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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from ____________ to _____________

Commission File Number: 0-11487

LAKELAND FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	**35-1559596**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
202 East Center Street, Warsaw , Indiana	**46580**
(Address of principal executive offices)	(Zip Code)

(574) 267-6144
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

Number of shares of common stock outstanding at October 26, 2023: 25,431,724

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

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and due from banks	$ 67,512	$ 80,992
Short-term investments	78,768	49,290
Total cash and cash equivalents	146,280	130,282
Securities available-for-sale, at fair value	975,532	1,185,528
Securities held-to-maturity, at amortized cost (fair value of $102,629 and $111,029, respectively)	129,494	128,242
Real estate mortgage loans held-for-sale	572	357
Loans, net of allowance for credit losses of $72,105 and $72,606	4,798,860	4,637,790
Land, premises and equipment, net	58,512	58,097
Bank owned life insurance	108,758	108,407
Federal Reserve and Federal Home Loan Bank stock	21,420	15,795
Accrued interest receivable	28,994	27,994
Goodwill	4,970	4,970
Other assets	153,452	134,909
Total assets	$ 6,426,844	$ 6,432,371
LIABILITIES		
Noninterest bearing deposits	$ 1,377,650	$ 1,736,761
Interest bearing deposits	4,279,425	3,723,859
Total deposits	5,657,075	5,460,620
Federal Funds purchased	0	22,000
Federal Home Loan Bank advances	90,000	275,000
Total borrowings	90,000	297,000
Accrued interest payable	16,178	3,186
Other liabilities	106,407	102,678
Total liabilities	5,869,660	5,863,484
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value		
25,903,264 shares issued and 25,431,724 outstanding as of September 30, 2023		
25,825,127 shares issued and 25,349,225 outstanding as of December 31, 2022	125,758	127,004
Retained earnings	674,917	646,100
Accumulated other comprehensive income (loss)	(228,111)	(188,923)
Treasury stock at cost (471,540 shares as of September 30, 2023, 475,902 shares as of December 31, 2022)	(15,469)	(15,383)
Total stockholders' equity	557,095	568,798
Noncontrolling interest	89	89
Total equity	557,184	568,887
Total liabilities and equity	$ 6,426,844	$ 6,432,371

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	**$ 78,910**	$ 52,707	**$ 223,499**	$ 136,580
Tax exempt	**1,008**	462	**2,869**	911
Interest and dividends on securities				
Taxable	**3,077**	3,608	**9,966**	10,613
Tax exempt	**4,023**	5,009	**12,387**	14,609
Other interest income	**1,605**	772	**3,604**	1,501
Total interest income	**88,623**	62,558	**252,325**	164,214
Interest on deposits	**37,108**	10,066	**95,637**	18,037
Interest on borrowings				
Short-term	**3,122**	0	**8,252**	0
Long-term	**0**	0	**0**	127
Total interest expense	**40,230**	10,066	**103,889**	18,164
NET INTEREST INCOME	**48,393**	52,492	**148,436**	146,050
Provision for credit losses	**400**	0	**5,550**	417
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**47,993**	52,492	**142,886**	145,633
NONINTEREST INCOME				
Wealth advisory fees	**2,298**	2,059	**6,769**	6,550
Investment brokerage fees	**408**	651	**1,370**	1,711
Service charges on deposit accounts	**2,735**	2,990	**8,091**	8,681
Loan and service fees	**2,934**	3,047	**8,782**	9,131
Merchant card fee income	**938**	941	**2,744**	2,660
Bank owned life insurance income (loss)	**1,009**	54	**2,393**	(212)
Interest rate swap fee income	**0**	88	**794**	492
Mortgage banking income (loss)	**(50)**	(89)	**(184)**	771
Net securities gains (losses)	**(35)**	0	**(16)**	0
Other income	**598**	423	**1,907**	1,559
Total noninterest income	**10,835**	10,164	**32,650**	31,343
NONINTEREST EXPENSE				
Salaries and employee benefits	**15,977**	14,650	**43,414**	43,840
Net occupancy expense	**1,621**	1,476	**4,874**	4,793
Equipment costs	**1,325**	1,380	**4,189**	4,250
Data processing fees and supplies	**3,379**	3,226	**10,305**	9,510
Corporate and business development	**1,201**	1,426	**3,930**	4,078
FDIC insurance and other regulatory fees	**871**	458	**2,469**	1,516
Professional fees	**2,114**	1,554	**6,284**	4,527
Wire fraud loss	**0**	0	**18,058**	0
Other expense	**2,609**	3,724	**7,742**	10,262
Total noninterest expense	**29,097**	27,894	**101,265**	82,776
INCOME BEFORE INCOME TAX EXPENSE	**29,731**	34,762	**74,271**	94,200
Income tax expense	**4,479**	6,237	**10,130**	16,360
NET INCOME	**$ 25,252**	$ 28,525	**$ 64,141**	$ 77,840
BASIC WEIGHTED AVERAGE COMMON SHARES	**25,613,456**	25,533,832	**25,601,493**	25,525,734
BASIC EARNINGS PER COMMON SHARE	**$ 0.99**	$ 1.12	**$ 2.51**	$ 3.05
DILUTED WEIGHTED AVERAGE COMMON SHARES	**25,693,535**	25,734,613	**25,709,841**	25,710,088
DILUTED EARNINGS PER COMMON SHARE	**$ 0.98**	$ 1.11	**$ 2.49**	$ 3.03

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Net income	**$ 25,252**	$ 28,525	**$ 64,141**	$ 77,840
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	**(64,432)**	(80,532)	**(51,150)**	(302,137)
Reclassification adjust for amortization of unrealized losses on securities transferred to held-to-maturity	**501**	504	**1,486**	995
Reclassification adjustment for losses included in net income	**35**	0	**16**	0
Net securities gain (loss) activity during the period	**(63,896)**	(80,028)	**(49,648)**	(301,142)
Tax effect	**13,419**	16,806	**10,427**	63,239
Net of tax amount	**(50,477)**	(63,222)	**(39,221)**	(237,903)
Defined benefit pension plans:				
Amortization of net actuarial loss	**15**	36	**45**	108
Net gain activity during the period	**15**	36	**45**	108
Tax effect	**(4)**	(9)	**(12)**	(27)
Net of tax amount	**11**	27	**33**	81
Total other comprehensive income (loss), net of tax	**(50,466)**	(63,195)	**(39,188)**	(237,822)
Comprehensive income (loss)	**$ (25,214)**	$ (34,670)	**$ 24,953**	$ (159,982)

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

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

	Three Months Ended							
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders’ Equity	Noncontrolling Interest	Total Equity
	Shares	Stock						
Balance at July 1, 2022	25,345,162	$ 123,571	$ 612,026	$ (158,534)	$ (15,089)	$ 561,974	$ 89	$ 562,063
Comprehensive loss:								
Net income			28,525			28,525		28,525
Other comprehensive income (loss), net of tax				(63,195)		(63,195)		(63,195)
Cash dividends declared and paid, $0.40 per share			(10,214)			(10,214)		(10,214)
Treasury shares purchased under deferred directors' plan	(3,158)	220			(220)	0		0
Treasury shares sold and distributed under deferred directors' plan						0		0
Stock activity under equity compensation plans	8,130	(52)				(52)		(52)
Stock based compensation expense		2,093				2,093		2,093
Balance at September 30, 2022	25,350,134	$ 125,832	$ 630,337	$ (221,729)	$ (15,309)	$ 519,131	$ 89	$ 519,220
Balance at July 1, 2023	**25,429,216**	**$ 123,367**	**$ 661,447**	**$ (177,645)**	**$ (15,263)**	**$ 591,906**	**$ 89**	**$ 591,995**
Comprehensive loss:								
Net income			**25,252**			**25,252**		**25,252**
Other comprehensive income (loss), net of tax				**(50,466)**		**(50,466)**		**(50,466)**
Cash dividends declared and paid, $0.46 per share			**(11,782)**			**(11,782)**		**(11,782)**
Treasury shares purchased under deferred directors' plan	**(3,992)**	**206**			**(206)**	**0**		**0**
Treasury shares sold and distributed under deferred directors' plan						**0**		**0**
Stock activity under equity compensation plans	**6,500**					**0**		**0**
Stock based compensation expense		**2,185**				**2,185**		**2,185**
Balance at September 30, 2023	**25,431,724**	**$ 125,758**	**$ 674,917**	**$ (228,111)**	**$ (15,469)**	**$ 557,095**	**$ 89**	**$ 557,184**

	Nine Months Ended							
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Stock						
Balance at January 1, 2022	25,300,793	$ 120,615	$ 583,134	$ 16,093	$ (15,025)	$ 704,817	$ 89	$ 704,906
Comprehensive loss:								
Net income			77,840			77,840		77,840
Other comprehensive income (loss), net of tax				(237,822)		(237,822)		(237,822)
Cash dividends declared and paid, $1.20 per share			(30,637)			(30,637)		(30,637)
Treasury shares purchased under deferred directors' plan	(6,732)	505			(505)	0		0
Treasury shares sold and distributed under deferred directors' plan	8,555	(221)			221	0		0
Stock activity under equity compensation plans	47,518	(1,780)				(1,780)		(1,780)
Stock based compensation expense		6,713				6,713		6,713
Balance at September 30, 2022	25,350,134	$ 125,832	$ 630,337	$ (221,729)	$ (15,309)	$ 519,131	$ 89	$ 519,220
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			**64,141**			**64,141**		**64,141**
Other comprehensive income (loss), net of tax				**(39,188)**		**(39,188)**		**(39,188)**
Cash dividends declared and paid, $1.38 per share			**(35,324)**			**(35,324)**		**(35,324)**
Treasury shares purchased under deferred directors' plan	**(8,493)**	**491**			**(491)**	**0**		**0**
Treasury shares sold and distributed under deferred directors' plan	**12,855**	**(405)**			**405**	**0**		**0**
Stock activity under equity compensation plans	**78,137**	**(3,124)**				**(3,124)**		**(3,124)**
Stock based compensation expense		**1,792**				**1,792**		**1,792**
Balance at September 30, 2023	**25,431,724**	**$ 125,758**	**$ 674,917**	**$ (228,111)**	**$ (15,469)**	**$ 557,095**	**$ 89**	**$ 557,184**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Nine Months Ended September 30,	2023	2022
Cash flows from operating activities:		
Net income	$ 64,141	$ 77,840
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	4,579	4,494
Provision for credit losses	5,550	417
Amortization of loan servicing rights	431	583
Net change in loan servicing rights valuation allowance	0	(708)
Loans originated for sale, including participations	(6,120)	(27,273)
Net gain on sales of loans	(224)	(958)
Proceeds from sale of loans, including participations	6,075	34,299
Net (gain) loss on sales of premises and equipment	3	3
Net loss on sales and calls of securities available-for-sale	16	0
Net securities amortization	3,732	4,817
Stock based compensation expense	1,792	6,713
Losses (earnings) on life insurance	(2,393)	212
Tax benefit of stock award issuances	(720)	(514)
Net change:		
Interest receivable and other assets	(3,386)	(2,782)
Interest payable and other liabilities	14,000	37,707
Total adjustments	23,335	57,010
Net cash from operating activities	87,476	134,850
Cash flows from investing activities:		
Proceeds from sale of securities available-for-sale	102,827	0
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	56,830	86,001
Proceeds from maturities, calls and principal paydowns of securities held-to-maturity	6	5
Purchases of securities available-for-sale	(4,314)	(313,905)
Purchase of life insurance	(222)	(727)
Net (increase) decrease in total loans	(166,904)	(202,945)
Proceeds from sales of land, premises and equipment	13	4
Purchases of land, premises and equipment	(5,010)	(3,678)
Purchase of Federal Home Loan Bank stock	(5,625)	0
Proceeds from redemption of Federal Home Loan Bank stock	0	932
Net cash from investing activities	(22,399)	(434,313)
Cash flows from financing activities:		
Net increase (decrease) in total deposits	196,455	(71,274)
Net increase (decrease) in short-term borrowings	(22,000)	0
Payments on long-term FHLB borrowings	0	(75,000)
Net payments on short-term FHLB borrowings	(185,000)	0
Common dividends paid	(35,311)	(30,624)
Preferred dividends paid	(13)	(13)
Payments related to equity incentive plans	(3,124)	(1,780)
Purchase of treasury stock	(491)	(505)
Sale of treasury stock	405	221
Net cash from financing activities	(49,079)	(178,975)
Net change in cash and cash equivalents	15,998	(478,438)
Cash and cash equivalents at beginning of the period	130,282	683,240
Cash and cash equivalents at end of the period	146,280	204,802
Cash paid during the period for:		
Interest	$ 90,897	18,583
Income taxes	9,275	13,780
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	284	0
Right-of-use assets obtained in exchange for lease liabilities	0	1,612

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

NOTE 1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2023. The Company's 2022 Annual Report on Form 10-K should be read in conjunction with these statements.

Adoption of New Accounting Standards

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

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

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

The Company discontinued the use of new LIBOR-based loans by December 31, 2021, according to regulatory guidelines. The Company transitioned LIBOR-based loans to an alternative reference rate before June 30, 2023. On December 22, 2022, the FASB issued ASU 2022-06, "*Reference Rate Reform (ASC 848): Deferral of the Sunset Date of Topic 848*",

which definitively provided a sunset date of December 31, 2024 for the relief guidance allowed under Topic 848. The ASU was effective immediately upon issuance. The Company adopted the LIBOR transition relief allowed under this standard, and it did not have a material impact on the consolidated financial statements.

Newly Issued But Not Yet Effective 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. The projected benefits are determined on a discounted basis, using a discount rate that is consistent with the cash flow assumptions used by the tax equity investor in making its decision to invest in the project; (4) The tax equity investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive; and (5) The tax equity investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the tax equity investor's liability is limited to its capital investment. An accounting policy election is allowed to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. The amendments in this update require specific disclosures that must be applied to all investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method. The amendments require that a reporting entity disclose certain information in annual and interim reporting periods that enable investors to understanding the following information about its investments that generate income tax credits and other income tax benefits from a tax credit program including: (1) The nature of its tax equity investments; and (2) The effect of its tax equity investments and related income tax credits and other income tax benefits on its financial position and results of operations.

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

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.

Reclassification

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

NOTE 2. SECURITIES

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

Available-for-Sale Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2023					
U.S. Treasury securities	**$ 2,873**	**$ 0**	**$ (12)**	**$ 0**	**$ 2,861**
U.S. government sponsored agencies	**148,895**	**0**	**(33,224)**	**0**	**115,671**
Mortgage-backed securities: residential	**531,807**	**12**	**(102,157)**	**0**	**429,662**
State and municipal securities	**558,346**	**1**	**(131,009)**	**0**	**427,338**
Total	**$ 1,241,921**	**$ 13**	**$ (266,402)**	**$ 0**	**$ 975,532**
December 31, 2022					
U.S. Treasury securities	$ 3,057	$ 0	$ (23)	$ 0	$ 3,034
U.S. government sponsored agencies	156,184	0	(29,223)	0	126,961
Mortgage-backed securities: residential	578,175	67	(85,934)	0	492,308
State and municipal securities	663,367	157	(100,299)	0	563,225
Total	$ 1,400,783	$ 224	$ (215,479)	$ 0	$ 1,185,528

Held-to-Maturity Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2023					
State and municipal securities	**$ 129,494**	**$ 0**	**$ (26,865)**	**$ 0**	**$ 102,629**
December 31, 2022					
State and municipal securities	$ 128,242	$ 0	$ (17,213)	$ 0	$ 111,029

On April 1, 2022, the Company elected to transfer securities from available-for-sale to held-to-maturity as an overall balance sheet management strategy. The fair value of securities transferred was $127.0 million. The unrealized loss on the securities transferred from available-for-sale to held-to-maturity was $24.4 million ($19.3 million, net of tax) based on the fair value of the securities on the transfer date and was $21.4 million ($16.9 million, net of tax) at September 30, 2023. The Company has the current intent and ability to hold the transferred securities until maturity. Any net unrealized gain or loss on the transferred securities included in accumulated other comprehensive income (loss) at the time of the transfer will be amortized over the remaining life of the underlying security as an adjustment to the yield on those securities. There have been no subsequent transfers of securities from available-for-sale to held-to-maturity.

Information regarding the amortized cost and fair value of available-for-sale and held-to-maturity debt securities by maturity as of September 30, 2023 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

	Available-for-Sale		Held-to-Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,818	$ 4,806	$ 0	$ 0
Due after one year through five years	7,298	6,422	0	0
Due after five years through ten years	38,103	33,697	0	0
Due after ten years	659,895	500,945	129,494	102,629
	710,114	545,870	129,494	102,629
Mortgage-backed securities	531,807	429,662	0	0
Total debt securities	$ 1,241,921	$ 975,532	$ 129,494	$ 102,629

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Sales of securities available-for-sale				
Proceeds	$ 2,876	$ 0	$ 102,827	$ 0
Gross gains	0	0	439	0
Gross losses	(35)	0	(455)	0
Number of securities	6	0	109	0

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

Securities with fair values of $740.8 million and $298.2 million were pledged as of September 30, 2023 and December 31, 2022, respectively, as collateral for borrowings from the Federal Home Loan Bank ("FHLB") and Federal Reserve Bank and for other purposes as permitted or required by law.

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

Information regarding available-for-sale securities with unrealized losses as of September 30, 2023 and December 31, 2022 is presented on the following page. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
September 30, 2023						
U.S. Treasury securities	**$ 2,466**	**$ 8**	**$ 395**	**$ 4**	**$ 2,861**	**$ 12**
U.S. government sponsored agencies	**0**	**0**	**115,671**	**33,224**	**115,671**	**33,224**
Mortgage-backed securities: residential	**3,596**	**187**	**425,212**	**101,970**	**428,808**	**102,157**
State and municipal securities	**26,084**	**2,106**	**397,793**	**128,903**	**423,877**	**131,009**
Total available-for-sale	**$ 32,146**	**$ 2,301**	**$ 939,071**	**$ 264,101**	**$ 971,217**	**$ 266,402**
December 31, 2022						
U.S. Treasury securities	$ 3,034	$ 23	$ 0	$ 0	$ 3,034	$ 23
U.S. government sponsored agencies	8,420	1,350	118,541	27,873	126,961	29,223
Mortgage-backed securities: residential	165,897	18,637	323,727	67,297	489,624	85,934
State and municipal securities	277,967	33,405	244,436	66,894	522,403	100,299
Total available-for-sale	$ 455,318	$ 53,415	$ 686,704	$ 162,064	$ 1,142,022	$ 215,479

Information regarding held-to-maturity securities with unrealized losses as of September 30, 2023 and December 31, 2022 is presented below. The table divides the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

(dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
September 30, 2023						
State and municipal securities	**$ 0**	**$ 0**	**$ 102,629**	**$ 26,865**	**$ 102,629**	**$ 26,865**
December 31, 2022						
State and municipal securities	$ 0	$ 0	$ 111,029	$ 17,213	$ 111,029	$ 17,213

The total number of securities with unrealized losses as of September 30, 2023 and December 31, 2022 is presented below.

	Available-for-sale Less than 12 months	Available-for-sale 12 months or more	Available-for-sale Total	Held-to-maturity Less than 12 months	Held-to-maturity 12 months or more	Held-to-maturity Total
September 30, 2023						
U.S. Treasury securities	**7**	**1**	**8**	**0**	**0**	**0**
U.S. government sponsored agencies	**0**	**17**	**17**	**0**	**0**	**0**
Mortgage-backed securities: residential	**8**	**126**	**134**	**0**	**0**	**0**
State and municipal securities	**47**	**383**	**430**	**0**	**41**	**41**
Total temporarily impaired	**62**	**527**	**589**	**0**	**41**	**41**
December 31, 2022						
U.S. Treasury securities	7	0	7	0	0	0
U.S. government sponsored agencies	1	16	17	0	0	0
Mortgage-backed securities: residential	95	41	136	0	0	0
State and municipal securities	269	223	492	0	41	41
Total temporarily impaired	372	280	652	0	41	41

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 September 30, 2023 or December 31, 2022. Accrued interest receivable on securities totaled $7.1 million and $8.9 million at September 30, 2023 and December 31, 2022, respectively, and is excluded from the estimate of credit losses.

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

NOTE 3. LOANS

(dollars in thousands)	September 30, 2023		December 31, 2022	
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 589,345**	**12.1 %**	$ 650,948	13.8 %
Non-working capital loans	**812,875**	**16.7**	842,101	17.9
Total commercial and industrial loans	**1,402,220**	**28.8**	1,493,049	31.7
Commercial real estate and multi-family residential loans:				
Construction and land development loans	**633,920**	**13.0**	517,664	11.0
Owner occupied loans	**811,175**	**16.6**	758,091	16.0
Nonowner occupied loans	**740,783**	**15.2**	706,107	15.0
Multifamily loans	**236,581**	**4.8**	197,232	4.2
Total commercial real estate and multi-family residential loans	**2,422,459**	**49.6**	2,179,094	46.2
Agri-business and agricultural loans:				
Loans secured by farmland	**183,241**	**3.8**	201,200	4.3
Loans for agricultural production	**197,287**	**4.0**	230,888	4.9
Total agri-business and agricultural loans	**380,528**	**7.8**	432,088	9.2
Other commercial loans:	**125,939**	**2.6**	113,593	2.4
Total commercial loans	**4,331,146**	**88.8**	4,217,824	89.5
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	**247,114**	**5.1**	212,742	4.5
Open end and junior lien loans	**189,611**	**3.9**	175,575	3.7
Residential construction and land development loans	**12,888**	**0.3**	19,249	0.4
Total consumer 1-4 family mortgage loans	**449,613**	**9.3**	407,566	8.6
Other consumer loans	**93,737**	**1.9**	88,075	1.9
Total consumer loans	**543,350**	**11.2**	495,641	10.5
Subtotal	**4,874,496**	**100.0 %**	4,713,465	100.0 %
Less: Allowance for credit losses	**(72,105)**		(72,606)	
Net deferred loan fees	**(3,531)**		(3,069)	
Loans, net	**$ 4,798,860**		$ 4,637,790	

The recorded investment in loans does not include accrued interest, which totaled $20.7 million and $18.4 million as of September 30, 2023 and December 31, 2022, respectively.

The Company had $470,000 and $306,000 in residential real estate loans in the process of foreclosure as of September 30, 2023 and December 31, 2022, respectively.

NOTE 4. ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY

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

The level of credit loss provision is influenced by growth in the overall loan portfolio, emerging market risk, emerging concentration risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss analysis. In addition, management gives consideration to changes in the facts and circumstances of watch list credits, which includes the security position of the borrower, in determining the appropriate level of the credit loss provision. Furthermore, management's overall view on credit quality is a factor in the determination of the provision.

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

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

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

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

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

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

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended September 30, 2023								
Beginning balance, July 1	**$ 30,978**	**$ 30,913**	**$ 4,402**	**$ 1,120**	**$ 3,448**	**$ 846**	**$ 351**	**$ 72,058**
Provision for credit losses	**(167)**	**230**	**(139)**	**(102)**	**197**	**283**	**98**	**400**
Loans charged-off	**(193)**	**0**	**0**	**0**	**(149)**	**(138)**	**0**	**(480)**
Recoveries	**21**	**12**	**0**	**0**	**3**	**91**	**0**	**127**
Net loans (charged-off) recovered	**(172)**	**12**	**0**	**0**	**(146)**	**(47)**	**0**	**(353)**
Ending balance	**$ 30,639**	**$ 31,155**	**$ 4,263**	**$ 1,018**	**$ 3,499**	**$ 1,082**	**$ 449**	**$ 72,105**

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

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Nine Months Ended September 30, 2023								
Beginning balance, January 1	**$ 35,290**	**$ 27,394**	**$ 4,429**	**$ 917**	**$ 3,001**	**$ 1,021**	**$ 554**	**$ 72,606**
Provision for credit losses	**1,065**	**3,465**	**(166)**	**101**	**642**	**548**	**(105)**	**5,550**
Loans charged-off	**(5,844)**	**0**	**0**	**0**	**(163)**	**(759)**	**0**	**(6,766)**
Recoveries	**128**	**296**	**0**	**0**	**19**	**272**	**0**	**715**
Net loans (charged-off) recovered	**(5,716)**	**296**	**0**	**0**	**(144)**	**(487)**	**0**	**(6,051)**
Ending balance	**$ 30,639**	**$ 31,155**	**$ 4,263**	**$ 1,018**	**$ 3,499**	**$ 1,082**	**$ 449**	**$ 72,105**

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

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 September 30, 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	$ 233	$ 1,959	$ 2,342	$ 1,250	$ 0	$ 0	$ 5,784	$ 509,151	$ 514,935
Special Mention	0	0	0	0	0	0	0	67,764	67,764
Substandard	0	310	75	0	139	0	524	6,155	6,679
Total	233	2,269	2,417	1,250	139	0	6,308	583,070	589,378
Working capital lines of credit loans:									
Current period gross write offs	0	0	0	0	125	0	125	161	286
Non-working capital loans:									
Pass	147,472	257,402	91,572	54,567	35,601	15,151	601,765	168,621	770,386
Special Mention	490	8,926	1,051	2,279	2,644	5,643	21,033	5,253	26,286
Substandard	575	2,699	689	4,036	62	632	8,693	564	9,257
Not Rated	2,008	2,308	1,012	964	214	36	6,542	0	6,542
Total	150,545	271,335	94,324	61,846	38,521	21,462	638,033	174,438	812,471
Non-working capital loans:									
Current period gross write offs	0	5,400	0	0	118	0	5,518	40	5,558
Commercial real estate and multi-family residential loans:									
Construction and land development loans:									
Pass	41,662	20,498	10,870	13,078	178	0	86,286	544,725	631,011
Special Mention	0	0	0	0	0	0	0	0	0
Total	41,662	20,498	10,870	13,078	178	0	86,286	544,725	631,011
Construction and land development loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Owner occupied loans:									
Pass	114,935	135,960	158,405	132,051	65,426	129,363	736,140	36,067	772,207
Special Mention	6,696	694	8,449	0	1,735	2,758	20,332	14,628	34,960

Substandard	223	265	0	1,476	352	1,160	3,476	0	3,476
Total	121,854	136,919	166,854	133,527	67,513	133,281	759,948	50,695	810,643
Owner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Nonowner occupied loans:									
Pass	85,176	176,453	130,612	130,626	88,244	72,871	683,982	43,097	727,079
Special Mention	4,552	0	6,352	0	0	2,268	13,172	0	13,172
Total	89,728	176,453	136,964	130,626	88,244	75,139	697,154	43,097	740,251
Nonowner occupied loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Multifamily loans:									
Pass	78,741	23,445	9,094	35,972	33,621	30,149	211,022	5,518	216,540
Special Mention	19,735	0	0	0	0	0	19,735	0	19,735
Total	98,476	23,445	9,094	35,972	33,621	30,149	230,757	5,518	236,275
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	20,352	32,883	25,842	27,886	9,940	20,114	137,017	46,102	183,119
Special Mention	0	0	0	0	8	0	8	0	8
Substandard	0	0	0	0	0	105	105	0	105
Total	20,352	32,883	25,842	27,886	9,948	20,219	137,130	46,102	183,232
Loans secured by farmland:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Loans for agricultural production:									
Pass	27,282	11,290	27,881	26,015	3,981	11,077	107,526	88,811	196,337
Special Mention	0	0	201	351	0	0	552	500	1,052
Total	27,282	11,290	28,082	26,366	3,981	11,077	108,078	89,311	197,389
Loans for agricultural production:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other commercial loans:									
Pass	6,057	28,024	39,057	14,778	102	7,488	95,506	27,640	123,146
Special Mention	0	0	0	0	0	2,607	2,607	0	2,607
Total	6,057	28,024	39,057	14,778	102	10,095	98,113	27,640	125,753
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	8,072	10,663	12,954	9,354	4,476	4,753	50,272	9,674	59,946
Special Mention	0	0	0	527	0	0	527	0	527
Substandard	0	0	96	125	0	258	479	0	479
Not Rated	45,488	52,631	39,206	17,653	4,378	26,466	185,822	0	185,822
Total	53,560	63,294	52,256	27,659	8,854	31,477	237,100	9,674	246,774
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	565	137	504	339	0	7	1,552	8,722	10,274
Substandard	0	0	0	0	27	48	75	129	204
Not Rated	21,491	32,685	9,517	1,780	2,547	2,196	70,216	110,806	181,022
Total	22,056	32,822	10,021	2,119	2,574	2,251	71,843	119,657	191,500
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	1,551	7,352	1,546	857	269	1,230	12,805	0	12,805
Total	1,551	7,352	1,546	857	269	1,230	12,805	0	12,805
Residential construction loans:									
Current period gross write offs	0	0	0	0	0	0	0	0	0
Other consumer loans:									
Pass	1,908	808	1,505	358	0	0	4,579	13,393	17,972
Substandard	0	0	0	0	3	0	3	0	3
Not Rated	23,815	19,098	11,043	6,686	1,952	2,275	64,869	10,639	75,508
Total	25,723	19,906	12,548	7,044	1,955	2,275	69,451	24,032	93,483

Other consumer loans:									
Current period gross write offs	1	255	91	6	212	1	566	193	759
Total period gross write offs	1	5,705	105	6	455	1	6,273	493	6,766
Total Loans	$ 659,079	$ 826,490	$ 589,875	$ 483,008	$ 255,899	$ 338,655	$ 3,153,006	$ 1,717,959	$ 4,870,965

As of September 30, 2023, $1.5 million in PPP loans were included in the "Pass" category of non-working capital commercial and industrial loans. These loans were included in this risk rating category because they are fully guaranteed by the Small Business Administration ("SBA").

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

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

Pass	8,768	12,809	12,289	4,805	4,045	3,860	46,576	5,634	52,210
Special Mention	0	0	552	0	0	0	552	0	552
Substandard	0	0	0	0	83	1,944	2,027	0	2,027
Not Rated	57,404	44,331	20,023	5,936	2,970	27,004	157,668	0	157,668
Total	66,172	57,140	32,864	10,741	7,098	32,808	206,823	5,634	212,457
Open end and junior lien loans:									
Pass	137	541	357	63	75	0	1,173	5,841	7,014
Substandard	0	0	0	31	49	0	80	111	191
Not Rated	44,472	13,597	3,014	3,616	1,476	2,252	68,427	101,750	170,177
Total	44,609	14,138	3,371	3,710	1,600	2,252	69,680	107,702	177,382
Residential construction loans:									
Not Rated	14,463	2,167	897	291	129	1,223	19,170	0	19,170
Total	14,463	2,167	897	291	129	1,223	19,170	0	19,170
Other consumer loans:									
Pass	1,344	1,841	432	600	0	948	5,165	16,152	21,317
Substandard	0	0	0	210	0	0	210	0	210
Not Rated	24,395	14,563	9,168	3,606	2,755	1,352	55,839	10,492	66,331
Total	25,739	16,404	9,600	4,416	2,755	2,300	61,214	26,644	87,858
TOTAL	$ 911,943	$ 653,839	$ 552,202	$ 310,151	$ 126,843	$ 297,056	$ 2,852,034	$ 1,858,362	$ 4,710,396

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

Nonaccrual and Past Due Loans:

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

The following table presents the aging of the amortized cost basis in past due loans as of September 30, 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	$ 583,816	$ 190	$ 0	$ 584,006	$ 5,372	$ 109	$ 589,378
Non-working capital loans	805,042	205	0	805,247	7,224	253	812,471
Commercial real estate and multi-family residential loans:							
Construction and land development loans	631,011	0	0	631,011	0	0	631,011
Owner occupied loans	807,741	0	0	807,741	2,902	1,426	810,643
Nonowner occupied loans	740,251	0	0	740,251	0	0	740,251
Multifamily loans	236,275	0	0	236,275	0	0	236,275
Agri-business and agricultural loans:							
Loans secured by farmland	183,128	0	0	183,128	104	0	183,232
Loans for agricultural production	197,389	0	0	197,389	0	0	197,389
Other commercial loans	125,753	0	0	125,753	0	0	125,753
Consumer 1-4 family mortgage loans:							
Closed end first mortgage loans	245,544	729	19	246,292	482	336	246,774
Open end and junior lien loans	191,127	171	0	191,298	202	202	191,500
Residential construction loans	12,805	0	0	12,805	0	0	12,805
Other consumer loans	92,995	484	0	93,479	4	4	93,483
Total	$ 4,852,877	$ 1,779	$ 19	$ 4,854,675	$ 16,290	$ 2,330	$ 4,870,965

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

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

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

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

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

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

	September 30, 2023			
(dollars in thousands)	Real Estate	General Business Assets	Other	Total
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 50**	**$ 5,063**	**$ 109**	**$ 5,222**
Non-working capital loans	**44**	**6,689**	**394**	**7,127**
Commercial real estate and multi-family residential loans:				
Owner occupied loans	**617**	**1,476**	**1,161**	**3,254**
Agri-business and agricultural loans:				
Loans secured by farmland	**0**	**104**	**0**	**104**
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	**482**	**0**	**0**	**482**
Open end and junior lien loans	**202**	**0**	**0**	**202**
Other consumer loans	**0**	**0**	**4**	**4**
Total	**$ 1,395**	**$ 13,332**	**$ 1,668**	**$ 16,395**

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

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon origination. The starting point to determine estimate such credit losses is historical loss information. The Company uses a probability of default/loss given default model to determine the allowance for credit losses recorded at origination. Occasionally, the Company subsequently modifies loans for borrowers experiencing financial distress by providing the following forms of relief: forgiveness of loan principal, extension of repayment terms, or an interest rate reduction, among other possible concessions. In some instances, the Company provides multiple types of concessions for such modifications. Because the effect of most modifications to borrowers experiencing financial difficulty is already included in the allowance for credit losses, no change to the allowance for credit losses is generally recorded for these modifications.

The following tables present the amortized cost basis at the end of the reporting period of loans that were experiencing financial difficulty and received a modification of terms during the three and nine months ended September 30, 2023, by class and type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivables at the end of the reporting period is also presented below:

(dollars in thousands)	Interest Rate Reduction	Combination Interest Rate Reduction and Term Extension	Combination Principal Forgiveness, Interest Rate Reduction and Term Extension	Total Modifications	Total Class of Financing Receivable
Three Months Ended September 30, 2023					
Commercial and industrial loans:					
Working capital lines of credit loans	$ 2,000	$ 931	$ 0	$ 2,931	0.50 %
Non-working capital loans	0	0	0	0	0.00
Total commercial and industrial loans	2,000	931	0	2,931	0.21
Total loan modifications made to borrowers experiencing financial difficulty	$ 2,000	$ 931	$ 0	$ 2,931	0.06 %

(dollars in thousands)	Interest Rate Reduction	Combination Interest Rate Reduction and Term Extension	Combination Principal Forgiveness, Interest Rate Reduction and Term Extension	Total Modifications	Total Class of Financing Receivable
Nine Months Ended September 30, 2023					
Commercial and industrial loans:					
Working capital lines of credit loans	$ 2,000	$ 931	$ 0	$ 2,931	0.50 %
Non-working capital loans	0	0	1,596	1,596	0.20
Total commercial and industrial loans	2,000	931	1,596	4,527	0.32
Total loan modifications made to borrowers experiencing financial difficulty	$ 2,000	$ 931	$ 1,596	$ 4,527	0.09 %

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

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

(dollars in thousands)	Principal Forgiveness	Interest Rate Reduction Financial Effect	Term Extension Financial Effect	Total Class of Financing Receivable
Three Months Ended September 30, 2023				
Commercial and industrial loans:				
Working capital lines of credit loans	$ 0	**Reduction of two variable Prime Rate lines of credit to 1.00% Fixed** **Reduction of one variable line of credit from Prime plus 1.00% to 1.00% Fixed**	**Extension of terms for one variable rate line of credit from 12 months to 120 months**	0.50 %
Non-working capital loans	0	**No modifications**	**No modifications**	0.00 %

(dollars in thousands)	Principal Forgiveness	Interest Rate Reduction Financial Effect	Term Extension Financial Effect	Total Class of Financing Receivable
Nine Months Ended September 30, 2023				
Commercial and industrial loans:				
Working capital lines of credit loans	$ 0	**Reduction of two variable Prime Rate lines of credit to 1.00% Fixed** **Reduction of one variable line of credit from Prime plus 1.00% to 1.00% Fixed**	**Term extension for one variable rate line of credit from 12 months to 120 months**	**0.50 %**
Non-working capital loans	**9,380**	**Reduction of one term loan from Prime plus 0.75% to 1.00% Fixed**	**Term extension from 40 months to 300 months**	**0.20**

During the three and nine months ended September 30, 2022, no modifications were made to loans for borrowers experiencing financial difficulty.

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 September 30, 2023, no loans receiving such a modification within the last twelve months were 30 days or greater past due.

At September 30, 2023, 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 September 30, 2023, the Company had an advance outstanding from the FHLB in the amount of $90.0 million. The outstanding advance was a fixed rate bullet advance with an interest rate of 5.55% and matured October 6, 2023. For the period ended December 31, 2022, the Company had a fixed rate bullet advance from the FHLB with an interest rate of 4.21% in the amount of $275.0 million that matured on January 5, 2023.

On August 2, 2019 the Company entered into an unsecured revolving credit agreement with another financial institution allowing the Company to borrow up to $30.0 million; this credit agreement was subsequently amended and renewed on July 29, 2023 for $12.5 million. Funds provided under the agreement could 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 included a negative pledge agreement whereby the Company agreed not to pledge or otherwise encumber the stock of the Bank. The credit agreement had a one year term which may be amended, extended, modified or renewed. There were no outstanding borrowings on the credit agreement at September 30, 2023 and December 31, 2022.

This unsecured revolving credit agreement was terminated on October 11, 2023 and replaced by a new revolving credit agreement with a different financial institution. The new unsecured revolving credit agreement was effective October 11, 2023, for $30.0 million.

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 September 30, 2023, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was $2.3 million, carried at amortized cost and no valuation reserve. These residential mortgage loans have a weighted average interest rate of 3.5%, a weighted average maturity of 20 years and are secured by homes generally within the Company's market area of Northern Indiana and Indianapolis. A third-party valuation is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees and float income. The most significant assumption used to value MSRs is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At September 30, 2023, the constant prepayment speed ("PSA") used was 148 and used a discount rate range of 9.5%-11.5%. At December 31, 2022, the PSA used was 159 and the discount rate used was 9.5%.

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

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

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

	September 30, 2023			
	Fair Value Measurements Using			Assets at Fair Value
(dollars in thousands)	Level 1	Level 2	Level 3	
Assets:				
U.S. Treasury securities	$ 2,861	$ 0	$ 0	$ 2,861
U.S. government sponsored agency securities	0	115,671	0	115,671
Mortgage-backed securities: residential	0	429,662	0	429,662
State and municipal securities	0	425,348	1,990	427,338
Total securities available-for-sale	2,861	970,681	1,990	975,532
Mortgage banking derivative	0	66	0	66
Interest rate swap derivative	0	42,035	0	42,035
Total assets	$ 2,861	$ 1,012,782	$ 1,990	$ 1,017,633
Liabilities:				
Interest rate swap derivative	0	42,036	0	42,036
Total liabilities	$ 0	$ 42,036	$ 0	$ 42,036

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

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

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

(dollars in thousands)	September 30, 2023 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Assets				
Collateral dependent loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 0**	**$ 0**	**$ 2,832**	**$ 2,832**
Non-working capital loans	**0**	**0**	**2,187**	**2,187**
Commercial real estate and multi-family residential loans:				
Owner occupied loans	**0**	**0**	**369**	**369**
Agri-business and agricultural loans:				
Loans secured by farmland	**0**	**0**	**26**	**26**
Total collateral dependent loans	**0**	**0**	**5,414**	**5,414**
Other real estate owned	**0**	**0**	**384**	**384**
Total assets	**$ 0**	**$ 0**	**$ 5,798**	**$ 5,798**

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

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at September 30, 2023:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Collateral dependent loans:					
Commercial and industrial	$ 5,019	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	74 %	10%-99%
Collateral dependent loans:					
Commercial real estate and multi-family residential loans	369	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	75 %	
Collateral dependent loans:					
Agri-business and agricultural	26	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	75 %	
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, 2022:

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

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

	September 30, 2023				
		Estimated Fair Value			
(dollars in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 146,280	$ 146,280	$ 0	$ 0	$ 146,280
Securities available-for-sale	975,532	2,861	970,681	1,990	975,532
Securities held-to-maturity	129,494	0	102,629	0	102,629
Real estate mortgages held-for-sale	572	0	594	0	594
Loans, net	4,798,860	0	0	4,598,444	4,598,444
Mortgage banking derivative	66	0	66	0	66
Interest rate swap derivative	42,035	0	42,035	0	42,035
Federal Reserve and Federal Home Loan Bank Stock	21,420	N/A	N/A	N/A	N/A
Accrued interest receivable	28,994	0	8,269	20,725	28,994
Financial Liabilities:					
Certificates of deposit	1,072,091	0	1,060,130	0	1,060,130
All other deposits	4,584,984	4,584,984	0	0	4,584,984
Federal Home Loan Bank advances	90,000	90,000	0	0	90,000
Interest rate swap derivative	42,036	0	42,036	0	42,036
Standby letters of credit	353	0	0	353	353
Accrued interest payable	16,178	581	15,597	0	16,178

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

NOTE 7. OFFSETTING ASSETS AND LIABILITIES

The following tables summarize gross and net information about financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to an enforceable master netting arrangement at September 30, 2023 and December 31, 2022.

(dollars in thousands)	September 30, 2023 Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Position	Net Amount
Assets						
Interest Rate Swap Derivatives	**$ 42,035**	**$ 0**	**$ 42,035**	**$ 0**	**$ (38,225)**	**$ 3,810**
Total Assets	**$ 42,035**	**$ 0**	**$ 42,035**	**$ 0**	**$ (38,225)**	**$ 3,810**
Liabilities						
Interest Rate Swap Derivatives	**$ 42,036**	**$ 0**	**$ 42,036**	**$ 0**	**$ (90)**	**$ 41,946**
Total Liabilities	**$ 42,036**	**$ 0**	**$ 42,036**	**$ 0**	**$ (90)**	**$ 41,946**

(dollars in thousands)	December 31, 2022 Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Position	Net Amount
Assets						
Interest Rate Swap Derivatives	$ 36,920	$ 0	$ 36,920	$ 0	$ (34,185)	$ 2,735
Total Assets	$ 36,920	$ 0	$ 36,920	$ 0	$ (34,185)	$ 2,735
Liabilities						
Interest Rate Swap Derivatives	$ 36,921	$ 0	$ 36,921	$ 0	$ (90)	$ 36,831
Total Liabilities	$ 36,921	$ 0	$ 36,921	$ 0	$ (90)	$ 36,831

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

NOTE 8. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Weighted average shares outstanding for basic earnings per common share	**25,613,456**	25,533,832	**25,601,493**	25,525,734
Dilutive effect of stock based awards	**80,079**	200,781	**108,348**	184,354
Weighted average shares outstanding for diluted earnings per common share	**25,693,535**	25,734,613	**25,709,841**	25,710,088
Basic earnings per common share	**$ 0.99**	$ 1.12	**$ 2.51**	$ 3.05
Diluted earnings per common share	**$ 0.98**	$ 1.11	**$ 2.49**	$ 3.03

NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the three months ended September 30, 2023 and 2022, all shown net of tax:

(dollars in thousands)	**Unrealized Gains and Losses on Available-for-Sales Securities**	**Defined Benefit Pension Items**	**Total**
Balance at July 1, 2023	**$ (176,898)**	**$ (747)**	**$ (177,645)**
Other comprehensive income (loss) before reclassification	**(50,900)**	**0**	**(50,900)**
Amounts reclassified from accumulated other comprehensive income (loss)	**423**	**11**	**434**
Net current period other comprehensive income (loss)	**(50,477)**	**11**	**(50,466)**
Balance at September 30, 2023	**$ (227,375)**	**$ (736)**	**$ (228,111)**

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sales Securities	Defined Benefit Pension Items	Total
Balance at July 1, 2022	$ (157,625)	$ (909)	$ (158,534)
Other comprehensive income (loss) before reclassification	(63,620)	0	(63,620)
Amounts reclassified from accumulated other comprehensive income (loss)	398	27	425
Net current period other comprehensive income (loss)	(63,222)	27	(63,195)
Balance at September 30, 2022	$ (220,847)	$ (882)	$ (221,729)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) for the nine months ended September 30, 2023 and 2022, all shown net of tax:

(dollars in thousands)	**Unrealized Gains and Losses on Available-for-Sales Securities**	**Defined Benefit Pension Items**	**Total**
Balance at January 1, 2023	**$ (188,154)**	**$ (769)**	**$ (188,923)**
Other comprehensive income (loss) before reclassification	**(40,407)**	**0**	**(40,407)**
Amounts reclassified from accumulated other comprehensive income (loss)	**1,186**	**33**	**1,219**
Net current period other comprehensive income (loss)	**(39,221)**	**33**	**(39,188)**
Balance at September 30, 2023	**$ (227,375)**	**$ (736)**	**$ (228,111)**

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sales Securities	Defined Benefit Pension Items	Total
Balance at January 1, 2022	$ 17,056	$ (963)	$ 16,093
Other comprehensive income (loss) before reclassification	(238,689)	0	(238,689)
Amounts reclassified from accumulated other comprehensive income (loss)	786	81	867
Net current period other comprehensive income (loss)	(237,903)	81	(237,822)
Balance at September 30, 2022	$ (220,847)	$ (882)	$ (221,729)

Reclassifications out of other accumulated other comprehensive income (loss) for the three months ended September 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	**$ (501)**	Interest income
Realized gains and (losses) on available-for-sale securities	**(35)**	Net securities gains (losses)
Tax effect	**113**	Income tax expense
	(423)	Net of tax
Amortization of defined benefit pension items	**(15)**	Other expense
Tax effect	**4**	Income tax expense
	(11)	Net of tax
Total reclassifications for the period	**$ (434)**	Net income

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

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

Reclassifications out of accumulated comprehensive income (loss) for the nine months ended September 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	**$**	**(1,486)**	Interest income
Realized gains and (losses) on available-for-sale securities		**(16)**	Net securities gains (losses)
Tax effect		**316**	Income tax expense
		(1,186)	Net of tax
Amortization of defined benefit pension items		**(45)**	Other expense
Tax effect		**12**	Income tax expense
		(33)	Net of tax
Total reclassifications for the period	**$**	**(1,219)**	Net income

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

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

NOTE 10. LEASES

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

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

The following is a maturity analysis of the operating lease liabilities as of September 30, 2023:

Years ending December 31, (in thousands)	Operating Lease Obligation
2023	$ 183
2024	744
2025	756
2026	730
2027	753
2028 and thereafter	2,185
Total undiscounted lease payments	5,351
Less imputed interest	(503)
Lease liability	$ 4,848
Right-of-use asset	$ 4,848

(dollars in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Lease cost				
Operating lease cost	$ 241	$ 169	$ 719	$ 502
Short-term lease cost	4	4	12	18
Total lease cost	$ 245	$ 173	$ 731	$ 520
Other information				
Operating cash outflows from operating leases	$ 241	$ 169	$ 719	$ 502
Weighted-average remaining lease term - operating leases	6.5 years	7.5 years	6.5 years	7.5 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.

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

On August 31, 2022, the trustee filed his amended complaint against the former client, the Bank, the Company, four officers of the Bank and one independent director of the Bank. The amended complaint alleged that the former client engaged in a check kiting scheme involving multiple banks. The amended complaint alleged that a series of business transactions among the client, his related entities and the Bank are voidable under applicable bankruptcy and state laws. The amended complaint also alleged that the Bank, the Company and the five individual bank representatives who are named as defendants violated various federal and state laws in assisting the former client in his check kiting scheme. On October 26, 2022, the trustee filed his second amended complaint which was virtually identical to his amended complaint. On January 5, 2023, the Bank, the Company and the five individual bank representatives filed motions to dismiss the second amended complaint. On May 30, 2023, the court issued its decision granting the defendants' motion to dismiss in part and denying it in part. The court dismissed all claims against the Company and the Bank's independent director. The court dismissed several of the claims against the defendants but granted the trustee the right to file an amended complaint. On June 20, 2023, the trustee filed his third amended complaint. The trustee alleges many of the same claims that were alleged in his second amended complaint. The defendants filed a motion to dismiss the third amended complaint on July 25, 2023. The Trustee subsequently filed a response to this motion and the parties are currently awaiting a decision from the court to rule on the motion and response as filed or to schedule a hearing for the parties to present arguments on the motion. This activity is expected to occur in the fourth quarter of 2023.

Based on current information, we have determined that a material loss is neither probable nor estimable at this time, and the Bank, and the four individual Bank representatives who are named as defendants in the third amended complaint, intend to vigorously defend themselves against all allegations asserted in the third amended complaint.

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

OVERVIEW

Net income in the first nine months of 2023 was $64.1 million, which decreased $13.7 million, or 17.6%, from $77.8 million for the comparable period of 2022. Diluted income per common share was $2.49 in the first nine months of 2023, a decrease of 17.8% from $3.03 in the comparable period of 2022. The decrease in net income for 2023 was primarily due to an increase in noninterest expense of $18.5 million, or 22.3%, and an increase in provision for credit losses expense of $5.1 million. Offsetting these items was an increase to net interest income of $2.4 million, or 1.6%, and an increase to noninterest income of $1.3 million, or 4.2%. Pretax pre-provision earnings, a non-GAAP measure calculated by adding net interest income to noninterest income and subtracting noninterest expense, were $79.8 million in the first nine months of 2023, a decrease of $14.8 million, or 15.6%, compared to $94.6 million for the comparable period of 2022.

Annualized return on average total equity was 14.44% in the first nine months of 2023 versus 16.89% in the comparable period of 2022. Annualized return on average total assets was 1.33% in the first nine months of 2023 versus 1.61% for the comparable period of 2022. The Company's average equity to average assets ratio was 9.21% in the first nine months of 2023 versus 9.53% in the comparable period of 2022. Equity has been negatively impacted by unrealized losses from the available-for-sale investment securities portfolio, which are reported as a component of accumulated other comprehensive income (loss).

The Company's second quarter 2023 net income was negatively impacted by the recognition of a wire fraud loss of $13.6 million, net of tax, or $0.53 per diluted earnings per share. Core operational profitability, which is a non-GAAP financial measure that excludes the estimated effect of this one-time event, decreased by $1.5 million, or 1.9%, to $76.4 million for the first nine months of 2023 from $77.8 million for the comparable period of 2022.

Net income in the third quarter of 2023 was $25.3 million, down 11.5%, or $3.3 million, from $28.5 million for the comparable period of 2022. Diluted earnings per common share was $0.98 in the third quarter of 2023, down 11.7% from $1.11 in the comparable period of 2022. The decrease was driven primarily by a decrease in net interest income of $4.1 million, or 7.8%, and an increase in noninterest expense of $1.2 million, or 4.3%, and was partially offset by an increase in noninterest income of $671,000, or 6.6%. Pretax pre-provision earnings in the third quarter of 2023 were $30.1 million, a decrease of $4.6 million, or 13.3%, compared to $34.8 million for the comparable period of 2022.

Annualized return on average total equity was 16.91% in the third quarter of 2023 versus 19.39% in the comparable period of 2022. Annualized return on average total assets was 1.54% in the third quarter of 2023 versus 1.80% in the comparable period of 2022. The average equity to average assets ratio was 9.12% in the third quarter of 2023 versus 9.27% the comparable period of 2022.

The Company's tangible common equity to tangible assets ratio, which is a non-GAAP financial measure, was 8.62% at September 30, 2023, compared to 8.20% at September 30, 2022 and 8.79% at December 31, 2022. Unrealized losses from available-for-sale investment securities were $266.4 million at September 30, 2023, compared to $256.1 million at September 30, 2022 and $215.3 million at December 31, 2022. When excluding the impact of accumulated other comprehensive income (loss) on tangible common equity and tangible assets, the Company's adjusted tangible common equity to adjusted tangible assets ratio, which is a non-GAAP financial measure, was 11.74% at September 30, 2023, compared to 11.32% at September 30, 2022 and 11.38% at December 31, 2022.

Total assets were $6.427 billion as of September 30, 2023 versus $6.432 billion as of December 31, 2022, a decrease of $5.5 million, or less than 1%. Total loans, net of the allowance for credit losses, and cash and cash equivalents increased $161.1 million, or 3.5%, and $16.0 million, or 12.3%, respectively, between December 31, 2022 and September 30, 2023. Offsetting these increases was a decrease in available-for-sale securities of $210.0 million, or 17.7%. Total deposits increased $196.5 million, or 3.6%, between December 31, 2022 and September 30, 2023. Deposits have shifted from noninterest bearing to interest bearing products as a result of the rising interest rate environment. Noninterest bearing deposits decreased $359.1 million, or 20.7%, and interest bearing deposits increased $555.6 million, or 14.9%. Total borrowings decreased $207.0 million, or 69.7%. Total equity decreased $11.7 million, or 2.1%, from $568.9 million at December 31, 2022 to $557.2 million at September 30, 2023. Retained earnings increased $28.8 million, or 4.5%, as a result of net income of $64.1 million, offset by dividends declared and paid of $35.3 million. Accumulated other comprehensive income (loss), decreased $39.2 million, or 20.7%, due primarily to a decline in the fair market values of available-for-sale investment securities during the nine months ended September 30, 2023.

CRITICAL ACCOUNTING POLICIES

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

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

RESULTS OF OPERATIONS

Overview

Selected income statement information for the three and nine months ended September 30, 2023 and 2022 is presented in the following table:

		Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)		**2023**	2022	**2023**	2022
Income Statement Summary:					
Net interest income		**$ 48,393**	52,492	**$ 148,436**	$ 146,050
Provision for credit losses		**400**	0	**5,550**	417
Noninterest income		**10,835**	10,164	**32,650**	31,343
Noninterest expense		**29,097**	27,894	**101,265**	82,776
Other Data:					
Efficiency ratio (1)		**49.13 %**	44.52 %	**55.92 %**	46.66 %
Diluted EPS		**$ 0.98**	$ 1.11	**$ 2.49**	$ 3.03
Average Equity/Average Assets		**9.12 %**	9.27 %	**9.21 %**	9.53 %
Tangible capital ratio (2)		**8.62**	8.20	**8.62**	8.20
Adjusted tangible capital ratio (3)		**11.74**	11.32	**11.74**	11.32
Net charge-offs to average loans		**0.03**	0.03	**0.17**	0.03
Net interest margin	Net interest margin	**3.21**	3.57	**3.33**	3.25
Noninterest income to total revenue		**18.29**	16.22	**18.03**	17.67
Pretax pre-provision earnings (4)		**$ 30,131**	$ 34,762	**$ 79,821**	$ 94,617

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

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

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

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

Reconciliations of non-GAAP measures are provided below (in thousands, except for per share data).

	As of and For The Three Months Ended September 30,		As of and For The Nine Months Ended September 30,	
(dollars in thousands)	**2023**	2022	**2023**	2022
Total Equity	**$ 557,184**	$ 519,220	**$ 557,184**	$ 519,220
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)	**553,381**	515,417	**553,381**	515,417
Market Value Adjustment in AOCI	**227,375**	220,847	**227,375**	220,847
Adjusted Tangible Common Equity (C)	**780,756**	736,264	**780,756**	736,264
Total Assets	**$ 6,426,844**	$ 6,288,406	**$ 6,426,844**	$ 6,288,406
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)	**6,423,041**	6,284,603	**6,423,041**	6,284,603
Market Value Adjustment in AOCI	**227,375**	220,847	**227,375**	220,847
Adjusted Tangible Assets (D)	**6,650,416**	6,505,450	**6,650,416**	6,505,450
Ending Common Shares Issued (E)	**25,614,163**	25,536,026	**25,614,163**	25,536,026
Tangible Book Value per Common Share (A/E)	**$ 21.60**	$ 20.18	**$ 21.60**	$ 20.18
Tangible Capital Ratio (A/B)	**8.62 %**	8.20 %	**8.62 %**	8.20 %
Adjusted Tangible Capital Ratio (C/D)	**11.74**	11.32	**11.74**	11.32
Net Interest Income	**$ 48,393**	$ 52,492	**148,436**	146,050
Noninterest Income	**10,835**	10,164	**32,650**	31,343
Noninterest Expense	**(29,097)**	(27,894)	**(101,265)**	(82,776)
Pretax Pre-Provision Earnings	**$ 30,131**	$ 34,762	**$ 79,821**	$ 94,617

	Nine Months Ended	
	Sep. 30, 2023	Sep. 30, 2022
Noninterest Expense	**$ 101,265**	$ 82,776
Less: Wire Fraud Loss	**(18,058)**	0
Plus: Salaries and Employee Benefits (1)	**1,850**	0
Adjusted Core Noninterest Expense	**$ 85,057**	$ 82,776
Earnings Before Income Taxes	**74,271**	$ 94,200
Adjusted Core Noninterest Expense Impact	**16,208**	0
Adjusted Earnings Before Income Taxes	**90,479**	94,200
Tax Effect	**(14,123)**	(16,360)
Core Operational Profitability	**76,356**	77,840
Core Operational Diluted Earnings Per Common Share	**$ 2.97**	$ 3.03
Adjusted Core Efficiency Ratio	**46.97 %**	46.66 %

(1) Long-term, incentive-based compensation accruals were reduced as a result of the wire fraud loss.

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 using GAAP amounts. These adjusted amounts are calculated by excluding the impact of the wire fraud loss and corresponding reduction to salaries and employee benefits for the nine month periods ended September 30, 2023 and 2022. There was no impact to the three month periods ended September 30, 2023 and 2022. Management considers these measures of financial performance to be meaningful to understanding the company's core business performance for these periods.

Net Income

Net income was $64.1 million in the first nine months of 2023, which decreased $13.7 million, or 17.6%, from $77.8 million for the comparable period of 2022. The decrease in net income for the first nine months of 2023 was primarily due to an increase in noninterest expense of $18.5 million, or 22.3%, and an increase in the provision for credit losses of $5.1 million. Offsetting these items was an increase to net interest income of $2.4 million, or 1.6%, and an increase to noninterest income of $1.3 million, or 4.2%.

The Company's second quarter 2023 net income was negatively impacted by the recognition of a wire fraud loss of $13.6 million, net of tax, or $0.53 per diluted earnings per share. Core operational profitability, which is a non-GAAP financial measure that excludes the estimated effect of this one-time event, decreased by $1.5 million, or 1.9%, to $76.4 million for the first nine of 2023 from $77.8 million for the comparable period of 2022.

Net income in third quarter of 2023 was $25.3 million, down 11.5% from $28.5 million for the comparable period of 2022. Diluted earnings per common share was $0.98 in the third quarter of 2023, down 11.7% from $1.11 in the comparable period of 2022. The decrease was driven primarily by a decrease in net interest income of $4.1 million, or 7.8%, and an increase in noninterest expense of $1.2 million, or 4.3%, and was partially offset by an increase in noninterest income of $671,000, or 6.6%.

Net Interest Income

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

	Nine Months Ended September 30,					
	2023			2022		
(fully tax equivalent basis, dollars in thousands)	Average Balance	Interest	Yield (1)/ Rate	Average Balance	Interest	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	$ 4,733,421	$ 223,499	6.31 %	$ 4,351,009	$ 136,580	4.20 %
Tax exempt (1)	58,010	3,577	8.24	30,275	1,149	5.07
Investments:						
Securities (1)	1,210,540	25,645	2.83	1,472,807	29,105	2.64
Short-term investments	2,362	77	4.36	2,251	12	0.71
Interest bearing deposits	99,205	3,527	4.75	322,445	1,489	0.62
Total earning assets	$ 6,103,538	$ 256,325	5.61 %	$ 6,178,787	$ 168,335	3.64 %
Less: Allowance for credit losses	(72,242)			(67,684)		
Nonearning Assets						
Cash and due from banks	71,406			72,240		
Premises and equipment	58,699			59,026		
Other nonearning assets	286,915			226,732		
Total assets	$ 6,448,316			$ 6,469,101		
Interest Bearing Liabilities						
Savings deposits	$ 360,535	$ 194	0.07 %	$ 421,363	$ 241	0.08 %
Interest bearing checking accounts	2,854,161	76,518	3.58	2,658,739	14,456	0.73
Time deposits:						
In denominations under $100,000	196,914	3,296	2.24	189,459	951	0.67
In denominations over $100,000	616,477	15,629	3.39	607,352	2,389	0.53
Miscellaneous short-term borrowings	218,561	8,252	5.05	9	0	0.00
Long-term borrowings and subordinated debentures	0	0	0.00	42,857	127	0.40
Total interest bearing liabilities	$ 4,246,648	$ 103,889	3.27 %	$ 3,919,779	$ 18,164	0.62 %
Noninterest Bearing Liabilities						
Demand deposits	1,509,292			1,868,858		
Other liabilities	98,313			64,262		
Stockholders' Equity	594,063			616,202		
Total liabilities and stockholders' equity	$ 6,448,316			$ 6,469,101		
Interest Margin Recap						
Interest income/average earning assets		256,325	5.61 %		168,335	3.64 %
Interest expense/average earning assets		103,889	2.28		18,164	0.39
Net interest income and margin		$ 152,436	3.33 %		$ 150,171	3.25 %

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 21 percent tax rate. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") adjustment applicable to nondeductible interest expenses. Taxable equivalent basis adjustments were $4.0 million and $4.1 million for the nine-month periods ended September 30, 2023 and September 30, 2022, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the nine-months ended September 30, 2023 and 2022, 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 September 30, 2023 Average Balance	Interest	Yield (1)/ Rate	2022 Average Balance	Interest	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	**$ 4,791,156**	**$ 78,910**	**6.53 %**	$ 4,376,724	$ 52,707	4.78 %
Tax exempt (1)	**58,602**	**1,258**	**8.52**	39,220	583	5.90
Investments:						
Securities (1)	**1,171,426**	**8,169**	**2.77**	1,429,186	9,949	2.76
Short-term investments	**2,533**	**29**	**4.54**	2,307	9	1.55
Interest bearing deposits	**122,177**	**1,576**	**5.12**	144,193	763	2.10
Total earning assets	**$ 6,145,894**	**$ 89,942**	**5.81 %**	$ 5,991,630	$ 64,011	4.24 %
Less: Allowance for credit losses	**(71,997)**			(67,481)		
Nonearning Assets						
Cash and due from banks	**68,669**			70,672		
Premises and equipment	**58,782**			58,796		
Other nonearning assets	**297,636**			244,741		
Total assets	**$ 6,498,984**			$ 6,298,358		
Interest Bearing Liabilities						
Savings deposits	**$ 329,557**	**$ 57**	**0.07 %**	$ 430,428	$ 85	0.08 %
Interest bearing checking accounts	**2,873,795**	**27,891**	**3.85**	2,623,747	8,809	1.33
Time deposits:						
In denominations under $100,000	**211,039**	**1,507**	**2.83**	180,774	298	0.65
In denominations over $100,000	**740,434**	**7,653**	**4.10**	586,750	874	0.59
Miscellaneous short-term borrowings	**227,555**	**3,122**	**5.44**	0	0	0.00
Long-term borrowings and subordinated debentures	**0**	**0**	**0.00**	0	0	0.00
Total interest bearing liabilities	**$ 4,382,380**	**$ 40,230**	**3.64 %**	$ 3,821,699	$ 10,066	1.04 %
Noninterest Bearing Liabilities						
Demand deposits	**1,417,641**			1,816,770		
Other liabilities	**106,453**			76,210		
Stockholders' Equity	**592,510**			583,679		
Total liabilities and stockholders' equity	**$ 6,498,984**			$ 6,298,358		
Interest Margin Recap						
Interest income/average earning assets		**89,942**	**5.81 %**		64,011	4.24 %
Interest expense/average earning assets		**40,230**	**2.60**		10,066	0.67
Net interest income and margin		**$ 49,712**	**3.21 %**		$ 53,945	3.57 %

(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 $1.3 million and $1.5 million in the three-month periods ended September 30, 2023 and September 30, 2022, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended September 30, 2023 and 2022, are included as taxable loan interest income.

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

Net interest income, on a fully tax equivalent basis, increased $2.3 million, or 1.5%, to $152.4 million for the nine months ended September 30, 2023, compared to $150.2 million for the first nine months of 2022. Growth in average loans and an improvement in earning assets yields were the primary drivers behind the $88.0 million, or 52.3%, increase in tax equivalent interest income between the two periods. Offsetting these increases was a decrease in the average balance of investment securities. Interest expense, which mostly offset the positive impact of the increase to tax equivalent interest income, increased by $85.7 million, or 472.0%. and was driven by increased funding costs from increased average interest bearing liabilities and a decrease in average noninterest bearing liabilities.

Total average earning assets were $6.104 billion for the nine months ended September 30, 2023, a decrease of $75.2 million, or 1.2%, compared to $6.179 billion for the nine months ended September 30, 2022. A decrease to average investment securities of $262.3 million, or 17.8%, from $1.473 billion for the nine months ended September 30, 2022 to $1.211 billion for the nine months ended September 30, 2023, and a decrease to the Company's cash held in interest bearing deposits of $223.2 million, or 69.2%, from $322.4 million for the nine months ended September 30, 2022 to $99.2 million for the nine months ended September 30, 2023, drove the contraction in average earning assets between the two periods. Offsetting these decreases was an increase in average loans outstanding, which increased $410.1 million, or 9.4%, to $4.791 billion during the nine months ended September 30, 2023, compared to $4.381 billion during the same period of 2022. Total average interest bearing liabilities were $4.247 billion for the nine months ended September 30, 2023, an increase of $326.9 million, or 8.3%, from $3.920 billion for the nine months ended September 30, 2022. This increase was driven by increased interest bearing deposits of $151.2 million, or 3.9%, from $3.877 billion for the nine months ended September 30, 2022 to $4.028 billion for the nine months ended September 30, 2023, and an increase in total average borrowings of $175.7 million, or 409.9%, from $42.9 million for the nine months ended September 30, 2022 to $218.6 million for the nine month ended September 30, 2023. Noninterest bearing demand deposits decreased $359.6 million, or 19.2%, from $1.869 billion for the nine months ended September 30, 2022 to $1.509 billion for the nine months ended September 30, 2023.

The tax equivalent net interest margin was 3.33% for the nine months ended September 30, 2023, compared to 3.25% during the first nine months of 2022, representing an 8 basis point, or 2.5%, expansion between the two periods. The net interest margin expansion was driven by a 525 basis point increase to the target Federal Funds rate implemented by the Federal Reserve through a series of rate increases beginning in March of 2022, increasing the target Federal Funds Rate range from a zero-bound range of 0.00%-0.25% in March 2022 to a range of 5.25%-5.50% at September 30, 2023. The impact of the higher interest rate environment has increased earning asset yields by 197 basis points, or 54.1%, to 5.61% for the nine months ended September 30, 2023, up from 3.64% for the comparable period of 2022. The increase in earning asset yields was offset by an increase in the Company's funding costs, as depositors sought higher interest bearing deposit products and competition for deposits increased throughout the industry. Interest expense as a percentage of average earning assets increased to 2.28% for the nine months ended September 30, 2023, up from 0.39% for the comparable period of 2022, an increase of 189 basis points, or 484.6%. The Company anticipates the cost of funds may continue to rise throughout the remainder of 2023 as a result of increased market competition for deposits, shifts from noninterest bearing deposits into interest bearing deposits, and elevated wholesale funding costs.

Net interest income, on a fully tax equivalent basis, decreased by $4.2 million, or 7.8%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. Tax equivalent net interest income benefited from increased average loan balances and yields between the two periods. Offsetting this benefit were increased interest bearing liabilities and an increased funding costs.

Total average earning assets were $6.146 billion for the third quarter of 2023, an increase of $154.3 million, or 2.6%, compared to $5.992 billion for the third quarter of 2022. The increase in average earning assets was driven by an increase in average loans of $433.8 million, or 9.8%, from $4.416 billion for the third quarter of 2022 to $4.850 billion for the third quarter of 2023. Offsetting the increase in average loans was a decrease in average investment securities, which decreased $257.8 million, or 18.0%, from $1.429 billion for the third quarter of 2022 to $1.171 billion for the third quarter of 2023. Total average interest bearing liabilities were $4.382 billion for the third quarter of 2023, an increase of $560.7 million, or 14.7%, from $3.822 billion for the third quarter of 2022. This increase was driven by increased interest bearing deposits of $333.1 million, or 8.7%, from $3.822 billion for the third quarter of 2022 to $4.155 billion for the third quarter of 2023 and increased average borrowings of $227.6 million for the third quarter of 2023 compared to no average borrowings for the third quarter of 2022. Noninterest bearing demand deposits decreased $399.1 million, or 22.0%, from $1.817 billion for the third quarter of 2022 to $1.418 billion for the third quarter of 2023.

The tax equivalent net interest margin contracted by 36 basis points, or 10.1%, to 3.21% for the third quarter of 2023, compared to 3.57% for the third quarter of 2022. Earning asset yields expanded 157 basis points, or 37.0%, from 4.24% for the third quarter of 2022 to 5.81% for the third quarter of 2023. This increase was offset by an increase in the Company's funding costs as interest expense as a percentage of average earning assets increased 193 basis points, or 288.1%, from 0.67% for the third quarter of 2022 to 2.60% for the third quarter of 2023. Increases to the Company's earning asset yields and interest expense as a percentage of average earning assets between the two periods were driven by the Federal Reserve's action to increase the target Federal Funds rate to 5.50% from 0.25%. The target Federal Funds rate was increased 225 basis points between September 30, 2022 and September 30, 2023, increasing the target Federal Funds rate range from 3.00%-3.25% to 5.25%-5.50%. While the rate increases have positively affected the Company's yields on earning assets, the Company has experienced a corresponding increase to funding costs, as depositors sought higher interest bearing deposit products and competition for deposits increased throughout the industry. The Company anticipates the cost of funds may continue to rise throughout the remainder of 2023 as a result of increased market competition for deposits, shifts from noninterest bearing deposits into interest bearing deposits, and elevated wholesale funding costs.

Provision for Credit Losses

The Company recorded provision for credit losses expense of $5.6 million for the nine months ended September 30, 2023, compared to provision expense of $417,000 during the comparable period of 2022, an increase of $5.1 million, or 1,230.9%. The increase in provision during the nine months ended September 30, 2023, compared to the comparable period in 2022, was primarily attributable to loan growth and increased qualitative risk factors for current market conditions impacting certain segments of the loan portfolio. Net charge-offs were $6.1 million during the nine month period ended September 30, 2023, compared to net charge-offs of $951,000 during the comparable period of 2022, an increase of $5.1 million, or 536.3%. The increase in charge-offs during the nine months ended September 30, 2023, compared to the comparable period in 2022 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 $400,000 during the third quarter of 2023, compared to no provision expense recorded during the third quarter of 2022. Provision expense during the quarter was primarily driven by growth in the loan portfolio. Net charge-offs were $353,000 during the third quarter of 2023, compared to $284,000 during the third quarter of 2022.

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

Noninterest Income

Noninterest income categories for the nine month and three month period ended September 30, 2023 and 2022 are shown in the following tables:

	Nine Months Ended September 30,			
(dollars in thousands)	**2023**	2022	Dollar Change	Percent Change
Wealth advisory fees	**$ 6,769**	$ 6,550	$ 219	3.3 %
Investment brokerage fees	**1,370**	1,711	(341)	(19.9)
Service charges on deposit accounts	**8,091**	8,681	(590)	(6.8)
Loan and service fees	**8,782**	9,131	(349)	(3.8)
Merchant card fee income	**2,744**	2,660	84	3.2
Bank owned life insurance income (loss)	**2,393**	(212)	2,605	(1,228.8)
Interest rate swap fee income	**794**	492	302	61.4
Mortgage banking income (loss)	**(184)**	771	(955)	(123.9)
Net securities gains (losses)	**(16)**	0	(16)	N/A
Other income	**1,907**	1,559	348	22.3
Total noninterest income	**$ 32,650**	$ 31,343	$ 1,307	4.2 %
Noninterest income to total revenue	**18.03 %**	17.67 %		

(dollars in thousands)	Three Months Ended September 30, 2023	2022	Dollar Change	Percent Change
Wealth advisory fees	**$ 2,298**	$ 2,059	$ 239	11.6 %
Investment brokerage fees	**408**	651	(243)	(37.3)
Service charges on deposit accounts	**2,735**	2,990	(255)	(8.5)
Loan and service fees	**2,934**	3,047	(113)	(3.7)
Merchant card fee income	**938**	941	(3)	(0.3)
Bank owned life insurance income (loss)	**1,009**	54	955	1,768.5
Interest rate swap fee income	**0**	88	(88)	(100.0)
Mortgage banking income (loss)	**(50)**	(89)	39	(43.8)
Net securities gains (losses)	**(35)**	0	(35)	N/A
Other income	**598**	423	175	41.4
Total noninterest income	**$ 10,835**	$ 10,164	$ 671	6.6 %
Noninterest income to total revenue	**18.29 %**	16.22 %		

Noninterest income increased by $1.3 million, or 4.2%, to $32.7 million for the nine months ended September 30, 2023, compared to $31.3 million for the prior year nine-month period. The increase was driven by increases to bank owned life insurance income of $2.6 million, other income of $348,000, or 22.3%, interest rate swap fee income of $302,000, or 61.4%, and wealth advisory fees of $219,000, or 3.3%. These increases were offset by decreases to mortgage banking income of $955,000, or 123.9%, service charges on deposit accounts of $590,000, or 6.8%, loan and service fees of $349,000, or 3.8%, and investment brokerage fees of $341,000, or 19.9%.

The company’s noninterest income increased $671,000, or 6.6%, to $10.8 million for the third quarter of 2023, compared to $10.2 million for the third quarter of 2022. The increase in noninterest income was primarily driven by an increase in bank owned life insurance income of $955,000, an increase in wealth advisory fees of $239,000, or 11.6%, and an increase in other income of $175,000, or 41.4%. Bank owned life insurance income benefited from improved market performance of the company's variable life insurance policies which track to the overall performance of the equity markets, and from the purchase of general life insurance policies during the fourth quarter of 2022. The increase in wealth advisory fees was driven by an increase in trust assets which benefited from new customer inflows. The increase to other income was driven by increased limited partnership income and higher dividend from the company's FHLB stock holding. Offsetting these increases to noninterest income was a decrease to service charges on deposit accounts of of $255,000, or 8.5%, primarily the result of increased earning credit rating for commercial depositors related to commercial treasury management fees and other changes to the deposit fee schedule for retail accounts, a decrease to investment brokerage fees of $243,000, or 37.3%, due to fluctuations in fee generating sales volume and mix, and a decrease to loan and service fees of $113,000, or 3.7%, due to a decline in fee-based volume.

Noninterest Expense

Noninterest expense categories for the nine month and three month period ended September 30, 2023 and 2022 are shown in the following tables:

	Nine Months Ended September 30,			
(dollars in thousands)	**2023**	2022	Dollar Change	Percent Change
Salaries and employee benefits	**$ 43,414**	$ 43,840	$ (426)	(1.0)%
Net occupancy expense	**4,874**	4,793	81	1.7
Equipment costs	**4,189**	4,250	(61)	(1.4)
Data processing fees and supplies	**10,305**	9,510	795	8.4
Corporate and business development	**3,930**	4,078	(148)	(3.6)
FDIC insurance and other regulatory fees	**2,469**	1,516	953	62.9
Professional fees	**6,284**	4,527	1,757	38.8
Wire fraud loss	**18,058**	0	18,058	N/A
Other expense	**7,742**	10,262	(2,520)	(24.6)
Total noninterest expense	**$ 101,265**	$ 82,776	$ 18,489	22.3 %
Efficiency ratio	**55.92 %**	46.66 %		

	Three Months Ended September 30,			
(dollars in thousands)	**2023**	2022	Dollar Change	Percent Change
Salaries and employee benefits	**$ 15,977**	$ 14,650	$ 1,327	9.1 %
Net occupancy expense	**1,621**	1,476	145	9.8
Equipment costs	**1,325**	1,380	(55)	(4.0)
Data processing fees and supplies	**3,379**	3,226	153	4.7
Corporate and business development	**1,201**	1,426	(225)	(15.8)
FDIC insurance and other regulatory fees	**871**	458	413	90.2
Professional fees	**2,114**	1,554	560	36.0
Wire fraud loss	**0**	0	0	N/A
Other expense	**2,609**	3,724	(1,115)	(29.9)
Total noninterest expense	**$ 29,097**	$ 27,894	$ 1,203	4.3 %
Efficiency ratio	**49.13 %**	44.52 %		

Noninterest expense increased by $18.5 million, or 22.3%, for the nine months ended September 30, 2023, from $82.8 million to $101.3 million. The increase to noninterest expense during the year was driven by an $18.1 million wire fraud loss recorded as a component of noninterest expense during the second quarter of 2023. Other drivers contributing to the increase in noninterest expense include an increase to professional fees of $1.8 million, or 38.8%, an increase to FDIC insurance and other regulatory fees of $953,000, or 62.9%, and an increase to data processing fees and supplies of $795,000, or 8.4%. Adjusted core noninterest expense, which excludes the estimated impact of the wire fraud loss, increased by $2.3 million, or 2.8%, from $82.8 million for the nine months ended September 30, 2022, to $85.1 million for the nine months ended September 30, 2023.

Noninterest expense increased $1.2 million, or 4.3%, to $29.1 million for the third quarter of 2023, compared to $27.9 million during the third quarter of 2022. The increase in noninterest expense during the quarter was attributable to an increase in salaries and employee benefits of $1.3 million, or 9.1%, an increase in professional fees of $560,000, or 36.0%, and an increase in FDIC insurance and other regulatory fees of $413,000, or 90.2%. Salaries and employee benefits increased due to increases in salaries and employee insurance expense and an increase in deferred compensation expense which is tied to the market performance of the company's variable bank owned life insurance policies. Professional fees increased as a result of increased interest charges associated with the bank's cash swap collateral positions and increased legal expense related to the wire fraud loss and ongoing matters. The increase to FDIC insurance and other regulatory fees was caused by a blanket increase to the assessment rate used by the FDIC to calculate insurance premiums. Offsetting these increases was a decrease to other expense of $1.1 million, or 29.9%, driven by a decrease in accruals pertaining to ongoing legal matters.

The Company's income tax expense decreased $6.2 million, or 38.1%, to $10.1 million in the nine months ended September 30, 2023, compared to $16.4 million for the same period in 2022. The effective tax rate was 13.6% in the nine months ended September 30, 2023, compared to 17.4% for the comparable period of 2022. The year-to-date effective tax rate is reduced by the wire fraud loss, income from tax-advantaged sources such as federally tax exempt municipal bond interest income as well as a tax benefit from stock-based compensation vesting of shares for plan participants.

FINANCIAL CONDITION

Overview

Total assets were $6.427 billion as of September 30, 2023 versus $6.432 billion as of December 31, 2022, a decrease of $5.5 million, or less than 1%. Total loans, net of the allowance for credit losses, and cash and cash equivalents increased $161.1 million, or 3.5%, and $16.0 million, or 12.3%, respectively, between December 31, 2022 and September 30, 2023. Offsetting these increases was a decrease in available-for-sale securities of $210.0 million, or 17.7%. Total deposits increased $196.5 million, or 3.6%, between December 31, 2022 and September 30, 2023. Noninterest bearing deposits decreased $359.1 million, or 20.7%, and interest bearing deposits increased $555.6 million, or 14.9%. Total borrowings decreased $207.0 million, or 69.7%. Total equity decreased $11.7 million, or 2.1%, from $568.9 million at December 31, 2022 to $557.2 million at September 30, 2023. Retained earnings increased $28.8 million, or 4.5%, as a result of net income of $64.1 million, offset by dividends declared and paid of $35.3 million. Accumulated other comprehensive income (loss), decreased $39.2 million, or 20.7%, due primarily to a decline in available-for-sale securities fair market values during the nine months ended September 30, 2023.

Uses of Funds

Total Cash and Cash Equivalents

Total cash and cash equivalents increased by $16.0 million, or 12.3%, to $146.3 million at September 30, 2023, from $130.3 million at December 31, 2022. Cash and cash equivalents include short-term investments. The increase in cash and cash equivalents at September 30, 2023 was driven by an increase in interest bearing short-term investment accounts of $29.5 million, or 59.8%, offset by a decrease in cash and due from banks of $13.5 million, or 16.6%.

Investment Portfolio

The amortized cost and the fair value of securities as of September 30, 2023 and December 31, 2022 were as follows:

(dollars in thousands)	**September 30, 2023** Amortized Cost	**September 30, 2023** Fair Value	December 31, 2022 Amortized Cost	December 31, 2022 Fair Value
Available-for-Sale				
U.S Treasury securities	**$ 2,873**	**$ 2,861**	$ 3,057	$ 3,034
U.S government sponsored agencies	**148,895**	**115,671**	156,184	126,961
Mortgage-backed securities: residential	**531,807**	**429,662**	578,175	492,308
State and municipal securities	**558,346**	**427,338**	663,367	563,225
Total available-for-sale	**$ 1,241,921**	**$ 975,532**	$ 1,400,783	$ 1,185,528
Held-to-Maturity				
State and municipal securities	**$ 129,494**	**$ 102,629**	$ 128,242	$ 111,029
Total Investment Portfolio	**$ 1,371,415**	**$ 1,078,161**	$ 1,529,025	$ 1,296,557

At September 30, 2023 and December 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. government agencies and government sponsored entities, in an amount greater than 10% of stockholders' equity. Management is aware that, as interest rates rise, any unrealized loss in the available-for-sale investment securities portfolio will increase, and as interest rates fall the unrealized gain in the investment portfolio will rise. Since the majority of the bonds in the investment portfolio are fixed-rate, with only a few adjustable-rate bonds, we would expect our investment portfolio to follow this market value pattern. This is taken into consideration when evaluating the gain or loss of investment securities in the portfolio and the potential for an allowance for credit losses.

Purchases of securities available-for-sale totaled $4.3 million in the first nine months of 2023. The purchases consisted of U.S. Treasury securities and mortgage-backed securities issued by government sponsored entities for CRA purposes. Investment securities represented 17.2% of total assets on September 30, 2023, compared to 20.4% of total assets on December 31, 2022. Effective duration for the investment portfolio was 6.7 years at September 30, 2023, compared to 4.0 years at December 31, 2019, before the pandemic, and 6.5 years at December 31, 2022. Duration of the portfolio extended following the deployment of excess liquidity to the portfolio and the dramatic rise in interest rates during 2022 and into 2023. The ratio of investment securities as a percentage of total assets remains elevated over historical levels of approximately 12-14% during 2014 to 2020. The Company expects the investment securities portfolio as a percentage of assets to decrease over time as the proceeds from pay downs, sales and maturities of these investment securities are used to fund loan portfolio growth and for other general liquidity purposes. Paydowns from prepayments and scheduled payments of $44.5 million were received in the first nine months of 2023, and the amortization of premiums, net of the accretion of discounts, was $3.7 million. Maturities and calls of securities totaled $12.1 million in the first nine months of 2023. Sales of available-for-sale investment securities totaled $102.8 million in the first nine months of 2023 and resulted in net losses of $16,000. No allowance for credit losses was recognized for available-for-sale or held-to-maturity securities as of September 30, 2023 and December 31, 2022.

The fair value of the available-for-sale investment securities portfolio as of September 30, 2023 included net unrealized losses of $266.4 million, compared to net unrealized losses of $215.3 million as of December 31, 2022. Unrealized losses in the available-for-sale investment securities portfolio resulted from the declines in market values of the investment securities. These declines were driven by the rising interest rate environment as a result of the Federal Reserve's monetary tightening policy to combat elevated levels of inflation affecting the U.S. economy.

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

Real Estate Mortgage Loans Held-for-Sale

Real estate mortgage loans held-for-sale increased by $215,000, or 60.2%, to $572,000 at September 30, 2023, from $357,000 at December 31, 2022. The balance of this asset category is subject to a high degree of variability depending on, among other 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 $6.1 million in the first nine months of 2023, compared to $34.3 million in the first nine months of 2022. 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 $340.1 million and $364.3 million, as of September 30, 2023 and December 31, 2022, respectively.

Loan Portfolio

The loan portfolio by portfolio segment as of September 30, 2023 and December 31, 2022 is summarized as follows:

(dollars in thousands)	**September 30, 2023**		**December 31, 2022**		Current Period Change
Commercial and industrial loans	**$ 1,402,220**	**28.8 %**	$ 1,493,049	31.7 %	$ (90,829)
Commercial real estate and multi-family residential loans	**2,422,459**	**49.6**	2,179,094	46.2	243,365
Agri-business and agricultural loans	**380,528**	**7.8**	432,088	9.2	(51,560)
Other commercial loans	**125,939**	**2.6**	113,593	2.4	12,346
Consumer 1-4 family mortgage loans	**449,613**	**9.3**	407,566	8.6	42,047
Other consumer loans	**93,737**	**1.9**	88,075	1.9	5,662
Subtotal, gross loans	**4,874,496**	**100.0 %**	4,713,465	100.0 %	161,031
Less: Allowance for credit losses	**(72,105)**		(72,606)		501
Net deferred loan fees	**(3,531)**		(3,069)		(462)
Loans, net	**$ 4,798,860**		$ 4,637,790		$ 161,070

Total loans, excluding real estate mortgage loans held-for-sale and deferred fees, increased by $161.1 million, or 3.5%, to $4.874 billion at September 30, 2023 from $4.713 billion at December 31, 2022. The increase was primarily driven by originations of loans concentrated in the commercial real estate and multi-famly residential, other commercial, and consumer 1-4 family mortgage loans categories and was offset by paydowns in commercial and industrial loans and the agri-business and agricultural loans segments, the latter of which traditionally experiences seasonal fluctuations in activity.

The following table summarizes the Company's non-performing assets as of September 30, 2023 and December 31, 2022:

(dollars in thousands)	**September 30, 2023**	December 31, 2022
Nonaccrual loans	**$ 16,290**	$ 16,964
Loans past due over 90 days and still accruing	**19**	123
Total nonperforming loans	**16,309**	17,087
Other real estate owned	**384**	100
Repossessions	**45**	37
Total nonperforming assets	**$ 16,738**	$ 17,224
Individually analyzed loans	**$ 16,739**	$ 31,327
Nonperforming loans to total loans	**0.33 %**	0.36 %
Nonperforming assets to total assets	**0.26 %**	0.27 %

Total nonperforming assets decreased by $486,000, or 2.8%, to $16.7 million during the nine month period ended September 30, 2023. The ratio of nonperforming assets to total assets decreased 1 basis point from 0.27% at December 31, 2022 to 0.26% at September 30, 2023.

A loan is individually analyzed when full payment under the original loan terms is not expected. The analysis for smaller loans that are similar in nature and which are not in nonaccrual or modified status, such as residential mortgage, consumer, and credit card loans, is determined based on the class of loans. If a loan is individually analyzed, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows or at the fair value of collateral if repayment is expected solely from the collateral. Total individually analyzed loans decreased by $14.6 million, or 46.6%, to $16.7 million at September 30, 2023 from $31.3 million at December 31, 2022, due primarily to a charge off of a single commercial credit during the first quarter of 2023 and nonaccrual loan paydowns.

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

At September 30, 2023, the allowance for credit losses was 1.48% of total loans outstanding, versus 1.54% of total loans outstanding at December 31, 2022. At September 30, 2023, management believed the allowance for credit losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions deteriorate, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the allowance for credit losses. The process of identifying credit losses is a subjective process.

The Company has a relatively high percentage of commercial and commercial real estate loans, which are extended to businesses with a broad range of revenue and within a wide variety of industries. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by utilizing relatively conservative credit structures, by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and market area. The Company has limited exposure to commercial office space borrowers, all of which are located in the Bank's Indiana markets. Loans totaling $71.9 million for this sector represented only 1.5% of total loans at September 30, 2023.

As of September 30, 2023, based on management’s review of the loan portfolio, the Company had 66 credit relationships totaling $186.4 million on the classified loan list versus 58 credit relationships totaling $161.0 million as of December 31, 2022. The increase in classified loans for the first nine months of 2023 resulted primarily from borrower risk rating downgrades of pass rated loans to the non-individually analyzed portion of the watch list. As of September 30, 2023, the Company had $166.1 million of assets classified as Special Mention, $20.2 million classified as Substandard, $0 classified as Doubtful and $0 classified as Loss as compared to $115.7 million, $45.3 million, $0 and $0, respectively, at December 31, 2022. Watch list loans as a percentage of total loans increased to 3.83% as of September 30, 2023, up from a historical low at 3.42% as of December 31, 2022.

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

The allowance for credit losses decreased $501,000, or less than 1%, from $72.6 million at December 31, 2022 to $72.1 million at September 30, 2023. The decrease was a result of net charge-offs recorded during the period of $6.1 million, offset by provision expense of $5.6 million. Of the $6.1 million in net charge-offs, $5.5 million was attributable to a single deteriorated commercial relationship. The increased provision expense recorded during the nine months ended September 30, 2023 was primarily attributable to loan growth. 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, the Federal Reserve Bank Discount Window and the Federal Reserve Bank Term Funding Program. In addition, the Company has access to unsecured borrowing capacity through long established relationships within the brokered deposit markets, Federal Funds lines from correspondent bank partners and Insured Cash Sweep (ICS) one-way buy funds available from the Intrafi network. As of September 30, 2023, the Company had access to $3.27 billion in unused liquidity available from these aggregate sources, up from $2.99 billion at December 31, 2022.

The average daily deposits and borrowings together with average rates paid on those deposits and borrowings for the nine months ended September 30, 2023 and 2022 are summarized in the following table:

	Nine months ended September 30,			
	2023		2022	
(dollars in thousands)	Balance	Rate	Balance	Rate
Noninterest bearing demand deposits	$ 1,509,292	0.00 %	$ 1,868,858	0.00 %
Savings and transaction accounts:				
Savings deposits	360,535	0.07	421,363	0.08
Interest bearing demand deposits	2,854,161	3.58	2,658,739	0.73
Time deposits:				
Deposits of $100,000 or more	616,477	3.39	607,352	0.53
Other time deposits	196,914	2.24	189,459	0.67
Total deposits	$ 5,537,379	2.31 %	$ 5,745,771	0.42 %
FHLB advances and other borrowings	218,561	5.05	42,866	0.40
Total funding sources	$ 5,755,940	2.41 %	$ 5,788,637	0.42 %

Average total deposits were $5.537 billion for the nine months ended September 30, 2023, a decrease of $208.4 million, or 3.6%, from the comparable period in 2022. Average total borrowings were $218.6 million for the nine months ended September 30, 2023, an increase of $175.7 million, or 409.9%, from the comparable period in 2022. Total average deposit costs increased 189 basis points from 0.42% for the nine months ended September 30, 2022, compared to 2.31% for the nine months ended September 30, 2023. Total average borrowing costs increased 465 basis points from 0.40% for the nine months ended September 30, 2022 to 5.05% for the nine months ended September 30, 2023. As a result, total funding costs increased by 199 basis points from 0.42% for the nine months ended September 30, 2022, to 2.41% for the nine months ended September 30, 2023.

Deposits and Borrowings

As of September 30, 2023, total deposits increased by $196.5 million, or 3.6%, from December 31, 2022. Core deposits, which excludes brokered deposits, increased by $29.1 million, or less than 1%, to $5.480 billion as of September 30, 2023 from $5.451 billion as of December 31, 2022. Total brokered deposits were $177.4 million at September 30, 2023, compared to $10.0 million at December 31, 2022, an increase of $167.4 million.

The following table summarizes deposit composition at September 30, 2023 and December 31, 2022:

(dollars in thousands)	September 30, 2023	Percentage of Total	December 31, 2022	Percentage of Total	Current Period Change
Retail	$ 1,761,235	31.1 %	$ 1,934,787	35.4 %	$ (173,552)
Commercial	2,154,853	38.1	2,085,934	38.2	68,919
Public funds	1,563,557	27.7	1,429,872	26.2	133,685
Core deposits	$ 5,479,645	96.9 %	$ 5,450,593	99.8 %	$ 29,052
Brokered deposits	177,430	3.1	10,027	0.2	167,403
Total deposits	$ 5,657,075	100.0 %	$ 5,460,620	100.0 %	$ 196,455

Core deposits have been stable during 2023. Utilization of brokered deposits as a wholesale funding alternative has returned to pre-pandemic levels. On September 30, 2023 commercial deposits represented 38.1% of total deposits versus 38.2% at December 31, 2022. Retail deposits represented 31.1% at September 30, 2023 versus 35.4% at December 31, 2022. Public Funds deposits represented 27.7% at September 30, 2023 versus 26.2% at December 31, 2022. Brokered deposits represented 3.1% of total deposits at September 30, 2023 versus less than 1% at December 31, 2022. Commercial deposits expanded $68.9 million, or 3.3%, from $2.09 billion at December 31, 2022 to $2.15 billion at September 30, 2023; retail deposits contracted $173.6 million, or 9.0%, from $1.93 billion at December 31, 2022 to $1.76 billion at September 30, 2023; and public funds deposits expanded $133.7 million, or 9.3%, from $1.43 billion at December 31, 2022 to $1.56 billion at September 30, 2023.

Uninsured deposits not covered by FDIC deposit insurance were 54% as of September 30, 2023, versus 56% at December 31, 2022. Uninsured deposits not covered by FDIC deposit insurance or the Indiana Public Deposit Insurance Fund (which insures public fund deposits in Indiana), were 28% of total deposits as of September 30, 2023, versus 30% as of December 31, 2022. As of September 30, 2023 and December 31, 2022, 98% of deposit accounts had deposit balances less than $250,000.

Capital

As of September 30, 2023, total stockholders' equity was $557.2 million, a decrease of $11.7 million, or 2.1%, from $568.9 million at December 31, 2022. Net income of $64.1 million was offset by a decrease of $39.2 million in accumulated other comprehensive income (loss) and dividends declared and paid of $35.3 million.

The impact on equity for other comprehensive income (loss) is not included in regulatory capital. The banking regulators have established guidelines for leverage capital requirements, expressed in terms of Tier 1, or core capital, as a percentage of average assets, to measure the soundness of a financial institution. In addition, banking regulators have established risk-based capital guidelines for U.S. banking organizations. As of September 30, 2023, the Company's capital levels remained characterized as "well-capitalized".

The actual capital amounts and ratios of the Company and the Bank as of September 30, 2023 and December 31, 2022, are presented in the table below. Capital ratios for September 30, 2023 are preliminary until the Call Report and FR Y-9C are filed.

	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2023:								
Total Capital (to Risk Weighted Assets)								
Consolidated	**$ 850,554**	**15.14 %**	**$ 449,320**	**8.00 %**	**$ 589,732**	**N/A**	**N/A**	**N/A**
Bank	**$ 829,438**	**14.77 %**	**$ 449,182**	**8.00 %**	**$ 589,551**	**10.50 %**	**$ 561,477**	**10.00 %**
Tier I Capital (to Risk Weighted Assets)								
Consolidated	**$ 780,235**	**13.89 %**	**$ 336,990**	**6.00 %**	**$ 477,402**	**N/A**	**N/A**	**N/A**
Bank	**$ 759,141**	**13.52 %**	**$ 336,886**	**6.00 %**	**$ 477,255**	**8.50 %**	**$ 449,182**	**8.00 %**
Common Equity Tier 1 (CET1)								
Consolidated	**$ 780,235**	**13.89 %**	**$ 252,742**	**4.50 %**	**$ 393,155**	**N/A**	**N/A**	**N/A**
Bank	**$ 759,141**	**13.52 %**	**$ 252,665**	**4.50 %**	**$ 393,034**	**7.00 %**	**$ 364,960**	**6.50 %**
Tier I Capital (to Average Assets)								
Consolidated	**$ 780,235**	**11.64 %**	**$ 268,199**	**4.00 %**	**$ 268,199**	**N/A**	**N/A**	**N/A**
Bank	**$ 759,141**	**11.35 %**	**$ 267,560**	**4.00 %**	**$ 267,560**	**4.00 %**	**$ 334,451**	**5.00 %**
As of December 31, 2022:								
Total Capital (to Risk Weighted Assets)								
Consolidated	$ 821,008	15.07 %	$ 435,786	8.00 %	$ 571,969	N/A	N/A	N/A
Bank	$ 801,044	14.74 %	$ 434,758	8.00 %	$ 570,620	10.50 %	$ 543,448	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	$ 752,751	13.82 %	$ 326,840	6.00 %	$ 463,023	N/A	N/A	N/A
Bank	$ 732,966	13.49 %	$ 326,069	6.00 %	$ 461,930	8.50 %	$ 434,758	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	$ 752,751	13.82 %	$ 245,130	4.50 %	$ 381,313	N/A	N/A	N/A
Bank	$ 732,966	13.49 %	$ 244,551	4.50 %	$ 380,413	7.00 %	$ 353,241	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	$ 752,751	11.50 %	$ 261,859	4.00 %	$ 261,859	N/A	N/A	N/A
Bank	$ 732,966	11.22 %	$ 261,222	4.00 %	$ 261,222	4.00 %	$ 326,527	5.00 %

FORWARD-LOOKING STATEMENTS

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

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

- the effects of future economic, business and market conditions and changes, particularly in our Indiana market area, including prevailing interest rates and the rate of inflation;
- governmental monetary and fiscal policies and the impact the current economic environment will have on these;
- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities and other interest sensitive assets and liabilities;
- changes in borrowers’ credit risks and payment behaviors;
- the failure of assumptions and estimates used in our reviews of our loan portfolio, underlying the establishment of reserves for possible credit losses, our analysis of our capital position and other estimates;
- the effects of disruption and volatility in capital markets on the value of our investment portfolio;
- 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 effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the risks related to the recent failures of First Republic Bank, Silicon Valley Bank and Signature Bank, including the effects already recognized and increased deposit volatility;
- the timing and scope of any legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators;
- changes in the scope and cost of FDIC insurance, the state of Indiana’s Public Deposit Insurance Fund and other coverages;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the risk of labor availability, trade policy and tariffs, as well as supply chain constraints could impact loan demand from the manufacturing sector;
- the outcome of pending litigation and other claims we may be subject to from time to time;
- the effects of fraud by or affecting employees, customers or third parties;
- 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;
- 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, 2022, as well as other risks and uncertainties set forth from time to time in the Company’s other filings with the SEC.

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk represents the Company’s primary market risk exposure. The Company does not have a material exposure to foreign currency exchange risk, does not have any material amount of derivative financial instruments and does not maintain a trading portfolio. The Corporate Risk Committee of the Board of Directors annually reviews and approves the policy used to manage interest rate risk. The policy was last reviewed and approved in July 2023. The policy sets guidelines for balance sheet structure, which are designed to protect the Company from the impact that interest rate changes could have on net income but do not necessarily indicate the effect on future net interest income. The Company, through the Bank's Asset and Liability Committee, manages interest rate risk by monitoring the computer simulated earnings impact of various rate scenarios and general market conditions. The Company then modifies its long-term risk parameters by attempting to generate the types of loans, investments, and deposits that currently fit the Company’s needs, as determined by the Asset and Liability Committee. This computer simulation analysis measures the net interest income impact of various interest rate scenario changes during the next twelve months. The Company continually evaluates the assumptions used in the model. The current balance sheet structure is considered to be within acceptable risk levels.

Interest rate scenarios for the base, falling 300 basis points, falling 200 basis points, falling 100 basis points, falling 50 basis points, falling 25 basis points, rising 25 basis points, rising 50 basis points, rising 100 basis points, rising 200 basis points and rising 300 basis points are listed below based upon the Company’s rate sensitive assets and liabilities at September 30, 2023. The net interest income shown represents cumulative net interest income over a twelve-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

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

(dollars in thousands)	Base	Falling (300 Basis Points)	Falling (200 Basis Points)	Falling (100 Basis Points)	Falling (50 Basis Points)	Falling (25 Basis Points)	Rising (25 Basis Points)	Rising (50 Basis Points)	Rising (100 Basis Points)	Rising (200 Basis Points)	Rising (300 Basis Points)
Net interest income	$ 208,689	$ 185,295	$ 194,043	$ 201,881	$ 205,391	$ 207,088	$ 209,952	$ 211,143	$ 213,496	$ 218,223	$ 222,947
Variance from Base		$ (23,394)	$ (14,646)	$ (6,808)	$ (3,298)	$ (1,601)	$ 1,263	$ 2,454	$ 4,807	$ 9,534	$ 14,258
Percent of change from Base		(11.21)%	(7.02)%	(3.26)%	(1.58)%	(0.77)%	0.61 %	1.18 %	2.30 %	4.57 %	6.83 %

ITEM 4 – CONTROLS AND PROCEDURES

As required by Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of September 30, 2023. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2023, there were no changes to the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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 September 30, 2023.

During the quarter ended September 30, 2023, no director or officer of the Company adopted or terminated any Rule 10b5-1 trading arrangement or any non-Rule 10b5-1 trading arrangement, in each case as defined in Item 408 of Regulation S-K.

The following table provides information as of September 30, 2023 with respect to shares of common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b)
July 1 - 31	2,501	$ 48.97	0	$ 30,000,000
August 1 - 31	1,491	55.82	0	30,000,000
September 1 - 30	0	0.00	0	30,000,000
Total	3,992	$ 51.53	0	$ 30,000,000

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

(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 bet 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 September 30, 2023, 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 September 30, 2023 and December 31, 2022; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2023 and September 30, 2022; (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2023 and September 30, 2022; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2023 and September 30, 2022; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and September 30, 2022; and (vi) Notes to Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

LAKELAND FINANCIAL CORPORATION
(Registrant)

Date: November 1, 2023	/s/ David M. Findlay
	David M. Findlay – Chief Executive Officer
Date: November 1, 2023	/s/ Lisa M. O’Neill
	Lisa M. O’Neill – Executive Vice President and Chief Financial Officer (principal financial officer)
Date: November 1, 2023	/s/ Brok A. Lahrman
	Brok A. Lahrman – Senior Vice President and Chief Accounting Officer (principal accounting officer)

Exhibit 31.1

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

1. I have reviewed this quarterly report on Form 10-Q of Lakeland Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2023

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

Exhibit 31.2

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

1. I have reviewed this 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: November 1, 2023

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

Exhibit 32.1

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

In connection with the Quarterly Report of Lakeland Financial Corporation (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David M. Findlay, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David M. Findlay
David M. Findlay
Chief Executive Officer
November 1, 2023

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

Exhibit 32.2

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

In connection with the Quarterly Report of Lakeland Financial Corporation (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lisa M. O’Neill, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lisa M. O’Neill
Lisa M. O’Neill
Chief Financial Officer
November 1, 2023

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