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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 0-11487

LAKELAND FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana
(State or Other Jurisdiction
of Incorporation or Organization)

35-1559596
(IRS Employer
Identification No.)

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

46580
(Zip Code)

(574) 267-6144

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

Number of shares of common stock outstanding at October 20, 2022: 25,350,134

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

	September 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Cash and due from banks	\$ 76,498	\$ 51,830
Short-term investments	128,304	631,410
Total cash and cash equivalents	204,802	683,240
Securities available-for-sale, at fair value	1,192,186	1,398,558
Securities held-to-maturity, at amortized cost (fair value of \$103,326 and \$0, respectively)	127,820	0
Real estate mortgage loans held-for-sale	1,097	7,470
Loans, net of allowance for credit losses of \$67,239 and \$67,773	4,422,596	4,220,068
Land, premises and equipment, net	58,486	59,309
Bank owned life insurance	97,702	97,652
Federal Reserve and Federal Home Loan Bank stock	12,840	13,772
Accrued interest receivable	22,822	17,674
Goodwill	4,970	4,970
Other assets	143,085	54,610
Total assets	\$ 6,288,406	\$ 6,557,323
LIABILITIES		
Noninterest bearing deposits	\$ 1,832,328	\$ 1,895,481
Interest bearing deposits	3,831,805	3,839,926
Total deposits	5,664,133	5,735,407
Borrowings - Federal Home Loan Bank advances	0	75,000
Accrued interest payable	2,200	2,619
Other liabilities	102,853	39,391
Total liabilities	5,769,186	5,852,417
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
25,825,127 shares issued and 25,350,134 outstanding as of September 30, 2022		
25,777,609 shares issued and 25,300,793 outstanding as of December 31, 2021	125,832	120,615
Retained earnings	630,337	583,134
Accumulated other comprehensive income (loss)	(221,729)	16,093
Treasury stock at cost (474,993 shares as of September 30, 2022, 476,816 shares as of December 31, 2021)	(15,309)	(15,025)
Total stockholders' equity	519,131	704,817
Noncontrolling interest	89	89
Total equity	519,220	704,906
Total liabilities and equity	\$ 6,288,406	\$ 6,557,323

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	\$ 52,707	\$ 43,025	\$ 136,580	\$ 128,828
Tax exempt	462	119	911	324
Interest and dividends on securities				
Taxable	3,608	2,470	10,613	6,482
Tax exempt	5,009	3,556	14,609	8,915
Other interest income	772	125	1,501	348
Total interest income	<u>62,558</u>	<u>49,295</u>	<u>164,214</u>	<u>144,897</u>
Interest on deposits	10,066	3,479	18,037	11,587
Interest on borrowings				
Short-term	0	0	0	7
Long-term	0	75	127	222
Total interest expense	<u>10,066</u>	<u>3,554</u>	<u>18,164</u>	<u>11,816</u>
NET INTEREST INCOME	52,492	45,741	146,050	133,081
Provision for credit losses	0	1,300	417	1,077
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	52,492	44,441	145,633	132,004
NONINTEREST INCOME				
Wealth advisory fees	2,059	2,177	6,550	6,433
Investment brokerage fees	651	521	1,711	1,560
Service charges on deposit accounts	2,990	2,756	8,681	7,768
Loan and service fees	3,047	3,005	9,131	8,823
Merchant card fee income	941	838	2,660	2,226
Bank owned life insurance income (loss)	54	640	(212)	2,101
Interest rate swap fee income	88	180	492	934
Mortgage banking income (loss)	(89)	(32)	771	1,756
Net securities gains	0	0	0	797
Other income	423	1,029	1,559	2,613
Total noninterest income	<u>10,164</u>	<u>11,114</u>	<u>31,343</u>	<u>35,011</u>
NONINTEREST EXPENSE				
Salaries and employee benefits	14,650	14,230	43,840	44,377
Net occupancy expense	1,476	1,413	4,793	4,343
Equipment costs	1,380	1,371	4,250	4,134
Data processing fees and supplies	3,226	3,169	9,510	9,692
Corporate and business development	1,426	1,000	4,078	3,208
FDIC insurance and other regulatory fees	458	748	1,516	1,707
Professional fees	1,554	1,342	4,527	5,058
Other expense	3,724	2,694	10,262	6,842
Total noninterest expense	<u>27,894</u>	<u>25,967</u>	<u>82,776</u>	<u>79,361</u>
INCOME BEFORE INCOME TAX EXPENSE	34,762	29,588	94,200	87,654
Income tax expense	6,237	5,469	16,360	16,204
NET INCOME	\$ 28,525	\$ 24,119	\$ 77,840	\$ 71,450
BASIC WEIGHTED AVERAGE COMMON SHARES	25,533,832	25,479,654	25,525,734	25,472,185
BASIC EARNINGS PER COMMON SHARE	\$ 1.12	\$ 0.95	\$ 3.05	\$ 2.81
DILUTED WEIGHTED AVERAGE COMMON SHARES	25,734,613	25,635,288	25,710,088	25,608,655
DILUTED EARNINGS PER COMMON SHARE	\$ 1.11	\$ 0.94	\$ 3.03	\$ 2.79

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 28,525	\$ 24,119	\$ 77,840	\$ 71,450
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	(80,532)	(14,411)	(302,137)	(20,656)
Reclassification adjust for amortization of unrealized losses on securities transferred to held-to-maturity	504	0	995	0
Reclassification adjustment for gains included in net income	0	0	0	(797)
Net securities gain (loss) activity during the period	(80,028)	(14,411)	(301,142)	(21,453)
Tax effect	16,806	3,026	63,239	4,505
Net of tax amount	(63,222)	(11,385)	(237,903)	(16,948)
Defined benefit pension plans:				
Amortization of net actuarial loss	36	61	108	181
Net gain activity during the period	36	61	108	181
Tax effect	(9)	(15)	(27)	(45)
Net of tax amount	27	46	81	136
Total other comprehensive income (loss), net of tax	(63,195)	(11,339)	(237,822)	(16,812)
Comprehensive income (loss)	\$ (34,670)	\$ 12,780	\$ (159,982)	\$ 54,638

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

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

	Three Months Ended							
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Stock						
Balance at July 1, 2021	25,289,966	\$ 117,796	\$ 552,063	\$ 22,271	\$ (14,748)	\$ 677,382	\$ 89	\$ 677,471
Comprehensive income:								
Net income			24,119			24,119		24,119
Other comprehensive income (loss), net of tax				(11,339)		(11,339)		(11,339)
Cash dividends declared and paid, \$0.34 per share			(8,664)			(8,664)		(8,664)
Treasury shares purchased under deferred directors' plan	(3,383)	214			(214)	0		0
Treasury shares sold and distributed under deferred directors' plan	0	0			0	0		0
Stock activity under equity compensation plans	12,595	(170)				(170)		(170)
Stock based compensation expense		1,785				1,785		1,785
Balance at September 30, 2021	<u>25,299,178</u>	<u>\$ 119,625</u>	<u>\$ 567,518</u>	<u>\$ 10,932</u>	<u>\$ (14,962)</u>	<u>\$ 683,113</u>	<u>\$ 89</u>	<u>\$ 683,202</u>
Balance at July 1, 2022	25,345,162	\$ 123,571	\$ 612,026	\$ (158,534)	\$ (15,089)	\$ 561,974	\$ 89	\$ 562,063
Comprehensive loss:								
Net income			28,525			28,525		28,525
Other comprehensive income (loss), net of tax				(63,195)		(63,195)		(63,195)
Cash dividends declared and paid, \$0.40 per share			(10,214)			(10,214)		(10,214)
Treasury shares purchased under deferred directors' plan	(3,158)	220			(220)	0		0
Treasury shares sold and distributed under deferred directors' plan	0	0			0	0		0
Stock activity under equity compensation plans	8,130	(52)				(52)		(52)
Stock based compensation expense		2,093				2,093		2,093
Balance at September 30, 2022	<u>25,350,134</u>	<u>\$ 125,832</u>	<u>\$ 630,337</u>	<u>\$ (221,729)</u>	<u>\$ (15,309)</u>	<u>\$ 519,131</u>	<u>\$ 89</u>	<u>\$ 519,220</u>

	Nine Months Ended							
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Stock						
Balance at January 1, 2021	25,239,748	\$ 114,927	\$ 529,005	\$ 27,744	\$ (14,581)	\$ 657,095	\$ 89	\$ 657,184
Adoption of ASU 2016-13			(6,951)			(6,951)		(6,951)
Comprehensive income:								
Net income			71,450			71,450		71,450
Other comprehensive income (loss), net of tax				(16,812)		(16,812)		(16,812)
Cash dividends declared and paid, \$1.02 per share			(25,986)			(25,986)		(25,986)
Treasury shares purchased under deferred directors' plan	(7,959)	496			(496)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,664	(115)			115	0		0
Stock activity under equity compensation plans	61,725	(1,818)				(1,818)		(1,818)
Stock based compensation expense		6,135				6,135		6,135
Balance at September 30, 2021	25,299,178	\$ 119,625	\$ 567,518	\$ 10,932	\$ (14,962)	\$ 683,113	\$ 89	\$ 683,202
Balance at January 1, 2022	25,300,793	120,615	583,134	16,093	(15,025)	704,817	89	704,906
Comprehensive loss:								
Net income			77,840			77,840		77,840
Other comprehensive income (loss), net of tax				(237,822)		(237,822)		(237,822)
Cash dividends declared and paid, \$1.20 per share			(30,637)			(30,637)		(30,637)
Treasury shares purchased under deferred directors' plan	(6,732)	505			(505)	0		0
Treasury shares sold and distributed under deferred directors' plan	8,555	(221)			221	0		0
Stock activity under equity compensation plans	47,518	(1,780)				(1,780)		(1,780)
Stock based compensation expense		6,713				6,713		6,713
Balance at September 30, 2022	25,350,134	\$ 125,832	\$ 630,337	\$ (221,729)	\$ (15,309)	\$ 519,131	\$ 89	\$ 519,220

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Nine Months Ended September 30,	2022	2021
Cash flows from operating activities:		
Net income	\$ 77,840	\$ 71,450
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	4,494	4,555
Provision for credit losses	417	1,077
Gain on sale and write down of other real estate owned	0	(53)
Amortization of loan servicing rights	583	1,697
Net change in loan servicing rights valuation allowance	(708)	(197)
Loans originated for sale, including participations	(27,273)	(92,728)
Net gain on sales of loans	(958)	(3,609)
Proceeds from sale of loans, including participations	34,299	98,655
Net loss on sales of premises and equipment	3	4
Net gain on sales and calls of securities available-for-sale	0	(797)
Net securities amortization	4,817	3,457
Stock based compensation expense	6,713	6,135
Losses (earnings) on life insurance	212	(2,101)
Gain on life insurance	0	(404)
Tax benefit of stock award issuances	(514)	(266)
Net change:		
Interest receivable and other assets	(2,782)	(2,090)
Interest payable and other liabilities	37,707	1,081
Total adjustments	57,010	14,416
Net cash from operating activities	134,850	85,866
Cash flows from investing activities:		
Proceeds from sale of securities available-for-sale	0	13,964
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	86,001	102,399
Proceeds from maturities, calls and principal paydowns of securities held-to-maturity	5	0
Purchases of securities available-for-sale	(313,905)	(640,364)
Purchase of life insurance	(727)	(648)
Net (increase) decrease in total loans	(202,945)	410,323
Proceeds from sales of land, premises and equipment	4	6
Purchases of land, premises and equipment	(3,678)	(5,265)
Proceeds from redemption of Federal Home Loan Bank stock	932	0
Proceeds from sales of other real estate	0	946
Proceeds from life insurance	0	931
Net cash from investing activities	(434,313)	(117,708)
Cash flows from financing activities:		
Net increase (decrease) in total deposits	(71,274)	377,833
Net increase (decrease) in short-term borrowings	0	(10,500)
Payments on long-term FHLB borrowings	(75,000)	0
Common dividends paid	(30,624)	(25,973)
Preferred dividends paid	(13)	(13)
Payments related to equity incentive plans	(1,780)	(1,818)
Purchase of treasury stock	(505)	(496)
Sale of treasury stock	221	115
Net cash from financing activities	(178,975)	339,148
Net change in cash and cash equivalents	(478,438)	307,306
Cash and cash equivalents at beginning of the period	683,240	249,927
Cash and cash equivalents at end of the period	204,802	557,233
Cash paid during the period for:		
Interest	\$ 18,583	\$ 14,859
Income taxes	13,780	20,637
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	0	893
Securities purchases payable	0	4,982
Right-of-use assets obtained in exchange for lease liabilities	1,612	0

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

NOTE 1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2022. The Company's 2021 Annual Report on Form 10-K should be read in conjunction with these statements.

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 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 on or before June 30, 2023. The guidance under ASC 848 will be available for a limited time, generally through December 31, 2024. 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 amendments in this update allow nonprepayable 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 TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in update 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. 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 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 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.

Newly Proposed Accounting Standards

On August 22, 2022, the FASB issued 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 amendments in the proposed update are proposed to be applied on either a modified prospective or a retrospective basis. 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 final guidance is issued.

On October 6, 2022, the FASB issued 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 in interim periods. Additionally, the proposed amendments would also require the disclosure of the name and title of the CODM. The amendments in the proposed update are proposed to be applied retrospectively. 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 final guidance is issued.

Reclassification

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

NOTE 2. SECURITIES

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

Available-for-Sale Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2022					
U.S. Treasury securities	\$ 1,994	\$ 0	\$ (26)	\$ 0	\$ 1,968
U.S. government sponsored agencies	159,169	0	(27,914)	0	131,255
Mortgage-backed securities: residential	597,258	80	(92,582)	0	504,756
State and municipal securities	689,902	10	(135,705)	0	554,207
Total	<u>\$ 1,448,323</u>	<u>\$ 90</u>	<u>\$ (256,227)</u>	<u>\$ 0</u>	<u>\$ 1,192,186</u>
December 31, 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	<u>\$ 1,376,969</u>	<u>\$ 30,244</u>	<u>\$ (8,655)</u>	<u>\$ 0</u>	<u>\$ 1,398,558</u>

Held-to-Maturity Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2022					
State and municipal securities	<u>\$ 127,820</u>	<u>\$ 0</u>	<u>\$ (24,494)</u>	<u>\$ 0</u>	<u>\$ 103,326</u>

On April 1, 2022, the Company elected to transfer securities from available-for-sale to held-to-maturity due to 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. 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 nine months ended September 30, 2021 and there were no securities classified as held-to-maturity at December 31, 2021.

Information regarding the amortized cost and fair value of available-for-sale and held-to-maturity debt securities by maturity as of September 30, 2022 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

(dollars in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,233	\$ 2,213	\$ 0	\$ 0
Due after one year through five years	8,401	8,324	0	0
Due after five years through ten years	67,060	62,754	0	0
Due after ten years	773,371	614,139	127,820	103,326
	851,065	687,430	127,820	103,326
Mortgage-backed securities	597,258	504,756	0	0
Total debt securities	\$ 1,448,323	\$ 1,192,186	\$ 127,820	\$ 103,326

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

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sales of securities available-for-sale				
Proceeds	\$ 0	\$ 0	\$ 0	\$ 13,964
Gross gains	0	0	0	797
Gross losses	0	0	0	0
Number of securities	0	0	0	8

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 \$239.5 million and \$300.8 million were pledged as of September 30, 2022 and December 31, 2021, respectively, as collateral for borrowings from the Federal Home Loan Bank ("FHLB") and Federal Reserve Bank and for other purposes as permitted or required by law.

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

Information regarding available-for-sale securities with unrealized losses as of September 30, 2022 and December 31, 2021 is presented on the following page. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2022						
U.S. Treasury securities	\$ 1,968	\$ 26	\$ 0	\$ 0	\$ 1,968	\$ 26
U.S. government sponsored agencies	47,754	9,295	83,501	18,619	131,255	27,914
Mortgage-backed securities: residential	336,939	52,248	164,085	40,334	501,024	92,582
State and municipal securities	501,538	117,485	44,476	18,220	546,014	135,705
Total available-for-sale	<u>\$ 888,199</u>	<u>\$ 179,054</u>	<u>\$ 292,062</u>	<u>\$ 77,173</u>	<u>\$ 1,180,261</u>	<u>\$ 256,227</u>
December 31, 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 available-for-sale	<u>\$ 496,891</u>	<u>\$ 6,714</u>	<u>\$ 51,468</u>	<u>\$ 1,941</u>	<u>\$ 548,359</u>	<u>\$ 8,655</u>

Information regarding held-to-maturity securities with unrealized losses as of September 30, 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.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2022						
State and municipal securities	<u>\$ 103,326</u>	<u>\$ (24,494)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 103,326</u>	<u>\$ (24,494)</u>

The total number of securities with unrealized losses as of September 30, 2022 and December 31, 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
September 30, 2022						
U.S. Treasury securities	5	0	5	0	0	0
U.S. government sponsored agencies	5	12	17	0	0	0
Mortgage-backed securities: residential	114	24	138	0	0	0
State and municipal securities	507	54	561	41	0	41
Total temporarily impaired	<u>631</u>	<u>90</u>	<u>721</u>	<u>41</u>	<u>0</u>	<u>41</u>
December 31, 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	<u>117</u>	<u>8</u>	<u>125</u>	<u>0</u>	<u>0</u>	<u>0</u>

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for-sale debt securities in an unrealized loss position, management first assesses whether it intends to sell, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through the consolidated income statement. For available-for-sale debt securities that do not meet the above criteria and for held-to-maturity securities, management evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is

less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, management compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. For available-for-sale debt securities, any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of applicable taxes.

No allowance for credit losses for available-for-sale debt securities was recorded at September 30, 2022 or December 31, 2021. No allowance for credit losses for held-to-maturity debt securities was recorded at September 30, 2022. Accrued interest receivable on securities totaled \$8.8 million and \$7.4 million at September 30, 2022 and December 31, 2021, respectively, and is excluded from the estimate of credit losses.

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

NOTE 3. LOANS

(dollars in thousands)	September 30, 2022		December 31, 2021	
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 684,281	15.2 %	\$ 652,861	15.2 %
Non-working capital loans	827,014	18.4	736,608	17.2
Total commercial and industrial loans	1,511,295	33.6	1,389,469	32.4
Commercial real estate and multi-family residential loans:				
Construction and land development loans	468,288	10.4	379,813	8.9
Owner occupied loans	741,293	16.5	739,371	17.2
Nonowner occupied loans	655,975	14.6	588,458	13.7
Multifamily loans	191,212	4.3	247,204	5.8
Total commercial real estate and multi-family residential loans	2,056,768	45.8	1,954,846	45.6
Agri-business and agricultural loans:				
Loans secured by farmland	165,328	3.7	206,331	4.8
Loans for agricultural production	176,738	3.9	239,494	5.6
Total agri-business and agricultural loans	342,066	7.6	445,825	10.4
Other commercial loans:				
	100,831	2.2	73,490	1.7
Total commercial loans	4,010,960	89.2	3,863,630	90.1
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	196,077	4.4	176,561	4.1
Open end and junior lien loans	173,419	3.9	156,238	3.6
Residential construction and land development loans	18,775	0.4	11,921	0.3
Total consumer 1-4 family mortgage loans	388,271	8.7	344,720	8.0
Other consumer loans	93,026	2.1	82,755	1.9
Total consumer loans	481,297	10.8	427,475	9.9
Subtotal	4,492,257	100.0 %	4,291,105	100.0 %
Less: Allowance for credit losses	(67,239)		(67,773)	
Net deferred loan fees	(2,422)		(3,264)	
Loans, net	<u>\$ 4,422,596</u>		<u>\$ 4,220,068</u>	

The recorded investment in loans does not include accrued interest, which totaled \$13.6 million and \$10.0 million at September 30, 2022 and December 31, 2021, respectively.

The Company had \$180,000 and \$350,000 in residential real estate loans in the process of foreclosure as of September 30, 2022 and December 31, 2021, respectively.

NOTE 4. ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY

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

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

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

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

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

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

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

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

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

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended September 30, 2022								
Beginning balance, July 1	\$ 31,195	\$ 26,448	\$ 4,753	\$ 713	\$ 2,674	\$ 1,093	\$ 647	\$ 67,523
Provision for credit losses	1,357	(678)	(547)	16	(197)	71	(22)	0
Loans charged-off	(222)	0	0	0	(20)	(131)	0	(373)
Recoveries	18	25	0	0	3	43	0	89
Net loans (charged-off) recovered	(204)	25	0	0	(17)	(88)	0	(284)
Ending balance	\$ 32,348	\$ 25,795	\$ 4,206	\$ 729	\$ 2,460	\$ 1,076	\$ 625	\$ 67,239

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended September 30, 2021								
Beginning balance, July 1	\$ 33,130	\$ 28,291	\$ 3,930	\$ 1,298	\$ 3,165	\$ 1,393	\$ 506	\$ 71,713
Provision for credit losses	3,507	(1,545)	(244)	89	(265)	(116)	(126)	1,300
Loans charged-off	(5)	0	0	0	(13)	(72)	0	(90)
Recoveries	44	0	0	0	14	67	0	125
Net loans (charged-off) recovered	39	0	0	0	1	(5)	0	35
Ending balance	\$ 36,676	\$ 26,746	\$ 3,686	\$ 1,387	\$ 2,901	\$ 1,272	\$ 380	\$ 73,048

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Nine Months Ended September 30, 2022								
Beginning balance, January 1	\$ 30,595	\$ 26,535	\$ 5,034	\$ 1,146	\$ 2,866	\$ 1,147	\$ 450	\$ 67,773
Provision for credit losses	1,948	(168)	(828)	(417)	(411)	118	175	417
Loans charged-off	(254)	(597)	0	0	(42)	(318)	0	(1,211)
Recoveries	59	25	0	0	47	129	0	260
Net loans (charged-off) recovered	(195)	(572)	0	0	5	(189)	0	(951)
Ending balance	\$ 32,348	\$ 25,795	\$ 4,206	\$ 729	\$ 2,460	\$ 1,076	\$ 625	\$ 67,239

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Nine Months Ended September 30, 2021								
Beginning balance, January 1	\$ 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	2,780	(420)	(737)	30	(719)	21	122	1,077
Loans charged-off	(254)	(71)	0	0	(51)	(217)	0	(593)
Recoveries	1,505	14	320	0	99	168	0	2,106
Net loans (charged-off) recovered	1,251	(57)	320	0	48	(49)	0	1,513
Ending balance	\$ 36,676	\$ 26,746	\$ 3,686	\$ 1,387	\$ 2,901	\$ 1,272	\$ 380	\$ 73,048

Credit Quality Indicators:

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

The Company uses the following definitions for risk ratings:

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

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

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

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

The following table summarizes the risk category of loans by loan segment and origination date as of September 30, 2022:

(dollars in thousands)	2022	2021	2020	2019	2018	Prior	Term Total	Revolving	Total	
Commercial and industrial loans:										
Working capital lines of credit loans:										
Pass	\$ 0	\$ 2,841	\$ 1,795	\$ 0	\$ 0	\$ 0	\$ 4,636	\$ 622,729	\$ 627,365	
Special Mention	0	0	0	0	0	0	0	41,856	41,856	
Substandard	0	0	0	0	0	0	0	15,122	15,122	
Total	0	2,841	1,795	0	0	0	4,636	679,707	684,343	
Non-working capital loans:										
Pass	240,076	134,468	98,133	52,784	14,249	18,906	558,616	232,421	791,037	
Special Mention	479	4,741	0	111	197	3,388	8,916	207	9,123	
Substandard	1,972	2,450	6,210	3	1,971	4,423	17,029	3,561	20,590	
Not Rated	2,229	1,675	1,355	480	207	29	5,975	0	5,975	
Total	244,756	143,334	105,698	53,378	16,624	26,746	590,536	236,189	826,725	
Commercial real estate and multi-family residential loans:										
Construction and land development loans:										
Pass	23,795	19,247	20,833	422	0	0	64,297	401,951	466,248	
Owner occupied loans:										
Pass	73,876	180,121	149,215	100,287	70,756	101,475	675,730	44,382	720,112	
Special Mention	1,176	5,495	0	835	1,620	8,148	17,274	0	17,274	
Substandard	322	106	1,492	0	1,161	231	3,312	0	3,312	
Total	75,374	185,722	150,707	101,122	73,537	109,854	696,316	44,382	740,698	
Nonowner occupied loans:										
Pass	126,326	128,907	140,706	93,016	13,844	75,388	578,187	66,248	644,435	
Special Mention	0	11,232	0	0	0	0	11,232	0	11,232	
Total	126,326	140,139	140,706	93,016	13,844	75,388	589,419	66,248	655,667	
Multifamily loans:										
Pass	19,757	25,847	37,245	35,896	17,105	11,752	28,977	159,474	9,492	168,966
Special Mention	21,968	0	0	0	0	0	21,968	0	21,968	
Total	41,725	25,847	37,245	35,896	11,752	28,977	181,442	9,492	190,934	
Agri-business and agricultural loans:										
Loans secured by farmland:										
Pass	28,584	42,904	30,599	9,904	8,581	20,594	141,166	20,171	161,337	
Special Mention	260	0	1,676	1,863	0	29	3,828	0	3,828	
Substandard	0	0	0	0	0	145	145	0	145	
Total	28,844	42,904	32,275	11,767	8,581	20,768	145,139	20,171	165,310	
Loans for agricultural production:										
Pass	2,899	31,300	23,029	3,845	9,521	4,792	75,386	89,018	164,404	
Special Mention	300	399	7,263	996	0	0	8,958	3,465	12,423	
Total	3,199	31,699	30,292	4,841	9,521	4,792	84,344	92,483	176,827	
Other commercial loans:										
Pass	19,286	5,854	19,079	156	995	12,817	58,187	39,046	97,233	
Special Mention	0	0	0	0	0	3,341	3,341	0	3,341	
Total	19,286	5,854	19,079	156	995	16,158	61,528	39,046	100,574	
Consumer 1-4 family mortgage loans:										
Closed end first mortgage loans										
Pass	6,500	13,063	12,601	4,881	4,727	4,054	45,826	5,618	51,444	
Special Mention	0	0	560	0	0	0	560	0	560	
Substandard	0	0	0	0	0	1,749	1,749	0	1,749	
Not Rated	39,377	44,681	20,174	6,187	3,082	28,548	142,049	0	142,049	
Total	45,877	57,744	33,335	11,068	7,809	34,351	190,184	5,618	195,802	
Open end and junior lien loans										
Pass	0	631	362	77	77	0	1,147	5,129	6,276	
Not Rated	39,296	15,143	3,445	4,014	1,918	2,456	66,272	102,641	168,913	
Total	39,296	15,774	3,807	4,091	1,995	2,456	67,419	107,770	175,189	
Residential construction loans										
Not Rated	12,215	3,901	910	300	132	1,241	18,699	0	18,699	
Total	12,215	3,901	910	300	132	1,241	18,699	0	18,699	
Other consumer loans										

Pass	1,484	1,919	488	600	0	992	5,483	22,394	27,877
Substandard	0	0	0	203	0	0	203	0	203
Not Rated	18,286	16,046	10,173	4,336	3,345	1,566	53,752	10,987	64,739
Total	19,770	17,965	10,661	5,139	3,345	2,558	59,438	33,381	92,819
TOTAL	<u>\$ 680,463</u>	<u>\$ 692,971</u>	<u>\$ 587,343</u>	<u>\$ 321,196</u>	<u>\$ 148,135</u>	<u>\$ 323,289</u>	<u>\$ 2,753,397</u>	<u>\$ 1,736,438</u>	<u>\$ 4,489,835</u>

As of September 30, 2022, \$1.6 million in PPP loans were included in the "Pass" category of non-working capital commercial and industrial loans. These loans were included in this risk rating category because they are fully guaranteed by the SBA.

The following table summarizes the risk category of loans by loan segment and origination date as of December 31, 2021:

(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
Multifamily 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
Special Mention	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	<u>\$ 839,292</u>	<u>\$ 719,840</u>	<u>\$ 414,127</u>	<u>\$ 207,202</u>	<u>\$ 217,546</u>	<u>\$ 266,255</u>	<u>\$ 2,664,262</u>	<u>\$ 1,623,579</u>	<u>\$ 4,287,841</u>

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

Nonaccrual and Past Due Loans:

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

The following table presents the aging of the amortized cost basis in past due loans as of September 30, 2022 by class of loans and loans past due 90 days or more and still accruing by class of loan:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 89 Days Past Due and Accruing	Total Accruing	Total Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Total
Commercial and industrial loans:							
Working capital lines of credit loans	\$ 684,320	\$ 23	\$ 0	\$ 683,016	\$ 1,327	\$ 379	\$ 684,343
Non-working capital loans	826,725	0	0	822,017	4,708	657	826,725
Commercial real estate and multi-family residential loans:							
Construction and land development loans	466,248	0	0	466,248	0	0	466,248
Owner occupied loans	740,698	0	0	737,618	3,080	1,483	740,698
Nonowner occupied loans	655,667	0	0	655,667	0	0	655,667
Multifamily loans	190,934	0	0	190,934	0	0	190,934
Agri-business and agricultural loans:							
Loans secured by farmland	165,310	0	0	165,165	145	0	165,310
Loans for agricultural production	176,827	0	0	176,827	0	0	176,827
Other commercial loans	100,574	0	0	100,574	0	0	100,574
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	195,196	581	25	195,597	205	136	195,802
Open end and junior lien loans	175,090	99	0	174,974	215	215	175,189
Residential construction loans	18,699	0	0	18,699	0	0	18,699
Other consumer loans	92,603	216	0	92,609	210	8	92,819
Total	\$ 4,488,891	\$ 919	\$ 25	\$ 4,479,945	\$ 9,890	\$ 2,878	\$ 4,489,835

As of September 30, 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 nine month period ended September 30, 2022.

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 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
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
Multifamily 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 quarter over quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraisal value.

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

(dollars in thousands)	September 30, 2022			
	Real Estate	General Business Assets	Other	Total
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 1,327	\$ 0	\$ 1,327
Non-working capital loans	476	9,441	229	10,146
Commercial real estate and multi-family residential loans:				
Owner occupied loans	428	1,492	1,161	3,081
Agri-business and agricultural loans:				
Loans secured by farmland	0	145	0	145
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	1,954	0	0	1,954
Open end and junior lien loans	216	0	0	216
Other consumer loans	0	0	8	8
Total	\$ 3,074	\$ 12,405	\$ 1,398	\$ 16,877

(dollars in thousands)	December 31, 2021			
	Real Estate	General Business Assets	Other	Total
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
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	\$ 6,312	\$ 17,091	\$ 1,449	\$ 24,950

Modifications:

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

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

During the three and nine months ended September 30, 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 totals 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 reserves 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 trouble 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 three and nine months ended September 30, 2021, no loans were modified as troubled debt restructurings.

NOTE 5. BORROWINGS

No advances were outstanding with the FHLB as of September 30, 2022. For the period ended December 31, 2021, the Company had an advance of \$75.0 million outstanding from the FHLB. The advance was a ten-year fixed-rate putable advance with an interest rate of 0.39% and a maturity date of March 4, 2030. The note required monthly interest payments and was secured by residential real estate loans and securities. The FHLB exercised the putable option on the advance during the second quarter of 2022 and the note was repaid by the Company.

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 September 30, 2022 and December 31, 2021.

NOTE 6. FAIR VALUE DISCLOSURES

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

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

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

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

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

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

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

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

Collateral dependent loans: Collateral dependent loans with specific allocations of the allowance for credit losses are generally based on the fair value of the underlying collateral when repayment is expected solely from the collateral. Fair value is determined using several methods. Generally, the fair value of real estate is based on appraisals by qualified third party appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and result in a Level 3 classification of the inputs for determining fair value. In addition, the Company's management routinely applies internal discount factors to the value of appraisals used in the fair value evaluation of collateral dependent loans. The deductions to the appraisals take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. Commercial real estate is generally discounted from its appraised value by 0-50% with the higher discounts applied to real estate that is determined to have a thin trading market or to be specialized collateral. In addition to real estate, the Company's management evaluates other types of collateral as follows: (a) raw and finished inventory is discounted from its cost or book value by 35-65%, depending on the marketability of the goods (b) finished goods are generally discounted by 30-60%, depending on the ease of marketability, cost of transportation or

scope of use of the finished good (c) work in process inventory is typically discounted by 50%-100%, depending on the length of manufacturing time, types of components used in the completion process, and the breadth of the user base (d) equipment is valued at a percentage of depreciated book value or recent appraised value, if available, and is typically discounted at 30-70% after various considerations including age and condition of the equipment, marketability, breadth of use, and whether the equipment includes unique components or add-ons; and (e) marketable securities are discounted by 10%-30%, depending on the type of investment, age of valuation report and general market conditions. This methodology is based on a market approach and typically results in a Level 3 classification of the inputs for determining fair value.

Mortgage servicing rights: As of September 30, 2022, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was \$2.8 million, carried at amortized cost of \$2.8 million less a \$7,000 valuation reserve. These residential mortgage loans have a weighted average interest rate of 3.44%, 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 third-party valuation is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees and float income. The most significant assumption used to value MSRs is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At September 30, 2022, the constant prepayment speed ("PSA") used was 172 and discount rate used was 9.0%. 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.

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

(dollars in thousands)	September 30, 2022			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
U.S. Treasury securities	\$ 1,968	\$ 0	\$ 0	\$ 1,968
U.S. government sponsored agency securities	0	131,255	0	131,255
Mortgage-backed securities: residential	0	504,756	0	504,756
State and municipal securities	0	550,888	3,319	554,207
Total securities	1,968	1,186,899	3,319	1,192,186
Mortgage banking derivative	0	83	0	83
Interest rate swap derivative	0	38,909	0	38,909
Total assets	\$ 1,968	\$ 1,225,891	\$ 3,319	\$ 1,231,178
Liabilities:				
Mortgage banking derivative	\$ 0	\$ 0	\$ 0	\$ 0
Interest rate swap derivative	0	38,910	0	38,910
Total liabilities	\$ 0	\$ 38,910	\$ 0	\$ 38,910

(dollars in thousands)	December 31, 2021			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
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 securities available-for-sale	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 and thus did not require additional recurring fair value disclosure.

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

(dollars in thousands)	September 30, 2022			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 275	\$ 275
Non-working capital loans	0	0	3,006	3,006
Commercial real estate and multi-family residential loans:				
Owner occupied loans	0	0	498	498
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	42	42
Total collateral dependent loans	0	0	3,821	3,821
Other real estate owned	0	0	196	196
Total assets	\$ 0	\$ 0	\$ 4,017	\$ 4,017

(dollars in thousands)	December 31, 2021			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 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

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at September 30, 2022:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	\$ 3,281	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	72 %	63%-99%
Collateral dependent loans:					
Commercial real estate and multi-family residential loans	498	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	54 %	37%-71%
Collateral dependent loans:					
Agribusiness and agricultural	42	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	71 %	71%
Other real estate owned	196	Appraisals	Discount to reflect current market conditions and ultimate collectability	38 %	

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 and multi-family residential loans	791	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	51 %	34%-68%
Collateral dependent loans:					
Agribusiness 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 %	

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

(dollars in thousands)	September 30, 2022				
	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$ 204,802	\$ 203,588	\$ 1,214	\$ 0	\$ 204,802
Securities available-for-sale	1,192,186	1,968	1,186,899	3,319	1,192,186
Securities held-to-maturity	127,820	0	103,326	0	103,326
Real estate mortgages held-for-sale	1,097	0	1,117	0	1,117
Loans, net	4,422,596	0	0	4,246,842	4,246,842
Mortgage banking derivative	83	0	83	0	83
Interest rate swap derivative	38,909	0	38,909	0	38,909
Federal Reserve and Federal Home Loan Bank Stock	12,840	N/A	N/A	N/A	N/A
Accrued interest receivable	22,822	0	9,201	13,621	22,822
Financial Liabilities:					
Certificates of deposit	750,304	0	751,974	0	751,974
All other deposits	4,913,829	4,913,829	0	0	4,913,829
Mortgage banking derivative	0	0	0	0	0
Interest rate swap derivative	38,910	0	38,910	0	38,910
Standby letters of credit	234	0	0	234	234
Accrued interest payable	2,200	184	2,016	0	2,200

(dollars in thousands)	December 31, 2021				
	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
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 7. OFFSETTING ASSETS AND LIABILITIES

The following tables summarize gross and net information about financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to an enforceable master netting arrangement at September 30, 2022 and December 31, 2021.

(dollars in thousands)	September 30, 2022					
	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Position	
Assets						
Interest Rate Swap Derivatives	\$ 38,909	\$ 0	\$ 38,909	\$ 0	\$ (33,725)	\$ 5,184
Total Assets	<u>\$ 38,909</u>	<u>\$ 0</u>	<u>\$ 38,909</u>	<u>\$ 0</u>	<u>\$ (33,725)</u>	<u>\$ 5,184</u>
Liabilities						
Interest Rate Swap Derivatives	\$ 38,910	\$ 0	\$ 38,910	\$ 0	\$ (90)	\$ 38,820
Total Liabilities	<u>\$ 38,910</u>	<u>\$ 0</u>	<u>\$ 38,910</u>	<u>\$ 0</u>	<u>\$ (90)</u>	<u>\$ 38,820</u>

December 31, 2021

(dollars in thousands)	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Position	Net Amount
Assets						
Interest Rate Swap Derivatives	\$ 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 8. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Weighted average shares outstanding for basic earnings per common share	25,533,832	25,479,654	25,525,734	25,472,185
Dilutive effect of stock based awards	200,781	155,634	184,354	136,470
Weighted average shares outstanding for diluted earnings per common share	25,734,613	25,635,288	25,710,088	25,608,655
Basic earnings per common share	\$ 1.12	\$ 0.95	\$ 3.05	\$ 2.81
Diluted earnings per common share	\$ 1.11	\$ 0.94	\$ 3.03	\$ 2.79

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the three months ended September 30, 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 July 1, 2022	\$ (157,625)	\$ (909)	\$ (158,534)
Other comprehensive income (loss) before reclassification	(63,620)	0	(63,620)
Amounts reclassified from accumulated other comprehensive income (loss)	398	27	425
Net current period other comprehensive income (loss)	(63,222)	27	(63,195)
Balance at September 30, 2022	\$ (220,847)	\$ (882)	\$ (221,729)

(dollars in thousands)	Unrealized Gains and Losses on Available- for-Sales Securities	Defined Benefit Pension Items	Total
Balance at July 1, 2021	\$ 23,619	\$ (1,348)	\$ 22,271
Other comprehensive income (loss) before reclassification	(11,385)	0	(11,385)
Amounts reclassified from accumulated other comprehensive income (loss)	0	46	46
Net current period other comprehensive income (loss)	(11,385)	46	(11,339)
Balance at September 30, 2021	<u>\$ 12,234</u>	<u>\$ (1,302)</u>	<u>\$ 10,932</u>

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the nine months ended September 30, 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	(238,689)	0	(238,689)
Amounts reclassified from accumulated other comprehensive income (loss)	786	81	867
Net current period other comprehensive income (loss)	(237,903)	81	(237,822)
Balance at September 30, 2022	<u>\$ (220,847)</u>	<u>\$ (882)</u>	<u>\$ (221,729)</u>

(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	(16,318)	0	(16,318)
Amounts reclassified from accumulated other comprehensive income (loss)	(630)	136	(494)
Net current period other comprehensive income (loss)	(16,948)	136	(16,812)
Balance at September 30, 2021	<u>\$ 12,234</u>	<u>\$ (1,302)</u>	<u>\$ 10,932</u>

Reclassifications out of other accumulated comprehensive loss for the three months ended September 30, 2022 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	(504)	Interest income
Tax effect	106	Income tax expense
	(398)	Net of tax
Amortization of defined benefit pension items	(36)	Other expense
Tax effect	9	Income tax expense
	(27)	Net of tax
Total reclassifications for the period	<u>\$ (425)</u>	Net income

Reclassifications out of other accumulated comprehensive income for the three months ended September 30, 2021 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Realized gains and losses on available-for-sale securities	\$ 0	Net securities gains
Tax effect	0	Income tax expense
	<u>0</u>	Net of tax
Amortization of defined benefit pension items	(61)	Other expense
Tax effect	15	Income tax expense
	<u>(46)</u>	Net of tax
Total reclassifications for the period	\$ (46)	Net income

Reclassifications out of other accumulated comprehensive loss for the nine months ended September 30, 2022 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	(995)	Interest income
Tax effect	209	Income tax expense
	<u>(786)</u>	Net of tax
Amortization of defined benefit pension items	(108)	Other expense
Tax effect	27	Income tax expense
	<u>(81)</u>	Net of tax
Total reclassifications for the period	\$ (867)	Net income

Reclassifications out of other accumulated comprehensive income for the nine months ended September 30, 2021 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Realized gains and losses on available-for-sale securities	\$ 797	Net securities gains
Tax effect	(167)	Income tax expense
	<u>630</u>	Net of tax
Amortization of defined benefit pension items	(181)	Other expense
Tax effect	45	Income tax expense
	<u>(136)</u>	Net of tax
Total reclassifications for the period	\$ 494	Net income

NOTE 10. LEASES

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

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

The following is a maturity analysis of the operating lease liabilities as of September 30, 2022:

Years ending December 31, (in thousands)	Operating Lease Obligation
2022	\$ 179
2023	727
2024	744
2025	756
2026	731
2027 and thereafter	2,938
Total undiscounted lease payments	6,075
Less imputed interest	(634)
Lease liability	\$ 5,441
Right-of-use asset	\$ 5,441

(dollars in thousands)	Three months ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Lease cost				
Operating lease cost	\$ 169	\$ 133	\$ 502	\$ 403
Short-term lease cost	4	6	18	18
Total lease cost	\$ 173	\$ 139	\$ 520	\$ 421
Other information				
Operating cash outflows from operating leases	\$ 169	\$ 133	\$ 502	\$ 403
Weighted-average remaining lease term - operating leases	7.5 years	8.1 years	7.5 years	8.1 years
Weighted average discount rate - operating leases	2.5 %	2.8 %	2.5 %	2.8 %

NOTE 11. CONTINGENCIES

Lakeland Financial Corporation and its subsidiaries are defendants in various legal proceedings arising in the normal course of business. In the opinion of management, based on present information including advice of legal counsel, the ultimate resolution of these proceedings is not expected to have a material effect on the Company's consolidated financial position or results of operations.

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

OVERVIEW

Net income in the first nine months of 2022 was \$77.8 million, which increased \$6.4 million, or 8.9%, from \$71.5 million for the comparable period of 2021. Diluted income per common share was \$3.03 in the first nine months of 2022, up 8.6% from \$2.79 in the comparable period of 2021. The increase in net income for 2022 was primarily due to growth in net interest income of \$13.0 million and a decrease to the provision for credit losses of \$660,000, offset by a decrease in noninterest income of \$3.7 million and an increase in noninterest expense of \$3.4 million. Pretax pre-provision earnings in the first nine months of 2022 were \$94.6 million, an increase of \$5.9 million, or 6.6%, compared to \$88.7 million for the comparable period. Pretax pre-provision earnings is a non-GAAP measure calculated by adding net interest income to noninterest income and subtracting noninterest expense.

Annualized return on average total equity was 16.89% in the first nine months of 2022 versus 14.29% in the comparable period of 2021. Annualized return on average total assets was 1.61% in the first nine months of 2022 versus 1.57% for the comparable period of 2021. The Company's average equity to average assets ratio was 9.53% in the first nine months of 2022 versus 11.01% in the comparable period of 2021. Equity has been negatively impacted by unrealized losses from the available-for-sale investment securities portfolio.

Net income in the third quarter of 2022 was \$28.5 million, which increased \$4.4 million, or 18.3%, from \$24.1 million for the comparable period of 2021. Diluted earnings per common share was \$1.11 in the third quarter of 2022, up 18.1% from \$0.94 in the comparable period of 2021. The increase was driven primarily by growth in net interest income of \$6.8 million and a decrease to the provision for credit losses of \$1.3 million, offset by a decrease in noninterest income of \$950,000 and an increase in noninterest expense of \$1.9 million. Pretax pre-provision earnings in the third quarter of 2022 were \$34.8 million, an increase of \$3.9 million, or 12.5%, compared to \$30.9 million for the comparable period of 2021.

Annualized return on average total equity was 19.39% in the third quarter of 2022 versus 13.90% in the comparable period of 2021. Annualized return on average total assets was 1.80% in the third quarter of 2022 versus 1.56% in the comparable period of 2021. The average equity to average assets ratio was 9.27% in the third quarter of 2022 versus 11.19% the comparable period of 2021.

The Company's tangible common equity to tangible assets ratio, which is a non-GAAP financial measure, was 8.20% at September 30, 2022, compared to 10.92% at September 30, 2021 and 10.70% at December 31, 2021. Tangible equity and tangible assets have declined due to unrealized losses of the Company's available-for-sale investment securities portfolio. The market value decline was a result of the yield curve steepening caused by inflation and the tightening of monetary policy by the Federal Reserve Board beginning in March of 2022 and throughout the past six months. Unrealized losses from available-for-sale investment securities were \$256.1 million as of September 30, 2022, compared to unrealized gains of \$15.5 million at September 30, 2021 and unrealized gains of \$21.6 million at December 31, 2021. When excluding the impact of accumulated other comprehensive income on tangible common equity and tangible assets, the Company's adjusted tangible common equity to adjusted tangible assets ratio, which is a non-GAAP financial measure, was 11.22% at September 30, 2022 compared to 10.75% at September 30, 2021 and 10.47% at December 31, 2021.

Total assets were \$6.288 billion as of September 30, 2022 versus \$6.557 billion as of December 31, 2021, a decrease of \$268.9 million. Balance sheet contraction was driven primarily by decreases in cash and cash equivalents, deposits and borrowings during the first nine months of 2022. Cash and cash equivalents decreased \$478.4 million, deposits decreased \$71.3 million and borrowings decreased \$75.0 million. Offsetting these decreases were increases to loans, net of the allowance for credit losses, of \$202.5 million and other assets of \$88.5 million. Total equity decreased by \$185.7 million due primarily to a reduction to accumulated other comprehensive income of \$237.8 million. The reduction in accumulated other comprehensive income was caused by a decrease in the fair value of available-for-sale securities due to the steepening of the yield curve during 2022. The change in total equity was also impacted by net income inflows of \$77.8 million and dividends declared and paid of \$1.20 per share, totaling \$30.6 million.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

RESULTS OF OPERATIONS

Overview

Selected income statement information for the three and nine months ended September 30, 2022 and 2021 is presented in the following table:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Income Statement Summary:				
Net interest income	\$ 52,492	\$ 45,741	\$ 146,050	\$ 133,081
Provision for credit losses	0	1,300	417	1,077
Noninterest income	10,164	11,114	31,343	35,011
Noninterest expense	27,894	25,967	82,776	79,361
Other Data:				
Efficiency ratio (1)	44.52 %	45.67 %	46.66 %	47.21 %
Diluted EPS	\$ 1.11	\$ 0.94	\$ 3.03	\$ 2.79
Average Equity/Average Assets	9.27 %	11.19 %	9.53 %	11.01 %
Tangible capital ratio (2)	8.20 %	10.92 %	8.20 %	10.92 %
Adjusted tangible capital ratio (3)	11.22 %	10.75 %	11.22 %	10.75 %
Net charge offs (recoveries) to average loans	0.03 %	0.00 %	0.03 %	(0.05)%
Net interest margin	3.57 %	3.13 %	3.25 %	3.11 %
Net interest margin excluding PPP loans (4)	3.57 %	2.95 %	3.24 %	2.98 %
Noninterest income to total revenue	16.22 %	19.55 %	17.67 %	20.83 %
Pretax Pre-Provision Earnings (5)	\$ 34,762	\$ 30,888	\$ 94,617	\$ 88,731

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

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

(3) Non-GAAP financial measure. Adjusted tangible capital ratio excludes the market value impact of available-for-sale investment securities on tangible common equity and tangible assets. See reconciliation on the next page.

(4) Non-GAAP financial measure. Calculated by subtracting the impact PPP loans had on average earning assets, loan interest income, average interest bearing liabilities, and interest expense. Management believes this is an important measure because it provides for better comparability to prior periods, given the low fixed interest rate of 1.0% applicable to PPP loans, 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.

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

(dollars in thousands)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2022	2021	2022	2021
Total Equity	\$ 519,220	\$ 683,202	\$ 519,220	\$ 683,202
Less: Goodwill	(4,970)	(4,970)	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	1,167	1,176	1,167	1,176
Tangible Common Equity (A)	515,417	679,408	515,417	679,408
AOCI Market Value Adjustment	220,847	(12,234)	220,847	(12,234)
Adjusted Tangible Common Equity (C)	736,264	667,174	736,264	667,174
Total Assets	\$ 6,288,406	\$ 6,222,916	\$ 6,288,406	\$ 6,222,916
Less: Goodwill	(4,970)	(4,970)	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	1,167	1,176	1,167	1,176
Tangible Assets (B)	6,284,603	6,219,122	6,284,603	6,219,122
Market Value Adjustment	279,553	(15,486)	279,553	(15,486)
Adjusted Tangible Assets (D)	6,564,156	6,203,636	6,564,156	6,203,636
Tangible Capital Ratio (A/B)	8.20 %	10.92 %	8.20 %	10.92 %
Adjusted Tangible Capital Ratio (C/D)	11.22 %	10.75 %	11.22 %	10.75 %
Net Interest Income	\$ 52,492	\$ 45,741	\$ 146,050	\$ 133,081
Noninterest Income	10,164	11,114	31,343	35,011
Noninterest Expense	(27,894)	(25,967)	(82,776)	(79,361)
Pretax Pre-Provision Earnings	\$ 34,762	\$ 30,888	\$ 94,617	\$ 88,731

Impact of Paycheck Protection Program on Net Interest Margin FTE.

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2022	2021	2022	2021
Total Average Earnings Assets	\$ 5,991,630	\$ 5,909,834	\$ 6,178,787	\$ 5,825,275
Less: Average Balance of PPP Loans	(3,232)	(142,917)	(10,098)	(296,938)
Total Adjusted Earning Assets	5,988,398	5,766,917	6,168,689	5,528,337
Total Interest Income FTE	\$ 64,011	\$ 50,271	\$ 168,335	\$ 147,351
Less: PPP Loan Income	(58)	(3,946)	(767)	(12,764)
Total Adjusted Interest Income FTE	63,953	46,325	167,568	134,587
Adjusted Earning Asset Yield, net of PPP Impact	4.24 %	3.19 %	3.63 %	3.25 %
Total Average Interest Bearing Liabilities	\$ 3,821,699	\$ 3,737,707	\$ 3,919,779	\$ 3,728,339
Less: Average Balance of PPP Loans	(3,232)	(142,917)	(10,098)	(296,938)
Total Adjusted Interest Bearing Liabilities	3,818,467	3,594,790	3,909,681	3,431,401
Total Interest Expense FTE	\$ 10,066	\$ 3,554	\$ 18,164	\$ 11,816
Less: PPP Cost of Funds	(2)	(90)	(19)	(555)
Total Adjusted Interest Expense FTE	10,064	3,464	18,145	11,261
Adjusted Cost of Funds, net of PPP Impact	0.67 %	0.24 %	0.39 %	0.27 %
Net Interest Margin Excluding PPP Loans FTE	3.57 %	2.95 %	3.24 %	2.98 %

Net Income

Net income was \$77.8 million in the first nine months of 2022, an increase of \$6.4 million, or 8.9%, versus net income of \$71.5 million in the first nine months of 2021. The increase in net income for 2022 was primarily due to growth in net interest income of \$13.0 million, or 9.7%, and a decrease to the provision for credit losses of \$660,000, offset by a decrease to noninterest income of \$3.7 million, or 10.5%, and an increase to noninterest expense of \$3.4 million, or 4.3%.

Net income was \$28.5 million for the three months ended September 30, 2022, an increase of \$4.4 million, or 18.3%, versus net income of \$24.1 million for the three months ended September 30, 2021. The increase was primarily due to growth in net interest income which increased \$6.8 million, or 14.8%, and a decrease to the provision for credit losses of \$1.3 million, offset by a decrease to noninterest income of \$950,000, or 8.5%, and an increase to noninterest expense of \$1.9 million, or 7.4%.

Net Interest Income

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

(fully tax equivalent basis, dollars in thousands)	Nine Months Ended September 30,					
	2022			2021		
	Average Balance	Interest	Yield (1)/ Rate	Average Balance	Interest	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	\$ 4,351,009	\$ 136,580	4.20 %	\$ 4,455,488	\$ 128,828	3.87 %
Tax exempt (1)	30,275	1,149	5.07	13,403	410	4.09
Investments:						
Securities (1)	1,472,807	29,105	2.64	977,955	17,765	2.43
Short-term investments	2,251	12	0.71	2,273	2	0.12
Interest bearing deposits	322,445	1,489	0.62	376,156	346	0.12
Total earning assets	\$ 6,178,787	\$ 168,335	3.64 %	\$ 5,825,275	\$ 147,351	3.38 %
Less: Allowance for credit losses	(67,684)			(71,783)		
Nonearning Assets						
Cash and due from banks	72,240			69,066		
Premises and equipment	59,026			59,652		
Other nonearning assets	226,732			189,472		
Total assets	\$ 6,469,101			\$ 6,071,682		
Interest Bearing Liabilities						
Savings deposits	\$ 421,363	\$ 241	0.08 %	\$ 353,058	\$ 204	0.08 %
Interest bearing checking accounts	2,658,739	14,456	0.73	2,334,480	4,905	0.28
Time deposits:						
In denominations under \$100,000	189,459	951	0.67	223,486	1,650	0.99
In denominations over \$100,000	607,352	2,389	0.53	741,815	4,828	0.87
Miscellaneous short-term borrowings	9	0	0.00	500	7	1.87
Long-term borrowings and subordinated debentures	42,857	127	0.40	75,000	222	0.40
Total interest bearing liabilities	\$ 3,919,779	\$ 18,164	0.62 %	\$ 3,728,339	\$ 11,816	0.42 %
Noninterest Bearing Liabilities						
Demand deposits	1,868,858			1,627,522		
Other liabilities	64,262			47,169		
Stockholders' Equity	616,202			668,652		
Total liabilities and stockholders' equity	\$ 6,469,101			\$ 6,071,682		
Interest Margin Recap						
Interest income/average earning assets		168,335	3.64		147,351	3.38 %
Interest expense/average earning assets		18,164	0.39		11,816	0.27 %
Net interest income and margin		\$ 150,171	3.25 %		\$ 135,535	3.11 %

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 21 percent tax rate. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") adjustment applicable to nondeductible interest expenses. Taxable equivalent basis adjustments were \$4.1 million and \$2.5 million in the nine-month periods ended September 30, 2022 and September 30, 2021, respectively.

(2) Loan fees are included as taxable loan interest income. Net loan fees attributable to PPP loans were \$690,000 and \$10.5 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. All other loan fees were immaterial in relation to total taxable loan interest income for the periods presented.

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

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

(fully tax equivalent basis, dollars in thousands)	Three Months Ended September 30,					
	2022			2021		
	Average Balance	Interest	Yield (1)/ Rate	Average Balance	Interest	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	\$ 4,376,724	\$ 52,707	4.78 %	\$ 4,339,792	\$ 43,025	3.93 %
Tax exempt (1)	39,220	583	5.90	14,312	150	4.16
Investments:						
Securities(1)	1,429,186	9,949	2.76	1,201,657	6,971	2.30
Short-term investments	2,307	9	1.55	2,304	0	0.00
Interest bearing deposits	144,193	763	2.10	351,769	125	0.14
Total earning assets	\$ 5,991,630	\$ 64,011	4.24 %	\$ 5,909,834	\$ 50,271	3.37 %
Less: Allowance for credit losses	(67,481)			(72,157)		
Nonearning Assets						
Cash and due from banks	70,672			67,715		
Premises and equipment	58,796			59,824		
Other nonearning assets	244,741			188,118		
Total assets	\$ 6,298,358			\$ 6,153,334		
Interest Bearing Liabilities						
Savings deposits	\$ 430,428	\$ 85	0.08 %	\$ 369,191	\$ 71	0.08 %
Interest bearing checking accounts	2,623,747	8,809	1.33	2,390,462	1,712	0.28
Time deposits:						
In denominations under \$100,000	180,774	298	0.65	211,911	457	0.86
In denominations over \$100,000	586,750	874	0.59	691,143	1,239	0.71
Miscellaneous short-term borrowings	0	0	0.00	0	0	0.00
Long-term borrowings and subordinated debentures	0	0	0.00	75,000	75	0.40
Total interest bearing liabilities	\$ 3,821,699	\$ 10,066	1.04 %	\$ 3,737,707	\$ 3,554	0.38 %
Noninterest Bearing Liabilities						
Demand deposits	1,816,770			1,681,565		
Other liabilities	76,210			45,810		
Stockholders' Equity	583,679			688,252		
Total liabilities and stockholders' equity	\$ 6,298,358			\$ 6,153,334		
Interest Margin Recap						
Interest income/average earning assets		64,011	4.24		50,271	3.37 %
Interest expense/average earning assets		10,066	0.67		3,554	0.24 %
Net interest income and margin		\$ 53,945	3.57 %		\$ 46,717	3.13 %

- (1) Tax exempt income was converted to a fully taxable equivalent basis at a 21 percent tax rate. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") adjustment applicable to nondeductible interest expenses. Taxable equivalent basis adjustments were \$1.45 million and \$976,000 in the three-month periods ended September 30, 2022 and September 30, 2021, respectively.
- (2) Loan fees are included as taxable loan interest income. Net loan fees attributable to PPP loans were \$50,000 and \$3.57 million for the three months ended September 30, 2022 and September 30, 2021, respectively. All other loan fees were immaterial in relation to total taxable loan interest income for the periods presented.
- (3) Nonaccrual loans are included in the average balance of taxable loans.

Net interest income increased \$13.0 million, or 9.7%, to \$146.1 million for the nine months ended September 30, 2022, compared with \$133.1 million for the first nine months of 2021. Growth in core loans and investment security balances coupled with rising interest rates positively impacted investment security and loan income and offset the decline in PPP loan income of \$12.0 million during the period. Interest expense increased by \$6.3 million, partially offsetting the positive impact of increased loan and securities interest income. Average earning assets increased by \$353.5 million, due primarily to growth in investment securities of \$494.8 million. Average loans outstanding decreased \$87.6 million to \$4.381 billion during the nine months ended September 30, 2022, compared to \$4.469 billion during the same period of 2021. Average PPP loans decreased by \$286.8 million to \$10.1 million for the first nine months of 2022 compared to \$296.9 million for the first nine months of 2021. Excluding PPP loans, average core loans increased \$199.2 million to \$4.371 billion during the nine months ended

September 30, 2022, compared to \$4.172 billion during the same period of 2021. The earning asset growth was funded through an increase in deposits. Average deposits increased \$465.4 million to \$5.746 billion during the nine months ended September 30, 2022, compared to \$5.280 billion for the same period of 2021.

The tax equivalent net interest margin was 3.25% for the nine months ended September 30, 2022, compared to 3.11% during the first nine months of 2021. The increased margin was caused by increased yields on loans and securities, and partially offset by increased rates on interest bearing liabilities. Also contributing to the increased margin was an increase to earning assets of \$353.5 million, or 6.1%, which was funded by an increase in average deposits. The higher yields and increased cost of funds were driven by a series of rate increases beginning in March of 2022 to the target Federal Funds rate by the Federal Reserve Board. The cumulative effect of these rate increases raised the target Federal Funds rate 300 basis points since March 2022, increasing the target Federal Funds rate range from a zero-bound range of 0.00% - 0.25% prior to the first rate increase to a range of 3.00% - 3.25% at September 30, 2022.

Total PPP loan income recognized for the nine months ended September 30, 2022 was \$767,000 compared to \$12.8 million for the comparable period in 2021. PPP interest and fees provided a benefit of 1 basis point on the net interest margin for the nine months ended September 30, 2022, compared to a benefit of 13 basis points for the same period in 2021. Net interest margin, excluding PPP, was 3.24% for the nine months ended September 30, 2022, compared to 2.98% for the same period in 2021. Despite the decrease in PPP loan fee income, earning asset yields increased 26 basis points, from 3.38% for the nine months ended September 30, 2021, to 3.64% for the nine months ended September 30, 2022 due primarily to the repricing of variable rate loans. Offsetting the increased yield on earning assets was an increase to the Company's cost of funds of 12 basis points as interest expense as a percentage of earning assets increased from 0.27% for the nine months ended September 30, 2021 to 0.39% for the nine months ended September 30, 2022.

Net interest income increased by \$6.8 million, or 14.8%, for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. The increase in net interest income during the third quarter of 2022 was driven by the increase in loan interest income due primarily to the rising interest rate environment and an increase in average earning assets of \$81.8 million. This earning asset growth was funded through an increase in average deposits of \$294.2 million during the three months ended September 30, 2022. Offsetting this growth in average deposits was a decrease in long-term borrowings of \$75.0 million due to repayment of a puttable \$75.0 million advance with the FHLB during the second quarter of 2022.

The Company's net interest margin increased 44 basis points to 3.57% for the third quarter of 2022 compared to 3.13% for the third quarter of 2021. The increased margin in the third quarter of 2022 compared to the prior year period was primarily due to higher yields on loans and securities and partially offset by a higher cost of funds. The higher yields were driven by the rising rate environment in 2022 and redeployment of excess liquidity from interest bearing deposits, that was used to fund loan growth during the period also benefited net interest margin. The Company expects deposit betas to increase in the fourth quarter of 2022 as the Federal Reserve Bank is expected to continue tightening.

Total PPP loan income recognized for the third quarter of 2022 was \$58,000 compared to \$3.9 million for the third quarter of 2021. PPP interest and fees had a nominal impact on the third quarter 2022 net interest margin compared to an expansionary benefit to net interest margin of 18 basis points for the third quarter 2021. Net interest margin, excluding PPP, was 3.57% for the three months ended September 30, 2022, compared to 2.95% for the same period in 2021. Despite the decrease in PPP loan fee income, earning asset yields increased 87 basis points from 3.37% for the third quarter of 2021 to 4.24% for the third quarter of 2022. Offsetting the increased yield on earning assets was an increase to the Company's cost of funds of 43 basis points. Interest expense as a percentage of earning assets increased to 0.67% for the three months ended September 30, 2022, from 0.24% for the three months ended September 30, 2021.

Provision for Credit Losses

The Company recorded provision for credit losses expense of \$417,000 for the nine months ended September 30, 2022 compared to provision expense of \$1.1 million during the comparable period of 2021. Net charge-offs were \$951,000 during the nine month period ended September 30, 2022 compared to net recoveries of \$1.5 million during the comparable period of 2021. The Company recorded no provision for credit losses expense for the three months ended September 30, 2022 compared to provision expense of \$1.3 million during the comparable period of 2021. Net charge offs were \$284,000 during the three month period ended September 30, 2022 compared to net recoveries of \$35,000 during the comparable period of 2021.

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

of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest Income

Noninterest income categories for the nine-month and three-month periods ended September 30, 2022 and 2021 are shown in the following table:

(dollars in thousands)	Nine Months Ended September 30,			
	2022	2021	Dollar Change	Percent Change
Wealth advisory fees	\$ 6,550	\$ 6,433	\$ 117	1.8 %
Investment brokerage fees	1,711	1,560	151	9.7
Service charges on deposit accounts	8,681	7,768	913	11.8
Loan and service fees	9,131	8,823	308	3.5
Merchant card fee income	2,660	2,226	434	19.5
Bank owned life insurance income (loss)	(212)	2,101	(2,313)	(110.1)
Interest rate swap fee income	492	934	(442)	(47.3)
Mortgage banking income	771	1,756	(985)	(56.1)
Net securities gains	0	797	(797)	(100.0)
Other income	1,559	2,613	(1,054)	(40.3)
Total noninterest income	\$ 31,343	\$ 35,011	\$ (3,668)	(10.5)%
Noninterest income to total revenue	17.7 %	20.8 %		

(dollars in thousands)	Three Months Ended September 30,			
	2022	2021	Dollar Change	Percent Change
Wealth advisory fees	\$ 2,059	\$ 2,177	\$ (118)	(5.4)%
Investment brokerage fees	651	521	130	25.0
Service charges on deposit accounts	2,990	2,756	234	8.5
Loan and service fees	3,047	3,005	42	1.4
Merchant card fee income	941	838	103	12.3
Bank owned life insurance income	54	640	(586)	(91.6)
Interest rate swap fee income	88	180	(92)	(51.1)
Mortgage banking income (loss)	(89)	(32)	(57)	178.1
Other income	423	1,029	(606)	(58.9)
Total noninterest income	\$ 10,164	\$ 11,114	\$ (950)	(8.5)%
Noninterest income to total revenue	16.2 %	19.5 %		

The Company's noninterest income decreased \$3.7 million, or 10.5%, to \$31.3 million for the nine months ended September 30, 2022 compared to \$35.0 million in the prior year period. Notably, the Company's fee-based businesses of wealth advisory fees improved by 1.8%, investment brokerage fees improved by 9.7%, service charges on deposit accounts improved by 11.8%, loan and service fees improved by 3.5% and merchant card fee income improved by 19.5%. Market value declines impacted the overall decrease in noninterest income. Bank owned life insurance income decreased by \$2.3 million primarily due to declines in market value of variable life insurance policies of \$1.1 million during the nine months ended September 30, 2022, compared to market value gains of \$1.1 million for the comparable period of 2021. In addition, other income decreased by \$1.1 million, mortgage banking income decreased by \$985,000, net securities gains decreased by \$797,000 and interest rate swap income decreased \$442,000. Other income declined due to income declines in various limited partnership investment holdings and other non-recurring items. The decline in mortgage banking income was caused by a decrease in volume due to a slowdown in mortgage demand because of the higher interest rate environment. Excluding the impact of the variable life insurance policies market value changes, noninterest income was \$32.5 million for the nine months ended September 30, 2022, compared to \$34.0 million for the nine months ended September 30, 2021, a decline of \$1.5 million, or 4.4%. The valuation changes to the variable life insurance policies are offset by similar changes to the deferred compensation expense that is recognized in salaries and employee benefits.

The Company's noninterest income decreased by \$950,000, or 8.5%, to \$10.2 million for the third quarter of 2022, compared to \$11.1 million for the third quarter of 2021. Noninterest income was positively impacted by increases in fee-based lines of business due to fee generating volume for the respective service lines. In particular, service charges on deposit accounts increased \$234,000, or 8.5%, investment brokerage fees increased \$130,000, or 25.0%, and merchant card fee income increased \$103,000, or 12.3%. Wealth advisory fees declined by \$118,000, or 5.4%, and were negatively impacted by market value declines of 15% in trust assets during 2022. Other income declined by \$606,000 due to income declines in various limited partnership holdings and other non-recurring items. In addition, bank owned life insurance income decreased by \$586,000. This decrease was primarily caused by market value declines of the Company's variable life insurance policies which are tied to the equity markets and declined in value by \$234,000 during the third quarter of 2022, compared to an increase of \$284,000 during the third quarter of 2021.

Noninterest Expense

Noninterest expense categories for the nine-month and three-month periods ended September 30, 2022 and 2021 are shown in the following tables:

(dollars in thousands)	Nine Months Ended September 30, 2022			
	2022	2021	Dollar Change	Percent Change
Salaries and employee benefits	\$ 43,840	\$ 44,377	\$ (537)	(1.2)%
Net occupancy expense	4,793	4,343	450	10.4
Equipment costs	4,250	4,134	116	2.8
Data processing fees and supplies	9,510	9,692	(182)	(1.9)
Corporate and business development	4,078	3,208	870	27.1
FDIC insurance and other regulatory fees	1,516	1,707	(191)	(11.2)
Professional fees	4,527	5,058	(531)	(10.5)
Other expense	10,262	6,842	3,420	50.0
Total noninterest expense	\$ 82,776	\$ 79,361	\$ 3,415	4.3 %
Efficiency ratio	46.7 %	47.2 %		

(dollars in thousands)

(dollars in thousands)	Three Months Ended September 30, 2022			
	2022	2021	Dollar Change	Percent Change
Salaries and employee benefits	\$ 14,650	\$ 14,230	\$ 420	3.0 %
Net occupancy expense	1,476	1,413	63	4.5
Equipment costs	1,380	1,371	9	0.7
Data processing fees and supplies	3,226	3,169	57	1.8
Corporate and business development	1,426	1,000	426	42.6
FDIC insurance and other regulatory fees	458	748	(290)	(38.8)
Professional fees	1,554	1,342	212	15.8
Other expense	3,724	2,694	1,030	38.2
Total noninterest expense	\$ 27,894	\$ 25,967	\$ 1,927	7.4 %
Efficiency ratio	44.5 %	45.7 %		

The Company's noninterest expense increased by \$3.4 million, or 4.3%, to \$82.8 million for the nine months ended September 30, 2022, from \$79.4 million for the nine months ended September 30, 2021. The increase was due primarily to an increase in other expense of \$3.4 million, or 50.0%, driven by accruals for ongoing legal matters, Corporate and business development expense increased \$870,000, or 27.1%, caused by increased advertising, charitable contributions, including contributions associated with the company's sesquicentennial celebration, and other corporate development activities. Net occupancy expense increased \$450,000, or 10.4%, driven by budgeted repairs, ongoing upgrades to existing facilities and the opening of a new branch in Elkhart. Offsetting these increases are decreases in salaries and employee benefits of \$537,000, or 1.2%, and professional fees of \$531,000, or 10.5%, due to a decrease in legal expense. The decline in salaries and benefits was impacted by a decline in deferred compensation of \$2.4 million, offset by increases in salaries and wages of \$758,000, increased performance-based compensation of \$499,000 and increased health insurance expense of \$329,000. Deferred compensation expense was \$1.2 million for the nine months ended September 30, 2021. Operating expenses excluding the

effects of legal settlement accruals of \$3.0 million and market value declines from the deferred compensation program of \$1.2 million, were \$81.0 million for the nine months ended September 30, 2022, compared to \$78.2 million for the comparable period in 2021, an increase of \$2.8 million, or 3.6%.

The Company's noninterest expense increased by \$1.9 million, or 7.4%, to \$27.9 million in the third quarter of 2022, compared to \$26.0 million in the third quarter of 2021. Other expense increased \$1.0 million, or 38.2%, driven by accruals for ongoing legal matters. In addition, corporate and business development expenses increased \$426,000, or 42.6%, and salaries and employee benefits increased \$420,000, or 3.0%. The increase in corporate and business development expenses was primarily a result of increased client development activities, advertising costs and increased contributions to our communities. The increase to salaries and employee benefits was driven primarily by increased salaries and wages of \$415,000, increases to performance-based compensation expense of \$367,000 and increased employee health insurance expense of \$113,000, offset by declines in deferred compensation expense of \$519,000. Deferred compensation expense was \$279,000 for the three months ended September 30, 2021. Operating expenses, excluding the effects of one-time legal settlement accruals of \$1.1 million and market value volatility declines of \$240,000 from the deferred compensation program, were \$27.0 million for the three months ended September 30, 2022, compared to \$25.7 million for the comparable period during 2021, an increase of \$1.3 million, or 5.1%.

The Company's efficiency ratio was 46.7% for the nine months ended September 30, 2022 compared to 47.2% for the first nine months of 2021. The Company's efficiency ratio was 44.5% for the third quarter of 2022 and 45.7% for the third quarter of 2021.

As previously disclosed, in the third quarter of 2019, 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. 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 the amended complaint.

The Company's income tax expense increased \$156,000, or 1.0%, in the nine months ended September 30, 2022 compared to the same period in 2021. The effective tax rate was 17.4% in the nine months ended September 30, 2022, compared to 18.5% for the comparable period of 2021. The year-to-date effective tax rate is reduced by income from tax-advantaged sources such as federally tax exempt municipal bond interest income as well as a tax benefit from stock-based compensation vesting of shares for plan participants.

FINANCIAL CONDITION

Overview

Total assets of the Company were \$6.288 billion as of September 30, 2022, a decrease of \$268.9 million, when compared to \$6.557 billion as of December 31, 2021. This decrease was primarily due to a \$478.4 million decrease in cash and cash equivalents, offset by increases in loans, net of the allowance for credit losses, of \$202.5 million and in other assets of \$88.5 million. Loans excluding PPP loans increased by \$226.5 million, or 5.3%, from \$4.262 billion at December 31, 2021 to \$4.488 billion at September 30, 2022. Total deposits decreased \$71.3 million, or 1.2%. The decrease in deposits was primarily driven by contraction in retail and commercial deposits, which declined \$121.9 million and \$145.8 million, respectively. Public funds deposits increased by \$196.5 million since year end. Core deposits were \$5.654 billion as of September 30, 2022, a decrease of \$71.3 million, compared to \$5.725 billion as of December 31, 2021.

Uses of Funds

Total Cash and Cash Equivalents

Total cash and cash equivalents decreased by \$478.4 million, or 70.0%, to \$204.8 million at September 30, 2022, from \$683.2 million at December 31, 2021. The decrease in cash and cash equivalents at September 30, 2022 reflects an additional deployment of \$250 million in funds to the available-for-sale investment securities portfolio in the first quarter of 2022, funding of core loan growth of \$226.5 million, and repayment of an FHLB advance of \$75.0 million, offset by a reduction in deposits of \$71.3 million. Cash and cash equivalents include short-term investments. Short-term investments include cash on deposit that earns interest such as excess liquidity maintained at the Federal Reserve Bank. Cash and cash equivalents balances will vary depending on the cyclical nature of the bank's liquidity position.

Investment Portfolio

The amortized cost and the fair value of securities as of September 30, 2022 and December 31, 2021 were as follows:

(dollars in thousands)	September 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-Sale				
U.S Treasury securities	\$ 1,994	\$ 1,968	\$ 900	\$ 900
U.S government sponsored agencies	159,169	131,255	145,858	143,452
Mortgage-backed securities: residential	597,258	504,756	487,157	486,676
Mortgage-backed securities: commercial	0	0	522	523
State and municipal securities	689,902	554,207	742,532	767,007
Total Available-for-Sale	\$ 1,448,323	\$ 1,192,186	\$ 1,376,969	\$ 1,398,558
Held-to-maturity				
State and municipal securities	\$ 127,820	\$ 103,326	\$ 0	\$ 0
Total Held-to-Maturity	\$ 127,820	\$ 103,326	\$ 0	\$ 0
Total Investment Portfolio	\$ 1,576,143	\$ 1,295,512	\$ 1,376,969	\$ 1,398,558

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 on April 1, 2022 as part of an overall balance sheet management strategy. The fair value of securities transferred was \$127.0 million.

At September 30, 2022 and December 31, 2021, there were no holdings of securities of any one issuer, other than the U.S. government agencies and government sponsored entities, in an amount greater than 10% of stockholders' equity. Management is aware that, as interest rates rise, any unrealized loss in the available-for-sale investment securities portfolio will increase, and as interest rates fall the unrealized gain in the investment portfolio will rise. Since the majority of the bonds in the investment portfolio are fixed-rate, with only a few adjustable-rate bonds, we would expect our investment portfolio to follow this market value pattern. This is taken into consideration when evaluating the gain or loss of investment securities in the portfolio and the potential for an allowance for credit losses.

Purchases of securities available-for-sale totaled \$313.9 million in the first nine months of 2022. The purchases consisted of U.S. Treasury securities, securities issued by government sponsored entities, mortgage-backed securities issued by government sponsored entities and state and municipal securities. The investment security purchases reflect the deployment of excess liquidity to the available-for-sale investment securities portfolio. Investment securities represented 21.0% of total assets on September 30, 2022, compared to 21.3% of total assets on December 31, 2021. The Company deployed \$35.0 million of cash flows from the investment securities portfolio to fund loan growth during 2022 and expects the investment securities portfolio to represent a lower percentage of total assets over time, towards historical levels of 14% of total assets. Paydowns from prepayments and scheduled payments of \$77.5 million were received in the first nine months of 2022, and the amortization of premiums, net of the accretion of discounts, was \$4.8 million. Maturities and calls of securities totaled \$8.5 million in the first nine months of 2022. There were no sales of available-for-sale investment securities in the first nine months of 2022. No allowance for credit losses was recognized for available-for-sale or held-to-maturity securities in the first nine months of 2022.

The fair value of the available-for-sale investment securities portfolio as of September 30, 2022 included unrealized losses of \$256.1 million compared to unrealized gains of \$21.6 million as of December 31, 2021. Unrealized losses in the available-for-sale investment securities portfolio resulted from the rising interest rate environment during the first nine months of 2022.

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

Real Estate Mortgage Loans Held-for-Sale

Real estate mortgage loans held-for-sale decreased by \$6.4 million, or 85.3%, to \$1.1 million at September 30, 2022, from \$7.5 million at December 31, 2021. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. The Company generally sells conforming qualifying mortgage loans it originates on the secondary market. Proceeds from sales of residential mortgages totaled \$34.3 million in the first nine months of 2022 compared to \$98.7 million in the first nine months of 2021. Management expects the volume of loans originated for sale in the secondary market to decline as compared to volumes originated in 2021 due to the rise in mortgage interest rates that have occurred during 2022. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were \$372.3 million and \$375.4 million as of September 30, 2022 and December 31, 2021, respectively.

Loan Portfolio

The loan portfolio by portfolio segment as of September 30, 2022 and December 31, 2021 is summarized as follows:

(dollars in thousands)	September 30, 2022		December 31, 2021		Current Period Change
Commercial and industrial loans	\$ 1,511,295	33.6 %	\$ 1,389,469	32.4 %	\$ 121,826
Commercial real estate and multi-family residential loans	2,056,768	45.8	1,954,846	45.6	101,922
Agri-business and agricultural loans	342,066	7.6	445,825	10.4	(103,759)
Other commercial loans	100,831	2.2	73,490	1.7	27,341
Consumer 1-4 family mortgage loans	388,271	8.7	344,720	8.0	43,551
Other consumer loans	93,026	2.1	82,755	1.9	10,271
Subtotal, gross loans	4,492,257	100.0 %	4,291,105	100.0 %	201,152
Less: Allowance for credit losses	(67,239)		(67,773)		534
Net deferred loan fees	(2,422)		(3,264)		842
Loans, net	<u>\$ 4,422,596</u>		<u>\$ 4,220,068</u>		<u>\$ 202,528</u>

Total loans, excluding real estate mortgage loans held-for-sale and deferred fees, increased by \$201.2 million to \$4.492 billion at September 30, 2022 from \$4.291 billion at December 31, 2021. The increase was primarily driven by originations of loans concentrated in the commercial and industrial and commercial real estate and multi-family residential categories and was offset by seasonal paydowns in the agri-business and agricultural loans segments. Total loans, excluding PPP loans, increased by \$226.5 million, as of September 30, 2022 as compared to December 31, 2021.

The following table summarizes the Company's non-performing assets as of September 30, 2022 and December 31, 2021:

(dollars in thousands)	September 30, 2022	December 31, 2021
Nonaccrual loans including nonaccrual troubled debt restructured loans (1)	\$ 9,892	\$ 14,973
Loans past due over 90 days and still accruing	25	117
Total nonperforming loans	9,917	15,090
Other real estate owned	196	196
Repossessions	0	0
Total nonperforming assets	\$ 10,113	\$ 15,286
Individually analyzed loans including troubled debt restructurings (1)	\$ 17,313	\$ 25,581
Nonperforming loans to total loans	0.22 %	0.35 %
Nonperforming assets to total assets	0.16 %	0.23 %
Performing troubled debt restructured loans (1)	\$ 0	\$ 5,121
Nonperforming troubled debt restructured loans (included in nonaccrual loans) (1)	0	6,218
Total troubled debt restructured loans (1)	\$ 0	\$ 11,339

(1) On April 1, 2022, the Company adopted certain aspects of ASU 2022-02, whereby the Company no longer recognizes or accounts for TDRs. Adoption of this standard was retrospective to January 1, 2022.

Total nonperforming assets decreased by \$5.2 million, or 33.8%, to \$10.1 million during the nine month period ended September 30, 2022. The ratio of nonperforming assets to total assets decreased from 0.23% at December 31, 2021 to 0.16% at September 30, 2022.

A loan is individually analyzed when full payment under the original loan terms is not expected. The analysis for smaller loans that are similar in nature and which are not in nonaccrual or modified status, such as residential mortgage, consumer, and credit card loans, is determined based on the class of loans. If a loan is individually analyzed, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows or at the fair value of collateral if repayment is expected solely from the collateral. Total individually analyzed loans decreased by \$8.3 million to \$17.3 million at September 30, 2022 from \$25.6 million at December 31, 2021.

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

At September 30, 2022, the allowance for credit losses was 1.50% of total loans outstanding, versus 1.58% of total loans outstanding at December 31, 2021. At September 30, 2022, management believed the allowance for credit losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions deteriorate, certain

borrowers may experience difficulty and the level of nonperforming loans, charge offs and delinquencies could rise and require increases in the allowance for credit losses. The process of identifying credit losses is a subjective process.

The Company has a relatively high percentage of commercial and commercial real estate loans, which are extended to businesses with a broad range of revenue and within a wide variety of industries. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by utilizing relatively conservative credit structures, by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and market area.

As of September 30, 2022, based on management's review of the loan portfolio, the Company had 55 credit relationships totaling \$163.2 million on the classified loan list versus 81 credit relationships totaling \$234.5 million on December 31, 2021. The decrease in classified loans for the first nine months of 2022 resulted primarily from paydowns and borrower risk rating upgrades to previously classified loans on the non-individually analyzed portion of the watchlist. As of September 30, 2022, the Company had \$121.0 million of assets classified as Special Mention, \$42.1 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. Watch list loans as a percentage of total loans, excluding PPP loans, decreased to a historical low of 3.64% as of September 30, 2022, compared to 5.50% as of December 31, 2021.

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

The allowance for credit losses decreased \$534,000, from \$67.8 million at December 31, 2021 to \$67.2 million at September 30, 2022. Most of the Company's recent loan growth has been concentrated in the commercial loan portfolio, which can result in overall asset quality being influenced by a small number of credits. Management has historically considered growth and portfolio composition when determining credit loss allocations.

Sources of Funds

The average daily deposits and borrowings together with average rates paid on those deposits and borrowings for the nine months ended September 30, 2022 and 2021 are summarized in the following table:

(dollars in thousands)	Nine months ended September 30,			
	2022		2021	
	Balance	Rate	Balance	Rate
Noninterest bearing demand deposits	\$ 1,868,858	0.00 %	\$ 1,627,522	0.00 %
Savings and transaction accounts:				
Savings deposits	421,363	0.08	353,058	0.08
Interest bearing demand deposits	2,658,739	0.73	2,334,480	0.28
Time deposits:				
Deposits of \$100,000 or more	607,352	0.53	741,815	0.87
Other time deposits	189,459	0.67	223,486	0.99
Total deposits	\$ 5,745,771	0.42 %	\$ 5,280,361	0.29 %
FHLB advances and other borrowings	42,866	0.40	75,500	0.41
Total funding sources	\$ 5,788,637	0.42 %	\$ 5,355,861	0.29 %

Deposits and Borrowings

As of September 30, 2022, total deposits decreased by \$71.3 million, or 1.2%, from December 31, 2021. Core deposits, which excludes brokered deposits, decreased by \$71.3 million to \$5.654 billion as of September 30, 2022 from \$5.725 billion as of December 31, 2021. Total brokered deposits were \$10.0 million at September 30, 2022 and December 31, 2021.

Since December 31, 2021, the change in core deposits was comprised of increases in public funds deposits of \$196.5 million, and decreases in commercial deposits of \$145.8 million, and in retail deposits of \$121.9 million. Total public funds deposits, including public funds transaction accounts, were \$1.481 billion at September 30, 2022 and \$1.285 billion at December 31, 2021.

The following table summarizes deposit composition at September 30, 2022 and December 31, 2021:

(dollars in thousands)	September 30, 2022	December 31, 2021	Current Period Change
Retail	\$ 2,056,626	\$ 2,178,534	\$ (121,908)
Commercial	2,116,390	2,262,229	(145,839)
Public funds	1,481,100	1,284,641	196,459
Core deposits	\$ 5,654,116	\$ 5,725,404	\$ (71,288)
Brokered deposits	10,017	10,003	14
Total deposits	\$ 5,664,133	\$ 5,735,407	\$ (71,274)

During the nine months ended September 30, 2022, the Company repaid a \$75.0 million putable advance with the FHLB. The Company utilizes wholesale funding, including brokered deposits and Federal Home Loan Bank advances, to supplement funding of assets, which is primarily used for loan and investment securities growth.

Capital

As of September 30, 2022, total stockholders' equity was \$519.2 million, a decrease of \$185.7 million, or 26.3%, from \$704.9 million at December 31, 2021. Net income of \$77.8 million increased equity. Offsetting this increase to stockholders' equity was a decrease of \$237.8 million in accumulated other comprehensive income (loss), which was primarily driven by a net decrease in the fair value of available-for-sale securities. Dividends declared and paid of \$1.20 per share, or \$30.6 million, also contributed the decrease to total stockholders' equity.

The impact on equity for other comprehensive income (loss) is not included in regulatory capital. The banking regulators have established guidelines for leverage capital requirements, expressed in terms of Tier 1, or core capital, as a percentage of average assets, to measure the soundness of a financial institution. In addition, banking regulators have established risk-based capital guidelines for U.S. banking organizations. As of September 30, 2022, the Company's capital levels remained characterized as "well-capitalized".

The actual capital amounts and ratios of the Company and the Bank as of September 30, 2022 and December 31, 2021, are presented in the table below. Capital ratios for September 30, 2022 are preliminary until the Call Report and FR Y-9C are filed.

(dollars in thousands)	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2022:								
Total Capital (to Risk Weighted Assets)								
Consolidated	\$ 801,514	15.29 %	\$ 419,289	8.00 %	\$ 550,317	N/A	N/A	N/A
Bank	\$ 781,100	15.04 %	\$ 415,614	8.00 %	\$ 545,493	10.50 %	\$ 519,517	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	\$ 735,890	14.04 %	\$ 314,467	6.00 %	\$ 445,494	N/A	N/A	N/A
Bank	\$ 716,042	13.78 %	\$ 311,710	6.00 %	\$ 441,590	8.50 %	\$ 415,614	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	\$ 735,890	14.04 %	\$ 235,850	4.50 %	\$ 366,878	N/A	N/A	N/A
Bank	\$ 716,042	13.78 %	\$ 233,783	4.50 %	\$ 363,662	7.00 %	\$ 337,686	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	\$ 735,890	11.40 %	\$ 258,221	4.00 %	\$ 258,221	N/A	N/A	N/A
Bank	\$ 716,042	11.12 %	\$ 257,601	4.00 %	\$ 257,601	4.00 %	\$ 322,002	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 %

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, 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 most LIBOR tenors by mid-2023 and establishment 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 our Annual Report on Form 10-K for the year ended December 31, 2021, as well as other risks and uncertainties set forth from time to time in the Company's other filings with the SEC.

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate scenarios for the base, falling 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 are listed below based upon the Company's rate sensitive assets and liabilities at September 30, 2022. The net interest income shown represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

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

(dollars in thousands)	Base	Falling (300 Basis Points)	Falling (200 Basis Points)	Falling (100 Basis Points)	Falling (50 Basis Points)	Falling (25 Basis Points)	Rising (25 Basis Points)	Rising (50 Basis Points)	Rising (100 Basis Points)	Rising (200 Basis Points)	Rising (300 Basis Points)
Net interest income	\$ 232,406	\$ 191,941	\$ 206,827	\$ 220,477	\$ 226,768	\$ 229,721	\$ 234,544	\$ 236,682	\$ 240,915	\$ 249,510	\$ 258,213
Variance from Base		\$ (40,465)	\$ (25,579)	\$ (11,929)	\$ (5,638)	\$ (2,685)	\$ 2,138	\$ 4,276	\$ 8,509	\$ 17,104	\$ 25,807
Percent of change from Base		(17.41)%	(11.01)%	(5.13)%	(2.43)%	(1.16)%	0.92%	1.84%	3.66%	7.36%	11.10%

ITEM 4 – CONTROLS AND PROCEDURES

As required by Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of September 30, 2022. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2022, there were no changes to the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

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

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

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. of Part I of the Company's Form 10-K for the year ended December 31, 2021. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

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

None

ISSUER PURCHASES OF EQUITY SECURITIES

On April 13, 2021, the Company's board of directors reauthorized and extended a share repurchase program through April 30, 2023, under which the Company is authorized to repurchase, from time to time as the Company deems appropriate, shares of the Company's common stock with an aggregate purchase price of up to \$30 million. Repurchases may be made in the open market, through block trades or otherwise, and in privately negotiated transactions. The repurchase program does not obligate the Company to repurchase any dollar amount or number of shares, and the program may be extended, modified, suspended or discontinued at any time. There were no repurchases under this plan during the three months ended September 30, 2022.

The following table provides information as of September 30, 2022 with respect to shares of common stock repurchased by the Company during the quarter then ended:

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
July 1 - 31	2,174	\$ 67.05	0	\$ 19,998,273
August 1 - 31	984	75.06	0	19,998,273
September 1 - 30	0	0	0	19,998,273
Total	3,158	\$ 69.55	0	\$ 19,998,273

- (a) The shares purchased during July and August 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 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None

Item 6. Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data File Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 30, 2022 and December 31, 2021; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2022 and September 30, 2021; (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2022 and September 30, 2021; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2022 and September 30, 2021; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and September 30, 2021; and (vi) Notes to Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

LAKELAND FINANCIAL CORPORATION
(Registrant)

Date: October 26, 2022

/s/ David M. Findlay

David M. Findlay – President and
Chief Executive Officer

Date: October 26, 2022

/s/ Lisa M. O’Neill

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

Date: October 26, 2022

/s/ Brok A. Lahrman

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

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

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

Date: October 26, 2022

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

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

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

Date: October 26, 2022

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

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

In connection with the Quarterly Report of Lakeland Financial Corporation (the “Company”) on Form 10-Q for the period ending September 30, 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 result of operations of the Company.

/s/ David M. Findlay
David M. Findlay
Chief Executive Officer
October 26, 2022

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

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

In connection with the Quarterly Report of Lakeland Financial Corporation (the “Company”) on Form 10-Q for the period ending September 30, 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
October 26, 2022

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.