
**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 June 30, 2024

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)

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

<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 July 31, 2024: 25,507,451

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

	June 30, 2024 (Unaudited)	December 31, 2023
ASSETS		
Cash and due from banks	\$ 60,887	\$ 70,451
Short-term investments	60,290	81,373
Total cash and cash equivalents	121,177	151,824
Securities available-for-sale, at fair value	993,057	1,051,728
Securities held-to-maturity, at amortized cost (fair value of \$113,997 and \$119,215, respectively)	130,746	129,918
Real estate mortgage loans held-for-sale	399	1,158
Loans, net of allowance for credit losses of \$80,711 and \$71,972	4,971,630	4,844,562
Land, premises and equipment, net	58,793	57,899
Bank owned life insurance	110,985	109,114
Federal Reserve and Federal Home Loan Bank stock	21,420	21,420
Accrued interest receivable	30,681	30,011
Goodwill	4,970	4,970
Other assets	124,949	121,425
Total assets	\$ 6,568,807	\$ 6,524,029
LIABILITIES		
Noninterest bearing deposits	\$ 1,212,989	\$ 1,353,477
Interest bearing deposits	4,550,548	4,367,048
Total deposits	5,763,537	5,720,525
Federal Funds purchased	55,000	0
Federal Home Loan Bank advances	0	50,000
Total borrowings	55,000	50,000
Accrued interest payable	15,354	20,893
Other liabilities	80,326	82,818
Total liabilities	5,914,217	5,874,236
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
25,968,167 shares issued and 25,503,744 outstanding as of June 30, 2024		
25,903,686 shares issued and 25,430,566 outstanding as of December 31, 2023	126,871	127,692
Retained earnings	713,541	692,760
Accumulated other comprehensive income (loss)	(170,458)	(155,195)
Treasury stock at cost (464,423 shares as of June 30, 2024, 473,120 shares as of December 31, 2023)	(15,453)	(15,553)
Total stockholders' equity	654,501	649,704
Noncontrolling interest	89	89
Total equity	654,590	649,793
Total liabilities and equity	\$ 6,568,807	\$ 6,524,029

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	\$ 84,226	\$ 75,047	\$ 166,268	\$ 144,589
Tax exempt	632	960	1,532	1,861
Interest and dividends on securities				
Taxable	3,104	3,376	6,143	6,889
Tax exempt	3,932	4,064	7,879	8,364
Other interest income	1,842	1,035	2,948	1,999
Total interest income	93,736	84,482	184,770	163,702
Interest on deposits	44,363	33,611	85,527	58,529
Interest on short-term borrowings	1,077	2,347	3,531	5,130
Total interest expense	45,440	35,958	89,058	63,659
NET INTEREST INCOME	48,296	48,524	95,712	100,043
Provision for credit losses	8,480	800	10,000	5,150
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	39,816	47,724	85,712	94,893
NONINTEREST INCOME				
Wealth advisory fees	2,597	2,271	5,052	4,471
Investment brokerage fees	478	428	1,000	962
Service charges on deposit accounts	2,806	2,726	5,497	5,356
Loan and service fees	3,048	3,002	5,900	5,848
Merchant and interchange fee income	892	929	1,755	1,806
Bank owned life insurance income	890	693	1,926	1,384
Interest rate swap fee income	0	794	0	794
Mortgage banking income (loss)	23	(35)	75	(134)
Net securities gains (losses)	0	3	(46)	19
Net gain on Visa shares	9,011	0	9,011	0
Other income	694	690	2,881	1,309
Total noninterest income	20,439	11,501	33,051	21,815
NONINTEREST EXPENSE				
Salaries and employee benefits	16,158	11,374	32,991	27,437
Net occupancy expense	1,698	1,681	3,438	3,253
Equipment costs	1,343	1,426	2,755	2,864
Data processing fees and supplies	3,812	3,474	7,651	6,926
Corporate and business development	1,265	1,298	2,646	2,729
FDIC insurance and other regulatory fees	816	803	1,605	1,598
Professional fees	2,123	2,049	4,586	4,170
Wire fraud loss	0	18,058	0	18,058
Other expense	6,118	2,571	8,366	5,133
Total noninterest expense	33,333	42,734	64,038	72,168
INCOME BEFORE INCOME TAX EXPENSE	26,922	16,491	54,725	44,540
Income tax expense	4,373	1,880	8,775	5,651
NET INCOME	\$ 22,549	\$ 14,611	\$ 45,950	\$ 38,889
BASIC WEIGHTED AVERAGE COMMON SHARES	25,678,231	25,607,663	25,667,647	25,595,412
BASIC EARNINGS PER COMMON SHARE	\$ 0.88	\$ 0.57	\$ 1.79	\$ 1.52
DILUTED WEIGHTED AVERAGE COMMON SHARES	25,742,871	25,686,354	25,746,773	25,696,370
DILUTED EARNINGS PER COMMON SHARE	\$ 0.87	\$ 0.57	\$ 1.78	\$ 1.51

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income	\$ 22,549	\$ 14,611	\$ 45,950	\$ 38,889
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	(4,991)	(13,511)	(20,380)	13,282
Reclassification adjust for amortization of unrealized losses on securities transferred to held-to-maturity	489	494	985	985
Reclassification adjustment for (gains) losses included in net income	0	(3)	46	(19)
Net securities gain (loss) activity during the period	(4,502)	(13,020)	(19,349)	14,248
Tax effect	945	2,734	4,063	(2,992)
Net of tax amount	(3,557)	(10,286)	(15,286)	11,256
Defined benefit pension plans:				
Amortization of net actuarial loss	16	15	31	30
Net gain activity during the period	16	15	31	30
Tax effect	(4)	(4)	(8)	(8)
Net of tax amount	12	11	23	22
Total other comprehensive income (loss), net of tax	(3,545)	(10,275)	(15,263)	11,278
Comprehensive income	\$ 19,004	\$ 4,336	\$ 30,687	\$ 50,167

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 April 1, 2023	25,430,917	\$ 125,840	\$ 658,629	\$ (167,370)	\$ (15,182)	\$ 601,917	\$ 89	\$ 602,006
Comprehensive income:								
Net income			14,611			14,611		14,611
Other comprehensive income (loss), net of tax				(10,275)		(10,275)		(10,275)
Cash dividends declared and paid, \$0.46 per share			(11,793)			(11,793)		(11,793)
Treasury shares purchased under deferred directors' plan	(1,701)	81			(81)	0		0
Stock activity under equity compensation plans	0	0				0		0
Stock based compensation expense		(2,554)				(2,554)		(2,554)
Balance at June 30, 2023	<u>25,429,216</u>	<u>\$ 123,367</u>	<u>\$ 661,447</u>	<u>\$ (177,645)</u>	<u>\$ (15,263)</u>	<u>\$ 591,906</u>	<u>\$ 89</u>	<u>\$ 591,995</u>
Balance at April 1, 2024	25,503,425	\$ 125,873	\$ 703,330	\$ (166,913)	\$ (15,370)	\$ 646,920	\$ 89	\$ 647,009
Comprehensive income:								
Net income			22,549			22,549		22,549
Other comprehensive income (loss), net of tax				(3,545)		(3,545)		(3,545)
Cash dividends declared and paid, \$0.48 per share			(12,338)			(12,338)		(12,338)
Treasury shares purchased under deferred directors' plan	(1,348)	83			(83)	0		0
Stock activity under equity compensation plans	1,667	(80)				(80)		(80)
Stock based compensation expense		995				995		995
Balance at June 30, 2024	<u>25,503,744</u>	<u>\$ 126,871</u>	<u>\$ 713,541</u>	<u>\$ (170,458)</u>	<u>\$ (15,453)</u>	<u>\$ 654,501</u>	<u>\$ 89</u>	<u>\$ 654,590</u>

	Six 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, 2023	25,349,225	\$ 127,004	\$ 646,100	\$ (188,923)	\$ (15,383)	\$ 568,798	\$ 89	\$ 568,887
Comprehensive income:								
Net income			38,889			38,889		38,889
Other comprehensive income (loss), net of tax				11,278		11,278		11,278
Cash dividends declared and paid, \$0.92 per share			(23,542)			(23,542)		(23,542)
Treasury shares purchased under deferred directors' plan	(4,501)	285			(285)	0		0
Treasury shares sold and distributed under deferred directors' plan	12,855	(405)			405	0		0
Stock activity under equity compensation plans	71,637	(3,124)				(3,124)		(3,124)
Stock based compensation expense		(393)				(393)		(393)
Balance at June 30, 2023	<u>25,429,216</u>	<u>\$ 123,367</u>	<u>\$ 661,447</u>	<u>\$ (177,645)</u>	<u>\$ (15,263)</u>	<u>\$ 591,906</u>	<u>\$ 89</u>	<u>\$ 591,995</u>
Balance at January 1, 2024	25,430,566	\$ 127,692	\$ 692,760	\$ (155,195)	\$ (15,553)	\$ 649,704	\$ 89	\$ 649,793
Impact of adoption ASU 2023-02, net of tax			(532)			(532)		(532)
Adjusted Balance at January 1, 2024	<u>25,430,566</u>	<u>127,692</u>	<u>692,228</u>	<u>(155,195)</u>	<u>(15,553)</u>	<u>649,172</u>	<u>89</u>	<u>649,261</u>
Comprehensive income:								
Net income			45,950			45,950		45,950
Other comprehensive income (loss), net of tax				(15,263)		(15,263)		(15,263)
Cash dividends declared and paid, \$0.96 per share			(24,637)			(24,637)		(24,637)
Treasury shares purchased under deferred directors' plan	(4,578)	291			(291)	0		0
Treasury shares sold and distributed under deferred directors' plan	13,275	(391)			391	0		0
Stock activity under equity compensation plans	64,481	(2,596)				(2,596)		(2,596)
Stock based compensation expense		1,875				1,875		1,875
Balance at June 30, 2024	<u>25,503,744</u>	<u>\$ 126,871</u>	<u>\$ 713,541</u>	<u>\$ (170,458)</u>	<u>\$ (15,453)</u>	<u>\$ 654,501</u>	<u>\$ 89</u>	<u>\$ 654,590</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Six Months Ended June 30,	2024	2023
Cash flows from operating activities:		
Net income	\$ 45,950	\$ 38,889
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	3,011	3,069
Provision for credit losses	10,000	5,150
Amortization of loan servicing rights	241	286
Loans originated for sale, including participations	(8,177)	(4,266)
Net gain on sales of loans	(253)	(127)
Proceeds from sale of loans, including participations	9,116	3,421
Net (gain) loss on Visa shares	(9,011)	0
Net (gain) loss on sales of premises and equipment	55	(1)
Net (gain) loss on sales and calls of securities available-for-sale	46	(19)
Net securities amortization	2,393	2,369
Stock based compensation expense	1,875	(393)
Losses (earnings) on life insurance	(1,926)	(1,384)
Gain on life insurance	(243)	0
Tax benefit of stock award issuances	(208)	(720)
Net change:		
Interest receivable and other assets	3,786	(1,411)
Interest payable and other liabilities	(10,859)	(7,958)
Total adjustments	(154)	(1,984)
Net cash from operating activities	45,796	36,905
Cash flows from investing activities:		
Proceeds from sale of securities available-for-sale	7,136	99,951
Proceeds from sale of Visa shares	7,358	0
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	28,917	38,886
Proceeds from maturities, calls and principal paydowns of securities held-to-maturity	0	6
Purchases of securities available-for-sale	0	(4,314)
Purchase of life insurance	(241)	(191)
Net (increase) decrease in total loans	(137,068)	(157,846)
Proceeds from sales of land, premises and equipment	6	13
Purchases of land, premises and equipment	(3,966)	(3,823)
Purchase of Federal Home Loan Bank stock	0	(5,625)
Proceeds from life insurance	536	0
Net cash from investing activities	(97,322)	(32,943)
Cash flows from financing activities:		
Net increase (decrease) in total deposits	43,012	(37,561)
Net increase (decrease) in short-term borrowings	55,000	(22,000)
Proceeds from short-term FHLB borrowings	0	125,000
Net payments on short-term FHLB borrowings	(50,000)	0
Common dividends paid	(24,624)	(23,529)
Preferred dividends paid	(13)	(13)
Payments related to equity incentive plans	(2,596)	(3,124)
Purchase of treasury stock	(291)	(285)
Sale of treasury stock	391	405
Net cash from financing activities	20,879	38,893
Net change in cash and cash equivalents	(30,647)	42,855
Cash and cash equivalents at beginning of the period	151,824	130,282
Cash and cash equivalents at end of the period	121,177	173,137
Cash paid during the period for:		
Interest	\$ 94,597	57,011
Income taxes	11,680	7,125
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	0	284

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 one wholly owned subsidiary, Lake City Bank (the "Bank"). 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 six months ended June 30, 2024 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2024. The Company's 2023 Annual Report on Form 10-K should be read in conjunction with these statements.

Adoption of New Accounting Standards

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

The amendments in this update permit reporting entities to elect to account for certain tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax benefits in the income statement as a component of income tax expense (benefit). To qualify for the proportional amortization method, all of the following conditions must be met: (1) It is probable that the income tax credits allocated to the tax equity investor will be available; (2) The tax equity investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying project; (3) Substantially all of the projected benefits are from income tax credits and other income tax benefits (projected benefits included income tax credits, other income tax benefits, and other non-income tax -related benefits and are determined on a discounted basis, using a discount rate that is consistent with the cash flow assumptions used by the tax equity investor in making its decision to invest in the project); (4) The tax equity investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive; and (5) The tax equity investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the tax equity investor's liability is limited to its capital investment. An accounting policy election is allowed to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. The amendments in this update require specific disclosures that must be applied to all investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method. The amendments require that a reporting entity disclose certain information in annual and interim reporting periods that enable investors to understanding the following information about its investments that generate income tax credits and other income tax benefits from a tax credit program including: (1) The nature of its tax equity investments; and (2) The effect of its tax equity investments and related income tax credits and other income tax benefits on its financial position and results of operations.

For public business entities, the amendments in this update were effective for fiscal years beginning after December 31, 2023, including interim periods within those fiscal years. The amendments in this update must be applied on either a modified retrospective or a retrospective basis. The Company chose the modified retrospective approach and recorded a day one adjustment of (\$532,000), net of tax, to beginning retained earnings on January 1, 2024, which did not have a material impact on the consolidated financial statements.

Newly Issued But Not Yet Effective Accounting Standards

On October 9, 2023, the FASB issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative", which modified the disclosure or presentation requirements of a variety of Topics in the Codification and was intended to both clarify or improve such requirements and align the requirements with the SEC's regulations. The amendments to Topics of Codification provided in this update apply to all reporting entities within the scope of the affected Topics unless otherwise indicated by the update. Given the variety of Topics amended, a broad range of entities may be affected by one or more of the amendments provided in the update. The Company evaluated the amendments provided in the update and believes certain of the disclosure improvements are applicable to the Company's interim or annual disclosures. Subtopic 230-10, as amended, requires disclosure within the accounting policy in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented within the statement of cash flows. Subtopic 260-10, as amended, requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures should be made during interim periods. Subtopic 470-10, as amended, requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on short-term borrowings outstanding as of the date of each balance sheet presented.

The effective date for each amendment for entities subject to the SEC's existing disclosure requirements is the effective date of the removal of the related disclosure from Regulation S-X or Regulation S-K, with early adoption prohibited. The amendments in the update are to be applied prospectively. The Company will apply prospectively the provisions provided in the amendments as such provisions become effective, and does not believe the application of these modified disclosure requirements will have a material impact on the consolidated financial statements. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment in the update will be removed from the Codification and will not become effective.

On November 27, 2023, the FASB issued ASU 2023-07, "*Segment Reporting (ASC 280): Improvements to Reportable Segment Disclosures*", intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Provisions in the amendment include: (1) Requirement that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit or loss (collectively referred to as the "significant expense principle"); (2) Requirement that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition (the other segment items category is the difference between segment revenue less the segment expenses disclosed under the significant expense principle and each reported measure of segment profit or loss); (3) Requirement that a public entity provide all annual disclosures about a reportable segment's profit or loss and assets currently required by ASC 280 in interim periods; (4) Clarification that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit (at least one of the reported segment profit or loss measures, or the single reported measure if only one is disclosed, should be the measure that is the most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements); (5) Requirement that a public entity disclose the title and position of the CODM and explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources; and (6) Requirement that a public entity that has a single reportable segment provide all the disclosures by the amendments in the update and all existing segment disclosures in ASC 280.

The amendments in the update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. For public business entities, amendments in the update should be applied retrospectively to all periods presented in the financial statements, and upon transition to the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The Company is currently evaluating the impact of this standard on its disclosures, however does not expect adoption of the update to have a material impact of the consolidated financial statements.

On December 13, 2023, the FASB issued ASU 2023-08, "*Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*", to provide improved accounting and disclosure guidance for crypto assets. Stakeholders stated that current accounting guidance, except as provided in GAAP for certain specialized industries, surrounding crypto asset holdings as indefinite-lived intangible assets fails to provide financial statement users with decision-useful information. To remedy these shortcomings, the amendments in this update require an entity present (1) crypto assets measured at fair value separately from other intangible assets reported in the balance sheet and (2) changes from the remeasurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income

statement. While the amendments in the update do not otherwise change the presentation requirements for the statement of cash flows, they do require specific presentation of cash receipts arising from crypto assets that are received as noncash consideration in the ordinary course of business and are converted nearly immediately into cash.

The amendments in the update also provide for several enhancements related to disclosure of an entity's crypto asset holdings. For annual and interim reporting periods, the amendments in the update require an entity disclose the following information: (1) The name, cost basis, fair value, and number of units for each significant crypto asset holding and aggregate fair values and costs bases of the crypto asset holdings that are not individually significant; and (2) For crypto assets that are subject to contractual sale restrictions, the fair value of those crypto assets, the nature and remaining duration of the restriction(s), and the circumstances that could cause the restriction(s) to lapse. For annual reporting periods, the amendments in the update require an entity disclose the following information: (1) A rollforward, in the aggregate, of activity in the reporting period for crypto asset holdings, including additions (with a description of the activities that resulted in the additions), dispositions, gains, and losses; (2) For any dispositions for crypto assets in the reporting period, the difference between the disposal price and the cost basis and a description of the activities that resulted in the dispositions; (3) If gains and losses are not presented separately, the income statement line item in which those gains and losses are recognized; and (4) The method for determining the cost basis of crypto assets.

The amendments in this update are effective for public business entities for annual periods beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance). If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. The amendments in this update require a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets) as of the beginning of the annual reporting period in which an entity adopts the amendments. The Company is currently evaluating the impact of this update on its disclosures, however does not expect the adoption of this update to have a material impact on the consolidated financial statements based upon the nature of the Company's current operations.

On December 14, 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*", to address investor requests for greater transparency in regards to income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments are designed to enhance transparency surrounding income tax disclosures by requiring (1) Consistent categories and greater disaggregation of information in the rate reconciliation; and (2) Income taxes paid disaggregation by taxing jurisdiction, which will allow investors to better assess, in their capital allocation decisions, how an entity's operations and related tax risks and tax planning and operational opportunities affect its income tax rate and prospects for future cash flows. Other amendments in this update are designed to improve the effectiveness and comparability of disclosures by (1) adding disclosures of pretax income (loss) and income tax expense (benefit) to be consistent with the SEC's Regulation S-X 210.4-08(h), *Rules of General Application-General Notes to Financial Statements: Income Tax Expense*; and (2) Removing disclosures that are no longer considered cost beneficial or relevant.

The amendments in this update are effective for public business entities for annual periods beginning after December 31, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments in this update should be applied on a prospective basis, however retrospective application is permitted. The Company is currently evaluating the impact of this update on its disclosures, however does not expect the adoption of this update to have a material impact on the consolidated financial statements.

Reclassification

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

NOTE 2. SECURITIES

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

Available-for-Sale Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
June 30, 2024					
U.S. government sponsored agencies	\$ 142,183	\$ 0	\$ (28,486)	\$ 0	\$ 113,697
Mortgage-backed securities: residential	498,259	72	(79,101)	0	419,230
State and municipal securities	547,540	10	(87,420)	0	460,130
Total	<u>\$ 1,187,982</u>	<u>\$ 82</u>	<u>\$ (195,007)</u>	<u>\$ 0</u>	<u>\$ 993,057</u>
December 31, 2023					
U.S. government sponsored agencies	\$ 146,692	\$ 0	\$ (27,213)	\$ 0	\$ 119,479
Mortgage-backed securities: residential	522,275	118	(74,551)	0	447,842
State and municipal securities	557,352	65	(73,010)	0	484,407
Total	<u>\$ 1,226,319</u>	<u>\$ 183</u>	<u>\$ (174,774)</u>	<u>\$ 0</u>	<u>\$ 1,051,728</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
June 30, 2024					
State and municipal securities	<u>\$ 130,746</u>	<u>\$ 0</u>	<u>\$ (16,749)</u>	<u>\$ 0</u>	<u>\$ 113,997</u>
December 31, 2023					
State and municipal securities	<u>\$ 129,918</u>	<u>\$ 0</u>	<u>\$ (10,703)</u>	<u>\$ 0</u>	<u>\$ 119,215</u>

The Company has the current intent and ability to hold held-to-maturity securities until maturity. All of the Company's securities designated as held-to-maturity were transferred from the available-for-sale classification. The net unrealized gain or loss on the transferred securities was recorded as a component of accumulated other comprehensive income (loss) at the time of the transfer and is amortized over the remaining life of the underlying securities as an adjustment to the yield on those securities. The net amount of the unamortized unrealized loss on the transferred securities included in accumulated other comprehensive income (loss) was \$19.9 million (\$15.8 million, net of tax) at June 30, 2024.

Information regarding the amortized cost and fair value of available-for-sale and held-to-maturity debt securities by maturity as of June 30, 2024 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	\$ 505	\$ 505	\$ 0	\$ 0
Due after one year through five years	8,813	8,095	0	0
Due after five years through ten years	50,558	45,514	0	0
Due after ten years	629,847	519,713	130,746	113,997
	689,723	573,827	130,746	113,997
Mortgage-backed securities	498,259	419,230	0	0
Total debt securities	\$ 1,187,982	\$ 993,057	\$ 130,746	\$ 113,997

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

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sales of securities available-for-sale				
Proceeds	\$ 0	\$ 12,480	\$ 7,136	\$ 99,951
Gross gains	0	28	0	439
Gross losses	0	(25)	(46)	(420)
Number of securities	0	22	15	103

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 \$578.6 million and \$792.0 million were pledged as of June 30, 2024 and December 31, 2023, 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 June 30, 2024 and December 31, 2023 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
June 30, 2024						
U.S. government sponsored agencies	\$ 0	\$ 0	\$ 113,697	\$ 28,486	\$ 113,697	\$ 28,486
Mortgage-backed securities: residential	921	10	414,450	79,091	415,371	79,101
State and municipal securities	22,367	828	434,707	86,592	457,074	87,420
Total available-for-sale	<u>\$ 23,288</u>	<u>\$ 838</u>	<u>\$ 962,854</u>	<u>\$ 194,169</u>	<u>\$ 986,142</u>	<u>\$ 195,007</u>
December 31, 2023						
U.S. government sponsored agencies	\$ 0	\$ 0	\$ 119,479	\$ 27,213	\$ 119,479	\$ 27,213
Mortgage-backed securities: residential	52	0	442,765	74,551	442,817	74,551
State and municipal securities	31,345	440	440,446	72,570	471,791	73,010
Total available-for-sale	<u>\$ 31,397</u>	<u>\$ 440</u>	<u>\$ 1,002,690</u>	<u>\$ 174,334</u>	<u>\$ 1,034,087</u>	<u>\$ 174,774</u>

Information regarding held-to-maturity securities with unrealized losses as of June 30, 2024 and December 31, 2023 is presented below. The table divides the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2024						
State and municipal securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,997</u>	<u>\$ 16,749</u>	<u>\$ 113,997</u>	<u>\$ 16,749</u>
December 31, 2023						
State and municipal securities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 119,215</u>	<u>\$ 10,703</u>	<u>\$ 119,215</u>	<u>\$ 10,703</u>

The total number of securities with unrealized losses as of June 30, 2024 and December 31, 2023 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
June 30, 2024						
U.S. government sponsored agencies	0	17	17	0	0	0
Mortgage-backed securities: residential	3	126	129	0	0	0
State and municipal securities	33	384	417	0	41	41
Total temporarily impaired	<u>36</u>	<u>527</u>	<u>563</u>	<u>0</u>	<u>41</u>	<u>41</u>
December 31, 2023						
U.S. government sponsored agencies	0	17	17	0	0	0
Mortgage-backed securities: residential	1	126	127	0	0	0
State and municipal securities	40	370	410	0	41	41
Total temporarily impaired	<u>41</u>	<u>513</u>	<u>554</u>	<u>0</u>	<u>41</u>	<u>41</u>

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

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

No allowance for credit losses for available-for-sale or held-to-maturity debt securities was recorded at June 30, 2024 or December 31, 2023. Accrued interest receivable on securities totaled \$7.5 million and \$7.6 million at June 30, 2024 and December 31, 2023, 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)	June 30, 2024		December 31, 2023	
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 697,754	13.8 %	\$ 604,893	12.3 %
Non-working capital loans	828,523	16.4	815,871	16.6
Total commercial and industrial loans	1,526,277	30.2	1,420,764	28.9
Commercial real estate and multi-family residential loans:				
Construction and land development loans	658,345	13.0	634,435	12.9
Owner occupied loans	830,018	16.4	825,464	16.8
Nonowner occupied loans	762,365	15.1	724,101	14.7
Multifamily loans	252,652	5.0	253,534	5.1
Total commercial real estate and multi-family residential loans	2,503,380	49.5	2,437,534	49.5
Agri-business and agricultural loans:				
Loans secured by farmland	161,410	3.2	162,890	3.3
Loans for agricultural production	199,654	4.0	225,874	4.6
Total agri-business and agricultural loans	361,064	7.2	388,764	7.9
Other commercial loans:				
	96,703	1.9	120,726	2.5
Total commercial loans	4,487,424	88.8	4,367,788	88.8
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	259,094	5.1	258,103	5.2
Open end and junior lien loans	197,861	3.9	189,663	3.9
Residential construction and land development loans	12,952	0.3	8,421	0.2
Total consumer 1-4 family mortgage loans	469,907	9.3	456,187	9.3
Other consumer loans				
	97,895	1.9	96,022	1.9
Total consumer loans	567,802	11.2	552,209	11.2
Subtotal	5,055,226	100.0 %	4,919,997	100.0 %
Less: Allowance for credit losses	(80,711)		(71,972)	
Net deferred loan fees	(2,885)		(3,463)	
Loans, net	<u>\$ 4,971,630</u>		<u>\$ 4,844,562</u>	

The recorded investment in loans does not include accrued interest, which totaled \$22.4 million and \$21.5 million as of June 30, 2024 and December 31, 2023, respectively.

The Company had \$325,000 and \$238,000 in residential real estate loans in the process of foreclosure as of June 30, 2024 and December 31, 2023, respectively.

NOTE 4. ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY

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

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

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

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

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

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

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

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

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

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended June 30, 2024								
Beginning balance, April 1	\$ 30,720	\$ 32,078	\$ 4,112	\$ 1,022	\$ 3,518	\$ 1,229	\$ 501	\$ 73,180
Provision for credit losses	8,412	422	(444)	(202)	68	326	(102)	8,480
Loans charged-off	(12)	(840)	0	0	(22)	(202)	0	(1,076)
Recoveries	41	27	0	0	22	37	0	127
Net loans (charged-off) recovered	29	(813)	0	0	0	(165)	0	(949)
Ending balance	\$ 39,161	\$ 31,687	\$ 3,668	\$ 820	\$ 3,586	\$ 1,390	\$ 399	\$ 80,711

(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 June 30, 2023								
Beginning balance, April 1	\$ 31,190	\$ 29,036	\$ 4,621	\$ 1,034	\$ 3,398	\$ 1,096	\$ 840	\$ 71,215
Provision for credit losses	(272)	1,593	(219)	86	51	50	(489)	800
Loans charged-off	(7)	0	0	0	(14)	(369)	0	(390)
Recoveries	67	284	0	0	13	69	0	433
Net loans (charged-off) recovered	60	284	0	0	(1)	(300)	0	43
Ending balance	\$ 30,978	\$ 30,913	\$ 4,402	\$ 1,120	\$ 3,448	\$ 846	\$ 351	\$ 72,058

(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
Six Months Ended June 30, 2024								
Beginning balance, January 1	\$ 30,338	\$ 31,335	\$ 4,150	\$ 1,129	\$ 3,474	\$ 1,174	\$ 372	\$ 71,972
Provision for credit losses	8,954	1,139	(482)	(309)	89	582	27	10,000
Loans charged-off	(206)	(840)	0	0	(22)	(512)	0	(1,580)
Recoveries	75	53	0	0	45	146	0	319
Net loans (charged-off) recovered	(131)	(787)	0	0	23	(366)	0	(1,261)
Ending balance	\$ 39,161	\$ 31,687	\$ 3,668	\$ 820	\$ 3,586	\$ 1,390	\$ 399	\$ 80,711

(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
Six Months Ended June 30, 2023								
Beginning balance, January 1	\$ 35,290	\$ 27,394	\$ 4,429	\$ 917	\$ 3,001	\$ 1,021	\$ 554	\$ 72,606
Provision for credit losses	1,232	3,235	(27)	203	445	265	(203)	5,150
Loans charged-off	(5,651)	0	0	0	(14)	(621)	0	(6,286)
Recoveries	107	284	0	0	16	181	0	588
Net loans (charged-off) recovered	(5,544)	284	0	0	2	(440)	0	(5,698)
Ending balance	\$ 30,978	\$ 30,913	\$ 4,402	\$ 1,120	\$ 3,448	\$ 846	\$ 351	\$ 72,058

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 Company'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 year of origination as of June 30, 2024:

(dollars in thousands)	2024	2023	2022	2021	2020	Prior	Term Total	Revolving	Total
Commercial and industrial loans:									
Working capital lines of credit loans:									
Pass	\$ 0	\$ 160	\$ 1,820	\$ 1,956	\$ 894	\$ 0	\$ 4,830	\$ 573,427	\$ 578,257
Special Mention	0	0	0	0	0	0	0	52,721	52,721
Substandard	0	0	962	0	294	173	1,429	65,185	66,614
Total	0	160	2,782	1,956	1,188	173	6,259	691,333	697,592
Working capital lines of credit loans:									
Current period gross write offs	0	0	94	0	0	0	94	87	181
Non-working capital loans:									
Pass	71,583	181,854	192,454	72,592	42,447	35,471	596,401	188,024	784,425
Special Mention	3,005	2,914	9,978	2,084	1,187	3,116	22,284	4,116	26,400
Substandard	0	3,548	1,574	682	3,907	888	10,599	720	11,319
Not Rated	1,010	2,160	1,516	607	537	95	5,925	0	5,925
Total	75,598	190,476	205,522	75,965	48,078	39,570	635,209	192,860	828,069
Non-working capital loans:									
Current period gross write offs	0	0	0	0	0	0	0	25	25
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	21,179	40,050	8,490	46,822	0	173	116,714	537,960	654,674
Special Mention	0	0	0	0	0	0	0	1,661	1,661
Total	21,179	40,050	8,490	46,822	0	173	116,714	539,621	656,335
Construction and land development loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Owner occupied loans:									
Pass	26,223	141,833	130,613	150,745	124,741	159,885	734,040	59,286	793,326
Special Mention	6,409	1,241	15,104	3,365	0	3,495	29,614	0	29,614
Substandard	0	928	226	3,591	1,465	330	6,540	0	6,540
Total	32,632	144,002	145,943	157,701	126,206	163,710	770,194	59,286	829,480
Owner occupied loans:									
Current period gross write offs	0	0	0	0	0	840	840	0	840
Nonowner occupied loans:									
Pass	88,177	127,562	157,827	110,245	123,116	87,035	693,962	45,086	739,048
Special Mention	603	15,925	110	6,065	0	0	22,703	0	22,703

Nonowner occupied loans (continued):									
Total	88,780	143,487	157,937	116,310	123,116	87,035	716,665	45,086	761,751
Nonowner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Multifamily loans:									
Pass	39,014	61,964	21,895	8,927	35,003	22,586	189,389	17,557	206,946
Special Mention	30,504	12,344	315	0	0	2,203	45,366	0	45,366
Total	69,518	74,308	22,210	8,927	35,003	24,789	234,755	17,557	252,312
Multifamily loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Agri-business and agricultural loans:									
Loans secured by farmland:									
Pass	7,312	22,252	30,410	24,024	26,726	22,573	133,297	28,026	161,323
Substandard	0	0	0	0	0	86	86	0	86
Total	7,312	22,252	30,410	24,024	26,726	22,659	133,383	28,026	161,409
Loans secured by farmland:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Loans for agricultural production:									
Pass	14,189	27,670	22,196	25,765	23,309	5,702	118,831	80,243	199,074
Special Mention	0	0	0	182	0	0	182	500	682
Total	14,189	27,670	22,196	25,947	23,309	5,702	119,013	80,743	199,756
Loans for agricultural production:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other commercial loans:									
Pass	6,631	6,727	31,576	4,110	12,528	6,231	67,803	26,763	94,566
Special Mention	0	0	0	0	0	2,039	2,039	0	2,039
Total	6,631	6,727	31,576	4,110	12,528	8,270	69,842	26,763	96,605
Other commercial loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Consumer 1-4 family mortgage loans:									
Closed end first mortgage loans:									
Pass	6,506	9,920	10,682	11,987	6,828	5,917	51,840	3,618	55,458
Special Mention	0	231	169	0	0	0	400	0	400
Substandard	0	87	0	92	121	224	524	0	524
Not Rated	13,147	63,005	48,503	35,241	16,446	26,013	202,355	0	202,355
Total	19,653	73,243	59,354	47,320	23,395	32,154	255,119	3,618	258,737

Closed end first mortgage loans (continued):									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Open end and junior lien loans:									
Pass	49	763	0	464	0	6	1,282	10,845	12,127
Special Mention	0	0	0	0	321	0	321	0	321
Substandard	0	106	0	21	0	82	209	122	331
Not Rated	12,375	20,215	23,823	6,421	1,056	3,376	67,266	119,770	187,036
Total	12,424	21,084	23,823	6,906	1,377	3,464	69,078	130,737	199,815
Open end and junior lien loans:									
Current period gross write offs	0	0	22	0	0	0	22	0	22
Residential construction loans:									
Not Rated	2,206	3,171	3,799	1,443	798	1,448	12,865	0	12,865
Total	2,206	3,171	3,799	1,443	798	1,448	12,865	0	12,865
Residential construction loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other consumer loans:									
Pass	479	986	274	1,162	97	0	2,998	12,656	15,654
Special Mention	0	0	475	0	152	0	627	0	627
Substandard	0	163	32	36	0	0	231	0	231
Not Rated	14,166	27,096	14,266	8,212	4,656	2,413	70,809	10,294	81,103
Total	14,645	28,245	15,047	9,410	4,905	2,413	74,665	22,950	97,615
Other consumer loans:									
Current period gross write offs	3	207	147	26	0	26	409	103	512
Total Loans	<u>\$ 364,767</u>	<u>\$ 774,875</u>	<u>\$ 729,089</u>	<u>\$ 526,841</u>	<u>\$ 426,629</u>	<u>\$ 391,560</u>	<u>\$3,213,761</u>	<u>\$1,838,580</u>	<u>\$5,052,341</u>
Total period gross write offs	<u>\$ 3</u>	<u>\$ 207</u>	<u>\$ 263</u>	<u>\$ 26</u>	<u>\$ 0</u>	<u>\$ 866</u>	<u>\$ 1,365</u>	<u>\$ 215</u>	<u>\$ 1,580</u>

As of June 30, 2024, \$1.2 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 Small Business Administration ("SBA").

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

(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Term Total	Revolving	Total
Commercial and industrial loans:									
Working capital lines of credit loans:									
Pass	\$ 193	\$ 1,876	\$ 2,214	\$ 1,132	\$ 0	\$ 50	\$ 5,465	\$ 532,086	\$ 537,551
Special Mention	0	0	0	0	0	0	0	46,498	46,498
Substandard	0	200	0	0	125	0	325	20,516	20,841
Total	193	2,076	2,214	1,132	125	50	5,790	599,100	604,890
Working capital lines of credit loans:									
Current period gross write offs	0	0	75	0	139	0	214	327	541
Non-working capital loans:									
Pass	199,071	224,333	85,273	49,999	28,773	10,501	597,950	171,264	769,214
Special Mention	4,038	9,577	1,051	2,498	2,306	4,298	23,768	5,477	29,245
Substandard	3,754	1,612	683	3,892	51	218	10,210	397	10,607
Not Rated	2,585	1,999	881	707	162	18	6,352	0	6,352
Total	209,448	237,521	87,888	57,096	31,292	15,035	638,280	177,138	815,418
Non-working capital loans:									
Current period gross write offs	0	5,445	0	178	129	0	5,752	48	5,800
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	50,693	15,558	17,655	0	177	0	84,083	547,570	631,653
Total	50,693	15,558	17,655	0	177	0	84,083	547,570	631,653
Construction and land development loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Owner occupied loans:									
Pass	144,411	132,850	156,680	132,407	61,415	118,406	746,169	40,288	786,457
Special Mention	7,597	686	4,913	0	1,394	2,245	16,835	14,739	31,574
Substandard	362	250	3,325	1,474	345	1,161	6,917	0	6,917
Total	152,370	133,786	164,918	133,881	63,154	121,812	769,921	55,027	824,948
Owner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Nonowner occupied loans:									
Pass	123,633	158,415	112,582	134,050	87,288	66,755	682,723	27,860	710,583

Nonowner occupied loans (continued):									
Special Mention	4,503	0	6,257	0	0	2,246	13,006	0	13,006
Total	128,136	158,415	118,839	134,050	87,288	69,001	695,729	27,860	723,589
Nonowner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Multifamily loans:									
Pass	90,954	23,315	9,042	35,648	13,971	14,609	187,539	45,987	233,526
Special Mention	19,671	0	0	0	0	0	19,671	0	19,671
Total	110,625	23,315	9,042	35,648	13,971	14,609	207,210	45,987	253,197
Multifamily loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Agri-business and agricultural loans:									
Loans secured by farmland:									
Pass	24,503	32,060	25,308	27,924	9,104	19,160	138,059	24,724	162,783
Substandard	0	0	0	0	0	100	100	0	100
Total	24,503	32,060	25,308	27,924	9,104	19,260	138,159	24,724	162,883
Loans secured by farmland:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Loans for agricultural production:									
Pass	28,657	13,589	27,175	25,504	3,533	10,429	108,887	116,406	225,293
Special Mention	0	0	187	0	0	0	187	500	687
Total	28,657	13,589	27,362	25,504	3,533	10,429	109,074	116,906	225,980
Loans for agricultural production:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other commercial loans:									
Pass	7,058	26,918	33,247	13,684	90	7,332	88,329	29,819	118,148
Special Mention	0	0	0	0	0	2,419	2,419	0	2,419
Total	7,058	26,918	33,247	13,684	90	9,751	90,748	29,819	120,567
Other commercial loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Consumer 1-4 family mortgage loans:									
Closed end first mortgage loans:									
Pass	9,910	10,541	12,486	8,614	3,924	4,625	50,100	8,330	58,430
Special Mention	0	0	0	519	0	0	519	0	519
Substandard	87	0	96	123	0	253	559	0	559
Not Rated	64,233	51,018	38,014	17,432	4,314	23,225	198,236	0	198,236

Closed end first mortgage loans (continued):									
Total	74,230	61,559	50,596	26,688	8,238	28,103	249,414	8,330	257,744
Closed end first mortgage loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Open end and junior lien loans:									
Pass	557	137	491	335	0	6	1,526	8,689	10,215
Substandard	108	0	23	0	26	48	205	68	273
Not Rated	24,792	29,648	8,471	1,554	2,286	1,962	68,713	112,371	181,084
Total	25,457	29,785	8,985	1,889	2,312	2,016	70,444	121,128	191,572
Open end and junior lien loans:									
Current period gross write offs	0	50	14	0	0	0	64	99	163
Residential construction loans:									
Not Rated	1,525	2,982	1,515	839	263	1,220	8,344	0	8,344
Total	1,525	2,982	1,515	839	263	1,220	8,344	0	8,344
Residential construction loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other consumer loans:									
Pass	1,082	789	1,391	301	0	0	3,563	11,894	15,457
Substandard	40	34	35	0	2	0	111	0	111
Not Rated	32,481	17,585	9,994	6,008	1,611	1,957	69,636	10,545	80,181
Total	33,603	18,408	11,420	6,309	1,613	1,957	73,310	22,439	95,749
Other consumer loans:									
Current period gross write offs	16	258	90	8	212	1	585	243	828
Total loans	<u>\$ 846,498</u>	<u>\$ 755,972</u>	<u>\$ 558,989</u>	<u>\$ 464,644</u>	<u>\$ 221,160</u>	<u>\$ 293,243</u>	<u>\$3,140,506</u>	<u>\$1,776,028</u>	<u>\$4,916,534</u>
Total current period gross write offs	<u>\$ 16</u>	<u>\$ 5,753</u>	<u>\$ 179</u>	<u>\$ 186</u>	<u>\$ 480</u>	<u>\$ 1</u>	<u>\$ 6,615</u>	<u>\$ 717</u>	<u>\$ 7,332</u>

As of December 31, 2023, \$1.3 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 June 30, 2024 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	\$ 652,483	\$ 0	\$ 0	\$ 652,483	\$ 45,109	\$ 148	\$ 697,592
Non-working capital loans	819,241	122	0	819,363	8,800	10	828,163
Commercial real estate and multi-family residential loans:							
Construction and land development loans	656,335	0	0	656,335	0	0	656,335
Owner occupied loans	827,449	0	0	827,449	2,031	566	829,480
Nonowner occupied loans	761,751	0	0	761,751	0	0	761,751
Multifamily loans	252,312	0	0	252,312	0	0	252,312
Agri-business and agricultural loans:							
Loans secured by farmland	161,323	0	0	161,323	86	0	161,409
Loans for agricultural production	199,756	0	0	199,756	0	0	199,756
Other commercial loans	96,605	0	0	96,605	0	0	96,605
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	257,676	511	26	258,213	524	296	258,737
Open end and junior lien loans	198,892	498	0	199,390	331	331	199,721
Residential construction loans	12,865	0	0	12,865	0	0	12,865
Other consumer loans	96,899	485	0	97,384	231	1	97,615
Total	\$ 4,993,587	\$ 1,616	\$ 26	\$ 4,995,229	\$ 57,112	\$ 1,352	\$ 5,052,341

An insignificant amount of interest income was recognized on nonaccrual loans during the six month period ended June 30, 2024.

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

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 89 Days Past Due and Accruing	Total Accruing	Total Nonaccrual	Nonaccrual With No Allowance For Credit Loss	Total
Commercial and industrial loans:							
Working capital lines of credit loans	\$ 602,236	\$ 0	\$ 0	\$ 602,236	\$ 2,654	\$ 0	\$ 604,890
Non-working capital loans	805,305	1,372	0	806,677	8,741	244	815,418
Commercial real estate and multi-family residential loans:							
Construction and land development loans	631,653	0	0	631,653	0	0	631,653
Owner occupied loans	821,701	0	0	821,701	3,247	1,161	824,948
Nonowner occupied loans	723,589	0	0	723,589	0	0	723,589
Multifamily loans	253,197	0	0	253,197	0	0	253,197
Agri-business and agricultural loans:							
Loans secured by farmland	162,783	0	0	162,783	100	0	162,883
Loans for agricultural production	225,980	0	0	225,980	0	0	225,980
Other commercial loans	120,567	0	0	120,567	0	0	120,567
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	256,016	1,142	27	257,185	559	329	257,744
Open end and junior lien loans	190,956	344	0	191,300	272	164	191,572
Residential construction loans	8,344	0	0	8,344	0	0	8,344
Other consumer loans	95,135	502	0	95,637	112	3	95,749
Total	\$ 4,897,462	\$ 3,360	\$ 27	\$ 4,900,849	\$ 15,685	\$ 1,901	\$ 4,916,534

An insignificant amount of interest income was recognized on nonaccrual loans during the year ended December 31, 2023.

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)	June 30, 2024			
	Real Estate	General Business Assets	Other	Total
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 50	\$ 61,625	\$ 448	\$ 62,123
Non-working capital loans	31	9,699	291	10,021
Commercial real estate and multi-family residential loans:				
Owner occupied loans	1,144	3,939	0	5,083
Agri-business and agricultural loans:				
Loans secured by farmland	0	86	0	86
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	524	0	0	524
Open end and junior lien loans	331	0	0	331
Residential construction and land development loans	0	0	0	0
Other consumer loans	0	0	183	183
Total	\$ 2,080	\$ 75,349	\$ 922	\$ 78,351

(dollars in thousands)	December 31, 2023			
	Real Estate	General Business Assets	Other	Total
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 50	\$ 2,454	\$ 0	\$ 2,504
Non-working capital loans	40	8,202	400	8,642
Commercial real estate and multi-family residential loans:				
Owner occupied loans	595	1,474	1,161	3,230
Agri-business and agricultural loans:				
Loans secured by farmland	0	100	0	100
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	559	0	0	559
Open end and junior lien loans	164	0	0	164
Other consumer loans	0	0	112	112
Total	\$ 1,408	\$ 12,230	\$ 1,673	\$ 15,311

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses using historical loss information. The Company uses a probability of default/loss given default model to determine an estimate which is recorded for each asset upon origination. Occasionally, the Company has reason to modify certain terms of loans for borrowers experiencing financial distress by providing the following forms of relief: forgiveness of loan principal, extension of repayment terms, interest rate reduction or an other than insignificant payment delay. The Company can make any or all of these types of concessions as part of such modifications. Since an estimate for historical losses is already included as a component of the allowance for credit losses, a change to the allowance for credit losses is generally not recorded at the time of such modifications. In the event forgiveness of principal is provided, the amount of the forgiveness is charged off against the allowance for credit losses.

During the three and six months ended June 30, 2024, there were no material modifications made to borrowers experiencing financial difficulty.

(dollars in thousands)	Combination Principal Forgiveness, Interest Rate Reduction and Term Extension and Payment Delay	Total Modifications	Total Class of Financing Receivable
Three and Six Months Ended June 30, 2023			
Commercial and industrial loans:			
Non-working capital loans	\$ 1,544	\$ 1,544	0.19 %
Total commercial and industrial loans	1,544	1,544	0.10
Total loan modifications made to borrowers experiencing financial difficulty	<u>\$ 1,544</u>	<u>\$ 1,544</u>	<u>0.03 %</u>

The Company has no material commitments to lend additional funds to borrowers included in the previous table.

The following tables present the financial effect of the loan modifications presented above for borrowers experiencing financial difficulty for the three and six months ended June 30, 2023:

(dollars in thousands)	Principal Forgiveness	Interest Rate Reduction Financial Effect	Term Extension Financial Effect	Payment Delay	Total Class of Financing Receivable
Three and Six Months Ended June 30, 2023					
Commercial and industrial loans:					
Non-working capital loans (1)	\$ 9,380	Reduction of one term loan from Prime plus 0.75% to 1.00% Fixed	Term extension from 40 months to 60 months	Extension of amortization period from 40 months to 480 months with excess cash flow recapture provisions for earlier repayment	0.19 %

(1) Represents one \$11.0 million non-working capital loan that received principal forgiveness of \$9.4 million, of which \$9.3 million was charged off.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. At June 30, 2024, no loans receiving such a modification within the last twelve months were 30 days or greater past due.

At June 30, 2024, no loans receiving a modification due to borrower financial difficulty within the last twelve months experienced a payment default.

Upon the Company's determination that a modified loan (or portion thereof) has subsequently been deemed uncollectible, the loan (or a portion thereof) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

NOTE 5. BORROWINGS

For the period ended June 30, 2024, the Company had no outstanding advances from the FHLB. For the period ended December 31, 2023, the Company had a fixed rate bullet advance from the FHLB with an interest rate of 5.55% in the amount of \$50.0 million that matured on January 5, 2024. Federal Funds purchased were \$55.0 million at June 30, 2024, and there were none at December 31, 2023.

On October 11, 2023 the Company entered into an unsecured revolving credit agreement with a financial institution allowing the Company to borrow up to \$30.0 million. The credit agreement has a one year term which may be amended, extended, modified or renewed. Funds provided under the agreement can be used to repurchase shares of the Company's common stock under the share repurchase program, which was reauthorized by the Company's board of directors on April 11,

2023 and expires on April 30, 2025, and for general operations. The credit agreement includes a negative pledge agreement whereby the Company agrees not to pledge or otherwise encumber the stock of the Bank. There were no outstanding borrowings on the credit agreement at June 30, 2024 and December 31, 2023.

NOTE 6. FAIR VALUE DISCLOSURES

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

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

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

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

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

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

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

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

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

Mortgage servicing rights: As of June 30, 2024, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was \$2.0 million, carried at amortized cost and no valuation reserve. These residential mortgage loans have a weighted average interest rate of 3.6%, a weighted average maturity of 20 years and are secured by homes generally within the Company's market area of Northern Indiana and Indianapolis. A third-party valuation is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees and float income. The most significant assumption used to value MSRs is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At June 30, 2024, the constant prepayment speed ("PSA") used was 156 and used a discount rate range of 10.0%-12.0%. At December 31, 2023, the PSA used was 148 and the discount rate used was 10.5%.

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.

Visa Class C Shares: On April 8, 2024, Visa Inc. announced the commencement of an exchange offer for Visa Class B-1 common stock, which was being carried at a historical cost basis of zero. On May 7, 2024, the Bank received notice that Visa had accepted the Bank's tender of its 23,804 shares of Visa Class B-1 common stock in exchange for a combination of Visa Class B-2 common stock and Visa Class C common stock. Visa's acceptance resulted in a gain for the Company relating to the Visa Class C common stock, which is carried at fair value, and results in a Level 1 classification.

Subsequent to the exchange and during the second quarter of 2024, the Bank sold its Visa Class B-2 common stock, which resulted in a realized gain of \$3.9 million, and liquidated two-thirds of its Visa Class C common stock, which resulted in a realized gain of \$3.4 million. Of this recognized net gain on Visa shares, \$1.7 million related to Visa Class C common stock that is still owned and held by the Bank as of June 30, 2024 and carried at fair value in other assets on the consolidated balance sheet. The Bank plans to liquidate these remaining shares during the third quarter of 2024 pursuant to the Visa redemption provisions. The recognized net gain on Visa shares was \$9.0 million during the second quarter of 2024.

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

(dollars in thousands)	June 30, 2024			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
U.S. government sponsored agency securities	\$ 0	\$ 113,697	\$ 0	\$ 113,697
Mortgage-backed securities: residential	0	419,230	0	419,230
State and municipal securities	0	457,424	2,706	460,130
Total securities available-for-sale	0	990,351	2,706	993,057
Visa class c shares	1,653	0	0	1,653
Mortgage banking derivative	0	99	0	99
Interest rate swap derivative	0	29,995	0	29,995
Total assets	\$ 1,653	\$ 1,020,445	\$ 2,706	\$ 1,024,804
Liabilities:				
Interest rate swap derivative	\$ 0	\$ 29,995	\$ 0	\$ 29,995
Total liabilities	\$ 0	\$ 29,995	\$ 0	\$ 29,995

(dollars in thousands)	December 31, 2023			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
U.S. government sponsored agency securities	\$ 0	\$ 119,479	\$ 0	\$ 119,479
Mortgage-backed securities: residential	0	447,842	0	447,842
State and municipal securities	0	482,127	2,280	484,407
Total securities available-for-sale	0	1,049,448	2,280	1,051,728
Mortgage banking derivative	0	47	0	47
Interest rate swap derivative	0	27,189	0	27,189
Total assets	\$ 0	\$ 1,076,684	\$ 2,280	\$ 1,078,964
Liabilities:				
Mortgage banking derivative	\$ 0	\$ 11	\$ 0	\$ 11
Interest rate swap derivative	0	27,190	0	27,190
Total liabilities	\$ 0	\$ 27,201	\$ 0	\$ 27,201

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)	June 30, 2024			
	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	\$ 33,309	\$ 33,309
Non-working capital loans	0	0	4,254	4,254
Commercial real estate and multi-family residential loans:				
Owner occupied loans	0	0	477	477
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	28	28
Total collateral dependent loans	0	0	38,068	38,068
Other real estate owned	0	0	384	384
Total assets	\$ 0	\$ 0	\$ 38,452	\$ 38,452

(dollars in thousands)	December 31, 2023			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	\$ 0	\$ 0	\$ 1,263	\$ 1,263
Non-working capital loans	0	0	3,374	3,374
Commercial real estate and multi-family residential loans:				
Owner occupied loans	0	0	682	682
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	31	31
Total collateral dependent loans	0	0	5,350	5,350
Other real estate owned	0	0	384	384
Total assets	\$ 0	\$ 0	\$ 5,734	\$ 5,734

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at June 30, 2024:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	\$ 37,563	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	65 %	10%-99%
Collateral dependent loans:					
Commercial real estate and multi-family residential loans	477	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	67 %	
Collateral dependent loans:					
Agri-business and agricultural	28	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	67 %	
Other real estate owned	384	Appraisals	Discount to reflect current market conditions and ultimate collectability	36 %	

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, 2023:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	\$ 4,637	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	64 %	9%-99%
Collateral dependent loans:					
Commercial real estate and multi-family residential loans	682	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	37 %	9%-69%
Collateral dependent loans:					
Agri-business and agricultural	31	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	69 %	
Other real estate owned	384	Appraisals	Discount to reflect current market conditions and ultimate collectability	36 %	

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)	June 30, 2024				
	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$ 121,177	\$ 121,177	\$ 0	\$ 0	\$ 121,177
Securities available-for-sale	993,057	0	990,351	2,706	993,057
Securities held-to-maturity	130,746	0	113,997	0	113,997
Real estate mortgages held-for-sale	399	0	409	0	409
Visa class c shares	1,653	1,653	0	0	1,653
Loans, net	4,971,630	0	0	4,842,857	4,842,857
Mortgage banking derivative	99	0	99	0	99
Interest rate swap derivative	29,995	0	29,995	0	29,995
Federal Reserve and Federal Home Loan Bank Stock	21,420	N/A	N/A	N/A	N/A
Accrued interest receivable	30,681	0	8,294	22,387	30,681
Financial Liabilities:					
Certificates of deposit	\$ 992,560	\$ 0	\$ 985,114	\$ 0	\$ 985,114
All other deposits	4,770,977	4,770,977	0	0	4,770,977
Federal Home Loan Bank advances	55,000	55,000	0	0	55,000
Interest rate swap derivative	29,995	0	29,995	0	29,995
Standby letters of credit	171	0	0	171	171
Accrued interest payable	15,354	798	14,556	0	15,354

		December 31, 2023				
(dollars in thousands)		Carrying Value	Estimated Fair Value			Total
			Level 1	Level 2	Level 3	
Financial Assets:						
Cash and cash equivalents	\$	151,824	\$ 151,824	\$ 0	\$ 0	\$ 151,824
Securities available-for-sale		1,051,728	0	1,049,448	2,280	1,051,728
Securities held-to-maturity		129,918	0	119,215	0	119,215
Real estate mortgages held-for-sale		1,158	0	1,158	0	1,158
Loans, net		4,844,562	0	0	4,694,532	4,694,532
Mortgage banking derivative		47	0	47	0	47
Interest rate swap derivative		27,189	0	27,189	0	27,189
Federal Reserve and Federal Home Loan Bank Stock		21,420	N/A	N/A	N/A	N/A
Accrued interest receivable		30,011	0	8,558	21,453	30,011
Financial Liabilities:						
Certificates of deposit	\$	1,016,821	\$ 0	\$ 1,010,172	\$ 0	\$ 1,010,172
All other deposits		4,703,704	4,703,704	0	0	4,703,704
Federal Home Loan Bank advances		50,000	50,000	0	0	50,000
Mortgage banking derivative		11	0	11	0	11
Interest rate swap derivative		27,190	0	27,190	0	27,190
Standby letters of credit		289	0	0	289	289
Accrued interest payable		20,893	753	20,140	0	20,893

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 June 30, 2024 and December 31, 2023.

		June 30, 2024					
(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		Net Amount
					Financial Instruments	Cash Collateral Position	
Assets							
Interest Rate Swap Derivatives	\$	29,995	\$ 0	\$ 29,995	\$ 0	\$ (28,825)	\$ 1,170
Total Assets		<u>\$ 29,995</u>	<u>\$ 0</u>	<u>\$ 29,995</u>	<u>\$ 0</u>	<u>\$ (28,825)</u>	<u>\$ 1,170</u>
Liabilities							
Interest Rate Swap Derivatives	\$	29,995	\$ 0	\$ 29,995	\$ 0	\$ 0	\$ 29,995
Total Liabilities		<u>\$ 29,995</u>	<u>\$ 0</u>	<u>\$ 29,995</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,995</u>

December 31, 2023

(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	\$ 27,189	\$ 0	\$ 27,189	\$ 0	\$ (25,555)	\$ 1,634
Total Assets	\$ 27,189	\$ 0	\$ 27,189	\$ 0	\$ (25,555)	\$ 1,634
Liabilities						
Interest Rate Swap Derivatives	\$ 27,190	\$ 0	\$ 27,190	\$ 0	\$ (90)	\$ 27,100
Total Liabilities	\$ 27,190	\$ 0	\$ 27,190	\$ 0	\$ (90)	\$ 27,100

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Weighted average shares outstanding for basic earnings per common share	25,678,231	25,607,663	25,667,647	25,595,412
Dilutive effect of stock based awards	64,640	78,691	79,126	100,958
Weighted average shares outstanding for diluted earnings per common share	25,742,871	25,686,354	25,746,773	25,696,370
Basic earnings per common share	\$ 0.88	\$ 0.57	\$ 1.79	\$ 1.52
Diluted earnings per common share	\$ 0.87	\$ 0.57	\$ 1.78	\$ 1.51

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 June 30, 2024 and 2023, all shown net of tax:

(dollars in thousands)	Unrealized Gains and Losses on Available- for-Sales Securities	Defined Benefit Pension Items	Total
Balance at April 1, 2024	\$ (166,189)	\$ (724)	\$ (166,913)
Other comprehensive income (loss) before reclassification	(3,943)	0	(3,943)
Amounts reclassified from accumulated other comprehensive income (loss)	386	12	398
Net current period other comprehensive income (loss)	(3,557)	12	(3,545)
Balance at June 30, 2024	<u>\$ (169,746)</u>	<u>\$ (712)</u>	<u>\$ (170,458)</u>

(dollars in thousands)	Unrealized Gains and Losses on Available- for-Sales Securities	Defined Benefit Pension Items	Total
Balance at April 1, 2023	\$ (166,612)	\$ (758)	\$ (167,370)
Other comprehensive income (loss) before reclassification	(10,674)	0	(10,674)
Amounts reclassified from accumulated other comprehensive income (loss)	388	11	399
Net current period other comprehensive income (loss)	(10,286)	11	(10,275)
Balance at June 30, 2023	<u>\$ (176,898)</u>	<u>\$ (747)</u>	<u>\$ (177,645)</u>

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the six months ended June 30, 2024 and 2023, 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, 2024	\$ (154,460)	\$ (735)	\$ (155,195)
Other comprehensive income (loss) before reclassification	(16,100)	0	(16,100)
Amounts reclassified from accumulated other comprehensive income (loss)	814	23	837
Net current period other comprehensive income (loss)	(15,286)	23	(15,263)
Balance at June 30, 2024	<u>\$ (169,746)</u>	<u>\$ (712)</u>	<u>\$ (170,458)</u>

(dollars in thousands)	Unrealized Gains and Losses on Available- for-Sales Securities	Defined Benefit Pension Items	Total
Balance at January 1, 2023	\$ (188,154)	\$ (769)	\$ (188,923)
Other comprehensive income (loss) before reclassification	10,493	0	10,493
Amounts reclassified from accumulated other comprehensive income (loss)	763	22	785
Net current period other comprehensive income (loss)	11,256	22	11,278
Balance at June 30, 2023	<u>\$ (176,898)</u>	<u>\$ (747)</u>	<u>\$ (177,645)</u>

Reclassifications out of other accumulated other comprehensive income (loss) for the three months ended June 30, 2024 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	\$ (489)	Interest income
Realized gains and (losses) on available-for-sale securities	0	Net securities gains (losses)
Tax effect	103	Income tax expense
	<u>(386)</u>	Net of tax
Amortization of defined benefit pension items	(16)	Other expense
Tax effect	4	Income tax expense
	<u>(12)</u>	Net of tax
Total reclassifications for the period	<u>\$ (398)</u>	Net income

Reclassifications out of other accumulated comprehensive income (loss) for the three months ended June 30, 2023 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	\$ (494)	Interest income
Realized gains and (losses) on available-for-sale securities	3	Net securities gains (losses)
Tax effect	103	Income tax expense
	<u>(388)</u>	Net of tax
Amortization of defined benefit pension items	(15)	Other expense
Tax effect	4	Income tax expense
	<u>(11)</u>	Net of tax
Total reclassifications for the period	<u>\$ (399)</u>	Net income

Reclassifications out of accumulated comprehensive income (loss) for the six months ended June 30, 2024 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	\$ (985)	Interest income
Realized gains and (losses) on available-for-sale securities	(46)	Net securities gains (losses)
Tax effect	217	Income tax expense
	<u>(814)</u>	Net of tax
Amortization of defined benefit pension items	(31)	Other expense
Tax effect	8	Income tax expense
	<u>(23)</u>	Net of tax
Total reclassifications for the period	<u>\$ (837)</u>	Net income

Reclassifications out of accumulated other comprehensive income (loss) for the six months ended June 30, 2023 are as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Amortization of unrealized losses on held-to-maturity securities	\$ (985)	Interest income
Realized gains and (losses) on available-for-sale securities	19	Net securities gains (losses)
Tax effect	203	Income tax expense
	<u>(763)</u>	Net of tax
Amortization of defined benefit pension items	(30)	Other expense
Tax effect	8	Income tax expense
	<u>(22)</u>	Net of tax
Total reclassifications for the period	<u>\$ (785)</u>	Net income

NOTE 10. LEASES

The Company leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2037 and some include renewal options. Many of these leases require the payment of property taxes, insurance premiums, maintenance, utilities and other costs. In many cases, rentals are subject to increase in relation to a cost-of-living index. The Company accounts for lease and non-lease components together as a single lease component. The Company determines if an arrangement is a lease at inception. Operating leases are recorded as a right-of-use ("ROU") lease asset 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 June 30, 2024:

Years ending December 31, (in thousands)	Operating Lease Obligation
2024	\$ 376
2025	756
2026	731
2027	753
2028	593
2029 and thereafter	1,591
Total undiscounted lease payments	4,800
Less imputed interest	(415)
Lease liability	\$ 4,385
Right-of-use asset	\$ 4,385

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Lease cost				
Operating lease cost	\$ 161	\$ 220	\$ 346	\$ 389
Short-term lease cost	2	2	4	4
Total lease cost	\$ 163	\$ 222	\$ 350	\$ 393
Other information				
Operating cash outflows from operating leases	\$ 161	\$ 220	\$ 346	\$ 389
Weighted-average remaining lease term - operating leases	5.8 years	6.8 years	5.8 years	6.8 years
Weighted average discount rate - operating leases	2.5 %	2.5 %	2.5 %	2.5 %

NOTE 11. LOSS CONTINGENCIES

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

As previously disclosed, in July 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 were filed in the United States Bankruptcy Court for the Western District of Michigan. The Bank and the other remaining individual defendants have settled the matter with the liquidating trustee and the case was dismissed with prejudice on June 21, 2024. A \$4.5 million accrual was recorded during the second quarter of 2024 related to the resolution of this matter.

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

OVERVIEW

Net income in the first six months of 2024 was \$46.0 million, which increased \$7.1 million, or 18.2%, from \$38.9 million for the comparable period of 2023. Diluted income per common share was \$1.78 in the first six months of 2024, an increase of 17.9% from \$1.51 in the comparable period of 2023. The increase in net income for 2024 was primarily due to an increase to noninterest income of \$11.2 million, or 51.5%, and a decrease in noninterest expense of \$8.1 million, or 11.3%. Offsetting these effects was an increase in the provision for credit losses of \$4.9 million, or 94.2%, and a decrease to net interest income of \$4.3 million, or 4.3%. Pretax pre-provision earnings, a non-GAAP measure calculated by adding net interest income to noninterest income and subtracting noninterest expense, were \$64.7 million in the first six months of 2024, an increase of \$15.0 million, or 30.3%, compared to \$49.7 million for the comparable period of 2023.

Annualized return on average total equity was 14.39% in the first six months of 2024 versus 13.18% in the comparable period of 2023. Annualized return on average total assets was 1.40% in the first six months of 2024 versus 1.22% for the comparable period of 2023. The Company's average equity to average assets ratio was 9.73% in the first six months of 2024 versus 9.26% in the comparable period of 2023.

Net income in the second quarter of 2024 was \$22.5 million, up \$7.9 million, or 54.3%, from \$14.6 million for the comparable period of 2023. Diluted earnings per common share was \$0.87 in the second quarter of 2024, up 52.6% from \$0.57 in the comparable period of 2023. The increase was driven primarily by an increase in noninterest income of \$8.9 million, or 77.7%, and a decrease in noninterest expense of \$9.4 million, or 22.0%. Offsetting these effects was an increase in provision for credit losses of \$7.7 million and a decrease in net interest income of \$228,000, or less than 1%. Pretax pre-provision earnings in the second quarter of 2024 were \$35.4 million, an increase of \$18.1 million, or 104.7%, compared to \$17.3 million for the comparable period of 2023.

Annualized return on average total equity was 14.19% in the second quarter of 2024 versus 9.70% in the comparable period of 2023. Annualized return on average total assets was 1.37% in the second quarter of 2024 versus 0.91% in the comparable period of 2023. The average equity to average assets ratio was 9.62% in the second quarter of 2024 versus 9.39% the comparable period of 2023.

The Company's performance in the second quarter was impacted by two non-routine events. During the quarter, the Bank recognized \$9.0 million in net gains on Visa shares previously carried at cost basis of \$0 since 2008. On April 8, 2024, Visa Inc. announced the commencement of an exchange offer for Visa Class B-1 common stock and the Bank subsequently tendered its Visa Class B-1 common stock in exchange for a combination of Visa Class C common stock and Visa Class B-2 common stock. After entering the exchange, the Bank redeemed two-thirds of its Visa Class C common stock and sold its remaining Visa B-2 common stock in the secondary market. As of June 30, 2024, the Bank held 1,574 shares of Visa Class C common stock valued at \$1.7 million and intends to redeem these remaining shares during the third quarter of 2024 pursuant to the Visa redemption provisions. In addition, the Company incurred a one-time accrual of \$4.5 million related to the resolution of a legal matter during the second quarter. The lawsuit against the Company related to this resolution was dismissed by the court.

The Company's tangible common equity to tangible assets ratio, which is a non-GAAP financial measure, was 9.91% at June 30, 2024, compared to 9.04% at June 30, 2023 and 9.91% at December 31, 2023. Unrealized losses from available-for-sale investment securities were \$194.9 million at June 30, 2024, compared to \$202.0 million at June 30, 2023 and \$174.6 million at December 31, 2023. When excluding the impact of accumulated other comprehensive income (loss) ("AOCI") 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 12.18% at June 30, 2024, compared to 11.45% at June 30, 2023 and 11.99% at December 31, 2023.

Total assets were \$6.569 billion as of June 30, 2024 versus \$6.524 billion as of December 31, 2023, an increase of \$44.8 million, or less than 1%. Total loans, net of the allowance for credit losses, increased \$127.1 million, or 2.6%, which was the primary driver behind balance sheet expansion between December 31, 2023 and June 30, 2024. Offsetting the increase to loans, net of the allowance of credit losses, was a decrease in available-for-sale securities of \$58.7 million, or 5.6%. Total deposits increased by \$43.0 million, or less than 1%, between December 31, 2023 and June 30, 2024. Total equity increased \$4.8 million, or less than 1%, from \$649.8 million at December 31, 2023 to \$654.6 million at June 30, 2024. Retained earnings increased \$20.8 million, or 3.0%, primarily as a result of net income of \$46.0 million and reduced by dividends declared and

paid of \$24.6 million. AOCI decreased \$15.3 million, or 9.8%, from a decline in the fair market values of available-for-sale investment securities during the six months ended June 30, 2024.

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, 2023.

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 six months ended June 30, 2024 and 2023 is presented in the following table:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Income Statement Summary:				
Net interest income (a)	\$ 48,296	48,524	\$ 95,712	\$ 100,043
Provision for credit losses	8,480	800	10,000	5,150
Noninterest income (b)	20,439	11,501	33,051	21,815
Noninterest expense (c)	33,333	42,734	64,038	72,168
Other Data:				
Efficiency ratio (1)	48.49 %	71.19 %	49.73 %	59.22 %
Diluted EPS	\$ 0.87	\$ 0.57	\$ 1.78	\$ 1.51
Average Equity/Average Assets	9.62 %	9.39 %	9.73 %	9.26 %
Tangible capital ratio (2)	9.91	9.04	9.91	9.04
Adjusted tangible capital ratio (3)	12.18	11.45	12.18	11.45
Net charge-offs to average loans	0.08	0.00	0.05	0.24
Net interest margin	3.17	3.28	3.16	3.41
Noninterest income to total revenue	29.74	19.16	25.67	17.90
Pretax pre-provision earnings (4)	\$ 35,402	\$ 17,291	\$ 64,725	\$ 49,690

- (1) Noninterest expense (c) / (Net interest income (a) + Noninterest income (b)) = Efficiency Ratio
- (2) Non-GAAP financial measure. Calculated by subtracting intangible assets, net of deferred tax, from total assets and total equity. Management believes this is an important measure because it is useful for planning and forecasting purposes. See reconciliation on the following pages.
- (3) Non-GAAP financial measure. Calculated by removing the fair market value adjustment impact of the available-for-sale investment securities portfolio included in accumulated other comprehensive income (loss) ("AOCI") from tangible equity and tangible assets. Management believes this is an important measure because it provides better comparability to periods preceding the recent significant rise in prevailing interest rates and demonstrates long-term trends capital strength. See reconciliation on the following pages.
- (4) Non-GAAP financial measure. Pretax pre-provision earnings is calculated by adding net interest income to noninterest income and subtracting noninterest expense. Management believes this is an important measure because it may enable investors to identify the trends in the Company's earnings exclusive of the effects of tax and provision expense, which may vary significantly from period to period. See reconciliation on the following pages.

The Company believes that providing non-GAAP financial measures provides investors with information useful to understanding the Company's financial performance.

Tangible common equity, adjusted tangible common equity, tangible assets, adjusted tangible assets, tangible book value per common share, tangible common equity to tangible assets, adjusted tangible common equity to adjusted tangible assets, and pretax pre-provision earnings are non-GAAP financial measures calculated based on GAAP amounts. Tangible common equity is calculated by excluding the balance of goodwill and other intangible assets from the calculation of equity, net of deferred tax. Tangible assets are calculated by excluding the balance of goodwill and other intangible assets from the calculation of total assets, net of deferred tax. Adjusted tangible assets and adjusted tangible common equity remove the fair market value adjustment impact of the available-for-sale investment securities portfolio in accumulated other comprehensive income (loss) ("AOCI"). Tangible book value per common share is calculated by dividing tangible common equity by the number of shares outstanding less true treasury stock. Pretax pre-provision earnings is calculated by adding net interest income to noninterest income and subtracting noninterest expense. Because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. However, management considers these measures of the company's value meaningful to understanding of the company's financial information and performance.

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

(dollars in thousands, except per share data)	As of and For The Three Months Ended June 30,		As of and For The Six Months Ended June 30,	
	2024	2023	2024	2023
Total Equity	\$ 654,590	\$ 591,995	\$ 654,590	\$ 591,995
Less: Goodwill	(4,970)	(4,970)	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	1,167	1,167	1,167	1,167
Tangible Common Equity (A)	650,787	588,192	650,787	588,192
Market Value Adjustment in AOCI	169,747	176,898	169,747	176,898
Adjusted Tangible Common Equity (C)	820,534	765,090	820,534	765,090
Total Assets	\$ 6,568,807	\$ 6,509,546	\$ 6,568,807	\$ 6,509,546
Less: Goodwill	(4,970)	(4,970)	(4,970)	(4,970)
Plus: Deferred Tax Assets Related to Goodwill	1,167	1,167	1,167	1,167
Tangible Assets (B)	6,565,004	6,505,743	6,565,004	6,505,743
Market Value Adjustment in AOCI	169,747	176,898	169,747	176,898
Adjusted Tangible Assets (D)	6,734,751	6,682,641	6,734,751	6,682,641
Ending Common Shares Issued (E)	25,679,066	25,607,663	25,679,066	25,607,663
Tangible Book Value per Common Share (A/E)	\$ 25.34	\$ 22.97	\$ 25.34	\$ 22.97
Tangible Capital Ratio (A/B)	9.91 %	9.04 %	9.91 %	9.04 %
Adjusted Tangible Capital Ratio (C/D)	12.18 %	11.45 %	12.18 %	11.45 %
Net Interest Income	\$ 48,296	\$ 48,524	\$ 95,712	\$ 100,043
Plus: Noninterest Income	20,439	11,501	33,051	21,815
Minus: Noninterest Expense	(33,333)	(42,734)	(64,038)	(72,168)
Pretax Pre-Provision Earnings	\$ 35,402	\$ 17,291	\$ 64,725	\$ 49,690

Adjusted core noninterest income, adjusted core noninterest expense, adjusted earnings before income taxes, core operational profitability, core operational diluted earnings per common share and adjusted core efficiency ratio are non-GAAP financial measures calculated based on GAAP amounts. These adjusted amounts are calculated by excluding the impact of the net gain on Visa shares, legal accrual, and wire fraud loss and associated insurance and loss recoveries and adjustments to salaries and employee benefits expense for the periods presented below. Management considers these measures of financial performance to be meaningful to understanding the company's core business performance for these periods.

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

(dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	Jun. 30, 2024	Jun. 30, 2023	Jun. 30, 2024	Jun. 30, 2023
Noninterest Income	\$ 20,439	\$ 11,501	\$ 33,051	\$ 21,815
Less: Net Gain on Visa Shares	(9,011)	0	(9,011)	0
Less: Insurance Recoveries	0	0	(1,000)	0
Adjusted Core Noninterest Income	\$ 11,428	\$ 11,501	\$ 23,040	\$ 21,815
Noninterest Expense	\$ 33,333	\$ 42,734	\$ 64,038	\$ 72,168
Less: Legal Accrual	(4,537)	0	(4,537)	0
Less: Wire Fraud Loss	0	(18,058)	0	(18,058)
Plus: Salaries and Employee Benefits (1)	0	1,850	0	1,850
Adjusted Core Noninterest Expense	\$ 28,796	\$ 26,526	\$ 59,501	\$ 55,960
Earnings Before Income Taxes	\$ 26,922	\$ 16,491	\$ 54,725	\$ 44,540
Adjusted Core Impact:				
Noninterest Income	(9,011)	0	(10,011)	0
Noninterest Expense	4,537	16,208	4,537	16,208
Total Adjusted Core Impact	(4,474)	16,208	(5,474)	16,208
Adjusted Earnings Before Income Taxes	22,448	32,699	49,251	60,748
Tax Effect	(3,261)	(5,873)	(7,414)	(9,644)
Core Operational Profitability (2)	\$ 19,187	\$ 26,826	\$ 41,837	\$ 51,104
Diluted Earnings Per Common Share	\$ 0.87	\$ 0.57	\$ 1.78	\$ 1.51
Impact of Adjusted Core Items	(0.13)	0.48	(0.16)	0.48
Core Operational Diluted Earnings Per Common Share	\$ 0.74	\$ 1.05	\$ 1.62	\$ 1.99
Adjusted Core Efficiency Ratio	48.22 %	44.19 %	50.11 %	45.92 %

(1) In 2023, long-term, incentive-based compensation accruals were reduced as a result of the wire fraud loss and subsequent insurance and loss recoveries.

(2) Core operational profitability was \$3.4 million lower and \$12.2 million higher than reported net income for the three months ended June 30, 2024 and June 30, 2023, respectively. Core operational profitability was \$4.1 million lower and \$12.2 million higher than reported net income for the six months ended June 30, 2024 and 2023, respectively.

Net Income

Net income was \$46.0 million in the first six months of 2024, which increased \$7.1 million, or 18.2%, from \$38.9 million for the comparable period of 2023. Diluted income per common share was \$1.78 in the first six months of 2024, an increase of 17.9% from \$1.51 in the comparable period of 2023. The increase in net income for the first six months of 2024 was primarily due to an increase to noninterest income of \$11.2 million, or 51.5%, and a decrease in noninterest expense of \$8.1 million, or 11.3%. Offsetting these effects was a decrease to net interest income of \$4.3 million, or 4.3%, and an increase in the provision for credit losses of \$4.9 million, or 94.2%.

Net income during the second quarter of 2024 was \$22.5 million, up 54.3% from \$14.6 million for the comparable period of 2023. Diluted earnings per common share was \$0.87 in the second quarter of 2024, up 52.6% from \$0.57 in the comparable period of 2023. The increase was driven primarily by an increase in noninterest income of \$8.9 million, or 77.7% and a decrease in noninterest expense of \$9.4 million, or 22.0%, and was offset by an increase in the provision for credit losses of \$7.7 million and a decrease in net interest income of \$228,000, or less than 1%.

Net Interest Income

The following tables set forth consolidated information regarding average balances and rates:

(fully tax equivalent basis, dollars in thousands)	Six Months Ended June 30,					
	2024			2023		
	Average Balance	Interest	Yield (1)/Rate	Average Balance	Interest	Yield (1)/Rate
Earning Assets						
Loans:						
Taxable (2)(3)	\$ 4,955,106	\$ 166,268	6.75 %	\$ 4,704,075	\$ 144,589	6.20 %
Tax exempt (1)	47,829	1,901	7.99	57,709	2,322	8.11
Investments:						
Securities (1)	1,138,639	16,117	2.85	1,230,421	17,476	2.86
Short-term investments	2,773	68	4.93	2,275	48	4.25
Interest bearing deposits	111,758	2,880	5.18	87,529	1,951	4.49
Total earning assets	\$ 6,256,105	\$ 187,234	6.02 %	\$ 6,082,009	\$ 166,386	5.52 %
Less: Allowance for credit losses	(73,299)			(72,366)		
Nonearning Assets						
Cash and due from banks	66,551			72,797		
Premises and equipment	58,292			58,657		
Other nonearning assets	291,062			281,465		
Total assets	\$ 6,598,711			\$ 6,422,562		
Interest Bearing Liabilities						
Savings deposits	\$ 292,378	\$ 97	0.07 %	\$ 376,281	\$ 137	0.07 %
Interest bearing checking accounts	3,161,230	63,688	4.05	2,844,181	48,627	3.45
Time deposits:						
In denominations under \$100,000	220,643	3,788	3.45	189,734	1,789	1.90
In denominations over \$100,000	798,442	17,954	4.52	553,472	7,976	2.91
Miscellaneous short-term borrowings	126,443	3,531	5.62	213,990	5,130	4.83
Total interest bearing liabilities	\$ 4,599,136	\$ 89,058	3.89 %	\$ 4,177,658	\$ 63,659	3.07 %
Noninterest Bearing Liabilities						
Demand deposits	1,252,503			1,555,877		
Other liabilities	105,069			94,175		
Stockholders' Equity	642,003			594,852		
Total liabilities and stockholders' equity	\$ 6,598,711			\$ 6,422,562		
Interest Margin Recap						
Interest income/average earning assets		187,234	6.02 %		166,386	5.52 %
Interest expense/average earning assets		89,058	2.86		63,659	2.11
Net interest income and margin		\$ 98,176	3.16 %		\$ 102,727	3.41 %

- (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 \$2.5 million and \$2.7 million for the six-month periods ended June 30, 2024 and June 30, 2023, respectively.
- (2) Loan fees, which are immaterial in relation to total taxable loan interest income for the six months ended June 30, 2024 and 2023, are included as taxable loan interest income.
- (3) Nonaccrual loans are included in the average balance of taxable loans.

(fully tax equivalent basis, dollars in thousands)	Three Months Ended June 30,					
	2024			2023		
	Average Balance	Interest	Yield (1)/ Rate	Average Balance	Interest	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	\$ 4,993,270	\$ 84,226	6.78 %	\$ 4,739,885	\$ 75,047	6.35 %
Tax exempt (1)	41,581	783	7.57	57,857	1,198	8.31
Investments:						
Securities (1)	1,118,776	8,082	2.91	1,210,870	8,520	2.82
Short-term investments	2,836	35	4.96	2,308	26	4.52
Interest bearing deposits	138,818	1,807	5.24	85,364	1,009	4.74
Total earning assets	\$ 6,295,281	\$ 94,933	6.07 %	\$ 6,096,284	\$ 85,800	5.65 %
Less: Allowance for credit losses	(74,166)			(71,477)		
Nonearning Assets						
Cash and due from banks	64,518			69,057		
Premises and equipment	58,702			58,992		
Other nonearning assets	298,619			280,073		
Total assets	\$ 6,642,954			\$ 6,432,929		
Interest Bearing Liabilities						
Savings deposits	\$ 289,107	\$ 48	0.07 %	\$ 360,173	\$ 65	0.07 %
Interest bearing checking accounts	3,275,502	33,323	4.09	2,930,285	27,226	3.73
Time deposits:						
In denominations under \$100,000	217,146	1,871	3.47	198,864	1,147	2.31
In denominations over \$100,000	807,304	9,121	4.54	611,427	5,173	3.39
Miscellaneous short-term borrowings	77,077	1,077	5.62	186,418	2,347	5.05
Total interest bearing liabilities	\$ 4,666,136	\$ 45,440	3.92 %	\$ 4,287,167	\$ 35,958	3.36 %
Noninterest Bearing Liabilities						
Demand deposits	1,230,903			1,450,396		
Other liabilities	106,916			91,367		
Stockholders' Equity	638,999			603,999		
Total liabilities and stockholders' equity	\$ 6,642,954			\$ 6,432,929		
Interest Margin Recap						
Interest income/average earning assets		94,933	6.07 %		85,800	5.65 %
Interest expense/average earning assets		45,440	2.90		35,958	2.37
Net interest income and margin		\$ 49,493	3.17 %		\$ 49,842	3.28 %

(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 \$1.2 million and \$1.3 million in the three-month periods ended June 30, 2024 and June 30, 2023, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended June 30, 2024 and 2023, are included as taxable loan interest income.

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

Net interest income, on a fully tax equivalent basis, decreased \$4.6 million, or 4.4%, to \$98.2 million for the six months ended June 30, 2024, compared to \$102.7 million for the first six months of 2023. The decline in net interest income on a fully tax equivalent basis was driven by an increase in deposit interest expense of \$27.0 million, or 46.1%, from \$58.5 million to \$85.5 million. Securities interest income contributed further to the decline in fully tax equivalent net interest income, declining \$1.4 million, or 7.8%. Loan interest income positively impacted fully tax equivalent net interest income, increasing \$21.3 million, or 14.5%, from \$146.9 million to \$168.2 million between the two periods. Borrowings expense declined \$1.6 million, or 31.2%.

Total average earning assets were \$6.256 billion for the six months ended June 30, 2024, an increase of \$174.1 million, or 2.9%, compared to \$6.082 billion for the six months ended June 30, 2023. Average loans outstanding drove the increase to total average earning assets, increasing \$241.2 million, or 5.1%, to \$5.003 billion from \$4.762 billion for the six months ended June 30, 2024 and 2023, respectively. Offsetting this increase was a decrease to average investment securities of \$91.8 million, or 7.5%, to \$1.139 billion from \$1.230 billion between the respective periods. Total average interest bearing liabilities were \$4.599 billion for the six months ended June 30, 2024, an increase of \$421.5 million, or 10.1%, from \$4.178 billion for the six months ended June 30, 2023. This increase was driven by increased interest bearing deposits of \$509.0 million, or 12.8%, from \$3.964 billion for the six months ended June 30, 2023 to \$4.473 billion for the six months ended June 30, 2024. Offsetting the increase to average interest bearing deposits was a decrease in total average borrowings of \$87.5 million, or 40.9%, to \$126.4 million from \$214.0 million for the six months ended June 30, 2024 and 2023, respectively. Noninterest bearing demand deposits decreased \$303.4 million, or 19.5%, to \$1.253 billion from \$1.556 billion between the respective periods.

The tax equivalent net interest margin was 3.16% for the six months ended June 30, 2024, compared to 3.41% during the first six months of 2023, representing a 25 basis point, or 7.3%, contraction between the two periods. The net interest margin contraction was primarily driven by an increase to interest expense as a percentage of average earning assets, which increased to 2.86% for the six months ended June 30, 2024, up from 2.11% for the comparable period of 2023, for an increase of 75 basis points, or 35.5%. This increase was attributable to an increase in the rate for total interest bearing liabilities of 82 basis points, or 26.7%, from 3.07% to 3.89% between the respective periods. This increase was driven by increased costs associated with the Company's interest bearing deposits, as depositors sought higher rates on interest bearing deposit products while competition for deposits remained high throughout the industry. This increase was offset by reduced borrowings expense due to lower average borrowings. The increase in rate for interest bearing deposits was a result of a combination of an increase in average interest bearing deposits of \$509.0 million, or 12.8%, from \$3.964 billion to \$4.473 billion, and an increase in the average rate for interest bearing deposits of 87 basis points, from 2.98% to 3.85% for the six months ended June 30, 2024 as compared to the comparable period in the prior year. The Company anticipates the cost of funds may continue to remain elevated as a result of increased market competition, shifts from noninterest bearing deposits into interest bearing deposits, and elevated wholesale funding costs. Offsetting the increase to interest expense as a percentage of average earning assets was an increase to interest income as a percentage of average earning assets of 50 basis points, or 9.1%, to 6.02% for the six months ended June 30, 2024, up from 5.52% for the comparable period of 2023. This increase was attributable to an increase in loan yields, which was driven by the combination of an increase in average loans of \$241.2 million, or 5.1%, to \$5.003 billion from \$4.762 billion, and an increase in average yield of 54 basis points from 6.22% to 6.76% between the respective periods. Loan yields benefited from an increase in the target Federal Funds rate of 25 basis points between the two periods, increasing to a range of 5.25%-5.50%. The Company expects loan yields to improve as commercial fixed rate loans continue to mature and reprice at current interest rates.

Net interest income, on a fully tax equivalent basis, decreased by \$349,000, or less than 1%, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023. The decline in net interest income on a fully tax equivalent basis was driven by an increase in deposit interest expense of \$10.8 million, or 32.0%, from \$33.6 million to \$44.4 million. Securities interest income contributed further to the decline, decreasing \$438,000, or 5.1%. Loan interest income positively impacted fully tax equivalent net interest income, increasing \$8.8 million, or 11.5%, from \$76.2 million to \$85.0 million. Additionally, income from short-term investments and interest bearing deposits increased \$807,000. Borrowings expense decreased \$1.3 million, or 54.1%.

Total average earning assets were \$6.295 billion for the second quarter of 2024, an increase of \$199.0 million, or 3.3%, compared to \$6.096 billion for the second quarter of 2023. The increase in average earning assets was driven by an increase in average loans of \$237.1 million, or 4.9%, from \$4.798 billion for the second quarter of 2023 to \$5.035 billion for the second quarter of 2024. Offsetting the increase in average loans was a decrease in average investment securities, which decreased \$92.1 million, or 7.6%, from \$1.211 billion for the second quarter of 2023 to \$1.119 billion for the second quarter of 2024. Total average interest bearing liabilities were \$4.666 billion for the second quarter of 2024, an increase of \$379.0 million, or 8.8%, from \$4.287 billion for the second quarter of 2023. This increase was driven by increased interest bearing deposits of \$488.3 million, or 11.9%, from \$4.101 billion for the second quarter of 2023 to \$4.589 billion for the second quarter of 2024. Noninterest bearing demand deposits decreased \$219.5 million, or 15.1%, from \$1.450 billion for the second quarter of 2023 to \$1.231 billion for the second quarter of 2024 and average borrowings decreased \$109.3 million, or 58.7%, from \$186.4 million for the second quarter of 2023 to \$77.1 million for the second quarter of 2024.

The tax equivalent net interest margin contracted by 11 basis points, or 3.4%, to 3.17% for the second quarter of 2024, compared to 3.28% for the second quarter of 2023. The net interest margin contraction was primarily driven by an increase in interest expense as a percentage of average earning assets, which increased to 2.90% for the three months ended June 30, 2024, up from 2.37% for the comparable period of 2023, for an increase of 53 basis points, or 22.4%. This increase was attributable to an increase in the rate for total interest bearing liabilities of 56 basis points, or 16.7%, from 3.36% to 3.92% between the

respective periods. This increase was driven by increased costs associated with the Company's interest bearing deposits, as depositors sought higher interest rates on interest bearing deposit products while competition for deposits remains high throughout the industry. This increase was offset by reduced borrowings expense due to lower average borrowings. The increase in rate for interest bearing deposits was a result of an increase in average interest bearing deposits of \$488.3 million, or 11.9%, from \$4.101 billion to \$4.589 billion, and an increase in the average rate for interest bearing deposits of 60 basis points, from 3.29% to 3.89% for the three months ended June 30, 2024, as compared to the comparable period in the prior year. The Company anticipates the cost of funds may continue to remain elevated as a result of increased market competition, shifts from noninterest bearing deposits to interest bearing deposits, and elevated wholesale funding costs. Offsetting the increase to interest expense as a percentage of average earning assets was an increase to interest income as a percentage of average earning assets of 42 basis points, or 7.4%, to 6.07% for the three months ended June 30, 2024, up from 5.65% for the comparable period of 2023. This increase was attributable to an increase in loan yields, which was driven by an increase in average loans of \$237.1 million, or 4.9%, to \$5.035 billion from \$4.798 billion, and an increase in average yield of 42 basis points from 6.37% to 6.79% between the respective periods. Loan yields benefited from an increase in the target Federal Funds rate of 25 basis points between the two periods, increasing to a range of 5.25%-5.50%. The Company expects loan yields to improve as commercial fixed rate loans continue to mature and reprice at current interest rates.

Provision for Credit Losses

The Company recorded provision for credit losses expense of \$10.0 million for the six months ended June 30, 2024, compared to provision expense of \$5.2 million during the comparable period of 2023, an increase of \$4.9 million, or 94.2%. Net charge-offs were \$1.3 million during the six month period ended June 30, 2024, compared to \$5.7 million during the comparable period of 2023, a decrease of \$4.4 million, or 77.9%. The decrease in charge-offs between the respective periods was the result of a charge-off of \$5.5 million attributable to a single commercial borrower during the first quarter of 2023.

The Company recorded provision expense of \$8.5 million during the second quarter of 2024, compared to \$800,000 during the second quarter of 2023. Provision expense during the quarter was primarily driven by an increase in the specific reserve allocation from the downgrade of a single \$43.3 million commercial relationship, an industrial company in Northern Indiana, that was placed on nonperforming status during the second quarter of 2024. Net charge-offs were \$949,000 during the second quarter of 2024, compared to net recoveries of \$43,000 during the second quarter of 2023.

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

Noninterest Income

Noninterest income categories for the three and six months ended June 30, 2024 and 2023 are shown in the following tables:

(dollars in thousands)	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Wealth advisory fees	\$ 5,052	\$ 4,471	\$ 581	13.0 %
Investment brokerage fees	1,000	962	38	4.0
Service charges on deposit accounts	5,497	5,356	141	2.6
Loan and service fees	5,900	5,848	52	0.9
Merchant and interchange fee income	1,755	1,806	(51)	(2.8)
Bank owned life insurance income	1,926	1,384	542	39.2
Interest rate swap fee income	0	794	(794)	(100.0)
Mortgage banking income (loss)	75	(134)	209	(156.0)
Net securities gains (losses)	(46)	19	(65)	(342.1)
Net gain on Visa shares	9,011	0	9,011	100.0
Other income	2,881	1,309	1,572	120.1
Total noninterest income	\$ 33,051	\$ 21,815	\$ 11,236	51.5 %
Noninterest income to total revenue	25.67 %	17.90 %		

(dollars in thousands)	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Wealth advisory fees	\$ 2,597	\$ 2,271	\$ 326	14.4 %
Investment brokerage fees	478	428	50	11.7
Service charges on deposit accounts	2,806	2,726	80	2.9
Loan and service fees	3,048	3,002	46	1.5
Merchant card fee income	892	929	(37)	(4.0)
Bank owned life insurance income (loss)	890	693	197	28.4
Interest rate swap fee income	0	794	(794)	(100.0)
Mortgage banking income (loss)	23	(35)	58	(165.7)
Net securities gains (losses)	0	3	(3)	(100.0)
Net gain on Visa shares	9,011	0	9,011	100.0
Other income	694	690	4	0.6
Total noninterest income	\$ 20,439	\$ 11,501	\$ 8,938	77.7 %
Noninterest income to total revenue	29.74 %	19.16 %		

Noninterest income increased by \$11.2 million, or 51.5%, to \$33.1 million for the six months ended June 30, 2024, compared to \$21.8 million for the prior year six-month period. The increase in noninterest income was driven primarily by net gain on Visa shares of \$9.0 million. Additionally, other income increased \$1.6 million, or 120.1%, wealth advisory fees increased \$581,000, or 13.0%, bank owned life insurance income increased \$542,000, or 39.2%, and mortgage banking income increased \$209,000. Other income increased from the insurance recovery and bank owned life insurance benefit received during the first quarter of 2024. Wealth advisory fees increased from new volume growth in addition to favorable market performance. Bank owned life insurance income increased through an improvement in market valuation for the Company's variable bank owned life insurance policies, which are tied to the performance of the equity markets. Adjusted core noninterest income for the six months ended June 30, 2024, was \$23.0 million, an increase of \$1.2 million, or 5.6%, compared to \$21.8 million for the six months ended June 30, 2023.

The Company's noninterest income increased \$8.9 million, or 77.7%, to \$20.4 million for the second quarter of 2024, compared to \$11.5 million for the second quarter of 2023. The increase in noninterest income was driven primarily by the net gain on Visa shares of \$9.0 million. Wealth advisory fees increased \$326,000, or 14.4%, because of new volume growth in addition to favorable market performance. Bank owned life insurance income increased \$197,000, or 28.4%, primarily from improved market performance of the Company's variable bank owned life insurance policies. Offsetting these increases was a decrease in interest rate swap fee income of \$794,000 due to no new swap fee activity during the quarter. Adjusted core noninterest income was \$11.4 million for the second quarter of 2024, a decrease of \$73,000, or 0.6%, compared to \$11.5 million for the second quarter of 2023.

Noninterest Expense

Noninterest expense categories for the three and six months ended June 30, 2024 and 2023 are shown in the following tables:

(dollars in thousands)	Six Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Salaries and employee benefits	\$ 32,991	\$ 27,437	\$ 5,554	20.2 %
Net occupancy expense	3,438	3,253	185	5.7
Equipment costs	2,755	2,864	(109)	(3.8)
Data processing fees and supplies	7,651	6,926	725	10.5
Corporate and business development	2,646	2,729	(83)	(3.0)
FDIC insurance and other regulatory fees	1,605	1,598	7	0.4
Professional fees	4,586	4,170	416	10.0
Wire fraud loss	0	18,058	(18,058)	(100.0)
Other expense	8,366	5,133	3,233	63.0
Total noninterest expense	\$ 64,038	\$ 72,168	\$ (8,130)	(11.3)%
Efficiency ratio	49.73 %	59.22 %		

(dollars in thousands)	Three Months Ended June 30,			
	2024	2023	Dollar Change	Percent Change
Salaries and employee benefits	\$ 16,158	\$ 11,374	\$ 4,784	42.1 %
Net occupancy expense	1,698	1,681	17	1.0
Equipment costs	1,343	1,426	(83)	(5.8)
Data processing fees and supplies	3,812	3,474	338	9.7
Corporate and business development	1,265	1,298	(33)	(2.5)
FDIC insurance and other regulatory fees	816	803	13	1.6
Professional fees	2,123	2,049	74	3.6
Wire fraud loss	0	18,058	(18,058)	(100.0)
Other expense	6,118	2,571	3,547	138.0
Total noninterest expense	\$ 33,333	\$ 42,734	\$ (9,401)	(22.0)%
Efficiency ratio	48.49 %	71.19 %		

Noninterest expense decreased by \$8.1 million, or 11.3%, for the six months ended June 30, 2024 to \$64.0 million compared to \$72.2 million for the six months ended June 30, 2023. The primary driver behind the decrease was the \$18.1 million wire fraud loss recorded during the second quarter of 2023. Offsetting this decrease were increases to salaries and employee benefits expense of \$5.6 million, or 20.2%, other expense of \$3.2 million or 63.0%, data processing fees and supplies expense of \$725,000, or 10.5%, and professional fees of \$416,000, or 10.0%. The increase to data processing fees resulted from continued investment in customer-facing and operational technology solutions. Professional fees increased due to higher costs to implement technology solutions as well as higher legal and accounting costs. Adjusted core noninterest expense was \$59.5 million for the six months ended June 30, 2024, an increase of \$3.5 million, or 6.3%, from \$56.0 million recorded during the comparable period of 2023.

Noninterest expense decreased \$9.4 million, or 22.0%, to \$33.3 million for the second quarter of 2024, compared to \$42.7 million during the second quarter of 2023. Noninterest expense for the second quarter of 2023 included an \$18.1 million wire fraud loss. During the second quarter 2024 salaries and benefits expense increased \$4.8 million, or 42.1%, other expense increased \$3.5 million, or 138.0%, and data processing fees and supplies expense increased \$338,000, or 9.7%, compared to the second quarter of 2023. Salaries and employee benefits expense increased due to higher performance-based incentive compensation of \$2.9 million, salaries and wages increases of \$1.5 million and increased health insurance expense of \$500,000. During the second quarter of 2023 performance-based incentive accruals were reversed by \$1.9 million due to the wire fraud loss. Other expense increased primarily due to a \$4.5 million litigation accrual. Data processing fees increased due to investments in software, digital banking, and core data processing technologies. Adjusted core noninterest expense was \$28.8 million for the three months ended June 30, 2024, an increase of \$2.3 million, or 8.6%, from \$26.5 million for the three months ended June 30, 2023.

The Company's income tax expense increased \$3.1 million, or 55.3%, to \$8.8 million in the six months ended June 30, 2024, compared to \$5.7 million for the same period in 2023. The effective tax rate was 16.0% in the six months ended June 30, 2024, compared to 12.7% for the comparable period of 2023. The year-to-date effective tax rate was increased due to adoption of ASU 2023-02, to account for the Company's investment in low-income housing tax credit structures, as well as a reduction in the tax benefit recognized from stock-based compensation vesting of shares for plan participants.

FINANCIAL CONDITION

Overview

Total assets were \$6.569 billion as of June 30, 2024 versus \$6.524 billion as of December 31, 2023, an increase of \$44.8 million, or less than 1%. Total loans, net of the allowance for credit losses, increased \$127.1 million, or 2.6%, between December 31, 2023 and June 30, 2024. Offsetting the increase to loans, net of the allowance for credit losses, was a decrease in available-for-sale securities of \$58.7 million, or 5.6%. Total deposits increased \$43.0 million, or less than 1%, between December 31, 2023 and June 30, 2024. The increase in total deposits was driven by an increase in interest bearing deposits of \$183.5 million, or 4.2%, and was offset by a decrease in noninterest bearing deposits of \$140.5 million, or 10.4%. Total equity increased \$4.8 million, or less than 1%, from \$649.8 million at December 31, 2023 to \$654.6 million at June 30, 2024. Retained earnings increased \$20.8 million, or 3.0%, as a result of net income of \$46.0 million but was reduced by dividends declared and paid of \$24.6 million. Accumulated other comprehensive income (loss), decreased \$15.3 million, or 9.8%, due primarily to a decline in available-for-sale securities fair market values during the six months ended June 30, 2024.

Uses of Funds

Total Cash and Cash Equivalents

Total cash and cash equivalents decreased by \$30.6 million, or 20.2%, to \$121.2 million at June 30, 2024, from \$151.8 million at December 31, 2023. Cash and cash equivalents include short-term investments. The fluctuation in cash and cash equivalents at June 30, 2024 was driven by a decrease in cash and due from banks of \$9.6 million, or 13.6%, and a decrease in interest bearing short-term investment accounts of \$21.1 million, or 25.9%.

Investment Portfolio

The amortized cost and the fair value of securities as of June 30, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	June 30, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-Sale				
U.S government sponsored agencies	\$ 142,183	\$ 113,697	\$ 146,692	\$ 119,479
Mortgage-backed securities: residential	498,259	419,230	522,275	447,842
State and municipal securities	547,540	460,130	557,352	484,407
Total available-for-sale	\$ 1,187,982	\$ 993,057	\$ 1,226,319	\$ 1,051,728
Held-to-Maturity				
State and municipal securities	\$ 130,746	\$ 113,997	\$ 129,918	\$ 119,215
Total Investment Portfolio	\$ 1,318,728	\$ 1,107,054	\$ 1,356,237	\$ 1,170,943

At June 30, 2024 and December 31, 2023, 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.

There were no purchases of available-for-sale securities in the first six months of 2024. Investment securities represented 17.1% of total assets on June 30, 2024, compared to 18.1% of total assets on December 31, 2023. The ratio of investment securities as a percentage of total assets remains elevated over historical levels of approximately 12% to 14%. The Company expects the investment securities portfolio as a percentage of assets to continue to decrease over time as the proceeds from pay downs, sales and maturities are used to fund loan portfolio growth and for general liquidity purposes. Tax equivalent adjusted effective duration for the investment securities portfolio was 6.5 years at June 30, 2024 and 6.5 years at December 31, 2023. Effective duration of the portfolio remains elevated as compared to 4.0 at December 31, 2019, prior to the deployment of excess liquidity to the investment portfolio and the rise in interest rates from the recent tightening cycle by the Federal Reserve. Paydowns from prepayments and scheduled payments of \$28.9 million were received in the first six months of 2024, and the amortization of premiums, net of the accretion of discounts, was \$2.4 million. Sales of available-for-sale investment securities totaled \$7.1 million in the first six months of 2024 and resulted in net losses of \$46,000. No allowance for credit losses was recognized for available-for-sale or held-to-maturity securities as of June 30, 2024 and December 31, 2023. The Company anticipates receiving principal and interest cash flows of approximately \$52.4 million throughout the remainder of 2024 from its investment securities portfolio.

The fair value of the available-for-sale investment securities portfolio as of June 30, 2024 included net unrealized losses of \$194.9 million, compared to net unrealized losses of \$174.6 million as of December 31, 2023. Unrealized losses in the available-for-sale investment securities portfolio resulted from the declines in market values of the investment securities. These declines were driven by the rising interest rate environment as a result of the Federal Reserve's recent cycle of monetary policy tightening during 2022 and 2023.

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 \$759,000, or 65.5%, to \$399,000 at June 30, 2024, from \$1.2 million at December 31, 2023. The balance of this asset category is subject to a high degree of variability depending on, among other factors, 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 \$9.1 million in the first six months of 2024, compared to \$3.4 million in the first six months of 2023. Management expects the volume of loans originated for sale in the secondary market to remain at reduced levels due to elevated mortgage rates, limited inventory, and existing homeowners being locked in at historically low rates. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were \$322.9 million and \$333.1 million, as of June 30, 2024 and December 31, 2023, respectively.

Loan Portfolio

The loan portfolio by portfolio segment as of June 30, 2024 and December 31, 2023 is summarized as follows:

(dollars in thousands)	June 30, 2024		December 31, 2023		Current Period Change
Commercial and industrial loans	\$ 1,526,277	30.2 %	\$ 1,420,764	28.9 %	\$ 105,513
Commercial real estate and multi-family residential loans	2,503,380	49.5	2,437,534	49.5	65,846
Agri-business and agricultural loans	361,064	7.2	388,764	7.9	(27,700)
Other commercial loans	96,703	1.9	120,726	2.5	(24,023)
Consumer 1-4 family mortgage loans	469,907	9.3	456,187	9.3	13,720
Other consumer loans	97,895	1.9	96,022	1.9	1,873
Subtotal, gross loans	5,055,226	100.0 %	4,919,997	100.0 %	135,229
Less: Allowance for credit losses	(80,711)		(71,972)		(8,739)
Net deferred loan fees	(2,885)		(3,463)		578
Loans, net	<u>\$ 4,971,630</u>		<u>\$ 4,844,562</u>		<u>\$ 127,068</u>

Total loans, excluding real estate mortgage loans held-for-sale and deferred fees, increased by \$135.2 million, or 2.7%, to \$5.055 billion at June 30, 2024 from \$4.920 billion at December 31, 2023. The increase was primarily driven by originations of loans concentrated in the commercial and industrial and commercial real estate and multi-family residential loans categories and was offset by paydowns in the agri-business and agricultural loans segment which traditionally experiences seasonal fluctuations in activity.

The following table summarizes the Company's non-performing assets as of June 30, 2024 and December 31, 2023:

(dollars in thousands)	June 30, 2024	December 31, 2023
Nonaccrual loans	\$ 57,124	\$ 15,687
Loans past due over 90 days and still accruing	26	27
Total nonperforming loans	57,150	15,714
Other real estate owned	384	384
Repossessions	90	8
Total nonperforming assets	<u>\$ 57,624</u>	<u>\$ 16,106</u>
Individually analyzed loans	\$ 78,533	\$ 16,124
Nonperforming loans to total loans	1.13 %	0.32 %
Nonperforming assets to total assets	0.88 %	0.25 %

Total nonperforming assets increased by \$41.5 million, or 257.8%, to \$57.6 million during the six month period ended June 30, 2024. The ratio of nonperforming assets to total assets increased 63 basis point from 0.25% at December 31, 2023 to 0.88% at June 30, 2024. The increase in nonperforming assets was primarily driven by the downgrade of a single \$43.3 million

commercial relationship, an industrial company in Northern Indiana, that was moved to nonperforming status during the second quarter of 2024.

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 increased by \$62.4 million, or 387.1%, to \$78.5 million at June 30, 2024 from \$16.1 million at December 31, 2023. The increase to individually analyzed loans was primarily related to the downgrade of two commercial relationships.

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 June 30, 2024, the allowance for credit losses was 1.60% of total loans, an increase of 14 basis points from 1.46% at December 31, 2023. At June 30, 2024, management believed the allowance for credit losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions deteriorate, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the allowance for credit losses. The process of identifying credit losses is a subjective process.

The Company has a relatively high percentage of commercial and commercial real estate loans, which are extended to businesses with a broad range of revenue and within a wide variety of industries. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by utilizing relatively conservative credit structures, by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and market area. The Company has limited exposure to commercial office space borrowers, all of which are located in the Bank's Indiana markets. Loans totaling \$101.2 million for this sector represented 2.0% of total loans at June 30, 2024. Additionally, commercial real estate loans secured by multi-family residential properties and secured by non-farm non-residential properties were approximately 205% of the Bank's risk-based capital at June 30, 2024.

As of June 30, 2024, based on management's review of the loan portfolio, the Company had 85 credit relationships totaling \$268.3 million on the classified loan list versus 68 credit relationships totaling \$183.1 million as of December 31, 2023. As of June 30, 2024, the Company had \$182.6 million of assets classified as Special Mention, \$85.7 million classified as Substandard, \$0 classified as Doubtful and \$0 classified as Loss as compared to \$143.6 million, \$39.4 million, \$0 and \$0, respectively, at December 31, 2023. Watch list loans as a percentage of total loans increased to 5.31% as of June 30, 2024 from 3.72% as of December 31, 2023. The increase to the classified loan listing was primarily a result of downgraded credits added to the watch list during the first six months of 2024, offset by upgrades of loans.

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 increased \$8.7 million, or 12.1%, from \$72.0 million at December 31, 2023 to \$80.7 million at June 30, 2024. The increase was a result of provision expense of \$10.0 million which was offset by net charge-offs of \$1.3 million. Provision expense recorded during the six months ended June 30, 2024 was attributable to an increase in the specific reserve allocation from the downgrade of a single \$43.3 million commercial relationship, an industrial company in Northern Indiana, that was placed on nonperforming status during the second quarter of 2024. As the bulk of the Company's lending activity is concentrated in the commercial loan portfolio, which can result in overall asset quality being influenced by a small number of credits, management has historically considered growth and portfolio composition when determining credit loss allocations.

Sources of Funds

The Company's sources of funds include a diversified deposit base gathered throughout the Company's footprint and includes a stable mix of commercial, retail and public funds deposit accounts. While the traditional base of core deposits represents the primary source of funding for the Company, the Company has access to a robust array of other liquidity sources, including secured borrowings available from the Federal Home Loan Bank and the Federal Reserve Bank Discount Window. In addition, the Company has access to unsecured borrowing capacity through long established relationships within the brokered deposit markets, Federal Funds lines from correspondent bank partners and Insured Cash Sweep (ICS) one-way buy funds available from the Intrafi network. As of June 30, 2024, the Company had access to \$3.31 billion in unused liquidity available from these aggregate sources as compared to \$3.41 billion at December 31, 2023.

The average daily deposits and borrowings together with average rates paid on those deposits and borrowings for the six months ended June 30, 2024 and 2023 are summarized in the following table:

(dollars in thousands)	Six months ended June 30,			
	2024		2023	
	Balance	Rate	Balance	Rate
Noninterest bearing demand deposits	\$ 1,252,503	0.00 %	\$ 1,555,877	0.00 %
Savings and transaction accounts:				
Savings deposits	292,378	0.07	376,281	0.07
Interest bearing demand deposits	3,161,230	4.05	2,844,181	3.45
Time deposits:				
Deposits of \$100,000 or more	798,442	4.52	553,472	2.91
Other time deposits	220,643	3.45	189,734	1.90
Total deposits	\$ 5,725,196	3.00 %	\$ 5,519,545	2.14 %
FHLB advances and other borrowings	126,443	5.62	213,990	4.83
Total funding sources	\$ 5,851,639	3.06 %	\$ 5,733,535	2.24 %

Average total deposits were \$5.725 billion for the six months ended June 30, 2024, an increase of \$205.7 million, or 3.7%, from the comparable period in 2023. Average total borrowings were \$126.4 million for the six months ended June 30, 2024, a decrease of \$87.5 million, or 40.9%, from the comparable period in 2023. Total average deposit costs increased 86 basis points from 2.14% for the six months ended June 30, 2023, to 3.00% for the six months ended June 30, 2024. Total average borrowing costs increased 79 basis points from 4.83% for the six months ended June 30, 2023 to 5.62% for the six months ended June 30, 2024. As a result, total funding costs increased by 82 basis points from 2.24% for the six months ended June 30, 2023, to 3.06% for the six months ended June 30, 2024. This increase was driven by an increase in rates on interest bearing deposits and deposit migration from noninterest bearing deposits to interest bearing deposits.

Deposits and Borrowings

As of June 30, 2024, total deposits increased by \$43.0 million, or less than 1%, from December 31, 2023. Core deposits, which excludes brokered deposits, increased by \$17.4 million, or less than 1%, to \$5.602 billion as of June 30, 2024 from \$5.585 billion as of December 31, 2023. Total brokered deposits were \$161.0 million at June 30, 2024, compared to \$135.4 million at December 31, 2023, an increase of \$25.6 million, or 18.9%.

The following table summarizes deposit composition at June 30, 2024 and December 31, 2023:

(dollars in thousands)	June 30, 2024	Percentage of Total	December 31, 2023	Percentage of Total	Current Period Change
Retail	\$ 1,724,777	29.9 %	\$ 1,794,958	31.4 %	\$ (70,181)
Commercial	2,150,127	37.3	2,227,147	38.9	(77,020)
Public funds	1,727,593	30.0	1,563,015	27.3	164,578
Core deposits	\$ 5,602,497	97.2 %	\$ 5,585,120	97.6 %	\$ 17,377
Brokered deposits	161,040	2.8	135,405	2.4	25,635
Total deposits	<u>\$ 5,763,537</u>	<u>100.0 %</u>	<u>\$ 5,720,525</u>	<u>100.0 %</u>	<u>\$ 43,012</u>

Core deposits, which excludes brokered deposits, expanded \$17.4 million, or less than 1%, during the first six months of 2024. Utilization of brokered deposits as a wholesale funding alternative has returned to pre-pandemic levels. On June 30, 2024, commercial deposits represented 37.3% of total deposits versus 38.9% at December 31, 2023. Retail deposits represented 29.9% at June 30, 2024 versus 31.4% at December 31, 2023. Public Funds deposits represented 30.0% at June 30, 2024 versus 27.3% at December 31, 2023. Brokered deposits represented 2.8% of total deposits at June 30, 2024 versus 2.4% at December 31, 2023. Commercial deposits contracted \$77.0 million, or 3.5%, from \$2.23 billion at December 31, 2023 to \$2.15 billion at June 30, 2024; retail deposits contracted \$70.2 million, or 3.9%, from \$1.79 billion at December 31, 2023 to \$1.72 billion at June 30, 2024; and public funds deposits expanded \$164.6 million, or 10.5%, from \$1.56 billion at December 31, 2023 to \$1.73 billion at June 30, 2024.

Deposits not covered by FDIC deposit insurance were 58% as of June 30, 2024, versus 57% at December 31, 2023. Deposits not covered by FDIC deposit insurance or the Indiana Public Deposit Insurance Fund (which insures public fund deposits in Indiana), were 29% of total deposits as of June 30, 2024, versus 31% as of December 31, 2023. As of June 30, 2024 and December 31, 2023, 98% of deposit accounts had deposit balances less than \$250,000.

Capital

As of June 30, 2024, total stockholders' equity was \$654.6 million, an increase of \$4.8 million, or less than 1%, from \$649.8 million at December 31, 2023. The increase to total stockholders' equity was driven by net income of \$46.0 million and was reduced by dividends declared and paid of \$24.6 million and a decrease of \$15.3 million in accumulated other comprehensive income (loss).

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 June 30, 2024, the Company's capital levels remained characterized as "well-capitalized".

The actual capital amounts and ratios of the Company and the Bank as of June 30, 2024 and December 31, 2023, are presented in the table below. Capital ratios for June 30, 2024 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 June 30, 2024:								
Total Capital (to Risk Weighted Assets)								
Consolidated	\$ 891,912	15.53 %	\$ 459,531	8.00 %	\$ 603,135	N/A	N/A	N/A
Bank	\$ 887,497	15.46 %	\$ 459,279	8.00 %	\$ 602,803	10.50 %	\$ 574,099	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	\$ 819,990	14.28 %	\$ 344,649	6.00 %	\$ 488,252	N/A	N/A	N/A
Bank	\$ 815,536	14.21 %	\$ 344,459	6.00 %	\$ 487,984	8.50 %	\$ 459,279	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	\$ 819,990	14.28 %	\$ 258,486	4.50 %	\$ 402,090	N/A	N/A	N/A
Bank	\$ 815,536	14.21 %	\$ 258,344	4.50 %	\$ 401,869	7.00 %	\$ 373,164	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	\$ 819,990	11.98 %	\$ 273,877	4.00 %	\$ 273,877	N/A	N/A	N/A
Bank	\$ 815,536	11.92 %	\$ 273,686	4.00 %	\$ 273,686	4.00 %	\$ 342,108	5.00 %
As of December 31, 2023:								
Total Capital (to Risk Weighted Assets)								
Consolidated	\$ 870,390	15.47 %	\$ 450,211	8.00 %	\$ 590,901	N/A	N/A	N/A
Bank	\$ 852,405	15.16 %	\$ 449,894	8.00 %	\$ 590,486	10.50 %	\$ 562,367	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	\$ 799,929	14.21 %	\$ 337,658	6.00 %	\$ 478,349	N/A	N/A	N/A
Bank	\$ 781,999	13.91 %	\$ 337,420	6.00 %	\$ 478,012	8.50 %	\$ 449,894	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	\$ 799,929	14.21 %	\$ 253,243	4.50 %	\$ 393,934	N/A	N/A	N/A
Bank	\$ 781,999	13.91 %	\$ 253,065	4.50 %	\$ 393,657	7.00 %	\$ 365,539	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	\$ 799,929	11.82 %	\$ 270,636	4.00 %	\$ 270,636	N/A	N/A	N/A
Bank	\$ 781,999	11.58 %	\$ 270,041	4.00 %	\$ 270,041	4.00 %	\$ 337,551	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, particularly in our Indiana market area, including prevailing interest rates and the rate of inflation;
- governmental monetary and fiscal policies;
- 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 performance of our commercial real estate loan portfolio, including the effects of the elevated interest rate environment, the strength of the commercial real estate market in our Indiana markets, and recent changes in retail and office usage patterns;
- the effects of disruption and volatility in capital markets on the value of our investment portfolio;
- 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;
- the timing and scope of any legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events, including storms, droughts, tornados and flooding, that may affect general economic conditions, including agricultural production and demand and prices for agricultural goods and land used for agricultural purposes, generally and in our markets;
- the impact of litigation and other claims we may be subject to from time to time;
- changes in the scope and cost of FDIC insurance, the state of Indiana’s Public Deposit Insurance Fund and other coverages;
- changes in the prices, values and sales volumes of residential real estate;
- the impact of labor shortages, and changes in trade policy and tariffs;
- the effects of fraud by or affecting employees, customers or third parties;
- changes in the availability and cost of credit and capital in the financial markets;
- changes in technology or products that may be more difficult or costly, or less effective than anticipated;
- the risks related to 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; 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, 2023, 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 a 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 2024. 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 June 30, 2024. 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	\$ 210,872	\$ 206,168	\$ 208,083	\$ 209,808	\$ 210,458	\$ 210,707	\$ 210,969	\$ 211,009	\$ 211,033	\$ 211,048	\$ 211,061
Variance from Base		\$ (4,704)	\$ (2,789)	\$ (1,064)	\$ (414)	\$ (165)	\$ 97	\$ 137	\$ 161	\$ 176	\$ 189
Percent of change from Base		(2.23)%	(1.32)%	(0.50)%	(0.20)%	(0.08)%	0.05%	0.06%	0.08%	0.08%	0.09%

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 June 30, 2024. 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 June 30, 2024, 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 INFORMATIONItem 1. Legal Proceedings

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

Item 1A. Risk Factors

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, 2023. 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**PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PARTIES**

On April 11, 2023, the Company's board of directors reauthorized and extended a share repurchase program through April 30, 2025, under which the Company is authorized to repurchase, from time to time as the Company deems appropriate, shares of the Company's common stock with an aggregate purchase price of up to \$30 million. Repurchases may be made in the open market, through block trades or otherwise, and in privately negotiated transactions. The repurchase program does not obligate the Company to repurchase any dollar amount or number of shares, and the program may be extended, modified, suspended or discontinued at any time. There were no repurchases under this plan during the three months ended June 30, 2024.

The following table provides information as of June 30, 2024 with respect to shares of common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b)
April 1 - 30	0	\$ 0.00	0	\$ 30,000,000
May 1 - 31	1,348	61.87	0	30,000,000
June 1 - 30	0	0.00	0	30,000,000
Total	1,348	\$ 61.87	0	\$ 30,000,000

- (a) The shares purchased during May were credited to the deferred share accounts of non-employee directors under the Company's directors' deferred compensation plan. These shares are held in treasury stock of the Company and were purchased in the ordinary course of business and consistent with past practice.
- (b) Following the renewal and extension of the Company's share repurchase program on April 11, 2023, the maximum dollar value of shares that may be repurchased under the program is \$30 million. The share repurchase program terminates April 30, 2025.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

During the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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 June 30, 2024 and December 31, 2023; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2024 and June 30, 2023; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2024 and June 30, 2023; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2024 and June 30, 2023; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2024 and June 30, 2023; 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: August 7, 2024

/s/ David M. Findlay

David M. Findlay – Chairman and Chief Executive Officer

Date: August 7, 2024

/s/ Lisa M. O’Neill

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

Date: August 7, 2024

/s/ Brok A. Lahrman

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

I, David M. Findlay, Chairman and 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: August 7, 2024

/s/ David M. Findlay
David M. Findlay
Chairman and 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: August 7, 2024

/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 June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David M. Findlay, Chairman and 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
Chairman and Chief Executive Officer
August 7, 2024

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 June 30, 2024 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
August 7, 2024

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.