and amounts subject to disclosure would be derived from expenses that are (1) regularly reported to an entity's chief operating decision-maker (CODM) and (2) included in a segment's reported measure of profit or loss. Public entities would also be required to disclose an amount for other segment items by reportable segment and a description of composition. The other segment items category is the difference between segment revenue less the significant expenses disclosed under the significant expense principle and each reported measure of segment profit or loss. The amendment would also require all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 to be disclosed for interim periods. Additionally, the proposed amendments would also require the disclosure of the name and title of the CODM. The proposed amendments call for retrospective application. The proposed ASU does not yet include an effective date. The Company plans to assess the impact of the proposed amendments on the consolidated financial statements once the final ASU is issued.

Reclassifications:

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

NOTE 2 – SECURITIES

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

Available-for-Sale Securities

Information related to the amortized cost, fair value and allowance for credit losses of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at December 31, 2022 and 2021 is provided in the tables on the next page.

NOTE 2 – SECURITIES (continued)

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
2022					
U.S. Treasury securities	**$ 3,057**	**$ 0**	**$ (23)**	**$ 0**	**$ 3,034**
U.S. government sponsored agencies	**156,184**	**0**	**(29,223)**	**0**	**126,961**
Mortgage-backed securities: residential	**578,175**	**67**	**(85,934)**	**0**	**492,308**
Mortgage-backed securities: commercial	**0**	**0**	**0**	**0**	**0**
State and municipal securities	**663,367**	**157**	**(100,299)**	**0**	**563,225**
Total	**$ 1,400,783**	**$ 224**	**$ (215,479)**	**$ 0**	**$ 1,185,528**
2021					
U.S. Treasury securities	$ 900	$ 0	$ 0	$ 0	$ 900
U.S. government sponsored agencies	145,858	39	(2,445)	0	143,452
Mortgage-backed securities: residential	487,157	4,455	(4,936)	0	486,676
Mortgage-backed securities: commercial	522	1	0	0	523
State and municipal securities	742,532	25,749	(1,274)	0	767,007
Total	$ 1,376,969	$ 30,244	$ (8,655)	$ 0	$ 1,398,558

Held-to-Maturity Securities

Information related to the amortized cost, fair value and allowance for credit losses of securities held-to-maturity and the related gross gains and unrealized gains and losses at December 31, 2022 is presented in the table below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
2022					
State and municipal securities	**$ 128,242**	**$ 0**	**$ (17,213)**	**$ 0**	**$ 111,029**

On April 1, 2022, the Company elected to transfer securities from available-for-sale to held-to-maturity as an overall balance sheet management strategy. The fair value of securities transferred was $127.0 million from available-for-sale to held-to-maturity. The unrealized loss on the securities transferred from available-for-sale to held-to-maturity was $24.4 million ($19.3 million, net of tax) based on the fair value of the securities on the transfer date and was $22.9 million ($18.1 million, net of tax) at December 31, 2022. The Company has the current intent and ability to hold the transferred securities until maturity. Any net unrealized gain or loss on the transferred securities included in accumulated other comprehensive income (loss) at the time of the transfer will be amortized over the remaining life of the underlying security as an adjustment to the yield on those securities. There were no securities transferred from available-for-sale to held-to-maturity during the year ended December 31, 2021 and there were no securities classified as held-to-maturity at December 31, 2021.

Information regarding the fair value and amortized cost of available-for-sale and held-to-maturity debt securities by maturity as of December 31, 2022 is presented on the next page. 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 prepayment penalty.

NOTE 2 – SECURITIES (continued)

(dollars in thousands)	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value	Held-to-Maturity Amortized Cost	Held-to-Maturity Fair Value
Due in one year or less	**$ 3,073**	**$ 3,059**	**$ 0**	**$ 0**
Due after one year through five years	**6,443**	**6,431**	**0**	**0**
Due after five years through ten years	**57,481**	**55,437**	**0**	**0**
Due after ten years	**755,611**	**628,293**	**128,242**	**111,029**
	822,608	**693,220**	**128,242**	**111,029**
Mortgage-backed securities	**578,175**	**492,308**	**0**	**0**
Total debt securities	**$ 1,400,783**	**$ 1,185,528**	**$ 128,242**	**$ 111,029**

Security proceeds, gross gains and gross losses for 2022, 2021 and 2020 were as follows:

(dollars in thousands)	**2022**	2021	2020
Sales of securities available-for-sale			
Proceeds	**$ 25,332**	$ 13,964	$ 8,018
Gross gains	**140**	797	433
Gross losses	**(119)**	0	0
Number of securities	**30**	9	17

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

Securities with fair values of $298.2 million and $300.8 million were pledged as of December 31, 2022 and 2021, respectively, as collateral for borrowings from the FHLB and Federal Reserve Bank and for other purposes as permitted or required by law.

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

Information regarding available-for-sale securities securities with unrealized losses as of December 31, 2022 and 2021 is presented below. The tables distribute the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
2022						
U.S. Treasury securities	**$ 3,034**	**$ 23**	**$ 0**	**$ 0**	**$ 3,034**	**$ 23**
U.S. government sponsored agencies	**8,420**	**1,350**	**118,541**	**27,873**	**126,961**	**29,223**
Mortgage-backed securities: residential	**165,897**	**18,637**	**323,727**	**67,297**	**489,624**	**85,934**
State and municipal securities	**277,967**	**33,405**	**244,436**	**66,894**	**522,403**	**100,299**
Total temporarily impaired	**$ 455,318**	**$ 53,415**	**$ 686,704**	**$ 162,064**	**$ 1,142,022**	**$ 215,479**
2021						
U.S. government sponsored agencies	$ 85,968	$ 1,364	$ 28,676	$ 1,081	$ 114,644	$ 2,445
Mortgage-backed securities: residential	272,264	4,076	22,792	860	295,056	4,936
State and municipal securities	138,659	1,274	0	0	138,659	1,274
Total temporarily impaired	$ 496,891	$ 6,714	$ 51,468	$ 1,941	$ 548,359	$ 8,655

NOTE 2 – SECURITIES (continued)

Information regarding held-to-maturity securities with unrealized losses as of December 31, 2022 is presented below. The table divides the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more. No investment securities were designated as held-to-maturity at December 31, 2021.

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
State and municipal securities	**$ 0**	**$ 0**	**$ 111,029**	**$ 17,213**	**$ 111,029**	**$ 17,213**

The number of securities with unrealized losses as of December 31, 2022 and 2021 is presented below.

	Available-for-Sale			Held-to-Maturity		
	Less than 12 months	12 months or more	Total	Less than 12 months	12 months or more	Total
2022						
U.S. Treasury securities	**7**	**0**	**7**	**0**	**0**	**0**
U.S. government sponsored agencies	**1**	**16**	**17**	**0**	**0**	**0**
Mortgage-backed securities: residential	**95**	**41**	**136**	**0**	**0**	**0**
State and municipal securities	**269**	**223**	**492**	**0**	**41**	**41**
Total temporarily impaired	**372**	**280**	**652**	**0**	**41**	**41**
2021						
U.S. government sponsored agencies	8	5	13	0	0	0
Mortgage-backed securities: residential	29	3	32	0	0	0
State and municipal securities	80	0	80	0	0	0
Total temporarily impaired	117	8	125	0	0	0

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

No allowance for credit losses for available-for-sale securities was recorded at December 31, 2022 or 2021. No allowance for credit losses for held-to-maturity debt securities was recorded at December 31, 2022. Accrued interest receivable on available-for-sale and held-to-maturity debt securities totaled $8.9 million and $7.4 million at December 31, 2022 and 2021, respectively, and is excluded from the estimate of credit losses.

Ninety-nine percent of the securities are backed by the U.S. government, government agencies, government sponsored agencies or are rated above investment grade with a long history of no credit losses, except for certain non-local or local municipal securities, which are not rated.

Prior to the adoption of ASC 326, there was no other-than-tempoarary impairment ("OTTI") recorded during the year ended December 31, 2020.

NOTE 3 – LOANS

Total loans outstanding as of the years ended December 31, 2022 and 2021 consisted of the following:

(dollars in thousands)	2022	2021
Commercial and industrial loans:		
Working capital lines of credit loans	**$ 650,948**	$ 652,861
Non-working capital loans	**842,101**	736,608
Total commercial and industrial loans	**1,493,049**	1,389,469
Commercial real estate and multi-family residential loans:		
Construction and land development loans	**517,664**	379,813
Owner occupied loans	**758,091**	739,371
Nonowner occupied loans	**706,107**	588,458
Multi-family loans	**197,232**	247,204
Total commercial real estate and multi-family residential loans	**2,179,094**	1,954,846
Agri-business and agricultural loans:		
Loans secured by farmland	**201,200**	206,331
Loans for agricultural production	**230,888**	239,494
Total agri-business and agricultural loans	**432,088**	445,825
Other commercial loans	**113,593**	73,490
Total commercial loans	**4,217,824**	3,863,630
Consumer 1-4 family mortgage loans:		
Closed end first mortgage loans	**212,742**	176,561
Open end and junior lien loans	**175,575**	156,238
Residential construction and land development loans	**19,249**	11,921
Total consumer 1-4 family mortgage loans	**407,566**	344,720
Other consumer loans	**88,075**	82,755
Total consumer loans	**495,641**	427,475
Gross loans	**4,713,465**	4,291,105
Less: Allowance for credit losses	**(72,606)**	(67,773)
Net deferred loan fees	**(3,069)**	(3,264)
Loans, net	**$ 4,637,790**	$ 4,220,068

The recorded investment in loans does not include accrued interest, which totaled $18.4 million and $10.0 million at December 31, 2022 and 2021, respectively.

The Company had $306,000 and $350,000 in residential real estate loans in process of foreclosure as of December 31, 2022 and 2021, respectively.

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY

The Company adopted ASC 326 using the modified retrospective for all financial assets measured at amortized cost. Results for reporting periods after January 1, 2021 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2022 and 2021:

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multi-family Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
2022								
Beginning balance	**$ 30,595**	**$ 26,535**	**$ 5,034**	**$ 1,146**	**$ 2,866**	**$ 1,147**	**$ 450**	**$ 67,773**
Provision for credit losses	**8,646**	**1,179**	**(605)**	**(229)**	**125**	**155**	**104**	**9,375**
Loans charged-off	**(4,022)**	**(597)**	**0**	**0**	**(42)**	**(473)**	**0**	**(5,134)**
Recoveries	**71**	**277**	**0**	**0**	**52**	**192**	**0**	**592**
Net loans (charged-off) recovered	**(3,951)**	**(320)**	**0**	**0**	**10**	**(281)**	**0**	**(4,542)**
Ending balance	**$ 35,290**	**$ 27,394**	**$ 4,429**	**$ 917**	**$ 3,001**	**$ 1,021**	**$ 554**	**$ 72,606**

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multi-family Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
2021								
Beginning balance	$ 28,333	$ 22,907	$ 3,043	$ 416	$ 2,619	$ 951	$ 3,139	$ 61,408
Impact of adopting ASC 326	4,312	4,316	1,060	941	953	349	(2,881)	9,050
Provision for credit losses	1,966	(632)	611	(211)	(777)	(72)	192	1,077
Loans charged-off	(5,575)	(70)	0	0	(51)	(287)	0	(5,983)
Recoveries	1,559	14	320	0	122	206	0	2,221
Net loans (charged-off) recovered	(4,016)	(56)	320	0	71	(81)	0	(3,762)
Ending balance	$ 30,595	$ 26,535	$ 5,034	$ 1,146	$ 2,866	$ 1,147	$ 450	$ 67,773

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 as the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

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

Loans are considered to be "Pass" rated when they are reviewed as part of the previously described process and do not meet the criteria above 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.

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

The following tables summarize the risk category of loans by loan segment and origination date as of December 31, 2022 and 2021. Balances presented are at the amortized cost basis by origination year.

(dollars in thousands)	2022	2021	2020	2019	2018	Prior	Term Total	Revolving	Total
Commercial and industrial loans:									
Working capital lines of credit loans:									
Pass	$ 2,207	$ 2,718	$ 1,601	$ 0	$ 0	$ 0	$ 6,526	$ 597,108	$ 603,634
Special Mention	0	0	0	0	0	0	0	36,410	36,410
Substandard	200	0	0	300	0	0	500	10,495	10,995
Total	2,407	2,718	1,601	300	0	0	7,026	644,013	651,039
Non-working capital loans:									
Pass	272,273	124,600	91,850	47,711	9,981	13,670	560,085	240,490	800,575
Special Mention	448	1,620	0	109	159	2,961	5,297	2,153	7,450
Substandard	11,831	872	5,021	194	1,351	3,979	23,248	4,171	27,419
Not Rated	2,891	1,550	1,254	413	120	23	6,251	0	6,251
Total	287,443	128,642	98,125	48,427	11,611	20,633	594,881	246,814	841,695
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	26,889	19,944	14,026	356	0	0	61,215	453,953	515,168
Total	26,889	19,944	14,026	356	0	0	61,215	453,953	515,168
Owner occupied loans:									
Pass	113,656	179,014	139,880	97,353	65,519	97,335	692,757	40,533	733,290
Special Mention	2,960	7,608	0	446	1,491	8,054	20,559	0	20,559
Substandard	308	105	1,491	373	1,161	229	3,667	0	3,667
Total	116,924	186,727	141,371	98,172	68,171	105,618	716,983	40,533	757,516
Nonowner occupied loans:									
Pass	194,294	125,190	134,661	91,907	15,109	64,874	626,035	68,603	694,638
Special Mention	0	11,024	0	0	0	0	11,024	0	11,024
Total	194,294	136,214	134,661	91,907	15,109	64,874	637,059	68,603	705,662
Multi-family loans:									
Pass	38,460	25,741	36,929	35,695	2,046	28,866	167,737	7,349	175,086
Special Mention	21,855	0	0	0	0	0	21,855	0	21,855
Total	60,315	25,741	36,929	35,695	2,046	28,866	189,592	7,349	196,941
Agri-business and agricultural loans:									
Loans secured by farmland:									
Pass	38,344	28,684	29,741	9,656	8,145	19,638	134,208	63,094	197,302
Special Mention	260	0	1,676	1,780	0	15	3,731	0	3,731
Substandard	0	0	0	0	0	145	145	0	145
Total	38,604	28,684	31,417	11,436	8,145	19,798	138,084	63,094	201,178
Loans for agricultural production:									
Pass	6,040	30,262	22,167	3,625	9,248	4,539	75,881	143,599	219,480
Special Mention	947	243	7,262	928	0	0	9,380	2,129	11,509
Total	6,987	30,505	29,429	4,553	9,248	4,539	85,261	145,728	230,989
Other commercial loans:									
Pass	27,097	4,815	17,911	147	931	10,985	61,886	48,295	110,181
Special Mention	0	0	0	0	0	3,160	3,160	0	3,160
Total	27,097	4,815	17,911	147	931	14,145	65,046	48,295	113,341
Consumer 1-4 family mortgage loans:									
Closed end first mortgage loans									
Pass	8,768	12,809	12,289	4,805	4,045	3,860	46,576	5,634	52,210
Special Mention	0	0	552	0	0	0	552	0	552
Substandard	0	0	0	0	83	1,944	2,027	0	2,027
Not Rated	57,404	44,331	20,023	5,936	2,970	27,004	157,668	0	157,668
Total	66,172	57,140	32,864	10,741	7,098	32,808	206,823	5,634	212,457
Open end and junior lien loans									
Pass	137	541	357	63	75	0	1,173	5,841	7,014
Substandard	0	0	0	31	49	0	80	111	191
Not Rated	44,472	13,597	3,014	3,616	1,476	2,252	68,427	101,750	170,177
Total	44,609	14,138	3,371	3,710	1,600	2,252	69,680	107,702	177,382
Residential construction loans									
Not Rated	14,463	2,167	897	291	129	1,223	19,170	0	19,170
Total	14,463	2,167	897	291	129	1,223	19,170	0	19,170
Other consumer loans									
Pass	1,344	1,841	432	600	0	948	5,165	16,152	21,317
Substandard	0	0	0	210	0	0	210	0	210
Not Rated	24,395	14,563	9,168	3,606	2,755	1,352	55,839	10,492	66,331
Total	25,739	16,404	9,600	4,416	2,755	2,300	61,214	26,644	87,858
TOTAL	$ 911,943	$ 653,839	$ 552,202	$ 310,151	$ 126,843	$ 297,056	$ 2,852,034	$ 1,858,362	$ 4,710,396

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

(dollars in thousands)	2021	2020	2019	2018	2017	Prior	Term Total	Revolving	Total
Commercial and industrial loans:									
Working capital lines of credit loans:									
Pass	$ 3,699	$ 830	$ 3,360	$ 0	$ 0	$ 0	$ 7,889	$ 558,634	$ 566,523
Special Mention	0	0	0	0	0	0	0	60,441	60,441
Substandard	0	0	35	0	0	0	35	25,928	25,963
Total	3,699	830	3,395	0	0	0	7,924	645,003	652,927
Non-working capital loans:									
Pass	185,374	139,157	79,477	38,899	19,415	18,489	480,811	203,794	684,605
Special Mention	17,728	0	225	979	2,350	1,426	22,708	0	22,708
Substandard	2,996	6,948	1,091	2,534	5,465	426	19,460	3,321	22,781
Not Rated	2,265	1,758	837	563	128	14	5,565	0	5,565
Total	208,363	147,863	81,630	42,975	27,358	20,355	528,544	207,115	735,659
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	35,136	30,224	1,276	998	0	0	67,634	310,396	378,030
Total	35,136	30,224	1,276	998	0	0	67,634	310,396	378,030
Owner occupied loans:									
Pass	135,861	169,404	124,117	85,070	78,155	93,925	686,532	29,611	716,143
Special Mention	6,555	0	880	933	7,387	1,235	16,990	0	16,990
Substandard	489	1,570	909	1,758	694	238	5,658	0	5,658
Total	142,905	170,974	125,906	87,761	86,236	95,398	709,180	29,611	738,791
Nonowner occupied loans:									
Pass	146,342	154,433	107,262	19,054	31,023	59,154	517,268	44,362	561,630
Special Mention	11,825	331	0	0	0	14,253	26,409	0	26,409
Total	158,167	154,764	107,262	19,054	31,023	73,407	543,677	44,362	588,039
Multi-family loans:									
Pass	84,678	53,195	36,575	12,286	14,574	9,793	211,101	13,434	224,535
Special Mention	0	0	0	0	22,252	0	22,252	0	22,252
Total	84,678	53,195	36,575	12,286	36,826	9,793	233,353	13,434	246,787
Agri-business and agricultural loans:									
Loans secured by farmland:									
Pass	47,532	37,035	16,249	10,469	10,454	17,021	138,760	61,774	200,534
Special Mention	0	1,985	2,303	0	180	30	4,498	918	5,416
Substandard	207	0	0	0	0	145	352	0	352
Total	47,739	39,020	18,552	10,469	10,634	17,196	143,610	62,692	206,302
Loans for agricultural production:									
Pass	36,238	25,855	4,224	11,072	1,331	4,178	82,898	138,142	221,040
Special Mention	448	8,642	1,171	0	0	0	10,261	8,272	18,533
Total	36,686	34,497	5,395	11,072	1,331	4,178	93,159	146,414	239,573
Other commercial loans:									
Pass	6,556	21,111	3,243	1,273	8,592	7,460	48,235	21,145	69,380
Special Mention	0	0	0	0	0	3,798	3,798	0	3,798
Total	6,556	21,111	3,243	1,273	8,592	11,258	52,033	21,145	73,178
Consumer 1-4 family mortgage loans:									
Closed end first mortgage loans									
Pass	14,635	16,173	5,312	5,903	3,049	3,221	48,293	5,005	53,298
Substandard	0	0	0	0	0	1,274	1,274	0	1,274
Not Rated	45,089	27,738	9,248	5,217	7,628	26,321	121,241	482	121,723
Total	59,724	43,911	14,560	11,120	10,677	30,816	170,808	5,487	176,295
Open end and junior lien loans									
Pass	679	379	159	313	0	0	1,530	5,074	6,604
Substandard	0	0	0	0	0	0	0	98	98
Not Rated	21,945	5,624	5,987	3,899	1,653	1,526	40,634	110,523	151,157
Total	22,624	6,003	6,146	4,212	1,653	1,526	42,164	115,695	157,859
Residential construction loans									
Not Rated	7,926	1,537	960	138	171	1,125	11,857	0	11,857
Total	7,926	1,537	960	138	171	1,125	11,857	0	11,857
Other consumer loans									
Pass	3,401	957	1,523	0	1,155	0	7,036	12,998	20,034
Substandard	36	23	230	0	0	0	289	0	289
Not Rated	21,652	14,931	7,474	5,844	1,890	1,203	52,994	9,227	62,221
Total	25,089	15,911	9,227	5,844	3,045	1,203	60,319	22,225	82,544
TOTAL	$ 839,292	$ 719,840	$ 414,127	$ 207,202	$ 217,546	$ 266,255	$ 2,664,262	$ 1,623,579	$ 4,287,841

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

As of December 31, 2022 and 2021, $1.5 million and $26.2 million, respectively, in PPP loans were included in the "Pass" category of non-working capital commercial and industrial loans. These loans were included in this risk rating category because they are fully guaranteed by the Small Business Administration ("SBA").

Nonaccrual and Past Due Loans:

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

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 2022 and 2021 by class of loans and loans past due 90 days or more and still accruing by class of loan:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 89 Days Past Due and Accruing	Total Accruing	Total Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Total
2022							
Commercial and industrial loans:							
Working capital lines of credit loans	$ 649,529	$ 68	$ 0	$ 649,597	$ 1,442	$ 0	$ 651,039
Non-working capital loans	830,033	39	1	830,073	11,622	727	841,695
Commercial real estate and multi-family residential loans:							
Construction and land development loans	515,168	0	0	515,168	0	0	515,168
Owner occupied loans	754,451	0	0	754,451	3,065	1,469	757,516
Nonowner occupied loans	705,662	0	0	705,662	0	0	705,662
Multi-family loans	196,941	0	0	196,941	0	0	196,941
Agri-business and agricultural loans:							
Loans secured by farmland	201,033	0	0	201,033	145	0	201,178
Loans for agricultural production	230,989	0	0	230,989	0	0	230,989
Other commercial loans	113,341	0	0	113,341	0	0	113,341
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	211,736	306	122	212,164	293	225	212,457
Open end and junior lien loans	176,758	436	0	177,194	188	188	177,382
Residential construction loans	19,170	0	0	19,170	0	0	19,170
Other consumer loans	87,333	316	0	87,649	209	6	87,858
Total	$ 4,692,144	$ 1,165	$ 123	$ 4,693,432	$ 16,964	$ 2,615	$ 4,710,396

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

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 89 Days Past Due and Accruing	Total Accruing	Total Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Total
2021							
Commercial and industrial loans:							
Working capital lines of credit loans	$ 652,903	$ 24	$ 0	$ 646,961	$ 5,966	$ 5,200	$ 652,927
Non-working capital loans	735,658	1	0	731,063	4,596	229	735,659
Commercial real estate and multi-family residential loans:							
Construction and land development loans	378,030	0	0	378,030	0	0	378,030
Owner occupied loans	738,791	0	0	735,157	3,634	2,129	738,791
Nonowner occupied loans	588,039	0	0	588,039	0	0	588,039
Multi-family loans	246,787	0	0	246,787	0	0	246,787
Agri-business and agricultural loans:							
Loans secured by farmland	206,302	0	0	205,967	335	0	206,302
Loans for agricultural production	239,573	0	0	239,573	0	0	239,573
Other commercial loans	73,178	0	0	73,178	0	0	73,178
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	175,678	500	117	176,240	55	55	176,295
Open end and junior lien loans	157,729	130	0	157,761	98	98	157,859
Residential construction loans	11,857	0	0	11,857	0	0	11,857
Other consumer loans	82,472	72	0	82,255	289	0	82,544
Total	$ 4,286,997	$ 727	$ 117	$ 4,272,868	$ 14,973	$ 7,711	$ 4,287,841

As of December 31, 2021, there were an insignificant number of loans 30-89 days past due or greater than 89 days past due on nonaccrual. Additionally, interest income recognized on nonaccrual loans was insignificant during the year ended December 31, 2021.

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

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

The following tables present the amortized cost basis of collateral dependent loans by class of loan as of December 31, 2022 and 2021:

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

(dollars in thousands)	Real Estate	General Business Assets	Other	Total
2021				
Commercial and industrial loans:				
Working capital lines of credit loans	$ 0	$ 5,966	$ 0	$ 5,966
Non-working capital loans	1,606	9,475	229	11,310
Commercial real estate and multi-family residential loans:				
Owner occupied loans	1,435	1,505	1,161	4,101
Nonowner occupied loans	0	0	0	0
Agri-business and agricultural loans:				
Loans secured by farmland	190	145	0	335
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	3,081	0	0	3,081
Open end and junior lien loans	98	0	0	98
Other consumer loans	0	0	59	59
Total	$ 6,410	$ 17,091	$ 1,449	$ 24,950

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

Modifications Made to Borrowers Experiencing Financial Difficulty

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses, a change to the allowance for credit losses is generally not recorded upon modification.

Occasionally, the Company modifies loans by providing principal forgiveness that is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses. Additionally, the Company may allow a borrower to to make interest only payments for a specified period of time.

During the year ended December 31, 2022, no loans received a material modification based on borrower financial difficulty.

Troubled Debt Restructurings (Prior to January 1, 2022):

Prior to the partial adoption of ASU 2022-02 on January 1, 2022, which had an immaterial impact on the Company's allowance for credit losses, troubled debt restructured loans were included in the total for individually analyzed loans. The following are disclosures related to troubled debt restructured loans in prior periods.

Troubled debt restructured loans are included in the totals for individually analyzed loans. The Company has allocated $5.8 million of specific allocations to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021. The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring.

(dollars in thousands)	December 31, 2021
Accruing troubled debt restructured loans	$ 5,121
Nonaccrual troubled debt restructured loans	6,218
Total troubled debt restructured loans	$ 11,339

During the year ending December 31, 2021, 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 payment for some period; 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 during 2021 with previously identified troubled debt restructured loans. There were 8 loans with recorded investments totaling $2.2 million where collateral values or cash flows were insufficient to support the loans. These troubled debt restructured loans with additional concessions decreased the allowance by $423,000 and resulted in no charge-offs for the year ending December 31, 2021. These concessions are not included in the table on the next page.

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

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

(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					
Consumer 1-4 family loans:					
Closed end first mortgage loans	2	$ 217	$ 217	2	172-204
Total	2	$ 217	$ 217	2	172-204

For the period ending December 31, 2021, the troubled debt restructurings described above had no impact to the allowance and no charge-offs were recorded.

As of December 31, 2021, one retail loan in the amount of $11,000 had a COVID-19 related deferral. In accordance with Section 4013 of the CARES Act, this deferral was not considered to be a troubled debt restructuring. This provision was effective until its expiration on January 1, 2022 under the Consolidated Appropriations Act, 2021.

During the year ended December 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 year ending December 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:					
Working capital lines of credit loans	1	$ 250	$ 315	1	0
Non-working capital lines of credit loans	2	4,288	3,691	2	0
Commercial real estate and multi-family residential loans:					
Owner occupied loans	1	1,528	1,527	1	0
Total	4	$ 6,066	$ 5,533	4	0

For the period ending December 31, 2020, the troubled debt restructurings described above had no impact to the allowance and no charge-offs were recorded.

As of December 31, 2020, total deferrals attributed to COVID-19 were $100.7 million representing 49 borrowers. This represented 2.2% of the total loan portfolio. Of that 22 were commercial loan borrowers representing $98.2 million in loans, or 2.3% of commercial loans, and 27 were retail loan borrowers representing $2.5 million, or 0.7% of total retail loans. The majority of all loan deferrals were for a period of 90 days. Of the total commercial deferrals attributed to COVID-19, $11.9 million represented a first deferral action, $22.8 million represented a second deferral action, $41.9 million represented a third deferral action and $24.1 million represented a fourth deferral action. Two borrowers represented 90% of the fourth deferral population and were commercial real estate nonowner occupied loans supported by adequate collateral and personal guarantors and consist of loans to the hotel and accommodation industry. All COVID-19 related loan deferrals were on accrual status, as each deferral was individually analyzed, and management determined that all contractual cashflows were collectable at that

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

time. In accordance with Section 4013 of the CARES Act, these were not considered to be troubled debt restructurings and were excluded from the table above.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ending December 31, 2021 and 2020.

Allowance for Loan Losses (Prior to January 1, 2021)

Prior to the adoption of ASC 326 on January 1, 2021 the Company calculated the allowance for loan losses using the incurred losses methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

The following tables present the activity and balance in the allowance for loan losses by portfolio segment for the year ended December 31, 2020. PPP loans are fully guaranteed by the SBA and have not been allocated for within the allowance for loan losses.

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multi-family Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Beginning balance	$ 25,789	$ 15,796	$ 3,869	$ 447	$ 2,086	$ 345	$ 2,320	$ 50,652
Provision for loan losses	6,640	6,868	(826)	(31)	341	959	819	14,770
Loans charged-off	(4,524)	(72)	0	0	(141)	(516)	0	(5,253)
Recoveries	428	315	0	0	333	163	0	1,239
Net loans (charged-off) recovered	(4,096)	243	0	0	192	(353)	0	(4,014)
Ending balance	$ 28,333	$ 22,907	$ 3,043	$ 416	$ 2,619	$ 951	$ 3,139	$ 61,408

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NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY (continued)

The following table presents loans individually evaluated for impairment by class of loans for the year ended December 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	$ 375	$ 0	$ 0
Non-working capital loans	816	21	21
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,156	13	12
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Loans for agricultural production	4	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	291	3	2
Open end and junior lien loans	49	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	2,433	0	0
Non-working capital loans	11,579	287	287
Commercial real estate and multi-family residential loans:			
Construction and land development loans			
Owner occupied loans	3,156	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	1,557	36	33
Open end and junior lien loans	481	0	0
Residential construction loans	35	0	0
Other consumer loans	0	0	0
Total	$ 23,362	$ 390	$ 385

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

NOTE 5 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. 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 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 of directors (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 agency/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

NOTE 5 – FAIR VALUE (continued)

services. The fair value of interest rate swap derivatives is determined by pricing or valuation models using observable market data as of the measurement date (Level 2).

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

Mortgage servicing rights: As of December 31, 2022, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was $2.7 million, carried at amortized cost and no valuation reserve. These residential mortgage loans have a weighted average interest rate of 3.5%, a weighted average maturity of 21 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 December 31, 2022, the constant prepayment speed ("PSA") used was 159 and discount rate used was 9.5%. At December 31, 2021, the PSA used was 249 and the discount rate used was 9.5%.

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

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

NOTE 5 – FAIR VALUE (continued)

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021:

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

	2021			
	Fair Value Measurements Using			Assets
(dollars in thousands)	Level 1	Level 2	Level 3	at Fair Value
Assets:				
U.S. Treasury securities	$ 900	$ 0	$ 0	$ 900
U.S. government sponsored agency securities	0	143,452	0	143,452
Mortgage-backed securities: residential	0	486,676	0	486,676
Mortgage-backed securities: commercial	0	523	0	523
State and municipal securities	0	764,964	2,043	767,007
Total Available-for-Sale Securities	900	1,395,615	2,043	1,398,558
Mortgage banking derivative	0	398	0	398
Interest rate swap derivative	0	14,309	0	14,309
Total assets	$ 900	$ 1,410,322	$ 2,043	$ 1,413,265
Liabilities:				
Mortgage banking derivative	$ 0	$ 2	$ 0	$ 2
Interest rate swap derivative	0	14,329	0	14,329
Total liabilities	$ 0	$ 14,331	$ 0	$ 14,331

The fair value of Level 3 available-for-sale securities was immaterial to warrant additional recurring fair value disclosures as of December 31, 2022 and 2021.

NOTE 5 – FAIR VALUE (continued)

The tables below present the amount of assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021:

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

	2021			
	Fair Value Measurements Using			Assets
(dollars in thousands)	Level 1	Level 2	Level 3	at Fair Value
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	$ 0	$ 0	$ 247	$ 247
Non-working capital loans	0	0	5,095	5,095
Commercial real estate and multi-family residential loans:				
Owner occupied loans	0	0	791	791
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	231	231
Total collateral dependent loans	$ 0	$ 0	$ 6,364	$ 6,364
Other real estate owned	0	0	196	196
Total assets	$ 0	$ 0	$ 6,560	$ 6,560

NOTE 5 – FAIR VALUE (continued)

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

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

NOTE 5 – FAIR VALUE (continued)

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, 2021:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	$ 5,342	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	65%	22%-99%
Collateral dependent loans:					
Commercial real estate	791	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	51%	34%-68%
Collateral dependent loans:					
Agri-business and agricultural	231	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	35%	3% - 68%
Other real estate owned	196	Appraisals	Discount to reflect current market conditions and ultimate collectability	38%	

NOTE 5 – FAIR VALUE (continued)

The following tables contain the estimated fair values and the related carrying values of the Company's financial instruments at December 31, 2022 and 2021. Items which are not financial instruments are not included.

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

NOTE 5 – FAIR VALUE (continued)

	2021				
	Carrying	Estimated Fair Value			
(dollars in thousands)	Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 683,240	$ 681,286	$ 1,954	$ 0	$ 683,240
Securities available-for-sale	1,398,558	900	1,395,615	2,043	1,398,558
Real estate mortgages held-for-sale	7,470	0	7,634	0	7,634
Loans, net	4,220,068	0	0	4,144,000	4,144,000
Mortgage banking derivative	398	0	398	0	398
Interest rate swap derivative	14,309	0	14,309	0	14,309
Federal Reserve and Federal Home Loan Bank Stock	13,772	N/A	N/A	N/A	N/A
Accrued interest receivable	17,674	0	7,689	9,985	17,674
Financial Liabilities:					
Certificates of deposit	829,518	0	833,617	0	833,617
All other deposits	4,905,889	4,905,889	0	0	4,905,889
Federal Home Loan Bank advances	75,000	0	66,118	0	66,118
Mortgage banking derivative	2	0	2	0	2
Interest rate swap derivative	14,329	0	14,329	0	14,329
Standby letters of credit	272	0	0	272	272
Accrued interest payable	2,619	84	2,535	0	2,619

NOTE 6 – LAND, PREMISES AND EQUIPMENT, NET

Land, premises and equipment and related accumulated depreciation were as follows at December 31, 2022 and 2021:

(dollars in thousands)	2022	2021
Land	**$ 12,472**	$ 12,472
Premises and improvements	**61,185**	58,716
Equipment and furniture	**37,460**	39,278
Total cost	**111,117**	110,466
Less accumulated depreciation	**53,020**	51,157
Land, premises and equipment, net	**$ 58,097**	$ 59,309

The Company had no land, premises and equipment held for sale and included in other assets as of December 31, 2022 and 2021.

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

There have been no changes in the $5.0 million carrying amount of goodwill since 2002.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2022, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment. The Company's annual impairment analysis was performed as of May 31, 2022. Circumstances did not substantially change during the second half of the year such that the Company believed it was necessary to perform an additional impairment analysis.

NOTE 8 – DEPOSITS

The following table details total deposits as of December 31, 2022 and 2021:

(dollars in thousands)	2022	2021
Non-interest bearing demand deposits	**$ 1,736,761**	$ 1,895,481
Savings and transaction accounts:		
Savings deposits	**403,773**	409,343
Interest bearing demand deposits	**2,693,900**	2,601,065
Time deposits:		
Other time deposits	**170,759**	202,395
Deposits of $100,000 to $250,000	**185,194**	227,606
Deposits of $250,000 or more	**270,233**	399,517
Total deposits	**$ 5,460,620**	$ 5,735,407

NOTE 8 – DEPOSITS (continued)

At December 31, 2022, the scheduled maturities of time deposits were as follows:

(dollars in thousands)	Amount
Maturing in 2023	$ 379,460
Maturing in 2024	206,081
Maturing in 2025	15,132
Maturing in 2026	12,583
Maturing in 2027	12,546
Thereafter	384
Total time deposits	$ 626,186

During 2022 and 2021 the Bank entered into agreements with IntraFi Network relative to their Insured Cash Sweep One-Way Buy program. As of December 31, 2022 and 2021 the total amount available to the Bank via this program was $100.0 million, of which, $10.0 million was drawn.

NOTE 9 – BORROWINGS

The following table details outstanding advances with the Federal Home Loan Bank ("FHLB") of Indianapolis for the years ended December 31, 2022 and 2021:

(dollars in thousands)	**2022**	2021
FHLB of Indianapolis Bullet Advance, 4.21%, Due January 5, 2023	**$ 275,000**	$ 0
FHLB of Indianapolis Putable Advance, 0.39%, Due March 4, 2030, Called June 6, 2022	**0**	75,000
Total FHLB advances	**$ 275,000**	75,000

The advance outstanding at December 31, 2022 was a fixed-rate bullet advance and could not be prepaid by the Company without a penalty. The note required payment at maturity and was secured by residential real estate loans and securities with a carrying value of $549.0 million at December 31, 2022.

The advance outstanding at December 31, 2021 was a ten-year fixed-rate putable advance and could not be prepaid by the Company without penalty. The FHLB exercised the putable option on the advance during the second quarter of 2022 and the advance was repaid by the Company. The note was secured by residential real estate loans and securities with a carrying value of $478.4 million at December 31, 2021.

At December 31, 2022 and 2021, the Company owned $12.4 million and $10.4 million, respectively, of FHLB stock which also secures debts owed to the FHLB. The Company is authorized by the Board to borrow up to $800.0 million at the FHLB, but availability is limited to $66.5 million based on collateral and outstanding borrowings. Federal Reserve Discount Window borrowings were secured by commercial loans and investment securities with a carrying value of $928.6 million and $804.4 million as of December 31, 2022 and 2021. The Company had a borrowing capacity of $758.3 million and $616.5 million at the Federal Reserve Bank as of December 31, 2022 and 2021, respectively. There were no borrowings outstanding at the Federal Reserve Bank at December 31, 2022 and 2021.

The Company had $350.0 million of availability in federal funds lines with eleven correspondent banks as of December 31, 2022 and 2021; $22.0 million and $0 were drawn upon as of December 31, 2022 and 2021, respectively. The Bank is also a member of the American Financial Exchange (AFX) where overnight fed funds purchased can be obtained from other banks on the Exchange that have approved the Bank for an unsecured, overnight line. These funds are only available if the approving banks have an ‘offer’ out to sell that day. The total amount approved for the Bank via AFX banks was $319.0 million at December 31, 2022 and 2021. There were no amounts drawn as of December 31, 2022 and 2021.

NOTE 9 – BORROWINGS (continued)

On August 2, 2019 the Company entered into an unsecured revolving credit agreement with another financial institution allowing the Company to borrow up to $30.0 million; this credit agreement was subsequently amended and renewed on July 30, 2022. Funds provided under the agreement may be used to repurchase shares of the Company's common stock under the share repurchase program, which was reauthorized by the Company's board of directors on April 13, 2021 and expires on April 30, 2023, and for general operations. The credit agreement includes a negative pledge agreement whereby the Company agrees not to pledge or otherwise encumber the stock of the Bank. The credit agreement has a one year term which may be amended, extended, modified or renewed. There were no outstanding borrowings on the credit agreement at December 31, 2022 and 2021, respectively.

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS

In April 2000, the Lakeland Financial Corporation Pension Plan was frozen. The Company also maintains a Supplemental Executive Retirement Plan ("SERP") for select officers that was established as a funded, non-qualified deferred compensation plan. Currently, six retired officers are the only participants in the SERP. The measurement date for both the pension plan and SERP is December 31, 2022 and 2021.

Information as to the Company's employee benefit plans at December 31, 2022 and 2021 is as follows:

	Pension Benefits		SERP Benefits	
(dollars in thousands)	**2022**	2021	**2022**	2021
Change in benefit obligation:				
Beginning benefit obligation	**$ 2,298**	$ 2,710	**$ 867**	$ 968
Interest cost	**53**	52	**20**	18
Actuarial (gain) loss	**(611)**	(153)	**(52)**	13
Benefits paid	**(194)**	(311)	**(135)**	(132)
Ending benefit obligation	**1,546**	2,298	**700**	867
Change in plan assets (primarily equity and fixed income investments and money market funds), at fair value:				
Beginning plan assets	**2,303**	2,349	**848**	879
Actual return	**(289)**	265	**(107)**	101
Employer contribution	**0**	0	**0**	0
Benefits paid	**(194)**	(311)	**(135)**	(132)
Ending plan assets	**1,820**	2,303	**606**	848
Funded status at end of year	**$ 274**	$ 5	**$ (94)**	$ (19)

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		SERP Benefits	
(dollars in thousands)	**2022**	2021	**2022**	2021
Funded status included in other liabilities	**$ 274**	$ 5	**$ (94)**	$ (19)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		SERP Benefits	
(dollars in thousands)	**2022**	2021	**2022**	2021
Net actuarial loss	**$ 538**	$ 852	**$ 487**	$ 431

The accumulated benefit obligation for the pension plan was $1.5 million and $2.3 million for December 31, 2022 and 2021, respectively. The accumulated benefit obligation for the SERP was $700,000 and $867,000 for December 31, 2022 and 2021, respectively.

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS (continued)

Net period benefit cost and other amounts recognized in other comprehensive income (loss) include the following:

	Pension Benefits			SERP Benefits		
(dollars in thousands)	**2022**	2021	2020	**2022**	2021	2020
Net pension expense:						
Service cost	**$ 0**	$ 0	$ 0	**$ 0**	$ 0	$ 0
Interest cost	**53**	52	75	**20**	18	27
Expected return on plan assets	**(130)**	(133)	(140)	**(45)**	(47)	(51)
Recognized net actuarial (gain) loss	**99**	160	171	**45**	82	80
Settlement cost	**23**	65	115	**0**	0	0
Net pension expense	**$ 45**	$ 144	$ 221	**$ 20**	$ 53	$ 56
Net (gain) loss	**$ (215)**	$ (350)	$ 69	**$ 100**	$ (40)	$ 36
Amortization of net loss	**(99)**	(160)	(171)	**(45)**	(82)	(80)
Total recognized in other comprehensive income (loss)	**(314)**	(510)	(102)	**55**	(122)	(44)
Total recognized in net pension expense and other comprehensive income (loss)	**$ (269)**	$ (366)	$ 119	**$ 75**	$ (69)	$ 12

The estimated net loss (gain) for the defined benefit pension plan and SERP that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year is ($31,000) for the pension plan and $37,000 for the SERP. The settlement costs in 2022, 2021 and 2020 were related to participants taking lump sum distributions from the pension plan during those years.

For 2022, 2021 and 2020, the assumed form of payment elected by active participants upon retirement was a lump sum to reflect participant trends. The lump sum assumed interest rates, below, for December 31, 2022, 2021 and 2020 reflect the mortality table in effect for 2022, 2021 and 2020, respectively. For 2022, the mortality assumption was the PRI-2012 White Collar Mortality Table, with full generational Projection Scale MP-2021 as of December 31, 2022. For 2021, the mortality assumption was changed to the PRI-2012 White Collar Mortality Table, with full generational Projection Scale MP-2021 as of December 31, 2021, to reflect improved mortality expectations. For 2020, the mortality assumption was the PRI-2012 White Collar Mortality Table, with full generational Projection Scale MP-2020 as of December 31, 2020.

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS (continued)

	Pension Benefits			SERP Benefits		
	2022	2021	2020	**2022**	2021	2020
The following assumptions were used in calculating the net benefit obligation:						
Weighted average discount rate	**5.03 %**	2.49 %	2.08 %	**5.03 %**	2.49 %	2.08 %
Rate of increase in future compensation	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Lump sum assumed interest rates First 5 years	**5.10 %**	0.87 %	0.53 %	**N/A**	N/A	N/A
Next 15 years	**5.83 %**	2.74 %	2.31 %	**N/A**	N/A	N/A
All future years	**5.68 %**	3.16 %	3.09 %	**N/A**	N/A	N/A
The following assumptions were used in calculating the net pension expense:						
Weighted average discount rate	**2.49 %**	2.08 %	2.98 %	**2.49 %**	2.08 %	2.98 %
Rate of increase in future compensation	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Expected long-term rate of return	**6.50 %**	6.50 %	6.50 %	**6.50 %**	6.50 %	6.50 %

Pension Plan and SERP Assets

The Company’s investment strategies are to invest in a prudent manner for the purpose of providing benefits to participants in the pension plan and the SERP. The investment strategies are targeted to maximize the total return of the portfolio net of inflation, spending and expenses. Risk is controlled through diversification of asset types and investments in domestic and international equities and fixed income securities. The target allocations for plan assets are shown in the tables below. Equity securities primarily include investments in common stocks. Debt securities include government agency and commercial bonds. Other investments consist of money market mutual funds.

The weighted average expected long-term rate of return on pension plan and SERP assets is developed in consultation with the plans actuary. It is primarily based upon industry trends and consensus rates of return which are then adjusted to reflect the specific asset allocations and historical rates of return of the Company’s plan assets. The following assumptions were used in determining the total long-term rate of return: equity securities were assumed to have a long-term rate of return of approximately 8.85% and debt securities were assumed to have a long-term rate of return of approximately 3.00%. These rates of return were adjusted to reflect an approximate target allocation of 60% equity securities and 40% debt securities with a small downward adjustment due to investments in the “Other” category, which consist of low yielding money market mutual funds.

Certain asset types and investment strategies are prohibited including, the investment in commodities, options, futures, short sales, margin transactions and non-marketable securities.

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS (continued)

The Company’s pension plan asset allocation at year end 2022 and 2021, target allocation for 2023, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2023	Percentage of Plan Assets at Year End		Weighted Average Expect Long-Term Rat of Return
		2022	2021	
Equity securities	55 - 65 %	**60 %**	61 %	
Debt securities	35 - 45 %	**39 %**	37 %	
Other	5 - 10 %	**1 %**	2 %	
Total		**100 %**	100 %	

The Company’s SERP plan asset allocation at year end 2022 and 2021, target allocation for 2023, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2023	Percentage of Plan Assets at Year End		Weighted Average Expected Long-Term Rate of Return
		2022	2021	
Equity securities	55 - 65 %	**62 %**	59 %	8.85 %
Debt securities	35 - 45 %	**35 %**	36 %	3.00 %
Other	5 - 10 %	**3 %**	5 %	0.10 %
Total		**100 %**	100 %	6.50 %

Fair Value of Pension Plan and SERP Assets

Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Also, a fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

Equity and debt securities: The fair values of securities 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).

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS (continued)

The fair values of the Company's pension plan assets at December 31, 2022, by asset category are as follows:

Asset Category (dollars in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Equity securities - US large cap common stocks	**$ 718**	**$ 718**	**$ 0**	**$ 0**
Equity securities - US mid cap stock mutual funds	**43**	**43**	**0**	**0**
Equity securities - US small cap stock mutual funds	**131**	**131**	**0**	**0**
Equity securities - international stock mutual funds	**158**	**158**	**0**	**0**
Equity securities - emerging markets stock mutual funds	**34**	**34**	**0**	**0**
Debt securities - intermediate term bond mutual funds	**232**	**232**	**0**	**0**
Debt securities - short term bond mutual funds	**484**	**484**	**0**	**0**
Cash - money market account	**20**	**20**	**0**	**0**
Total	**$ 1,820**	**$ 1,820**	**$ 0**	**$ 0**

The fair values of the Company's pension plan assets at December 31, 2021, by asset category are as follows:

Asset Category (dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities - US large cap common stocks	$ 923	$ 923	$ 0	$ 0
Equity securities - US mid cap stock mutual funds	104	104	0	0
Equity securities - US small cap stock mutual funds	106	106	0	0
Equity securities - international stock mutual funds	193	193	0	0
Equity securities - emerging markets stock mutual funds	73	73	0	0
Debt securities - intermediate term bond mutual funds	273	273	0	0
Debt securities - short term bond mutual funds	572	572	0	0
Cash - money market account	59	59	0	0
Total	$ 2,303	$ 2,303	$ 0	$ 0

There were no Level 2 or 3 securities during either year.

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS (continued)

The fair values of the Company's SERP assets at December 31, 2022, by asset category are as follows:

Asset Category (dollars in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Equity securities - US large cap common stocks	**$ 249**	**$ 249**	**$ 0**	**$ 0**
Equity securities - US mid cap stock mutual funds	**16**	**16**	**0**	**0**
Equity securities - US small cap stock mutual funds	**43**	**43**	**0**	**0**
Equity securities - emerging markets stock mutual funds	**12**	**12**	**0**	**0**
Equity securities - international stock mutual funds	**57**	**57**	**0**	**0**
Debt securities - intermediate term bond mutual funds	**63**	**63**	**0**	**0**
Debt securities - short term bond mutual funds	**149**	**149**	**0**	**0**
Cash - money market account	**17**	**17**	**0**	**0**
Total	**$ 606**	**$ 606**	**$ 0**	**$ 0**

The fair values of the Company's SERP assets at December 31, 2021, by asset category are as follows:

Asset Category (dollars in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities - US large cap common stocks	$ 327	$ 327	$ 0	$ 0
Equity securities - US mid cap stock mutual funds	38	38	0	0
Equity securities - US small cap stock mutual funds	38	38	0	0
Equity securities - emerging markets stock mutual funds	27	27	0	0
Equity securities - international stock mutual funds	71	71	0	0
Debt securities - intermediate term bond mutual funds	85	85	0	0
Debt securities - short term bond mutual funds	222	222	0	0
Cash - money market account	40	40	0	0
Total	$ 848	$ 848	$ 0	$ 0

Total SERP plan assets available for benefits also include $1,000 in accrued interest and dividend income.

There were no Level 2 or 3 securities during either year.

Contributions

The Company did not contribute to its pension or SERP plans in 2022.

NOTE 10 – PENSION AND OTHER POSTRETIREMENT PLANS (continued)

Estimated Future Benefit Payments

The following benefit payments are expected to be paid over the next ten years:

Plan Year (dollars in thousands)	Pension Benefits	SERP Benefits
2023	$ 198	$ 130
2024	168	122
2025	177	112
2026	218	101
2027	141	90
2028-2032	544	262

NOTE 11 – OTHER BENEFIT PLANS

401(k) Plan

The Company maintains a 401(k) profit sharing plan for all employees meeting certain age and service requirements. The 401(k) plan allows employee contributions up to the maximum amount allowable under the Internal Revenue Code, which are matched based upon the percentage of budgeted net income earned during the year on the first 6% of the compensation contributed. The expense recognized from matching was $2.4 million, $2.3 million and $1.9 million in 2022, 2021 and 2020, respectively.

Deferred Compensation Plan

Effective January 1, 2004, the Company adopted the Lake City Bank Deferred Compensation Plan. The purpose of the deferred compensation plan is to extend full 401(k) type retirement benefits to certain individuals without regard to statutory limitations under tax qualified plans. A liability is accrued by the Company for its obligation under this plan. The expense recognized was ($1.0 million), $1.2 million and $1.0 million during the years ended December 31, 2022, 2021 and 2020, respectively. This resulted in a deferred compensation liability of $6.1 million and $7.0 million as of year end 2022 and 2021, respectively. The deferred compensation plan is funded solely by participant contributions and does not receive a Company match.

Employee Agreements

Under employment agreements with certain executives, certain events leading to separation from the Company could result in cash payments totaling $5.4 million as of December 31, 2022. On December 31, 2022, no amounts were accrued on these contingent obligations.

Directors' Deferred Compensation and Cash Plans

The Company maintains a directors' deferred compensation plan and a cash plan. The amount owed to directors for fees under the deferred directors' compensation and cash plans as of December 31, 2022 and 2021 was $5.6 million and $5.2 million, respectively. The related expense for the deferred directors' compensation and cash plans for the years ended December 31, 2022, 2021 and 2020 was $458,000, $482,000 and $505,000, respectively.

NOTE 12 – INCOME TAXES

Income tax expense for the years ended December 31, 2022, 2021 and 2020 consisted of the following:

(dollars in thousands)	**2022**	2021	2020
Current federal	**$ 22,825**	$ 21,329	$ 20,032
Deferred federal	**(2,327)**	(1,249)	(1,688)
Current state	**1,297**	1,892	1,484
Deferred state	**(448)**	(261)	(289)
Total income tax expense	**$ 21,347**	$ 21,711	$ 19,539

The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 21% to income before income taxes were as follows:

(dollars in thousands)	**2022**	2021	2020
Income taxes at statutory federal rate of 21%	**$ 26,284**	$ 24,663	$ 21,814
Increase (decrease) in taxes resulting from:			
Tax exempt income	**(4,438)**	(2,822)	(1,925)
Nondeductible expense	**159**	116	117
State income tax, net of federal tax effect	**671**	1,288	944
Captive insurance premium income	**(417)**	(303)	(227)
Tax credits	**(586)**	(578)	(540)
Bank owned life insurance	**(78)**	(596)	(595)
Long-term incentive plan and deferred compensation	**(530)**	(274)	(58)
Nondeductible compensation expense	**181**	156	0
Other	**101**	61	9
Total income tax expense	**$ 21,347**	$ 21,711	$ 19,539

NOTE 12 – INCOME TAXES (continued)

The net deferred tax asset recorded in the consolidated balance sheets at December 31, 2022 and 2021 consisted of the following:

(dollars in thousands)	2022	2021
Deferred tax assets:		
Bad debts	**$ 18,561**	$ 17,321
Pension and deferred compensation liability	**2,272**	2,351
Nonaccrual loan interest	**256**	600
Long-term incentive plan	**2,894**	1,896
Lease liability	**1,354**	1,078
Deferred loan fees	**572**	771
Accrued legal reserve	**819**	0
Other	**1,130**	191
	27,858	24,208
Deferred tax liabilities:		
Depreciation	**4,257**	4,279
Loan servicing rights	**694**	717
State taxes	**786**	679
Intangible assets	**1,270**	1,270
REIT spillover dividend	**1,290**	1,180
Prepaid expenses	**988**	952
Lease right of use	**1,354**	1,078
Other	**585**	194
	11,224	10,349
Valuation allowance	**0**	0
Net deferred tax asset	**$ 16,634**	$ 13,859

In addition to the net deferred tax assets included above, the deferred income tax asset (liability) allocated to the unrealized net gain (loss) on securities available-for-sale included in equity was $50.0 million and ($4.5 million) for 2022 and 2021, respectively. The deferred income tax asset allocated to the pension plan and SERP included in equity was $255,000 and $319,000 for 2022 and 2021, respectively.

The Company evaluated its deferred tax asset at year end 2022 and has concluded that it is more likely than not that it will be realized. The Company expects to have taxable income in the future such that the deferred tax asset will be realized. Therefore, no valuation allowance is required.

Unrecognized Tax Benefits

The Company did not have any unrecognized tax benefits at December 31, 2022 or 2021. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

No interest or penalties were recorded in the income statement and no amount was accrued for interest and penalties for the periods ending December 31, 2022, 2021 and 2020. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company’s policy to record such accruals in its income taxes accounts.

The Company and its subsidiaries file a consolidated U.S. federal tax return and a combined unitary return in the States of Indiana and Michigan. These returns are subject to examinations by authorities for all years after 2018.

NOTE 13 – RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates as of December 31, 2022 and 2021 were as follows:

(dollars in thousands)	2022	2021
Beginning balance	**$ 99,865**	$ 104,694
New loans and advances	**54,085**	74,115
Effect of changes in related parties	**(10,463)**	(62)
Repayments and renewals	**(30,052)**	(78,882)
Ending balance	**$ 113,435**	$ 99,865

Deposits from principal officers, directors, and their affiliates at year end 2022 and 2021 were $16.2 million and $30.2 million, respectively.

The Company and Bank are an investor in certain funds managed by Centerfield Capital ("Centerfield"), a private equity investment firm. Faraz Abbasi, a director of the Company, is a Managing Partner and an owner of Centerfield. As of December 31, 2022 and 2021, the Company had an aggregate investment balance of approximately $2.3 million in such funds, which are included in other assets on the consolidated balance sheet, and had remaining commitments to invest up to approximately $2.8 million and $3.2 million, respectively. Under the terms of the applicable funds, Centerfield is entitled to customary management fees with respect to the amounts under management and investment gains, and it is estimated that Mr. Abbasi's interest in such fees was less than $25,000 annually for the years ended December 31, 2022 and 2021.

NOTE 14 – STOCK BASED COMPENSATION

Effective April 8, 2008, the Company adopted the Lakeland Financial Corporation 2008 Equity Incentive Plan (the "2008 Plan"), which was approved by the Company's stockholders. At its inception there were 1,125,000 shares of common stock reserved for grants of stock options, stock appreciation rights, stock awards and cash incentive awards to employees of the Company, its subsidiaries and Board. Effective April 9, 2013, the Company adopted the Lakeland Financial Corporation 2013 Equity Incentive Plan (the "2013 Plan"), which was also approved by the Company's stockholders. At its inception the remaining shares of common stock available to grant under the 2008 Plan of 435,867 were transferred to the 2013 Plan and reserved for grants of stock options, stock appreciation rights, stock awards and cash incentive awards to employees of the Company, its subsidiaries and Board. Non-vested shares from the 2008 Plan that were unused at vesting were added to the shares available to grant of the 2013 Plan. Effective April 12, 2017, the Company adopted the Lakeland Financial Corporation 2017 Equity Incentive Plan (the "2017 Plan"), which was also approved by the Company's stockholders and does not permit share recycling. At its inception there were 1,000,000 shares of common stock reserved for grants of stock options, stock appreciation rights, stock awards and cash incentive awards to employees of the Company, its subsidiaries and Board. As of December 31, 2022, 387,388 shares were available for future grants in the 2017 Plan, which is the only active plan. Certain stock awards provide for accelerated vesting if there is a change in control. The Company has a policy of issuing new shares to satisfy exercises of stock awards.

Included in net income for the years ended December 31, 2022, 2021 and 2020 was employee stock compensation expense of $7.8 million, $7.2 million and $1.8 million, and a related tax benefit of $2.0 million, $1.8 million and $0.5 million, respectively.

Stock Options

The equity incentive plan requires that the exercise price for options be the market price on the date the options are granted. The maximum option term is ten years and the awards usually vest over three years. The fair value of each stock option is estimated with the Black-Scholes pricing model, using the following weighted-average assumptions as of the grant date for stock options granted during the years presented. Expected volatilities are based on historical volatility of the Company's stock over the immediately preceding expected life period, as well as other factors known on the grant date that would have a significant effect on the stock price during the expected life period. The expected stock option life used is the historical option life of the similar employee base or Board. The turnover rate is based on historical data of the similar employee base as a group

NOTE 14 – STOCK BASED COMPENSATION (continued)

and the Board as a group. The risk-free interest rate is the Treasury rate on the date of grant corresponding to the expected life period of the stock option.

There were no stock option grants or modifications in 2022, 2021 or 2020. As of December 31, 2022, there was no unrecognized compensation cost related to non-vested stock options granted under the plan.

There were no options exercised during the years ended December 31, 2022, 2021 or 2020.

Restricted Stock Awards and Units

The fair value of restricted stock awards and units is the closing price of the Company's common stock on the date of grant adjusted for the present value of expected dividends. The restricted stock awards fully vest after one year or more of service, determined at the grant date, with the exception of 14,300 shares granted to non-employee directors of the Board included as vested, below, which vested on the grant date.

A summary of the changes in the Company's non-vested shares for the year follows:

Nonvested Shares	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	1,500	$	44.10
Granted	37,957		76.02
Vested	(15,876)		72.84
Forfeited	(516)		76.33
Nonvested at December 31, 2022	23,065	$	76.13

As of December 31, 2022, there was $1.2 million unrecognized compensation cost related to non-vested shares granted under the plan. The cost is expected to be recognized over a weighted period of 2 years. The total fair value of shares vested during the years ended December 31, 2022, 2021 and 2020 was $1.2 million, $1.1 million and $0.7 million, respectively.

Performance Stock Units

The fair value of stock awards is the closing price of the Company's common stock on the date of grant, adjusted for the present value of expected dividends. The expected dividend rate is assumed to be the most recent dividend rate declared by the Board on the grant date. The grant date fair value of stock awards is assumed at the target payout rate. The stock awards fully vest on the third anniversary of the grant date. The 2022-2024, 2021-2023 and 2020-2022 Long-Term Incentive Plans must be paid in stock and have performance conditions which include revenue growth, diluted earnings per share growth and average return on beginning equity. Shares granted below include the number of shares assumed granted based on actual performance criteria of the 2022-2024, 2021-2023 and 2020-2022 Long-Term Incentive Plans at December 31, 2022.

Nonvested Shares	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	271,770	$	49.83
Granted, net	92,713		72.80
Vested	(53,670)		43.44
Forfeited	(6,192)		57.45
Nonvested at December 31, 2022	304,621	$	57.79

As of December 31, 2022, there was $6.6 million of total unrecognized compensation cost related to non-vested shares granted under the plan. The cost is expected to be recognized over a weighted period of 2 years. The total fair value of shares vested during the year ended December 31, 2022, 2021 and 2020 was $4.3 million, $5.2 million and $5.7 million, respectively. During the years ended December 31, 2022, 2021 and 2020, 53,670, 83,216 and 120,204 shares vested, respectively.

NOTE 15 – CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company became a financial holding company effective May 30, 2012 and is now required to be well capitalized under the applicable regulatory guidelines. The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet certain heightened minimum capital requirements can initiate certain mandatory, and possibly discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

The capital adequacy requirements were heightened by the Basel III Rule, previously defined, which went into effect on January 1, 2015 with a phase-in period for certain aspects of the rule through 2019. Under the Basel III rule, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.00% for 2015 to 2.50% by 2019. The capital conservation buffer for 2022 and 2021 was 2.50%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. The quantitative measures established by regulation to ensure capital adequacy that were in effect on December 31, 2022 and 2021, require the Company and the Bank to maintain minimum capital amounts and ratios (set forth in the following table) of Total, Tier I and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulation), and of Tier I capital (as defined in the regulation) to average assets (as defined). Management believes, as of the years ended December 31, 2022 and 2021, that the Company and the Bank met all capital adequacy requirements to which they are subject.

NOTE 15 – CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (continued)

As of December 31, 2022, the most recent notification from the federal regulators categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum Total risk-based capital ratios, Tier I risk-based capital ratios and Tier I leverage capital ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Company and the Bank's category.

(dollars in thousands)	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum "Required" to Be "Well" Capitalized Under "Prompt" Corrective Action Regulations	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2022								
Total Capital (to Risk Weighted Assets)								
Consolidated	**$ 821,008**	**15.07 %**	**$ 435,786**	**8.00 %**	**$ 571,969**	**N/A**	**N/A**	**N/A**
Bank	**$ 801,044**	**14.74 %**	**$ 434,758**	**8.00 %**	**$ 570,620**	**10.50 %**	**$ 543,448**	**10.00 %**
Tier I Capital (to Risk Weighted Assets)								
Consolidated	**$ 752,751**	**13.82 %**	**$ 326,840**	**6.00 %**	**$ 463,023**	**N/A**	**N/A**	**N/A**
Bank	**$ 732,966**	**13.49 %**	**$ 326,069**	**6.00 %**	**$ 461,930**	**8.50 %**	**$ 434,758**	**8.00 %**
Common Equity Tier 1 (CET1)								
Consolidated	**$ 752,751**	**13.82 %**	**$ 245,130**	**4.50 %**	**$ 381,313**	**N/A**	**N/A**	**N/A**
Bank	**$ 732,966**	**13.49 %**	**$ 244,551**	**4.50 %**	**$ 380,413**	**7.00 %**	**$ 353,241**	**6.50 %**
Tier I Capital (to Average Assets)								
Consolidated	**$ 752,751**	**11.50 %**	**$ 261,859**	**4.00 %**	**$ 261,859**	**N/A**	**N/A**	**N/A**
Bank	**$ 732,966**	**11.22 %**	**$ 261,222**	**4.00 %**	**$ 261,222**	**4.00 %**	**$ 326,527**	**5.00 %**
As of December 31, 2021								
Total Capital (to Risk Weighted Assets)								
Consolidated	$ 744,421	15.35 %	$ 388,020	8.00 %	$ 509,276	N/A	N/A	N/A
Bank	$ 726,091	15.01 %	$ 387,118	8.00 %	$ 508,093	10.50 %	$ 483,898	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	$ 683,754	14.10 %	$ 291,015	6.00 %	$ 412,271	N/A	N/A	N/A
Bank	$ 665,424	13.75 %	$ 290,339	6.00 %	$ 411,313	8.50 %	$ 387,118	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	$ 683,754	14.10 %	$ 218,261	4.50 %	$ 339,518	N/A	N/A	N/A
Bank	$ 665,424	13.75 %	$ 217,754	4.50 %	$ 338,729	7.00 %	$ 314,534	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	$ 683,754	10.73 %	$ 254,898	4.00 %	$ 254,898	N/A	N/A	N/A
Bank	$ 665,424	10.46 %	$ 254,425	4.00 %	$ 254,425	4.00 %	$ 318,030	5.00 %

The Bank is required to obtain the approval of the Indiana Department of Financial Institutions for the payment of any dividend if the total amount of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the retained net income for the year-to-date combined with the retained net income for the previous two years. Indiana law defines "retained net income" to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period. As of December 31, 2022, approximately $121.1 million was available to be paid as dividends to the Company by the Bank.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2022. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

NOTE 16 – 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 December 31, 2022 and 2021.

	2022					
				Gross Amounts Not Offset in the Statement of Financial Position		
(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	Financial Instruments	Cash Collateral Position	Net Amount
Assets						
Interest Rate Swap Derivatives	**$ 36,920**	**$ 0**	**$ 36,920**	**$ 0**	**$ (34,185)**	**$ 2,735**
Total Assets	**$ 36,920**	**$ 0**	**$ 36,920**	**$ 0**	**$ (34,185)**	**$ 2,735**
Liabilities						
Interest Rate Swap Derivatives	**$ 36,921**	**$ 0**	**$ 36,921**	**$ 0**	**$ (90)**	**$ 36,831**
Total Liabilities	**$ 36,921**	**$ 0**	**$ 36,921**	**$ 0**	**$ (90)**	**$ 36,831**

	2021					
				Gross Amounts Not Offset in the Statement of Financial Position		
(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	Financial Instruments	Cash Collateral Position	Net Amount
Assets						
Interest Rate Swap Derivatives	$ 14,309	$ 0	$ 14,309	$ 0	$ (2,255)	$ 12,054
Total Assets	$ 14,309	$ 0	$ 14,309	$ 0	$ (2,255)	$ 12,054
Liabilities						
Interest Rate Swap Derivatives	$ 14,329	$ 0	$ 14,329	$ 0	$ (7,995)	$ 6,334
Total Liabilities	$ 14,329	$ 0	$ 14,329	$ 0	$ (7,995)	$ 6,334

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 17 – COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

During the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. Amounts as of the years ended December 31, 2022 and 2021, were as follows:

	2022		2021	
(dollars in thousands)	**Fixed Rate**	**Variable Rate**	Fixed Rate	Variable Rate
Commercial loan lines of credit	**$ 140,022**	**$ 2,129,211**	$ 79,792	$ 1,850,719
Standby letters of credit	**0**	**48,406**	0	55,336
Real estate mortgage loans	**377**	**5,668**	7,906	14,216
Real estate construction mortgage loans	**2,212**	**9,043**	2,402	3,213
Home equity mortgage open-ended revolving lines	**0**	**341,622**	0	306,124
Consumer loan open-ended revolving lines	**0**	**25,916**	0	23,287
Total	**$ 142,611**	**$ 2,559,866**	$ 90,100	$ 2,252,895

The index on variable rate commercial loan commitments is principally the national prime rate. Interest rate ranges on commitments and open-ended revolving lines of credit for years ended December 31, 2022 and 2021, were as follows:

	2022		2021	
	Fixed Rate	**Variable Rate**	Fixed Rate	Variable Rate
Commercial loan	**1.99-14.50%**	**1.63-13.00%**	1.99-14.50%	1.11-10.00%
Real estate mortgage loan	**0.00-7.00%**	**3.13-12.50%**	2.50-3.75%	3.00-8.25%
Consumer loan open-ended revolving line	**15.00%**	**7.00-15.00%**	15.00%	3.25-15.00%

Commitments, excluding open-ended revolving lines, generally have fixed expiration dates of one year or less. Open-ended revolving lines are monitored for proper performance and compliance on a monthly basis. Since many commitments expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company follows the same credit policy (including requiring collateral, if deemed appropriate) to make such commitments as it follows for those loans that are recorded in its financial statements.

The Company’s exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments.

NOTE 18 – PARENT COMPANY STATEMENTS

The Company operates primarily in the banking industry, which accounts for substantially all of its revenues, operating income and assets. Presented below are parent only financial statements:

CONDENSED BALANCE SHEETS

(dollars in thousands)	December 31, 2022	December 31, 2021
ASSETS		
Deposits with Lake City Bank	**$ 386**	$ 834
Deposits with other depository institutions	**1,954**	2,459
Cash	**2,340**	3,293
Investments in banking subsidiary	**549,031**	686,487
Investments in other subsidiaries	**3,845**	3,468
Other assets	**13,819**	11,830
Total assets	**$ 569,035**	$ 705,078
LIABILITIES		
Dividends payable and other liabilities	**$ 237**	$ 261
STOCKHOLDERS' EQUITY	**568,798**	704,817
Total liabilities and stockholders' equity	**$ 569,035**	$ 705,078

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)	Years Ended December 31, 2022	2021	2020
Dividends from Lake City Bank	**$ 40,590**	$ 47,355	$ 32,079
Dividends from non-bank subsidiaries	**1,300**	1,035	1,300
Other income	**1**	3	0
Interest expense	**0**	(7)	0
Miscellaneous expense	**(8,795)**	(8,133)	(3,935)
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	**33,096**	40,253	29,444
Income tax benefit	**2,770**	2,360	1,065
INCOME BEFORE EQUITY IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	**35,866**	42,613	30,509
Equity in undistributed income of subsidiaries	**67,951**	53,120	53,828
NET INCOME	**$ 103,817**	$ 95,733	$ 84,337
COMPREHENSIVE INCOME (LOSS)	**$ (101,199)**	$ 84,082	$ 100,022

NOTE 18 – PARENT COMPANY STATEMENTS (continued)

CONDENSED STATEMENTS OF CASH FLOWS

(dollars in thousands)	Years Ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Net income	**$ 103,817**	$ 95,733	$ 84,337
Adjustments to net cash from operating activities:			
Equity in undistributed income of subsidiaries	**(67,951)**	(53,120)	(53,828)
Other changes	**6,157**	5,177	1,257
Net cash from operating activities	**42,023**	47,790	31,766
Cash flows from financing activities			
Proceeds from (payments on) short-term borrowings	**0**	(10,500)	10,500
Payments related to equity incentive plans	**(1,780)**	(1,914)	(2,137)
Purchase of treasury stock	**(579)**	(559)	(10,547)
Sales of treasury stock	**221**	115	119
Dividends paid	**(40,838)**	(34,640)	(30,566)
Cash flows from financing activities	**(42,976)**	(47,498)	(32,631)
Net increase (decrease) in cash and cash equivalents	**(953)**	292	(865)
Cash and cash equivalents at beginning of the year	**3,293**	3,001	3,866
Cash and cash equivalents at end of the year	**$ 2,340**	$ 3,293	$ 3,001

NOTE 19 – EARNINGS PER SHARE

Following are the factors used in the earnings per share computations:

(dollars in thousand except share and per share data)	2022	2021	2020
Basic earnings per common share:			
Net income	**$ 103,817**	$ 95,733	$ 84,337
Weighted-average common shares outstanding	**25,528,328**	25,475,994	25,469,242
Basic earnings per common share	**$ 4.07**	$ 3.76	$ 3.31
Diluted earnings per common share:			
Net income	**$ 103,817**	$ 95,733	$ 84,337
Weighted-average common shares outstanding for basic earnings per common share	**25,528,328**	25,475,994	25,469,242
Add: Dilutive effect of assumed exercises of stock options and awards	**184,210**	144,111	104,699
Average shares and dilutive potential common shares	**25,712,538**	25,620,105	25,573,941
Diluted earnings per common share	**$ 4.04**	$ 3.74	$ 3.30

There were no antidilutive stock options for 2022, 2021 and 2020.

NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for December 31, 2022 and 2021, all shown net of tax:

(dollars in thousands)	**Unrealized Gains and (Losses) on Available-for-Sales Securities**	**Defined Benefit Pension Items**	**Total**
Balance at January 1, 2022	**$ 17,056**	**$ (963)**	**$ 16,093**
Other comprehensive income (loss) before reclassification	**(206,392)**	**86**	**(206,306)**
Amounts reclassified from accumulated other comprehensive income (loss)	**1,182**	**108**	**1,290**
Net current period other comprehensive income (loss)	**(205,210)**	**194**	**(205,016)**
Balance at December 31, 2022	**$ (188,154)**	**$ (769)**	**$ (188,923)**

(dollars in thousands)	Unrealized Gains and (Losses) on Available-for-Sales Securities	Defined Benefit Pension Items	Total
Balance at January 1, 2021	$ 29,182	$ (1,438)	$ 27,744
Other comprehensive income (loss) before reclassification	(11,496)	293	(11,203)
Amounts reclassified from accumulated other comprehensive income (loss)	(630)	182	(448)
Net current period other comprehensive income (loss)	(12,126)	475	(11,651)
Balance at December 31, 2021	$ 17,056	$ (963)	$ 16,093

NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (continued)

Reclassifications out of accumulated other comprehensive income for the years ended December 31, 2022, 2021 and 2020 are as follows:

Details about Accumulated Other Comprehensive Income Components		Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
2022			
(dollars in thousands)			
Amortization of unrealized losses on held-to-maturity securities	**$**	**(1,518)**	Interest income
Realized gains and (losses) on available-for-sale securities		**21**	Net securities gains
Tax effect		**315**	Income tax expense
Subtotal		**(1,182)**	Net of tax
Amortization of defined benefit pension items(1)		**(144)**	Salaries and employee benefits
Tax effect		**36**	Income tax expense
Subtotal		**(108)**	Net of tax
Total reclassifications for the period	**$**	**(1,290)**	Net income
2021			
(dollars in thousands)			
Realized gains and (losses) on available-for-sale securities	$	797	Net securities gains
Tax effect		(167)	Income tax expense
Subtotal		630	Net of tax
Amortization of defined benefit pension items(1)		(242)	Salaries and employee benefits
Tax effect		60	Income tax expense
Subtotal		(182)	Net of tax
Total reclassifications for the period	$	448	Net income
2020			
(dollars in thousands)			
Realized gains and (losses) on available-for-sale securities	$	433	Net securities gains
Tax effect		(91)	Income tax expense
Subtotal		342	Net of tax
Amortization of defined benefit pension items(1)		(251)	Salaries and employee benefits
Tax effect		63	Income tax expense
Subtotal		(188)	Net of tax
Total reclassifications for the period	$	154	Net income

(1) Included in the computation of net pension plan expense as more fully discussed in Note 10 – Pension and Other Postretirement Plans.

NOTE 21 – SELECTED QUARTERLY DATA (UNAUDITED) (in thousands except per share data)

2022	**4th Quarter**	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
Interest income	**$ 75,353**	**$ 62,558**	**$ 53,622**	**$ 48,034**
Interest expense	**18,516**	**10,066**	**4,944**	**3,154**
Net interest income	**56,837**	**52,492**	**48,678**	**44,880**
Provision for credit losses	**8,958**	**0**	**0**	**417**
Net interest income after provision	**47,879**	**52,492**	**48,678**	**44,463**
Noninterest income	**10,519**	**10,164**	**10,492**	**10,687**
Noninterest expense	**27,434**	**27,894**	**27,913**	**26,969**
Income tax expense	**4,987**	**6,237**	**5,584**	**4,539**
Net income	**$ 25,977**	**$ 28,525**	**$ 25,673**	**$ 23,642**
Basic earnings per common share	**$ 1.02**	**$ 1.12**	**$ 1.00**	**$ 0.93**
Diluted earnings per common share	**$ 1.01**	**$ 1.11**	**$ 1.00**	**$ 0.92**

2021	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 48,322	$ 49,295	$ 47,625	$ 47,977
Interest expense	3,315	3,554	3,964	4,298
Net interest income	45,007	45,741	43,661	43,679
Provision for credit losses	0	1,300	(1,700)	1,477
Net interest income after provision	45,007	44,441	45,361	42,202
Noninterest income	9,709	11,114	11,340	12,557
Noninterest expense	24,926	25,967	26,648	26,746
Income tax expense	5,507	5,469	5,705	5,030
Net income	$ 24,283	$ 24,119	$ 24,348	$ 22,983
Basic earnings per common share	$ 0.95	$ 0.95	$ 0.96	$ 0.90
Diluted earnings per common share	$ 0.95	$ 0.94	$ 0.95	$ 0.90

NOTE 22 – LEASES

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

NOTE 22 - LEASES (continued)

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 lease standard.

The following is a maturity analysis of the operating lease liabilities as of December 31, 2022:

Years ending December 31, (in thousands)	Operating Lease Obligation
2023	$ 727
2024	744
2025	756
2026	731
2027	753
2028 and thereafter	2,185
Total undiscounted lease payments	5,896
Less imputed interest	(600)
Lease liability	$ 5,296
Right-of-use asset	$ 5,296

	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2020
Lease cost			
Operating lease cost	**$ 667**	$ 536	$ 536
Short-term lease cost	**22**	24	24
Total lease cost	**$ 689**	$ 560	$ 560
Other information			
Operating cash outflows from operating leases	**$ 667**	$ 536	$ 536
Weighted-average remaining lease term - operating leases	**7.3**	7.9	8.8
Weighted average discount rate - operating leases	**2.5 %**	2.8 %	2.8 %

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Within the prior two years of the date of the most recent financial statement, there have been no changes in or disagreements with the Company's accountants.

ITEM 9A. CONTROLS AND PROCEDURES

a) An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a -15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2022. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP").

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, management used the 2013 criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2022.

The Company's independent registered public accounting firm (Crowe LLP - PCAOB ID: 173) has issued their report on the Company's internal control over financial reporting. That report appears under the heading, Report of Independent Registered Public Accounting Firm.

c) There have been no changes in the Company's internal controls during the previous fiscal quarter, ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required in response to this item will be contained under the captions “Election of Directors,” “Corporate Governance and the Board of Directors” and “Delinquent Section 16(a) Reports” in the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on April 11, 2023, to be filed with the SEC on March 2, 2023, on Form DEF 14A, and such sections are incorporated herein by reference in response to this Item.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item will be contained under the captions “Director Compensation,” “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the definitive Proxy Statement, for the Annual Meeting of Stockholders to be held on April 11, 2023, to be filed with the SEC on March 2, 2023, on Form DEF 14A, is incorporated herein by reference in response to this Item. The information included under the heading “Compensation Committee Report” in the Proxy Statement shall not be deemed “soliciting” materials or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

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

The information appearing under the caption “Security Ownership of Certain Beneficial Owners and Management” in the definitive Proxy Statement, for the Annual Meeting of Stockholders to be held on April 11, 2023, to be filed with the SEC on Form DEF 14A, is incorporated herein by reference in response to this Item.

See Item 5 above for equity compensation plan information.

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

The information appearing under the caption “Certain Relationships and Related Transactions” in the definitive Proxy Statement, for the Annual Meeting of Stockholders to be held on April 11, 2023, to be with the SEC on Form DEF 14A, is incorporated herein by reference in response to this Item. Certain additional information on related party transactions is also included in Note 13 - Related Party Transactions to the Company’s financial statements contained in Item 8.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the caption “Fees Paid to Independent Registered Public Accounting Firm” in the definitive Proxy Statement, for the Annual Meeting of Stockholders to be held on April 11, 2023, to be filed with the SEC on Form DEF 14A, is incorporated herein by reference in response to this Item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The documents listed below are filed as a part of this report:

(a) Exhibits

Exhibit No.	Document	Location
3.1	Amended and Restated Articles of Incorporation of Lakeland Financial Corporation	Attached hereto
3.2	Restated Bylaws of Lakeland Financial Corporation, as amended	Attached hereto
4.1	Form of Common Stock Certificate	Exhibit 4.1 to the Company’s Form 10-K for the fiscal year ended December 31, 2003
4.2	Description of Securities	Exhibit 4.4 to the Company's Form 10-K for the fiscal year ended December 31, 2019
10.1*	Lakeland Financial Corporation 2008 Equity Incentive Plan	Exhibit 10.1 to the Company’s Form S-8 filed on May 14, 2008
10.2*	Amended and Restated Lakeland Financial Corporation Director’s Fee Deferral Plan	Exhibit 10.4 to the Company’s Form 10-K for the fiscal year ended December 31, 2008
10.3*	Form of Change in Control Agreement entered into with David M. Findlay, Kevin L. Deardorff, Eric H. Ottinger, Michael E. Gavin, Lisa M. O’Neill and Kristin L. Pruitt	Exhibit 10.1 of the Company’s Form 8-K filed on March 2, 2016
10.4*	Amended and Restated Employee Deferred Compensation Plan	Exhibit 10.7 to the Company’s Form 10-K for the fiscal year ended December 31, 2008
10.5*	First Amendment to Amended and Restated Employee Deferred Compensation Plan	Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended December 31, 2020
10.6*	Executive Incentive Bonus Plan	Exhibit 10.11 to the Company’s Form 10-K for the fiscal year ended December 31, 2004
10.7*	Amended and Restated Long Term Incentive Plan	Exhibit 10.1 to the Company’s Form10-Q for the quarter ended September 30, 2009
10.8*	Lakeland Financial Corporation 2013 Equity Incentive Plan	Appendix A to the Definitive Proxy Statement on Form DEF-14A filed on March 4, 2013
10.9*	Form of Restricted Stock Award Agreement	Exhibit 4.3 to the Company’s Form S-8 filed on July 9, 2013
10.10*	Form of Nonqualified Stock Option Award Agreement	Exhibit 4.4 to the Company’s Form S-8 filed on July 9, 2013

10.11*	Form of Restricted Stock Unit Award Agreement	Exhibit 4.5 to the Company’s Form S-8 filed on July 9, 2013
10.12*	Lakeland Financial Corporation 2017 Equity Incentive Plan	Exhibit 4.5 to the Company’s Form S-8 filed on April 13, 2017
10.13*	Form of Restricted Stock Unit Award Agreement	Exhibit 4.6 to the Company’s Form S-8 filed on April 13, 2017
10.14*	Form of Restricted Stock Award Agreement	Exhibit 4.7 to the Company’s Form S-8 filed on April 13, 2017
10.15*	Form of Restricted Stock Award Agreement	Exhibit 4.8 to the Company’s Form S-8 filed on April 13, 2017
10.16*	Form of Nonqualified Stock Option Award Agreement	Exhibit 4.9 to the Company’s Form S-8 filed on April 13, 2017
10.17*	Lakeland Financial Corporation Amended and Restated 2017 Equity Incentive Plan	Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2021
21.0	Subsidiaries	Attached hereto
23.1	Consent of Independent Registered Public Accounting Firm	Attached hereto
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e)/15d-15(e) and 13(a)-15(f)/15d-15(f)	Attached hereto
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e)/15d-15(e) and 13(a)-15(f)/15d-15(f)	Attached hereto
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	Attached hereto
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	Attached hereto

* Management contract or compensatory plan or arrangement.

101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document contained in Exhibit 101

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities and 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

Date: February 22, 2023	By	/s/ David M. Findlay David M. Findlay, Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ David M. Findlay David M. Findlay	President, Chief Executive Officer and Director (principal executive officer)	February 22, 2023
/s/ Lisa M. O'Neill Lisa M. O'Neill	Executive Vice President, Chief Financial Officer (principal financial officer)	February 22, 2023
/s/ Brok A. Lahrman Brok A. Lahrman	Senior Vice President, Finance and Chief Accounting Officer (principal accounting officer)	February 22, 2023
/s/ A. Faraz Abbasi A. Faraz Abbasi	Director	February 22, 2023
/s/ Blake W. Augsburger Blake W. Augsburger	Director	February 22, 2023
/s/ Robert E. Bartels, Jr. Robert E. Bartels, Jr.	Director	February 22, 2023
/s/Darrianne P. Christian Darrianne P. Christian	Director	February 22, 2023
/s/ Michael L. Kubacki Michael L. Kubacki	Chairman and Director	February 22, 2023

/s/ Emily E. Pichon Emily E. Pichon	Director	February 22, 2023
/s/ Steven D. Ross Steven D. Ross	Director	February 22, 2023
/s/ Brian J. Smith Brian J. Smith	Director	February 22, 2023
/s/ Bradley J. Toothaker Bradley J. Toothaker	Director	February 22, 2023
/s/ M. Scott Welch M. Scott Welch	Director	February 22, 2023

AMENDED AND RESTATED
ARTICLES OF INCORPORATION

OF

LAKELAND FINANCIAL CORPORATION

ARTICLE I

Name

The name of the Corporation is Lakeland Financial Corporation.

ARTICLE II

Purposes

The purposes for which the Corporation is formed are:

Section 1. To acquire control of the Lake City Bank, of Warsaw, Indiana and to operate as a bank holding company.

Section 2. General Powers. To possess, exercise, and enjoy all rights, powers and privileges conferred upon bank holding companies by the Bank Holding Company Act of 1956 as amended and as hereafter amended or supplemented, and all other rights and powers authorized by the laws of the State of Indiana, and the laws of the United States of America applicable to bank holding companies and the regulations of the Board of Governors of the Federal Reserve System.

Section 3. To Deal in Real Property. Subject to the limitations of Section 2 above, to acquire by purchase, exchange, lease or otherwise, and to hold, own, use, construct, improve, equip, manage, occupy, mortgage, sell, lease, convey, exchange or otherwise dispose of, alone or in conjunction with others, real estate and leaseholds of every kind, character and description whatsoever and wheresoever situated, and any other interests therein, including, but without limiting the generality thereof, buildings, factories, warehouses, offices and structures of all kinds.

Section 4. Capacity to Act. Subject to the limitations of Section 2 above, to have the capacity to act possessed by natural persons and to perform such acts as are necessary and advisable to accomplish the purposes, activities and business of the Corporation.

Section 5. To Act as Agent. Subject to the limitations of Section 2 above, to act as agent or representative for any firm, association, corporation, partnership, government or person, public or private, with respect to any activity or business of the Corporation.

Section 6. To Make Contracts and Guarantees. Subject to the limitations of Section 2 above, to make, execute and perform, or cancel and rescind, contracts of every kind and description, including guarantees and contracts of suretyship, with any firm, association, corporation, partnership, government or person, public or private.

Section 7. To Borrow Funds. Subject to the limitations of Section 2 above, to borrow moneys for any activity or business of the Corporation and, from time to time, without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, notes, trust receipts, and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment thereof, and the

interest thereon, by mortgage, pledge, conveyance, or assignment in trust of all or any part of the assets of the Corporation, real, personal or mixed, including contract rights, whether at the time owned or thereafter acquired, and to sell, exchange, or otherwise dispose of such securities or other obligations of the Corporation.

Section 8. To Deal in its Own Securities. Subject to the limitations of Section 2 above, to purchase, take, receive or otherwise acquire, and to hold, own, pledge, transfer or otherwise dispose of shares of its own capital stock and other securities. Purchases of the Corporation's own shares, whether direct or indirect, may be made without shareholder approval only to the extent of unreserved and unrestricted earned surplus available therefor.

ARTICLE III

Period of Existence

The period during which the Corporation shall continue is perpetual.

ARTICLE IV

Resident Agent and Principal Office

Section 1. Resident Agent. The name and address of the Corporation's Resident Agent for service of process is R. Douglas Grant, 202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46580.

Section 2. Principal Office. The post office address of the principal office of the Corporation is 202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46580.

ARTICLE V

Authorized Shares

Section 1. The total number of shares of all classes of capital stock which the Corporation has the authority to issue is 91 million (91,000,000) shares, which are divided into two classes as follows:

(a) one million (1,000,000) shares of preferred stock, no par value (the "Preferred Stock"); and

(b) ninety million (90,000,000) shares of common stock, no par value (the "Common Stock").

Section 2. The preferences, qualifications, limitations, restrictions and special or relative rights in respect of the shares of each class are:

Paragraph 1. Preferred Stock. The Board of Directors is authorized, at any time and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series with such designations, preferences, voting powers and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof as are stated and expressed in the resolution or resolutions providing for the issuance of such Preferred Stock adopted by the Board of Directors, and as are not stated and expressed in these articles of incorporation or any amendment thereto, including, but not limited to, determination of any of the following:

(a) the distinctive serial designation and the number of shares constituting a series;

(b) the dividend rate or rates, whether dividends are cumulative (and if so on what terms and conditions), the payment date or dates for dividends and the participating or other special rights, if any, with respect to dividends;

(c) the voting rights, full or limited, if any, of the shares of the series, which could include the right to elect a specified number of directors in any case if dividends on the series are not paid for in a specified period of time;

(d) whether the shares of the series are redeemable and, if so, the price or prices at which, and the terms and conditions on which, the shares may be redeemed, which prices, terms and conditions may vary under different conditions and at different redemption dates;

(e) the amount or amounts, if any, payable upon the shares of the series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation prior to any payment or distribution of the assets of the Corporation to any class or classes of stock of the Corporation ranking junior to the series;

(f) whether the shares of the series are entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of shares of the series and the amount of the fund and the manner of its application, including the price or prices at which the shares of the series may be redeemed or purchased through the application of the fund;

(g) whether the shares are convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation and the conversion price or prices, or the rates of exchange, and the adjustments thereof, if any, at which the conversion or exchange may be made, and any other terms and conditions of the conversion or exchange; and

(h) any other preferences, privileges and powers, and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of a series, as the Board of Directors may deem advisable and as are not inconsistent with the provisions of these articles of incorporation.

Paragraph 2. Common Stock.

(a) Subject to the preferential rights of the Preferred Stock, the holders of the Common Stock are entitled to receive, to the extent permitted by law, such dividends as may be declared from time to time by the Board of Directors.

(b) In the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the Corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of Preferred Stock, holders of Common Stock shall be entitled to receive all of the remaining assets of the Corporation of whatever kind available for distribution to shareholders ratably in proportion to the number of shares of Common Stock held by them respectively. The Board of Directors may distribute in kind to the holders of Common Stock such remaining assets of the Corporation or may sell, transfer or otherwise dispose of all or any part of such remaining assets to any other corporation, trust or other entity and receive payment therefor in cash, stock or obligations of such other corporation, trust or other entity, or any combination hereof, and may sell all or any part of the consideration so received and distribute any balance thereof in kind to holders of Common Stock.

(c) Except as may be otherwise required by law or in these articles of incorporation or any amendment thereto, each holder of Common Stock has one vote in respect of each share of stock

held by the holder of record on the books of the Corporation on all matters voted upon by the shareholders. No shareholder shall have cumulative voting rights for the election of directors.

ARTICLE VI

Requirements Prior To Doing Business

The stated capital of the Corporation as of the date of filing of these Restated Articles of Incorporation is at least One Thousand Dollars ($1,000.00).

ARTICLE VII

Director(s)

Section 1. Number of Directors. The Board of Directors shall be composed of such number of directors ranging from nine (9) to eighteen (18), inclusive, as shall be established from time to time by the By-laws of the Corporation. In the absence of the establishment of such a number, the number of directors shall be ten (10).

Section 2. Qualifications of Directors.

(a) Directors need not be shareholders of the Corporation.

(b) No director shall be a director, officer, employee, or the holder of 5% or more of the outstanding shares of any class of voting securities or securities convertible into voting securities of any financial institution, including but not limited to banks, trust companies, savings and loan associations, whether stock or mutual, credit unions, bank holding companies, savings and loan holding companies, or any other entity controlling, controlled by or in common control with a financial institution, other than (a) the Corporation, (b) any subsidiary of or other entity controlled by the Corporation, or (c) serving in any capacity at the request of the Corporation.

(c) Those directors holding office as of the date of these amended Articles, who would otherwise be precluded from serving as directors of this Corporation because of the restrictions imposed by this Section 3 of the Article VII, shall be permitted to continue to serve as directors of the Corporation for such continuous period of time as they are elected or reelected by the shareholders.

Section 3. Terms of Directors. The Directors shall, until the annual meeting of stockholders to be held in 2015, be classified with respect to the time for which they severally hold office into three classes, as nearly their equal in number to the extent possible. The term of office for the class of Directors elected in 2010 shall expire at the annual meeting of stockholders to be held in 2013, the term of office for the class of Directors elected in 2011 shall expire at the annual meeting of the stockholders to be held in 2014, and the term of office for the class of Directors elected in 2012 shall expire at the annual meeting of stockholders to be held in 2015, with the members of each class to hold office until their successors are elected and qualified. Commencing at the annual meeting of stockholders to be held in 2013, Directors succeeding those whose terms are then expired shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the year following the year of their election and until their successors are elected and qualified. Commencing with the annual meeting of the stockholders to be held in 2015, the classification of the Board of Directors shall terminate and all Directors shall be of one class.

Section 4. Removal of Directors. Except as provided below, a director may not be removed or suspended from the Board of Directors except with cause as determined by procedures

established from time to time by the By-laws of the Corporation. Any or all members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose, by a vote of the holders of not less than two-thirds of the outstanding shares of common stock of the Corporation entitled to vote at that meeting. Any director shall immediately cease being a director when he no longer satisfies the standards for qualification established by Section 3 of this Article VII.

Section 5. Each director of the Corporation shall be elected by a vote of the majority of the votes cast with respect to that director at any meeting for the election of directors at which a quorum is present; provided, however, that if the number of nominees exceeds the number of directors to be elected, the directors shall be elected by the vote of a plurality of the votes cast and entitled to vote on the election of directors in person or by proxy at any such meeting. For purposes of this Section 5, a vote of the majority of the votes cast means that the number of shares voted 'for' a director must exceed 50% of the votes cast with respect to that director.

ARTICLE VIII

Officers

The name and post office address of the President and Secretary of the Corporation at the date of adoption of these Amended and Restated Articles of Incorporation are, respectively:

NAME	NUMBER AND STREET OR BUILDING	CITY	STATE	ZIP
R. Douglas Grant, President	P.O. Box 1387	Warsaw	IN	46581-1387
Terry M. White, Secretary	P.O. Box 1387	Warsaw	IN	46581-1387

ARTICLE IX

Provisions for Regulation of Business and Conduct of Affairs of Corporation

Section 1. Meetings of Shareholders. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings.

Section 2. Meetings of Directors. Meetings of Directors of the Corporation shall be held at such place, within or without the State of Indiana, as may be specified in the notices or waivers of notice of such meetings.

Section 3. Consideration for Shares. Shares of stock of the Corporation shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors.

Section 4. By-Laws of the Corporation. The Board of Directors, by the affirmative vote of a majority of the actual number of directors elected and qualified from time to time, shall have the power, without the assent or vote of the shareholders to adopt, amend or repeal the By-Laws of the Corporation. Without limiting the foregoing, any provision of the By-Laws of the Corporation may be amended or repealed by the affirmative vote of a majority of the votes entitled to be cast by the shareholders on the matter at any meeting of the shareholders.

Section 5. Committees. If the By-Laws so provide, the Board of Directors may, by resolution adopted by a majority of the actual number of directors elected and qualified from time to time, designate from among its members an executive committee and one or more other committees, each of which to the extent provided in such resolution, the Articles of Incorporation or the By-Laws, may exercise all of the authority and powers of the Board of Directors of the Corporation, and shall have the power to authorize the execution of all documents and the affixing of the Seal of the Corporation to all papers which may require it; but no such committee shall have the authority of the Board of Directors in reference to amending the Articles of Incorporation, adopting an agreement or plan of merger or consolidation, proposing a special corporate transaction, recommending to the shareholders a voluntary dissolution of the Corporation or a revocation thereof, electing or removing officers, or amending the By-Laws of the Corporation. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law. No member of any such committee shall continue to be a member thereof after he ceases to be a Director of the Corporation.

Section 6. Consent Action by Shareholders. Any action required by statute to be taken at a meeting of the shareholders, or any action which may be taken at a meeting of the shareholders, may be taken without a meeting if, prior to such action, a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof, and such written consent is filed with the minutes of the proceedings of the shareholders.

Section 7. Consent Action by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Interest of Directors in Contracts. Any contract or other transaction between the Corporation and any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding that the directors or officers of this Corporation are identical or that some or all of the directors of officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its directors or members or employees, or between the Corporation and any firm of which one or more of its directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its directors are stockholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes notwithstanding the presence of such director or directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common statutory law applicable thereto.

Section 9. Indemnification of Directors, Officers and Employees. Every person who is or was a director, officer or employee of this Corporation or of any other corporation for which he is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him in connection

with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he reasonably believed to be in or not opposed to the best interests of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he had no reasonable cause to believe that his conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a director, officer or employee of this Corporation may become involved, as a party or otherwise,

(i) by reason of his being or having been a director, officer or employee of this Corporation or such other corporation or arising out of his status as such or

(ii) by reason of any past or future action taken or not taken by him in any such capacity, whether or not he continues to be such at the time such liability or expense is incurred.

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a director, officer or employee, but shall not in any event include any liability or expenses on account of profits realized by him in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a director, officer or employee did not meet the standards of conduct as forth in this paragraph.

Any such director, officer or employee who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the director, officer or employee has met the standards of conduct set forth in the preceding paragraph; or (ii) independent legal counsel shall deliver to the Corporation their written opinion that such director, officer or employee has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such director, officer or employee upon receipt of an undertaking, in form and substance satisfactory to the Board of Directors, by or on behalf of such person to repay such expenses if it should ultimately be determined that he is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section or otherwise.

Section 10. Distributions Out of Capital Surplus. The Board of Directors of the Corporation may from time to time distribute to its shareholders out of the capital surplus of the Corporation a portion of its assets, in cash or property, without the assets or vote of the shareholders, provided that with respect to such a distribution the requirements of The Indiana General Corporation Act other than shareholder approval are satisfied.

Section 11. Powers of Directors. In addition to the powers and the authority granted by these Articles or by statute expressly conferred, the Board of Directors of the Corporation is hereby authorized to exercise all powers and to do all acts and things as may be exercised or done under the laws of the State of Indiana by a corporation organized and existing under the provisions of The Indiana General Corporation Act and not specifically prohibited or limited by these Articles.

Section 12. Special Considerations. Prior to the approval of any merger, consolidation, sale, exchange, transfer, mortgage, liquidation or dissolution of all or substantially all of the assets of the corporation, the Board of Directors shall make an evaluation of all relevant factors and issues arising out of or in connection with any such transaction and shall report to the shareholders the conclusions which the Board of Directors reaches from such evaluation. Relevant factors and issues shall include, but are not limited to, consideration of the impact which any such transaction would have on: (a) the community in which the Corporation or its subsidiaries conducts business; (b) the employees of the Corporation or any of its subsidiaries; and (c) the suppliers and customers of the Corporation and its subsidiaries; and may also include any and all other factors which the Board of Directors in its discretion deems relevant.

ARTICLES OF AMENDMENT TO THE

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

LAKELAND FINANCIAL CORPORATION

TO THE SECRETARY OF STATE OF THE STATE OF INDIANA:

Lakeland Financial Corporation, a corporation duly organized and existing under the Indiana Business Corporation Act, Article 1, as amended (the "Act"), does hereby adopt the following Articles of Amendment to its Amended and Restated Articles of Incorporation pursuant to the provisions of said Act and all amendments thereto.

Article I

The name of the corporation, as stated in its Amended and Restated Articles of Incorporation, is Lakeland Financial Corporation.

Article II

Pursuant to the provisions of Article V of the Amended and Restated Articles of Incorporation of the Corporation and applicable law, a series of Preferred Stock, no par value, of the Corporation be and hereby is created and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Corporation a series of preferred stock designated as the "Fixed Rate Cumulative Perpetual Preferred Stock, Series A" (the "Designated Preferred Stock"). The authorized number of shares of Designated Preferred Stock shall be 56,044.

Part 2. Standard Provisions. The Standard Provisions contained in Annex A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of these Articles of Amendment to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in these Articles of Amendment (including the Standard Provisions in Annex A hereto) as defined below:

(a) "Common Stock" means the common stock, no par value, of the Corporation.

(b) "Dividend Payment Date" means May 15, August 15, November 15 and February 15 of each year.

(c) "Junior Stock" means the Common Stock and any other class or series of stock of the Corporation the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Corporation.

(d) "Liquidation Amount" means $1,000 per share of Designated Preferred Stock.

(e) "Minimum Amount" means $14,011,000.

(f) “Parity Stock” means any class or series of stock of the Corporation (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Corporation (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).

(g) “Signing Date” means the Original Issue Date.

Part 4. Certain Voting Matters. Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.

Article III

The amendment was duly approved by the directors in the manner required by Indiana Code and the Amended and Restated Articles of Incorporation of Lakeland Financial Corporation.

Article IV

These Articles of Amendment to the Amended and Restated Articles of Incorporation of Lakeland Financial Corporation, are dated this 24th day of February, 2009.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, Lakeland Financial Corporation, has caused these Articles of Amendment to be signed by Michael L. Kubacki, its President and Chief Executive Officer, this 24th day of February, 2009.

LAKELAND FINANCIAL CORPORATION

By: /s/ Michael L. Kubacki
Name: Michael L. Kubacki
Title: President and Chief Executive Officer

ANNEX A

STANDARD PROVISIONS

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Corporation.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) "Applicable Dividend Rate" means (i) during the period from the Original Issue Date to, but excluding, the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 5% per annum and (ii) from and after the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 9% per annum.

(b) "Appropriate Federal Banking Agency" means the "appropriate Federal banking agency" with respect to the Corporation as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(c) "Business Combination" means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Corporation's stockholders.

(d) "Business Day" means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(e) "Bylaws" means the bylaws of the Corporation, as they may be amended from time to time.

(f) "Certificate of Designations" means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(g) "Charter" means the Corporation's certificate or articles of incorporation, articles of association, or similar organizational document.

(h) "Dividend Period" has the meaning set forth in Section 3(a).

(i) "Dividend Record Date" has the meaning set forth in Section 3(a).

(j) "Liquidation Preference" has the meaning set forth in Section 4(a).

(k) "Original Issue Date" means the date on which shares of Designated Preferred Stock are first issued.

(l) "Preferred Director" has the meaning set forth in Section 7(b).

(m) "Preferred Stock" means any and all series of preferred stock of the Corporation, including the Designated Preferred Stock.

(n) “Qualified Equity Offering” means the sale and issuance for cash by the Corporation to persons other than the Corporation or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Corporation at the time of issuance under the applicable risk-based capital guidelines of the Corporation’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to October 13, 2008).

(o) “Share Dilution Amount” has the meaning set forth in Section 3(b).

(p) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(q) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(r) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 3.

Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (i.e., no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend

Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Corporation or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business (including purchases to offset the Share Dilution Amount (as defined below) pursuant to a publicly announced repurchase plan) and consistent with past practice, provided that any purchases to offset the Share Dilution Amount shall in no event exceed the Share Dilution Amount; (ii) purchases or other acquisitions by a broker-dealer subsidiary of the Corporation solely for the purpose of market-making, stabilization or customer facilitation transactions in Junior Stock or Parity Stock in the ordinary course of its business; (iii) purchases by a broker-dealer subsidiary of the Corporation of capital stock of the Corporation for resale pursuant to an offering by the Corporation of such capital stock underwritten by such broker-dealer subsidiary; (iv) any dividends or distributions of rights or Junior Stock in connection with a stockholders' rights plan or any redemption or repurchase of rights pursuant to any stockholders' rights plan; (v) the acquisition by

the Corporation or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Corporation or any of its subsidiaries), including as trustees or custodians; and (vi) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock. "Share Dilution Amount" means the increase in the number of diluted shares outstanding (determined in accordance with generally accepted accounting principles in the United States, and as measured from the date of the Corporation's consolidated financial statements most recently filed with the Securities and Exchange Commission prior to the Original Issue Date) resulting from the grant, vesting or exercise of equity-based compensation to employees and equitably adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Corporation will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date. Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

Section 4.

Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, subject to the rights of any creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Corporation ranking equally with Designated Preferred Stock as to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other

stock of the Corporation ranking equally with Designated Preferred Stock as to such distribution has been paid in full, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 5.

Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Corporation, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Corporation, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; provided that (x) the Corporation (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the “Minimum Amount” as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the “Successor Preferred Stock”) in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Corporation (or any successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but

rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been deposited by the Corporation, in trust for the pro rata benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of Manhattan, The City of New York, and having a capital and surplus of at least $500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Corporation shall revert to authorized but unissued shares of Preferred Stock (provided that any such cancelled shares of Designated Preferred Stock

may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7.

Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Corporation shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the “Preferred Directors” and each a “Preferred Director”) to fill such newly created directorships at the Corporation’s next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; provided that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Corporation to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Corporation may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase

the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Corporation ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole; provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Corporation to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Corporation shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Corporation. The Corporation shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Corporation of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Corporation.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

RESTATED

BYLAWS

of

LAKELAND FINANCIAL CORPORATION

November, 2011

ARTICLE I

Section 1. Name. The name of the corporation is Lakeland Financial Corporation ("Corporation").

Section 2. Principal Office of the Resident Agent. The post-office address of the principal office of the Corporation is 202 East Center Street, Warsaw, Indiana 46580, and the name and post-office address of its Resident Agent in charge of such office is R. Douglas Grant, 202 East Center Street, Warsaw, Indiana 46580.

Section 3. Seal. The seal of the Corporation shall be circular in form and mounted upon a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "Lakeland Financial Corporation" and about the lower periphery thereof the word "Indiana". In the center of the seal shall appear the word "Seal".

ARTICLE II

The fiscal year of the Corporation shall begin each year on the first day of January and end on the last day of December of the same year.

ARTICLE III
Capital Stock

Section 1. Number of Shares and Classes of Capital Stock. The total number of shares of capital stock which the Corporation shall have authority to issue shall be as stated in the Articles of Incorporation.

Section 2. Consideration for No Par Value Shares. The shares of stock of the Corporation without par value shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors. Upon payment of the consideration fixed by the Board of Directors, such shares of stock shall be fully paid and nonassessable.

Section 3. Consideration for Treasury Shares. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.

Section 4. Payment for Shares. The consideration for the issuance of shares of capital stock of the Corporation may be paid, in whole or in part, in money, in other property, tangible or intangible, or in labor actually performed for, or services actually rendered to the Corporation; provided, however, that the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of share as a share dividend shall be deemed to be the consideration for the issuance of such shares. When payment of the consideration for which a share was authorized to be issued shall have been received by the Corporation, or when surplus shall have been transferred to stated capital upon the issuance of a share dividend, such share shall be declared and taken to be fully paid and not liable to any further call or assessment, and the holder thereof shall not be liable for any further payments thereon. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the value of such property, labor or services received as consideration, or the value placed by the Board of Directors upon the corporate assets in the event of a share dividend, shall be conclusive. Promissory notes, uncertified checks, or future services shall not be accepted in payment or part payment of the capital stock of the Corporation, except as permitted by The Indiana Business Corporation Law.

Section 5. Certificate for Shares. The shares of stock of the Corporation shall be represented by a certificate, unless and until the Board of Directors of the Corporation adopts a resolution permitting shares to be uncertificated. Notwithstanding the adoption of any such resolution providing for uncertificated shares, every holder of capital stock of the Corporation theretofore represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to have a certificate for shares of capital stock of the corporation signed by the President or a Vice President and the Secretary or any Assistant Secretary of the Corporation, stating the name of the registered holder, the number of shares represented by such certificate, the par value of each share of stock or that such shares of stock are without par value, and that such shares are fully paid and nonassessable. If such shares are not fully paid, the certificates shall be legibly stamped to indicate the percent which has been paid, and as further payments are made, the certificate shall be stamped accordingly. If the Corporation is authorized to issue shares of more than one class, every certificate shall state the kind and class of shares represented thereby, and the relative rights, interests, preferences and restrictions of such class, or a summary thereof; provided, that such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate that such statement, in full, will be furnished by the Corporation to any shareholder upon written request and without charge..

Section 6. Facsimile Signatures. If a certificate is countersigned by the written signature of a transfer agent other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles. If a certificate is countersigned by the written signature of a registrar other than the Corporation or its employee, the signatures of the transfer agent and the officers of the Corporation may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent, or registrar at the date of its issue.

Section 7. Transfer of Shares. Stock of the Corporation shall be transferable in the manner prescribed by applicable law and in these Bylaws. Transfers of stock shall be made on the books of the

Corporation, and in the case of certificated shares of stock, only by the person named in the certificate or by such person's attorney lawfully constituted in writing and upon the surrender of the certificate therefor, properly endorsed for transfer and payment of all necessary transfer taxes; or, in the case of uncertificated shares of stock, upon receipt of proper transfer instructions from the registered holder of the shares or by such person's attorney lawfully constituted in writing, and upon payment of all necessary transfer taxes and compliance with appropriate procedures for transferring shares in uncertificated form; provided, however, that such surrender and endorsement, compliance or payment of taxes shall not be required in any case in which the officers of the Corporation shall determine to waive such requirement. No transfer of stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

Section 8. Cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 10 of this Article III.

Section 9. Transfer Agent and Registrar. The Board of Directors may appoint a transfer agent and a registrar for each class of capital stock of the Corporation and may require all certificates representing such shares to bear the signature of such transfer agent and registrar. Shareholders shall be responsible for notifying the transfer agent and registrar for the class of stock held by such shareholder in writing of any changes in their addresses from time to time, and failure so to do shall relieve the Corporation, its shareholders, directors, officers, transfer agent and registrar of liability for failure to direct notices, dividends, or other documents or property to an address other than the one appearing upon the records of the transfer agent and registrar of the Corporation.

Section 10. Lost, Stolen or Destroyed Certificates. The Corporation may cause a new certificate or certificates to be issued in place of any certificate or certificates therefore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his, her or its legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

Section 11. Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of such shares to receive dividends, to vote as such owner, to hold liable for calls and assessments, and to treat as owner in all other respects, and shall not be bound to recognize any equitable or other claims to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Indiana.

Section 12. Options to Officers and Employees. The issuance, including the consideration, of rights or options to directors, officers or employees of the Corporation, and not to the shareholders generally, to purchase from the Corporation shares of its capital stock shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon or shall be authorized by and consistent with a plan approved by such a vote of the shareholders. The price to be received for any shares having a par value, other than treasury shares to be issued upon the exercise of such rights or options, shall not be less than the par value thereof.

ARTICLE IV
Meetings of Shareholders

Section 1. Place of Meeting. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may from time to time be designated by the Board of Directors, or as may be specified in the notices or waivers of notice of such meetings.

Section 2. Annual Meeting. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held on the second Tuesday of April of each year, if such day is not a holiday, and if a holiday, then on the first following day that is not a holiday, or in lieu of such day may be held on such other day as the Board of Directors may set by resolution, but not later than the end of the fifth month following the close of the fiscal year of the Corporation. Failure to hold the annual meeting at the designated time shall not work any forfeiture or a dissolution of the Corporation, and shall not affect otherwise valid corporate acts.

Section 3. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the Board of Directors, the Chairman of the Board or the President and shall be called by the Chairman of the Board, President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record not less than one-fourth of all the shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called.

Section 4. Notice of Meetings. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, or when required by any other provision of The Indiana Business Corporation Law, or of the Articles of Incorporation, as now or hereafter amended, or these Bylaws, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record entitled by the Articles of Incorporation, as now or hereafter amended, and by The Indiana Business Corporation Law to vote at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days before the date of the meeting. Notice of any such meeting may be waived in writing by any shareholder, if the waiver sets forth in reasonable detail the purpose or purposes for which the meeting is called, and the time and place thereof. Attendance at any meeting in person, or by proxy, shall constitute a waiver of notice of such meeting. Each shareholder, who has in the manner above provided waived notice of a shareholders' meeting, or who personally attends a shareholders' meeting, or is represented thereat by a proxy authorized to appear by an instrument of proxy, shall be conclusively presumed to have been given due notice of such meeting. Notice of any adjourned meeting of shareholders shall not be required

to be given if the time and place thereof are announced at the meeting at which the adjournment is taken, except as may be expressly required by law.

Section 5. Addresses of Shareholders. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the latest address of such shareholder appearing on the records maintained by the Transfer Agent for the class of stock held by such shareholder.

Section 6. Voting at Meetings.

(a) Quorum. The holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum at all meetings of shareholders for the transaction of business, except where otherwise provided by law, the Articles of Incorporation or these Bylaws. In the absence of a quorum, any officer entitled to preside at, or act as secretary of, such meeting shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting, but only those shareholders entitled to vote at the original meeting shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board of Directors for the adjourned meeting.

(b) Voting Rights. Except as otherwise provided by law or by the provisions of the Articles of Incorporation, every shareholder shall have the right at every shareholders' meeting to one vote for each share of stock having voting power, registered in his, her or its name on the books of the Corporation on the date for the determination of shareholders entitled to vote, on all matters coming before the meeting including the election of directors. At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy executed in writing by the shareholder or a duly authorized attorney in fact and bearing a date not more than eleven months prior to its execution, unless a longer time is expressly provided therein.

(c) Required Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of The Indiana Business Corporation Law or of the Articles of Incorporation or by these Bylaws, a greater vote is required, in which case such express provision shall govern and control the decision of such question.

Section 7. Voting List. The Transfer Agent of the Corporation shall make, at least five days before each election of directors, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to vote at such election, arranged in alphabetical order, with the address and number of shares so entitled to vote held by each, which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder. Such list shall be produced and kept open at the time and place of election and subject to the inspection by any shareholder. The original stock register or transfer book, or a duplicate thereof kept in the State of Indiana, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

Section 8. Fixing of Record Date to Determine Shareholders Entitled to Vote. The Board of Directors may prescribe a period not exceeding 50 days prior to meetings of the shareholders, during which no transfer of stock on the books of the Corporation may be made; or, in lieu of prohibiting the transfer for stock may fix a day and hour not more than 50 days prior to the holding of any meeting of shareholders as the time as of which shareholders entitled to notice of, and to vote at, such meeting shall be determined, and all persons who are holders of record of voting stock at such time, and no others, shall be entitled to notice of, and to vote at, such meeting. In the absence of such a determination, such date shall be 10 days prior to the date of such meeting.

Section 9. Nominations for Director. Nominations for election to the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, shall be made in writing and shall be delivered or mailed to the Chairman of the Board not less than 150 days nor more than 180 days prior to any meeting of shareholders called for the election of directors. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Upon receipt of such nominations, the Chairman of the Board shall confirm in writing whether or not such nominee, if elected, is willing to serve as a Director and if the nominee declines to serve if elected, the nomination shall not be submitted to the shareholders. Nominations not made in accordance herewith may, in his or her discretion, be disregarded by the chairman of the meeting, and upon his or her instructions, the vote tellers may disregard all votes cast for each such nominee.

Section 10. Meetings. The Chairman of the Board of Directors shall preside at each meeting of shareholders. In the absence of the Chairman, the meeting shall be chaired by an officer of the corporation in accordance with the following order: President, Executive Vice President, Senior Vice President and Vice President. In the absence of all such officers, the meeting shall be chaired by a person chosen by the vote of a majority in interest of the shareholders present in person or represented by proxy and entitled to vote thereat. The Secretary or in his or her absence an Assistant Secretary or in the absence of the Secretary and all Assistant Secretaries a person whom the chairman of the meeting shall appoint shall act as secretary of the meeting and keep a record of the proceedings thereof. The Board of Directors of the Corporation shall be entitled to make such rules or regulations for the conduct of meetings of shareholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to shareholders of record of the Corporation and their duly authorized and constituted proxies, and such other persons as the Chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comment by participants and regulation of the opening and closing of

the polls for balloting on matters which are to be voted on by ballot. Unless determined otherwise by the Board of Directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE V
Board of Directors

Section 1. Election, Number and Term of Office. Directors shall be elected at the annual meeting of shareholders, or, if not so elected, at a special meeting of shareholders called for that purpose, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors.

The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect directors, shall be established by the affirmative vote at least 75% in number of the directors holding office at the time of such determination. Absent such determination, the number of directors shall be ten (10).

The Corporation elects not to be governed by Section 23-1-33-6(c) of the Indiana Business Corporation Law.

Section 2. Vacancies.

(a) Any vacancies occurring in the Board of Directors caused by death, resignation, disqualification, removal from office, or otherwise (other than as provided in subsection (b) of this Section 2), shall be filled by a majority vote of the remaining directors. Any director so appointed shall hold office for the unexpired term of the director who is being replaced and until his or her successor is elected and has qualified, or until his or her earlier death, resignation, disqualification or removal from office.

(b) In the event of an increase in the number of directors pursuant to the provisions in Section 1 of this Article V, a new directorship shall be assigned to the classes in such a manner as to maintain, to the extent possible, an equal number in each of the classes. These directorships shall then be filled by a majority vote of the members of the Board of Directors prior to the filling of any such vacancies, to hold office for the remainder of the term of the class to which these new directorships have been designated.

(c) At the discretion of the Board of Directors, any vacancy referred to in subsection (a) or (b) hereof may be filled by the vote of the shareholders entitled to vote thereon at a special meeting called for that purpose.

(d) No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

Section 3. Annual Meeting of Directors. The Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has

been held either within or without the State of Indiana, for the purpose of organization, election of officers, and consideration of any other business that may properly come before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

Section 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places, either within or without the State of Indiana, as may be fixed by the Directors. Such regular meetings of the Board of Directors may be held without notice or upon such notice as may be fixed by the Directors.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be served upon or telephoned to each Director at least twenty-four hours, or mailed, telegraphed or cabled to each Director at his or her usual place of business or residence at least forty-eight hours, prior to the time of the meeting. Directors, in lieu of such notice, may sign a written waiver of notice either before the time of the meeting, at the meeting or after the meeting. Attendance by a director in person at any such special meeting shall constitute a waiver of notice.

Section 6. Quorum. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies, and the act of a majority of the Directors present at the meeting, at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by The Indiana Business Corporation Law, by the Articles of Incorporation, or by these Bylaws. A Director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken, unless (a) such Director's dissent shall be affirmatively stated at and before the adjournment of such meeting (in which event the fact of such dissent shall be entered by the secretary of the meeting in the minutes of the meeting), or (b) such Director shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. The right of dissent provided for by either clause (a) or clause (b) of the immediately preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a Director who voted at the meeting in favor of such matter and did not change his or her vote prior to the time that the result of the vote on such matter was announced by the chairman of such meeting.

Section 7. Consent Action by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Removal of Directors.

(a) Except as otherwise provided for herein, a director may be removed or suspended from the Board of Directors only with cause as determined by the procedures established herein.

(b) Cause for removal or suspension shall include action or failure to act on the part of the director in question which results in (i) a violation of law, rule, regulation or order, or a breach of the director's fiduciary duty, or with respect to the Corporation's banking subsidiary, involves an unsafe or unsound banking practice, and (ii) the Corporation or any of its subsidiaries has suffered substantial damage or the director has received financial gain from such action or omission.

(c) A determination that a director should be removed or suspended for cause shall be made only upon the affirmative vote of at least a majority in number of the members of the Board of Directors entitled to vote thereon. Any director whose removal is being considered and any other director who knowingly was involved in the action or omission giving rise to the removal or suspension proceeding, shall not be entitled to vote on the question of removal or suspension.

(d) The director whose removal or suspension is being considered shall be given written notice from the Board of Directors of the basis alleged to give rise to the cause for removal or suspension and of the day, time, and place where a hearing will be held at which the director will have the opportunity to respond. The hearing shall be held not less than ten (10) days and not more than thirty (30) days after notice has been sent to the director; provided, that, upon the written request of the director, the date of the hearing may be extended beyond the thirty (30) day period, in which case the director shall be suspended from serving on the Board of Directors for the period from the original date of the hearing to the rescheduled date.

(e) At the hearing, a representative designated by the Board of Directors shall present the basis for the removal or suspension as well as any other evidence in support thereof, whether documentary, testimonial or otherwise. This representative may be a member of the Board of Directors (in which case the representative shall not be entitled to vote upon the removal of the director), an officer of the Corporation or any other third party, who in any case shall have no interest in the actions or omissions to act giving rise to the proceeding. After the representative has made his or her presentation, the director shall have the opportunity to present evidence, whether documentary, testimonial or otherwise, refuting the basis for the removal or suspension proceeding. The representative and the director shall have the opportunity to cross-examine any witnesses for the other side, to present rebuttal testimony, and to present summary statements.

(f) After the presentation of all evidence, the Board of Directors shall vote on the issue and shall notify the director of the results in writing. If the vote is to remove the director, the Board of Directors, upon written request from the director, shall, within ten (10) days, present a written report setting forth the Board of Directors' findings of fact and conclusions.

(g) The director shall be entitled to be represented by counsel.

(h) Notwithstanding anything herein to the contrary, any and all members of the Board of Directors may be removed, with or without cause, at a meeting of shareholders called expressly for that purpose by a vote of the holders of not less than two-thirds of the outstanding shares of stock entitled to votes at that meeting, excluding any shares held by holders of 10% or more of the outstanding common stock.

Section 9. Dividends. The Board of Directors shall have power, subject to any restrictions contained in The Indiana Business Corporation Law or in the Articles of Incorporation and out of funds legally available therefor, to declare and pay dividends upon the outstanding capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time in their absolute discretion deem proper for working capital, or as a reserve or reserves to meet contingencies or for such other purposes as the Board of Directors shall deem conductive to the interests of the Corporation and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

Section 10. Fixing of Record Date to Determine Shareholders Entitled to Receive Corporate Benefits. The Board of Directors may fix a day and hour not exceeding 50 days preceding the date fixed for payment of any dividend or for the delivery of evidence of rights, or for the distribution of other corporate benefits, or for a determination of shareholders for any other purpose, as a record time for the determination of the shareholders entitled to receive any such dividend, rights or distribution, and in such case only shareholders of record at the time so fixed shall be entitled to receive such dividend, rights or distribution. If no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, the end of the day on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination.

Section 11. Interest of Directors in Contracts. Any contract or other transaction between the Corporation or any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding, notwithstanding the directors or officers of this Corporation are identical or that some or all of the directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its directors or members or employees, or between the Corporation and any firm of which one or more of its directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its directors are shareholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such director of directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his, her or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contact or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

Section 12. Committees. The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, the Articles of Incorporation, or these Bylaws, may exercise all of the authority of the Board of Directors

of the Corporation, including, but not limited to, the authority to issue and sell or approve any contract to issue and sell, securities or shares of the Corporation or designate the terms of a series of a class of securities or shares of the Corporation. The terms which may be affixed by each such committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund, conversion, voting, or preferential rights or other features of securities or class or series of a class of shares. Each such committee may have full power to adopt a final resolution which sets forth those terms and to authorize a statement of such terms to be filed with the Secretary of State. However, no such committee has the authority to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders voluntary dissolution of the Corporation or a revocation thereof. No member of any such committee shall continue to be a member thereof after he or she ceases to be a Director of the Corporation. The calling and holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. A member of the Board of Directors shall not be liable for any action taken by any such committee if he or she is not a member of that committee and has acted in good faith and in a manner he or she reasonably believes is in the best interest of the Corporation.

ARTICLE VI
Officers

Section 1. Principal Officers. The principal officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer and a Secretary. The Corporation may also have, at the discretion of the Board of Directors, such other subordinate officers as may be appointed in accordance with the provisions of these Bylaws. Any two or more offices may be held by the same person, except the duties of President and Secretary shall not be performed by the same person. No person shall be eligible for the office of Chairman of the Board or President who is not a director of the Corporation.

Section 2. Election and Term of Office. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until his or her successor shall have been duly chosen and qualified, or until his or her death, or until he or she shall resign, or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any principal officer may be removed, either with or without cause, at any time, by resolution adopted at any meeting of the Board of Directors by a majority of the actual number of Directors elected and qualified from time to time.

Section 4. Subordinate Officers. In addition to the principal officers enumerated in Section 1 of this Article VI, the Corporation may have one or more Assistant Treasurers, one or more Assistant Secretaries and such other officers, agents and employees as the Board of Directors may deem necessary, each of whom shall hold office for such period, may be removed with or without cause, have such authority, and perform such duties as the Chairman of the Board, President, or the Board of Directors may from time to time

determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove any such subordinate officers, agents or employees.

Section 5. Resignations. Any officer may resign at any time by giving written notice to the Chairman of the Board of Directors or to the President or to the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. Any vacancy in any office for any cause may be filled for the unexpired portion of the term in the manner prescribed in these Bylaws for election or appointment to such office for such term.

Section 7. Chairman of the Board. The Chairman of the Board, who shall be chosen from among the Directors, shall preside at all meetings of shareholders and at all meetings of the Board of Directors. In general, he or she shall perform all duties and have all the powers incident to the office of Chairman of the Board, as herein defined, and all such other duties and powers as, from time to time, may be assigned by the Board of Directors.

Section 8. President. The President, who shall be chosen from among the Directors, shall in the absence or disability of the Chairman of the Board, preside at all meetings of shareholders and at all meetings of the Board of Directors. In general, he or she shall perform all duties and have all the powers incident to the office of President, as herein defined, and all such other duties and powers as, from time to time, may be assigned by the Board of Directors.

Section 9. Vice Presidents. The Vice Presidents in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President. They shall perform such other duties and have such other powers as the Chairman of the Board, President or the Board of Directors may from time to time assign.

Section 10. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such banks or other depositories as shall be selected by the Board of Directors. The Treasurer shall upon request exhibit at all reasonable times his or her books of account and records to any of the directors of the Corporation during business hours at the office of the Corporation where such books and records shall be kept; shall render upon request by the Board of Directors a statement of the condition of the finances of the Corporation at any meeting of the Board of Directors or at the annual meeting of the shareholders; shall receive, and give receipt for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the Chairman of the Board, President or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of his or her duties as the Board of Directors may require.

Section 11. Secretary. The Secretary shall keep or cause to be kept in the books provided for that purpose the minutes of the meetings of the shareholders and of the Board of Directors; shall duly give and serve all notices required to be given in accordance with the provisions of these Bylaws and by The Indiana Business Corporation Law; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these Bylaws; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned by the Chairman of the Board, President or the Board of Directors.

Section 12. Salaries. The salaries of the principal officers shall be fixed from time to time by the Board of Directors, and the salaries of any subordinate officers may be fixed by the Chairman of the Board or President.

Section 13. Voting Corporation's Securities. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, the President and Secretary, and each of them, are appointed attorneys and agents of the Corporation, and shall have full power and authority in the name and on behalf of the Corporation, to attend, to act, and to vote all stock or other securities entitled to be voted at any meetings of security holders of corporations, or associations in which the Corporation may hold securities, in person or by proxy, as a shareholder or otherwise, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised, if present, or to consent in writing to any action by any such other corporation or association. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE VII
Indemnification of Directors, Officers and Employees

Every person who is or was a director, officer or employee of this Corporation or of any other corporation for which he or she is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that may be incurred by him or her in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what he or she reasonably believed to be in or not opposed to the best interests of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which he or she had no reasonable cause to believe that his or her conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a director, officer or employee of this Corporation may become involved, as a party or otherwise,

(i) by reason of being or having been a director, officer or employee of this Corporation or such other corporation or arising out of his or her status as such or

(ii) by reason of any past or future action taken or not taken in any such capacity, whether or not he or she continues to be such at the time such liability or expense is incurred.

The terms “liability” and “expense” shall include, but shall not be limited to, attorneys’ fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a director, officer or employee, but shall not in any event include any liability or expenses on account of profits realized in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a director, officer or employee did not meet the standards of conduct set forth in this paragraph.

Any such director, officer or employee who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the director, officer or employee has met the standards of conduct set forth in the preceding paragraph; or (ii) independent legal counsel shall deliver to the Corporation their written opinion that such director, officer or employee has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he or she is not entitled as to other matters.

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such director, officer or employee upon receipt of an undertaking by or on behalf of such person to repay such expenses if it should ultimately be determined that he or she is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against and incurred in any capacity or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Section or otherwise.

ARTICLE VIII
Amendments

Any provision of these Bylaws may be made, altered, amended or repealed by: (a) the affirmative vote of note less than a majority of the actual number of directors elected and qualified, from time to time, provided that notice of the proposed addition, alteration, amendment or repeal is contained in a notice duly provided to the Board of Directors; or (b) by the affirmative vote of not less than a majority of all votes entitled to be cast by the shareholders on the matter at any meeting of the shareholders, provided that the proposed addition, alteration, amendment, or repeal is contained in the notice of such shareholder meeting.

Exhibit 21.0

Subsidiaries

1. Lake City Bank, Warsaw, Indiana, a banking corporation organized under the laws of the State of Indiana.
2. LCB Investments II, Inc., a subsidiary of Lake City Bank incorporated in Nevada to manage a portion of the Bank’s investment portfolio.
3. LCB Funding, Inc., a subsidiary of LCB Investments II, Inc. incorporated under the laws of Maryland to operate as a real estate investment trust.
4. LCB Risk Management, Inc., a subsidiary of Lakeland Financial Corporation incorporated in Nevada to operate as a captive insurance company.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (333-48402,333-130396, 333-135863, 333-150900, 333-189851 and 333-217283) of Lakeland Financial Corporation of our report dated February 22, 2023 relating to the consolidated financial statements and effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 10-K of Lakeland Financial Corporation for the year ended December 31, 2022.

/s/ Crowe LLP
Crowe LLP

South Bend, Indiana
February 22, 2023

Exhibit 31.1

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

1. I have reviewed this annual report on Form 10-K 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: February 22, 2023

/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 annual report on Form 10-K 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: February 22, 2023

/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 Annual Report of Lakeland Financial Corporation (the “Company”) on Form 10-K for the period ending December 31, 2022 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 results of operations of the Company.

/s/David M. Findlay
David M. Findlay
Chief Executive Officer
February 22, 2023

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

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 Annual Report of Lakeland Financial Corporation (the “Company”) on Form 10-K for the period ending December 31, 2022 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
February 22, 2023

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