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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from ____________ to _____________

Commission File Number: 0-11487

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

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer☐

Smaller reporting company ☐ Emerging growth company ☐

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

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

Number of shares of common stock outstanding at October 31, 2019: 25,623,016

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	September 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and due from banks	**$ 90,442**	$ 192,290
Short-term investments	**46,133**	24,632
Total cash and cash equivalents	**136,575**	216,922
Securities available-for-sale (carried at fair value)	**613,230**	585,549
Real estate mortgage loans held-for-sale	**7,424**	2,293
Loans, net of allowance for loan losses of $50,628 and $48,453	**3,972,593**	3,866,292
Land, premises and equipment, net	**59,631**	58,097
Bank owned life insurance	**83,153**	77,106
Federal Reserve and Federal Home Loan Bank stock	**13,772**	13,772
Accrued interest receivable	**15,823**	15,518
Goodwill	**4,970**	4,970
Other assets	**40,984**	34,735
Total assets	**$ 4,948,155**	$ 4,875,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	**$ 1,011,336**	$ 946,838
Interest bearing deposits	**3,272,054**	3,097,227
Total deposits	**4,283,390**	4,044,065
Borrowings		
Securities sold under agreements to repurchase	**0**	75,555
Federal Home Loan Bank advances	**0**	170,000
Subordinated debentures	**30,928**	30,928
Total borrowings	**30,928**	276,483
Accrued interest payable	**12,071**	10,404
Other liabilities	**37,330**	22,598
Total liabilities	**4,363,719**	4,353,550
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value 25,623,016 shares issued and 25,445,400 outstanding as of September 30, 2019 25,301,732 shares issued and 25,128,773 outstanding as of December 31, 2018	**114,243**	112,383
Retained earnings	**460,736**	419,179
Accumulated other comprehensive income (loss)	**13,467**	(6,191)
Treasury stock at cost (177,616 shares as of September 30, 2019, 172,959 shares as of December 31, 2018)	**(4,099)**	(3,756)
Total stockholders' equity	**584,347**	521,615
Noncontrolling interest	**89**	89
Total equity	**584,436**	521,704
Total liabilities and equity	**$ 4,948,155**	$ 4,875,254

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	**$ 50,139**	$ 46,127	**$ 149,094**	$ 132,360
Tax exempt	**234**	208	**720**	627
Interest and dividends on securities				
Taxable	**2,209**	2,275	**6,956**	7,201
Tax exempt	**1,819**	1,570	**5,171**	4,367
Other interest income	**368**	199	**957**	687
Total interest income	**54,769**	50,379	**162,898**	145,242
Interest on deposits	**14,692**	11,473	**44,131**	31,488
Interest on borrowings				
Short-term	**113**	555	**1,295**	861
Long-term	**419**	426	**1,307**	1,212
Total interest expense	**15,224**	12,454	**46,733**	33,561
NET INTEREST INCOME	**39,545**	37,925	**116,165**	111,681
Provision for loan losses	**1,000**	1,100	**2,985**	6,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**38,545**	36,825	**113,180**	105,581
NONINTEREST INCOME				
Wealth advisory fees	**1,736**	1,627	**5,002**	4,676
Investment brokerage fees	**386**	376	**1,300**	1,043
Service charges on deposit accounts	**3,654**	4,114	**12,791**	11,542
Loan and service fees	**2,518**	2,327	**7,403**	6,925
Merchant card fee income	**690**	643	**1,982**	1,834
Bank owned life insurance income	**515**	466	**1,246**	1,177
Mortgage banking income	**636**	319	**1,256**	998
Net securities gains (losses)	**6**	0	**94**	(6)
Other income	**624**	752	**2,804**	2,036
Total noninterest income	**10,765**	10,624	**33,878**	30,225
NONINTEREST EXPENSE				
Salaries and employee benefits	**12,837**	12,755	**37,231**	36,267
Net occupancy expense	**1,351**	1,229	**4,000**	3,892
Equipment costs	**1,385**	1,316	**4,143**	3,840
Data processing fees and supplies	**2,620**	2,489	**7,619**	7,292
Corporate and business development	**999**	891	**3,376**	3,070
FDIC insurance and other regulatory fees	**(249)**	412	**566**	1,282
Professional fees	**1,479**	934	**3,487**	2,716
Other expense	**2,315**	2,174	**6,880**	5,346
Total noninterest expense	**22,737**	22,200	**67,302**	63,705
INCOME BEFORE INCOME TAX EXPENSE	**26,573**	25,249	**79,756**	72,101
Income tax expense	**5,119**	4,679	**14,907**	13,053
NET INCOME	**$ 21,454**	$ 20,570	**$ 64,849**	$ 59,048
BASIC WEIGHTED AVERAGE COMMON SHARES	**25,622,338**	25,301,033	**25,576,740**	25,284,085
BASIC EARNINGS PER COMMON SHARE	**$ 0.84**	$ 0.81	**$ 2.54**	$ 2.33
DILUTED WEIGHTED AVERAGE COMMON SHARES	**25,796,696**	25,745,151	**25,745,029**	25,719,693
DILUTED EARNINGS PER COMMON SHARE	**$ 0.83**	$ 0.80	**$ 2.52**	$ 2.30

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited - in thousands)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net income	**$ 21,454**	$ 20,570	**$ 64,849**	$ 59,048
Other comprehensive income (loss)				
Change in securities available for sale:				
Unrealized holding gain (loss) on securities available-for-sale arising during the period	**4,979**	(4,576)	**24,832**	(15,978)
Reclassification adjustment for (gains) losses included in net income	**(6)**	0	**(94)**	6
Net securities gain (loss) activity during the period	**4,973**	(4,576)	**24,738**	(15,972)
Tax effect	**(1,044)**	960	**(5,196)**	3,459
Net of tax amount	**3,929**	(3,616)	**19,542**	(12,513)
Defined benefit pension plans:				
Amortization of net actuarial loss	**51**	67	**154**	200
Net gain activity during the period	**51**	67	**154**	200
Tax effect	**(13)**	(17)	**(38)**	(52)
Net of tax amount	**38**	50	**116**	148
Total other comprehensive income (loss), net of tax	**3,967**	(3,566)	**19,658**	(12,365)
Comprehensive income	**$ 25,421**	$ 17,004	**$ 84,507**	$ 46,683

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

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

	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, 2018	25,126,537	$ 109,223	$ 390,404	$ (9,710)	$ (3,522)	$ 486,395	$ 89	$ 486,484
Comprehensive income:								
Net income			20,570			20,570		20,570
Other comprehensive loss, net of tax				(3,566)		(3,566)		(3,566)
Cash dividends declared, $0.26 per share			(6,580)			(6,580)		(6,580)
Treasury shares purchased under deferred directors’ plan	(3,891)	189			(189)	0		0
Stock activity under equity compensation plans	7,150	0				0		0
Stock based compensation expense		1,633				1,633		1,633
Balance at September 30, 2018	25,129,796	$ 111,045	$ 404,394	$ (13,276)	$ (3,711)	$ 498,452	$ 89	$ 498,541
Balance at July 1, 2019	**25,442,300**	**$ 112,689**	**$ 446,969**	**$ 9,500**	**$ (3,884)**	**$ 565,274**	**$ 89**	**$ 565,363**
Comprehensive income:								
Net income			**21,454**			**21,454**		**21,454**
Other comprehensive income, net of tax				**3,967**		**3,967**		**3,967**
Cash dividends declared, $0.30 per share			**(7,687)**			**(7,687)**		**(7,687)**
Treasury shares purchased under deferred directors’ plan	**(4,700)**	**215**			**(215)**	**0**		**0**
Stock activity under equity compensation plans	**7,800**	**(20)**				**(20)**		**(20)**
Stock based compensation expense		**1,359**				**1,359**		**1,359**
Balance at September 30, 2019	**25,445,400**	**$ 114,243**	**$ 460,736**	**$ 13,467**	**$ (4,099)**	**$ 584,347**	**$ 89**	**$ 584,436**

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

	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, 2018	25,025,933	$ 108,862	$ 363,794	$ (670)	$ (3,408)	$ 468,578	$ 89	$ 468,667
Adoption of ASU 2018-02			173	(173)		0		0
Adoption of ASU 2014-09			24			24		24
Adoption of ASU 2016-01			68	(68)		0		0
Comprehensive income:								
Net income			59,048			59,048		59,048
Other comprehensive loss, net of tax				(12,365)		(12,365)		(12,365)
Cash dividends declared, $0.74 per share			(18,713)			(18,713)		(18,713)
Treasury shares purchased under deferred directors' plan	(8,602)	418			(418)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,636	(115)			115	0		0
Stock activity under equity compensation plans	106,829	(2,435)				(2,435)		(2,435)
Stock based compensation expense		4,315				4,315		4,315
Balance at September 30, 2018	25,129,796	$ 111,045	$ 404,394	$ (13,276)	$ (3,711)	$ 498,452	$ 89	$ 498,541
Balance at January 1, 2019	**25,128,773**	**$ 112,383**	**$ 419,179**	**$ (6,191)**	**$ (3,756)**	**$ 521,615**	**$ 89**	**$ 521,704**
Adoption of ASU 2017-08 (See Note 1)			**(1,327)**			**(1,327)**		**(1,327)**
Comprehensive income:								
Net income			**64,849**			**64,849**		**64,849**
Other comprehensive income, net of tax				**19,658**		**19,658**		**19,658**
Cash dividends declared, $0.86 per share			**(21,965)**			**(21,965)**		**(21,965)**
Cashless exercise of warrants	**224,066**	**0**				**0**		**0**
Treasury shares purchased under deferred directors' plan	**(10,356)**	**461**			**(461)**	**0**		**0**
Treasury shares sold and distributed under deferred directors' plan	**5,699**	**(118)**			**118**	**0**		**0**
Stock activity under equity compensation plans	**97,218**	**(2,109)**				**(2,109)**		**(2,109)**
Stock based compensation expense		**3,626**				**3,626**		**3,626**
Balance at September 30, 2019	**25,445,400**	**$ 114,243**	**$ 460,736**	**$ 13,467**	**$ (4,099)**	**$ 584,347**	**$ 89**	**$ 584,436**

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	2019	2018
Cash flows from operating activities:		
Net income	$ 64,849	$ 59,048
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	4,428	4,199
Provision for loan losses	2,985	6,100
Net loss on sale and write down of other real estate owned	0	16
Amortization of loan servicing rights	368	379
Loans originated for sale	(43,510)	(38,926)
Net gain on sales of loans	(1,312)	(1,333)
Proceeds from sale of loans	39,013	39,448
Net (gain) loss on sales of premises and equipment	(2)	24
Net (gain) loss on sales and calls of securities available-for-sale	(94)	6
Net securities amortization	2,917	2,463
Stock based compensation expense	3,626	4,315
Earnings on life insurance	(1,246)	(1,177)
Gain on life insurance	(841)	(206)
Tax benefit of stock award issuances	(529)	(761)
Net change:		
Interest receivable and other assets	(5,416)	(4,607)
Interest payable and other liabilities	6,638	6,180
Total adjustments	7,025	16,120
Net cash from operating activities	71,874	75,168
Cash flows from investing activities:		
Proceeds from sale of securities available-for-sale	38,544	12,322
Proceeds from maturities, calls and principal paydowns of securities available-for-sale	50,959	42,021
Purchases of securities available-for-sale	(91,704)	(100,702)
Purchase of life insurance	(5,492)	(371)
Net increase in total loans	(109,286)	(29,860)
Proceeds from sales of land, premises and equipment	14	29
Purchases of land, premises and equipment	(5,974)	(5,430)
Proceeds from sales of other real estate	0	21
Proceeds from life insurance	1,483	569
Net cash from investing activities	(121,456)	(81,401)
Cash flows from financing activities:		
Net increase in total deposits	239,325	7,269
Net increase (decrease) in short-term borrowings	(75,555)	26,700
Net increase (decrease) in short-term FHLB borrowings	(170,000)	80,000
Payments on long-term FHLB borrowings	0	(80,030)
Common dividends paid	(21,952)	(18,700)
Preferred dividends paid	(13)	(13)
Payments related to equity incentive plans	(2,109)	(2,435)
Purchase of treasury stock	(461)	(418)
Net cash from financing activities	(30,765)	12,373
Net change in cash and cash equivalents	(80,347)	6,140
Cash and cash equivalents at beginning of the period	216,922	176,180
Cash and cash equivalents at end of the period	$ 136,575	$ 182,320
Cash paid during the period for:		
Interest	$ 45,066	$ 31,130
Income taxes	14,825	13,033
Supplemental non-cash disclosures:		
Loans transferred to other real estate owned	0	316
Securities purchases payable	4,892	4,018
Right-of-use assets obtained in exchange for lease liabilities	5,483	0

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

NOTE 1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-months and nine-months ended September 30, 2019 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2019. The Company’s 2018 Annual Report on Form 10-K should be read in conjunction with these statements.

Adoption of New Accounting Standards

The Company accounts for leases in accordance with ASU 2016-02, “Leases”, which the Company adopted on January 1, 2019. This guidance replaced existing lease guidance in GAAP and requires lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. Lessees and lessors are required to recognize and measure leases that exist at the beginning of the earliest period presented using a modified retrospective approach. The Company recorded a right-of-use asset of $5.5 million and a lease liability of $5.5 million upon adoption, and there was no cumulative period adjustment made to retained earnings. This standard did not have a material impact on the Company’s consolidated balance sheets or cash flows from operations and had no impact on the Company’s operating results. The most significant impact was the recognition of right-of-use assets and lease obligations for operating leases. The Company elected to adopt the package of practical expedients for this standard.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables—Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities.” This update amends the amortization period for certain purchased callable debt securities held at a premium. FASB has shortened the amortization period for the premium to the earliest call date. Under legacy GAAP, entities generally amortized the premium as an adjustment of yield over the contractual life of the instrument. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company adopted this new accounting standard on January 1, 2019. The effect of adoption was a reduction in retained earnings of approximately $1.3 million, net of tax, to reflect the acceleration of amortization of premiums on available-for-sale debt securities.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities”. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company adopted ASU 2017-12 on January 1, 2019. ASU 2017-12 required a modified retrospective transition method in which the Company recognized the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated balance sheet as of the date of adoption. Adopting this standard did not have an impact on the Company’s financial condition or results of operations.

Newly Issued But Not Yet Effective Accounting Standards

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

The Company formed a cross-functional committee that has evaluated existing technology and other solutions to assist with calculating losses under this new standard, selected a vendor to validate data currently loaded in the technology solution, and reviewed the validation assessment report. Additionally, the committee has selected a probability of default/loss given default model, run parallel calculations and evaluated changes to the overall internal control structure under the new model. Upon adoption of this standard, the Company will recognize credit losses earlier than it historically has done under the current incurred credit loss model. The Company intends to utilize a one to two year reasonable and supportable forecast period.

Due to this change in methodology, the Company anticipates larger increases in credit loss allowances for its longer-lived retail portfolios and smaller increases for its shorter-lived commercial portfolio. Based upon the Company's loan portfolio composition at September 30, 2019, and the current economic environment and management's current forecast and qualitative adjustment assumptions, we currently estimate a 5% - 15% increase in our allowance for credit losses upon adoption of this standard. The final effect of CECL on our allowance for credit losses will depend on the size and composition of our portfolio, the portfolio's credit quality and economic conditions at the time of adoption, as well as any refinements to our model, methodology and other key assumptions. Additionally, we will evaluate the need to recognize an allowance for credit impairment for available-for-sale debt securities. The impact on available-for-sale debt securities will be subject to a limitation, which is based on the fair value of the debt securities. When evaluating the credit quality of our existing portfolio, we do not expect the allowance for credit impairment for available-for-sale securities to be significant.

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment." These amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 should be adopted on a prospective basis. Management does not expect the adoption of this new accounting standard to have a material impact on our financial statements.

Reclassifications

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

NOTE 2. SECURITIES

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
September 30, 2019				
U.S. Treasury securities	**$ 995**	**$ 12**	**$ 0**	**$ 1,007**
U.S. government sponsored agencies	**2,303**	**5**	**0**	**2,308**
Mortgage-backed securities: residential	**291,427**	**5,217**	**(412)**	**296,232**
Mortgage-backed securities: commercial	**37,335**	**334**	**0**	**37,669**
State and municipal securities	**262,504**	**13,624**	**(114)**	**276,014**
Total	**$ 594,564**	**$ 19,192**	**$ (526)**	**$ 613,230**
December 31, 2018				
U.S. Treasury securities	$ 994	$ 0	$ (7)	$ 987
U.S. government sponsored agencies	4,435	0	(85)	4,350
Mortgage-backed securities: residential	329,516	1,392	(5,496)	325,412
Mortgage-backed securities: commercial	38,712	0	(571)	38,141
State and municipal securities	217,964	1,403	(2,708)	216,659
Total	$ 591,621	$ 2,795	$ (8,867)	$ 585,549

Information regarding the fair value and amortized cost of available-for-sale debt securities by maturity as of September 30, 2019 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	**$ 4,003**	**$ 4,013**
Due after one year through five years	**18,138**	**18,529**
Due after five years through ten years	**28,136**	**29,341**
Due after ten years	**215,525**	**227,446**
	265,802	**279,329**
Mortgage-backed securities	**328,762**	**333,901**
Total debt securities	**$ 594,564**	**$ 613,230**

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

(dollars in thousands)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Sales of securities available-for-sale				
Proceeds	**$ 12,725**	$ 0	**$ 38,544**	$ 12,322
Gross gains	**13**	0	**151**	21
Gross losses	**(7)**	0	**(57)**	(27)
Number of securities	**6**	0	**31**	22

In accordance with ASU No. 2017-08, purchase premiums for callable securities are amortized to the earliest call date and premiums on non-callable securities as well as discounts are recognized in interest income using the interest method over the terms of the securities or over the estimated lives of mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of $61.3 million and $164.7 million were pledged as of September 30, 2019 and December 31, 2018, respectively, as collateral for securities sold under agreements to repurchase, borrowings from the Federal Home Loan Bank and for other purposes as permitted or required by law. The Company has no securities sold under agreements to repurchase or Federal Home Loan Bank borrowings as of September 30, 2019, causing the decline in pledged securities.

Information regarding securities with unrealized losses as of September 30, 2019 and December 31, 2018 is presented below. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2019						
Mortgage-backed securities: residential	**$ 20,200**	**$ 84**	**$ 19,456**	**$ 328**	**$ 39,656**	**$ 412**
State and municipal securities	**7,103**	**105**	**2,761**	**9**	**9,864**	**114**
Total temporarily impaired	**$ 27,303**	**$ 189**	**$ 22,217**	**$ 337**	**$ 49,520**	**$ 526**
December 31, 2018						
U.S. Treasury securities	$ 0	$ 0	$ 987	$ 7	$ 987	$ 7
U.S. government sponsored agencies	0	0	4,350	85	4,350	85
Mortgage-backed securities: residential	11,619	12	217,182	5,484	228,801	5,496
Mortgage-backed securities: commercial	0	0	38,141	571	38,141	571
State and municipal securities	26,229	124	85,982	2,584	112,211	2,708
Total temporarily impaired	$ 37,848	$ 136	$ 346,642	$ 8,731	$ 384,490	$ 8,867

The total number of securities with unrealized losses as of September 30, 2019 and December 31, 2018 is presented below.

	Less than 12 months	12 months or more	Total
September 30, 2019			
Mortgage-backed securities: residential	**10**	**8**	**18**
Mortgage-backed securities: commercial	**0**	**0**	**0**
State and municipal securities	**5**	**2**	**7**
Total temporarily impaired	**15**	**10**	**25**
December 31, 2018			
U.S. Treasury securities	0	1	1
U.S. government sponsored agencies	0	2	2
Mortgage-backed securities: residential	5	84	89
Mortgage-backed securities: commercial	0	9	9
State and municipal securities	35	111	146
Total temporarily impaired	40	207	247

The following factors are considered in determining whether or not the impairment of these securities is other-than-temporary. In making this determination, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer, as well as the underlying fundamentals of the relevant market and the outlook for such market in the near future. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. As of September 30, 2019 and December 31, 2018, all of the securities in the Company's portfolio were backed by the U.S. government, government agencies, government sponsored entities or were A-rated or better, except for certain non-local or local municipal securities, which are not rated. For the government, government agency, government-sponsored entity and municipal securities, management did not believe that there would be credit losses or that full principal would not be received. Management considers the unrealized losses on these securities to be primarily interest rate driven and does not expect material losses given current market conditions unless the securities are sold. However, at this time management does not have the intent to sell, and it is more likely than not that the Company will not be required to sell these securities before the recovery of their amortized cost basis.

NOTE 3. LOANS

(dollars in thousands)	**September 30, 2019**		December 31, 2018	
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 730,557**	**18.2 %**	$ 690,620	17.6 %
Non-working capital loans	**701,773**	**17.4**	714,759	18.3
Total commercial and industrial loans	**1,432,330**	**35.6**	1,405,379	35.9
Commercial real estate and multi-family residential loans:				
Construction and land development loans	**319,420**	**7.9**	266,805	6.8
Owner occupied loans	**556,536**	**13.8**	586,325	15.0
Nonowner occupied loans	**545,444**	**13.5**	520,901	13.3
Multifamily loans	**259,408**	**6.5**	195,604	5.0
Total commercial real estate and multi-family residential loans	**1,680,808**	**41.7**	1,569,635	40.1
Agri-business and agricultural loans:				
Loans secured by farmland	**176,024**	**4.4**	177,503	4.6
Loans for agricultural production	**153,943**	**3.8**	193,010	4.9
Total agri-business and agricultural loans	**329,967**	**8.2**	370,513	9.5
Other commercial loans	**100,100**	**2.5**	95,657	2.4
Total commercial loans	**3,543,205**	**88.0**	3,441,184	87.9
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	**187,404**	**4.6**	185,822	4.7
Open end and junior lien loans	**191,597**	**4.8**	187,030	4.8
Residential construction and land development loans	**11,774**	**0.3**	16,226	0.4
Total consumer 1-4 family mortgage loans	**390,775**	**9.7**	389,078	9.9
Other consumer loans	**90,631**	**2.3**	86,064	2.2
Total consumer loans	**481,406**	**12.0**	475,142	12.1
Subtotal	**4,024,611**	**100.0 %**	3,916,326	100.0 %
Less: Allowance for loan losses	**(50,628)**		(48,453)	
Net deferred loan fees	**(1,390)**		(1,581)	
Loans, net	**$ 3,972,593**		$ 3,866,292	

The recorded investment in loans does not include accrued interest.

The Company had $1.5 million in residential real estate loans in the process of foreclosure as of September 30, 2019, compared to $586,000 as of December 31, 2018.

NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables present the activity in the allowance for loan losses by portfolio segment for the three-month periods ended September 30, 2019 and 2018:

(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, 2019								
Beginning balance, July 1	**$ 25,024**	**$ 15,492**	**$ 3,906**	**$ 355**	**$ 2,153**	**$ 289**	**$ 3,345**	**$ 50,564**
Provision for loan losses	**943**	**474**	**(4)**	**28**	**(93)**	**67**	**(415)**	**1,000**
Loans charged-off	**(1,123)**	**0**	**0**	**0**	**(23)**	**(75)**	**0**	**(1,221)**
Recoveries	**133**	**44**	**2**	**0**	**83**	**23**	**0**	**285**
Net loans charged-off	**(990)**	**44**	**2**	**0**	**60**	**(52)**	**0**	**(936)**
Ending balance	**$ 24,977**	**$ 16,010**	**$ 3,904**	**$ 383**	**$ 2,120**	**$ 304**	**$ 2,930**	**$ 50,628**

(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, 2018								
Beginning balance, July 1	$ 22,524	$ 14,954	$ 4,585	$ 464	$ 1,953	$ 266	$ 2,960	$ 47,706
Provision for loan losses	952	140	(506)	(23)	321	62	154	1,100
Loans charged-off	(474)	0	0	0	(24)	(83)	0	(581)
Recoveries	69	7	5	0	6	31	0	118
Net loans charged-off	(405)	7	5	0	(18)	(52)	0	(463)
Ending balance	$ 23,071	$ 15,101	$ 4,084	$ 441	$ 2,256	$ 276	$ 3,114	$ 48,343

The following tables present the activity in the allowance for loan losses by portfolio segment for the nine-month periods ended September 30, 2019 and 2018:

(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, 2019								
Beginning balance, January 1	**$ 22,518**	**$ 15,393**	**$ 4,305**	**$ 368**	**$ 2,292**	**$ 283**	**$ 3,294**	**$ 48,453**
Provision for loan losses	**3,260**	**461**	**(407)**	**15**	**(172)**	**192**	**(364)**	**2,985**
Loans charged-off	**(1,223)**	**0**	**0**	**0**	**(110)**	**(256)**	**0**	**(1,589)**
Recoveries	**422**	**156**	**6**	**0**	**110**	**85**	**0**	**779**
Net loans charged-off	**(801)**	**156**	**6**	**0**	**0**	**(171)**	**0**	**(810)**
Ending balance	**$ 24,977**	**$ 16,010**	**$ 3,904**	**$ 383**	**$ 2,120**	**$ 304**	**$ 2,930**	**$ 50,628**

(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, 2018								
Beginning balance, January 1	$ 21,097	$ 14,714	$ 4,920	$ 577	$ 2,768	$ 379	$ 2,666	$ 47,121
Provision for loan losses	6,246	855	(850)	(136)	(541)	78	448	6,100
Loans charged-off	(4,891)	(491)	0	0	(31)	(273)	0	(5,686)
Recoveries	619	23	14	0	60	92	0	808
Net loans charged-off	(4,272)	(468)	14	0	29	(181)	0	(4,878)
Ending balance	$ 23,071	$ 15,101	$ 4,084	$ 441	$ 2,256	$ 276	$ 3,114	$ 48,343

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2019 and December 31, 2018:

(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**
September 30, 2019								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	**$ 9,231**	**$ 702**	**$ 90**	**$ 0**	**$ 405**	**$ 0**	**$ 0**	**$ 10,428**
Collectively evaluated for impairment	**15,746**	**15,308**	**3,814**	**383**	**1,715**	**304**	**2,930**	**40,200**
Total ending allowance balance	**$ 24,977**	**$ 16,010**	**$ 3,904**	**$ 383**	**$ 2,120**	**$ 304**	**$ 2,930**	**$ 50,628**
Loans:								
Loans individually evaluated for impairment	**$ 20,123**	**$ 4,919**	**$ 430**	**$ 0**	**$ 2,608**	**$ 0**	**$ 0**	**$ 28,080**
Loans collectively evaluated for impairment	**1,412,274**	**1,673,467**	**329,642**	**99,969**	**389,415**	**90,374**	**0**	**3,995,141**
Total ending loans balance	**$ 1,432,397**	**$ 1,678,386**	**$ 330,072**	**$ 99,969**	**$ 392,023**	**$ 90,374**	**$ 0**	**$ 4,023,221**

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
December 31, 2018								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 8,552	$ 921	$ 73	$ 0	$ 457	$ 26	$ 0	$ 10,029
Collectively evaluated for impairment	13,966	14,472	4,232	368	1,835	257	3,294	38,424
Total ending allowance balance	$ 22,518	$ 15,393	$ 4,305	$ 368	$ 2,292	$ 283	$ 3,294	$ 48,453
Loans:								
Loans individually evaluated for impairment	$ 19,734	$ 4,266	$ 433	$ 0	$ 2,240	$ 44	$ 0	$ 26,717
Loans collectively evaluated for impairment	1,385,604	1,562,899	370,174	95,520	388,053	85,778	0	3,888,028
Total ending loans balance	$ 1,405,338	$ 1,567,165	$ 370,607	$ 95,520	$ 390,293	$ 85,822	$ 0	$ 3,914,745

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2019:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 251	$ 250	$ 0
Non-working capital loans	4,189	2,110	0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	3,424	3,244	0
Agri-business and agricultural loans:			
Loans secured by farmland	603	283	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	290	209	0
Open end and junior lien loans	137	137	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,208	6,208	3,056
Non-working capital loans	11,547	11,555	6,175
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,675	1,675	702
Agri-business and agricultural loans:			
Loans secured by farmland	147	147	90
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,618	1,622	352
Open end and junior lien loans	641	640	53
Total	$ 30,730	$ 28,080	$ 10,428

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2018:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Non-working capital loans	$ 3,284	$ 1,889	$ 0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,773	1,527	0
Agri-business and agricultural loans:			
Loans secured by farmland	603	283	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	583	502	0
Open end and junior lien loans	220	220	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	9,691	6,694	2,602
Non-working capital loans	11,099	11,151	5,950
Commercial real estate and multi-family residential loans:			
Construction and land development loans	291	291	142
Owner occupied loans	2,938	2,448	779
Agri-business and agricultural loans:			
Loans secured by farmland	150	150	73
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,517	1,518	457
Other consumer loans	45	44	26
Total	$ 32,194	$ 26,717	$ 10,029

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended September 30, 2019:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 165	$ 2	$ 2
Non-working capital loans	1,394	1	1
Commercial real estate and multi-family residential loans:			
Owner occupied loans	3,266	7	7
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	211	0	0
Open end and junior lien loans	137	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,313	0	0
Non-working capital loans	12,088	96	96
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,676	8	8
Agri-business and agricultural loans:			
Loans secured by farmland	147	0	0
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,625	10	9
Open end and junior lien loans	433	0	0
Total	$ 27,738	$ 124	$ 123

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended September 30, 2018:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 955	$ 13	$ 7
Non-working capital loans	2,027	19	17
Commercial real estate and multi-family residential loans:			
Construction and land development loans	41	1	1
Owner occupied loans	1,903	9	11
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	503	3	3
Open end and junior lien loans	244	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	4,019	6	6
Non-working capital loans	6,385	37	19
Commercial real estate and multi-family residential loans:			
Construction and land development loans	307	5	8
Owner occupied loans	2,183	0	0
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,374	14	13
Other consumer loans	46	1	0
Total	$ 20,270	$ 108	$ 85

The following table presents loans individually evaluated for impairment by class of loans as of and for the nine-month period ended September 30, 2019:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 203	$ 7	$ 8
Non-working capital loans	1,292	39	29
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,112	28	28
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	251	2	3
Open end and junior lien loans	141	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,375	143	81
Non-working capital loans	11,536	355	326
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,840	37	31
Agri-business and agricultural loans:			
Loans secured by farmland	147	3	1
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,634	35	34
Open end and junior lien loans	145	0	0
Other consumer loans	24	2	1
Total	$ 25,983	$ 651	$ 542

The following table presents loans individually evaluated for impairment by class of loans as of and for the nine-month period ended September 30, 2018:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$ 992	$ 26	$ 23
Non-working capital loans	1,831	50	48
Commercial real estate and multi-family residential loans:			
Construction and land development loans	77	4	4
Owner occupied loans	2,443	25	25
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	526	7	7
Open end and junior lien loans	194	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	2,878	10	9
Non-working capital loans	4,371	42	25
Commercial real estate and multi-family residential loans:			
Construction and land development loans	506	22	26
Owner occupied loans	1,473	1	1
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,112	29	27
Open end and junior lien loans	51	0	0
Other consumer loans	48	2	2
Total	$ 16,785	$ 218	$ 197

The following table presents the aging of the recorded investment in past due loans as of September 30, 2019 by class of loans:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 90 Days Past Due	Nonaccrual	Total Past Due and Nonaccrual	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 724,404	$ 0	$ 0	$ 6,309	$ 6,309	$ 730,713
Non-working capital loans	695,127	42	0	6,515	6,557	701,684
Commercial real estate and multi-family residential loans:						
Construction and land development loans	318,369	0	0	0	0	318,369
Owner occupied loans	552,276	0	0	3,952	3,952	556,228
Nonowner occupied loans	544,778	0	0	0	0	544,778
Multifamily loans	259,011	0	0	0	0	259,011
Agri-business and agricultural loans:						
Loans secured by farmland	175,604	6	0	430	436	176,040
Loans for agricultural production	154,017	15	0	0	15	154,032
Other commercial loans	99,969	0	0	0	0	99,969
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	185,219	850	307	675	1,832	187,051
Open end and junior lien loans	192,365	101	0	777	878	193,243
Residential construction loans	11,677	52	0	0	52	11,729
Other consumer loans	90,236	138	0	0	138	90,374
Total	$ 4,003,052	$ 1,204	$ 307	$ 18,658	$ 20,169	$ 4,023,221

The following table presents the aging of the recorded investment in past due loans as of December 31, 2018 by class of loans:

(dollars in thousands)	Loans Not Past Due	30-89 Days Past Due	Greater than 90 Days Past Due and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 684,191	$ 4,328	$ 0	$ 2,245	$ 6,573	$ 690,764
Non-working capital loans	709,629	3,368	0	1,577	4,945	714,574
Commercial real estate and multi-family residential loans:						
Construction and land development loans	265,544	0	0	0	0	265,544
Owner occupied loans	583,214	486	0	2,269	2,755	585,969
Nonowner occupied loans	520,431	57	0	0	57	520,488
Multi-family loans	195,164	0	0	0	0	195,164
Agri-business and agricultural loans:						
Loans secured by farmland	177,080	150	0	283	433	177,513
Loans for agricultural production	193,094	0	0	0	0	193,094
Other commercial loans	95,520	0	0	0	0	95,520
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	183,420	1,370	0	671	2,041	185,461
Open end and junior lien loans	188,320	98	0	220	318	188,638
Residential construction loans	16,194	0	0	0	0	16,194
Other consumer loans	85,654	168	0	0	168	85,822
Total	$ 3,897,455	$ 10,025	$ 0	$ 7,265	$ 17,290	$ 3,914,745

Troubled Debt Restructurings:

Troubled debt restructured loans are included in the totals for impaired loans. The Company has allocated $2.7 million and $3.7 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2019 and December 31, 2018, respectively. The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring.

(dollars in thousands)	**September 30 2019**	December 31 2018
Accruing troubled debt restructured loans	**$ 5,975**	$ 8,016
Nonaccrual troubled debt restructured loans	**3,422**	4,384
Total troubled debt restructured loans	**$ 9,397**	$ 12,400

During the three months ended September 30, 2019, no loans were modified as troubled debt restructurings.

During the nine months ending September 30, 2019, certain loans were modified as troubled debt restructurings. The modified terms of these loans include one or a combination of the following: inadequate compensation for the terms of the restructure or renewal; a modification of the repayment terms which delays principal repayment for some period; or renewal terms offered to borrowers in financial distress where no additional credit enhancements were obtained at the time of renewal.

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

The following table presents loans by class modified as new troubled debt restructurings that occurred during the nine months ended September 30, 2019:

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

For the three month and nine month periods ending September 30, 2019, the troubled debt restructurings described above did not impact the allowance for loan losses and no charge-offs were recorded.

During the three months ending September 30, 2018, two commercial and industrial loans were modified as troubled debt restructurings due to a modification of the repayment terms which delays principal repayment for an extended period of time. These concessions are included in the table below.

Additional concessions were granted to borrowers with previously identified troubled debt restructured loans during the three-month period ended September 30, 2018. The loan to one of the borrowers is for a commercial real estate building where the collateral value and cash flows from the company occupying the building do not support the loan with a recorded investment of $852,000. The loan to another one of the borrowers is for a vacant commercial real estate building that does not generate cash flow to support the loan with a recorded investment of $321,000. The other loans are to a borrower for an investment in land for residential development which has not had sales activity to support loans with a recorded investment of $109,000. These troubled debt restructured loans with additional concessions decreased the allowance by $7,000 as a result of payments received during the period and resulted in no charge-offs for the three-month period ending September 30, 2018. These concessions are not included in the table below.

The following table presents loans by class modified as new troubled debt restructurings that occurred during the three months ended September 30, 2018:

(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Repayment Terms Number of Loans	Modified Repayment Terms Extension Period or Range (in months)
Troubled Debt Restructurings					
Commercial and industrial loans:					
Non-working capital loans	2	$ 824	$ 824	2	0-6
Total	2	$ 824	$ 824	2	0-6

During the nine months ended September 30, 2018, certain loans were modified as troubled debt restructurings. The modified terms of these loans include one or a combination of the following: inadequate compensation for the terms of the restructure or renewal; a modification of the repayment terms which delays principal repayment for some period; or renewal terms offered to borrowers in financial distress where no additional credit enhancements were obtained at the time of renewal. These concessions are included in the table below.

Additional concessions were granted to borrowers with previously identified troubled debt restructured loans during the nine-month period ended September 30, 2018. There were three commercial real estate loans with recorded investments totaling $1.3 million and three commercial and industrial loans with recorded investments totaling $1.4 million where the collateral value and/or cash flows do not support those loans. The other three loans are to borrowers for investments in land for residential development which have not had sales activity to support loans with a recorded investments totaling $593,000. These troubled debt restructured loans with additional concessions increased the allowance by $255,000 and resulted in no charge-offs for the nine-month period ending September 30, 2018. These concessions are not included in the table below.

The following table presents loans by class modified as new troubled debt restructurings that occurred during the nine months ended September 30, 2018:

(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Repayment Terms Number of Loans	Modified Repayment Terms Extension Period or Range (in months)
Troubled Debt Restructurings					
Commercial and industrial loans:					
Working capital lines of credit loans	1	600	600	1	0
Non-working capital loans	4	2,244	2,244	4	0-6
Commercial real estate and multi-family residential loans:					
Construction and land development loans	1	824	824	1	12
Owner occupied loans	1	387	387	1	12
Consumer 1-4 family loans:					
Closed end first mortgage loans	1	198	197	1	239
Total	8	$ 4,253	$ 4,252	8	0-239

For the three-month period ended September 30, 2018, the troubled debt restructuring described above did not impact the allowance for loan losses and no charge-off was recorded. For the nine-month period ending September 30, 2018, the commercial real estate and multi-family residential troubled debt restructurings described above decreased the allowance for loan losses by $196,000, and resulted in charge-offs of $1.6 million. All other troubled debt restructurings described above had no impact to the allowance and no charge-offs were recorded for the nine month period ending September 30, 2018.

Credit Quality Indicators:

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

The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be Pass rated loans with the exception of consumer troubled debt restructurings which are evaluated and listed with Substandard commercial grade loans and consumer nonaccrual loans which are evaluated individually and listed with Not Rated loans. Loans listed as Not Rated are consumer loans or commercial loans with consumer characteristics included in groups of homogenous loans which are analyzed for credit quality indicators utilizing delinquency status.

As of September 30, 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 635,786	$ 56,133	$ 38,538	$ 0	$ 256	$ 730,713
Non-working capital loans	655,100	19,066	22,364	0	5,154	701,684
Commercial real estate and multi-family residential loans:						
Construction and land development loans	318,369	0	0	0	0	318,369
Owner occupied loans	516,448	16,162	23,618	0	0	556,228
Nonowner occupied loans	542,717	1,456	605	0	0	544,778
Multifamily loans	259,011	0	0	0	0	259,011
Agri-business and agricultural loans:						
Loans secured by farmland	163,731	11,055	1,254	0	0	176,040
Loans for agricultural production	143,123	10,909	0	0	0	154,032
Other commercial loans	99,969	0	0	0	0	99,969
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	49,839	0	1,830	0	135,382	187,051
Open end and junior lien loans	11,067	0	777	0	181,399	193,243
Residential construction loans	0	0	0	0	11,729	11,729
Other consumer loans	16,036	0	0	0	74,338	90,374
Total	$ 3,411,196	$ 114,781	$ 88,986	$ 0	$ 408,258	$ 4,023,221

As of December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial and industrial loans:						
Working capital lines of credit loans	$ 618,612	$ 43,240	$ 28,563	$ 0	$ 349	$ 690,764
Non-working capital loans	664,787	15,992	27,548	0	6,247	714,574
Commercial real estate and multi-family residential loans:						
Construction and land development loans	264,900	353	291	0	0	265,544
Owner occupied loans	541,734	21,864	22,371	0	0	585,969
Nonowner occupied loans	517,356	2,491	641	0	0	520,488
Multifamily loans	194,948	216	0	0	0	195,164
Agri-business and agricultural loans:						
Loans secured by farmland	166,623	9,107	1,783	0	0	177,513
Loans for agricultural production	183,189	8,155	1,750	0	0	193,094
Other commercial loans	95,516	0	0	0	4	95,520
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	54,879	0	2,021	0	128,561	185,461
Open end and junior lien loans	8,810	0	220	0	179,608	188,638
Residential construction loans	0	0	0	0	16,194	16,194
Other consumer loans	12,700	0	44	0	73,078	85,822
Total	$ 3,324,054	$ 101,418	$ 85,232	$ 0	$ 404,041	$ 3,914,745

NOTE 5. FAIR VALUE DISCLOSURES

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

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

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

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

Impaired loans: Impaired loans with specific allocations of the allowance for loan losses are generally based on the fair value of the underlying collateral if repayment is expected solely from the collateral. Fair value is determined using several methods. Generally, the fair value of real estate is based on appraisals by qualified third party appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and result in a Level 3 classification of the inputs for determining fair value. In addition, the Company's management routinely applies internal discount factors to the value of appraisals used in the fair value evaluation of impaired loans. The deductions to the appraisals take into account changing business factors and market conditions, as well as value impairment in cases where the appraisal date predates a likely change in market conditions. Commercial real estate is generally discounted from its appraised value by 0-50% with the higher discounts applied to real estate that is determined to have a thin trading market or to be specialized collateral. In addition to real estate, the Company's management evaluates other types of collateral as follows: (a) raw and finished inventory is discounted from its cost or book value by 35-65%, depending on the marketability of the goods (b) finished goods are generally discounted by 30-60%, depending on the ease of marketability, cost of transportation or scope of use of the finished good (c) work in process inventory is typically discounted by 50-100%, depending on the length of manufacturing time, types of components used in the completion process, and the breadth of the user base (d) equipment is valued at a percentage of depreciated book value or recent appraised value, if available, and is typically discounted at 30-70% after various considerations including age and condition of the equipment, marketability, breadth of use, and whether the equipment includes unique components or add-ons; and (e) marketable securities are discounted by 10-30%, depending on the type of investment, age of valuation report and general market conditions. This methodology is based on a market approach and typically results in a Level 3 classification of the inputs for determining fair value.

Mortgage servicing rights: As of September 30, 2019, the fair value of the Company's Level 3 servicing assets for residential mortgage loans ("MSRs") was $4.7 million, none of which are currently impaired and therefore are carried at amortized cost. These residential mortgage loans have a weighted average interest rate of 3.94%, a weighted average maturity of 20 years and are secured by homes generally within the Company's market area of Northern Indiana and Indianapolis. A valuation model is used to estimate fair value by stratifying the portfolios on the basis of certain risk characteristics, including loan type and interest rate. Impairment is estimated based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees, and float income. The most significant assumption used to value MSRs is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. The most significant unobservable assumption is the discount rate. At September 30, 2019, the constant prepayment speed (“PSA”) used was 65 and discount rate used was 9.4%. At December 31, 2018, the PSA used was 81 and the discount rate used was 9.4%.

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

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

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

	September 30, 2019			
	Fair Value Measurements Using			Assets
(dollars in thousands)	Level 1	Level 2	Level 3	at Fair Value
Assets				
U.S. Treasury securities	$ 1,007	$ 0	$ 0	$ 1,007
U.S. government sponsored agency securities	0	2,308	0	2,308
Mortgage-backed securities: residential	0	296,232	0	296,232
Mortgage-backed securities: commercial	0	37,669	0	37,669
State and municipal securities	0	275,864	150	276,014
Total Securities	1,007	612,073	150	613,230
Mortgage banking derivative	0	393	0	393
Interest rate swap derivative	0	8,992	0	8,992
Total assets	$ 1,007	$ 621,458	$ 150	$ 622,615
Liabilities				
Mortgage banking derivative	0	10	0	10
Interest rate swap derivative	0	9,802	0	9,802
Total liabilities	$ 0	$ 9,812	$ 0	$ 9,812

(dollars in thousands)	December 31, 2018 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Assets				
U.S. Treasury securities	$ 987	$ 0	$ 0	$ 987
U.S. government sponsored agency securities	0	4,350	0	4,350
Mortgage-backed securities: residential	0	325,412	0	325,412
Mortgage-backed securities: commercial	0	38,141	0	38,141
State and municipal securities	0	216,509	150	216,659
Total Securities	987	584,412	150	585,549
Mortgage banking derivative	0	95	0	95
Interest rate swap derivative	0	3,869	0	3,869
Total assets	$ 987	$ 588,376	$ 150	$ 589,513
Liabilities				
Mortgage banking derivative	0	23	0	23
Interest rate swap derivative	0	4,025	0	4,025
Total liabilities	$ 0	$ 4,048	$ 0	$ 4,048

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2019 and there were no transfers between Level 1 and Level 2 during 2018.

The fair value of Level 3 available for sale securities was immaterial to warrant additional recurring fair value disclosure.

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

(dollars in thousands)	**September 30, 2019 Fair Value Measurements Using Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
Assets				
Impaired loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	**$ 0**	**$ 0**	**$ 3,152**	**$ 3,152**
Non-working capital loans	**0**	**0**	**5,103**	**5,103**
Commercial real estate and multi-family residential loans:				
Owner occupied loans	**0**	**0**	**973**	**973**
Agri-business and agricultural loans:				
Loans secured by farmland	**0**	**0**	**57**	**57**
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	**0**	**0**	**457**	**457**
Open end and junior lien loans	**0**	**0**	**587**	**587**
Total impaired loans	**$ 0**	**$ 0**	**$ 10,329**	**$ 10,329**
Other real estate owned	**0**	**0**	**0**	**0**
Total assets	**$ 0**	**$ 0**	**$ 10,329**	**$ 10,329**

(dollars in thousands)	December 31, 2018 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Assets				
Impaired loans:				
Commercial and industrial loans:				
Working capital lines of credit loans	$ 0	$ 0	$ 4,092	$ 4,092
Non-working capital loans	0	0	4,967	4,967
Commercial real estate and multi-family residential loans:				
Construction and land development loans	0	0	148	148
Owner occupied loans	0	0	1,669	1,669
Agri-business and agricultural loans:				
Loans secured by farmland	0	0	77	77
Consumer 1-4 family mortgage loans:				
Closed end first mortgage loans	0	0	553	553
Total impaired loans	$ 0	$ 0	$ 11,506	$ 11,506
Other real estate owned	0	0	316	316
Total assets	$ 0	$ 0	$ 11,822	$ 11,822

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, 2019:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Impaired loans:					
Commercial and industrial	$ 8,255	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	53 %	1 % - 100 %
Impaired loans:					
Commercial real estate	973	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	42 %	30 % - 100 %
Impaired loans:					
Agri-business and agricultural	57	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	61 %	
Impaired loans:					
Consumer 1-4 family mortgage	1,044	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	13 %	5 % - 100 %

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31, 2018:

(dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Inputs	Average	Range of Inputs
Impaired loans:					
Commercial and industrial	$ 9,059	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	48 %	4 % - 100 %
Impaired loans:					
Commercial real estate	1,817	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	34 %	6 % - 53 %
Impaired loans:					
Agri-business and agricultural	77	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	49 %	
Impaired loans:					
Consumer 1-4 family mortgage	553	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	23 %	0 % - 64 %
Other real estate owned	316	Collateral based measurements	Discount to reflect current market conditions	0 %	

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of $20.4 million, with a valuation allowance of $10.1 million at September 30, 2019. The change in the fair value of impaired loans resulted in increases in the provision for loan losses of $600,000 and $500,000, respectively, over the nine months and three months ended September 30, 2019, respectively. At September 30, 2018, impaired loans had a gross carrying amount of $15.0 million, with a valuation allowance of $5.5 million. The change in the fair value of impaired loans resulted in a net increase in the provision for loan losses of $8.3 million and $3.8 million, respectively, in the nine months and three months ended September 30, 2018, respectively, primarily due to a partial charge-off on one commercial lending relationship in the amount of $4.6 million, during the first quarter of 2018.

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

	September 30, 2019				
	Carrying	Estimated Fair Value			
(dollars in thousands)	Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 136,575	$ 133,799	$ 2,776	$ 0	$ 136,575
Securities available-for-sale	613,230	1,007	612,073	150	613,230
Real estate mortgages held-for-sale	7,424	0	7,506	0	7,506
Loans, net	3,972,593	0	0	3,933,560	3,933,560
Federal Reserve and Federal Home Loan Bank stock	13,772	N/A	N/A	N/A	N/A
Accrued interest receivable	15,823	8	3,373	12,442	15,823
Financial Liabilities:					
Certificates of deposit	(1,383,366)	0	(1,394,467)	0	(1,394,467)
All other deposits	(2,900,024)	(2,900,024)	0	0	(2,900,024)
Subordinated debentures	(30,928)	0	0	(31,158)	(31,158)
Standby letters of credit	(926)	0	0	(926)	(926)
Accrued interest payable	(12,071)	(92)	(11,975)	(4)	(12,071)

(dollars in thousands)	December 31, 2018 Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 216,922	$ 214,452	$ 2,470	$ 0	$ 216,922
Securities available-for-sale	585,549	987	584,412	150	585,549
Real estate mortgages held-for-sale	2,293	0	2,314	0	2,314
Loans, net	3,866,292	0	0	3,786,175	3,786,175
Federal Reserve and Federal Home Loan Bank stock	13,772	N/A	N/A	N/A	N/A
Accrued interest receivable	15,518	3	3,569	11,946	15,518
Financial Liabilities:					
Certificates of deposit	(1,419,754)	0	(1,424,553)	0	(1,424,553)
All other deposits	(2,624,311)	(2,624,311)	0	0	(2,624,311)
Securities sold under agreements to repurchase	(75,555)	0	(75,555)	0	(75,555)
Federal Home Loan Bank advances	(170,000)	0	(169,996)	0	(169,996)
Subordinated debentures	(30,928)	0	0	(31,195)	(31,195)
Standby letters of credit	(978)	0	0	(978)	(978)
Accrued interest payable	(10,404)	(110)	(10,289)	(5)	(10,404)

NOTE 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase represent collateralized borrowings with customers located primarily within the Company’s service area. These repurchase liabilities are not covered by federal deposit insurance and are secured by securities owned. The Company retains the right to substitute similar type securities and has the right to withdraw all excess collateral applicable to the repurchase liabilities whenever the collateral values are in excess of the related repurchase liabilities. However, as a means of mitigating market risk, the Company maintains excess collateral to cover normal changes in the repurchase liability by monitoring daily usage. The Company maintains control of the securities through the use of third-party safekeeping arrangements.

There were no securities sold under agreements to repurchase at September 30, 2019. Securities sold under agreements to repurchase of $75.6 million, which matured on demand, were secured by mortgage-backed securities with a carrying amount of $100.7 million at December 31, 2018. Additional information concerning recognition of these liabilities is disclosed in Note 8.

NOTE 7. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		SERP Benefits		Pension Benefits		SERP Benefits	
(dollars in thousands)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Service cost	**$ 0**	$ 0	**$ 0**	$ 0	**$ 0**	$ 0	**$ 0**	$ 0
Interest cost	**22**	23	**8**	9	**66**	70	**27**	26
Expected return on plan assets	**(34)**	(35)	**(13)**	(15)	**(103)**	(104)	**(41)**	(46)
Recognized net actuarial (gain) loss	**33**	49	**18**	18	**99**	145	**55**	55
Net pension expense (benefit)	**$ 21**	$ 37	**$ 13**	$ 12	**$ 62**	$ 111	**$ 41**	$ 35

The Company previously disclosed in its financial statements for the year ended December 31, 2018 that it expected to contribute $0 to its pension plan and $0 to its Supplemental Executive Retirement Plan ("SERP") in 2019. The Company has contributed $27,000 to its pension plan and $0 to its SERP as of September 30, 2019. The contribution to the pension plan was made in order to keep the plan fully funded, based upon the final actuarial calculation. The Company does not expect to make any additional contributions to its pension plan or SERP during the remainder of 2019. As a result of freezing the plan effective April 1, 2000, there is no service cost to record on the pension plan or the SERP for the nine-month periods ending September 30, 2019 and 2018. All other components of cost noted in the table above were recorded in other expense under noninterest expenses on the Consolidated Statements of Income for all periods presented.

NOTE 8. 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, 2019 and December 31, 2018.

	September 30, 2019					
				Gross Amounts Not Offset in the Statement of Financial Position		
(dollars in thousands)	Gross Amounts of Recognized Assets/ Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Position	Net
Assets						
Interest Rate Swap Derivatives	**$ 8,992**	**$ 0**	**$ 8,992**	**$ 0**	**$ 0**	**$ 8,992**
Total Assets	**$ 8,992**	**$ 0**	**$ 8,992**	**$ 0**	**$ 0**	**$ 8,992**
Liabilities						
Interest Rate Swap Derivatives	**$ 9,802**	**$ 0**	**$ 9,802**	**$ 0**	**$ (10,260)**	**$ (458)**
Repurchase Agreements	**0**	**0**	**0**	**0**	**0**	**0**
Total Liabilities	**$ 9,802**	**$ 0**	**$ 9,802**	**$ 0**	**$ (10,260)**	**$ (458)**

	December 31, 2018					
				Gross Amounts Not Offset in the Statement of Financial Position		
(dollars in thousands)	Gross Amounts of Recognized Assets/ Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts presented in the Statement of Financial Position	Financial Instruments	Cash Position	Net
Assets						
Interest Rate Swap Derivatives	$ 3,869	$ 0	$ 3,869	$ 0	$ (760)	$ 3,109
Total Assets	$ 3,869	$ 0	$ 3,869	$ 0	$ (760)	$ 3,109
Liabilities						
Interest Rate Swap Derivatives	$ 4,025	$ 0	$ 4,025	$ 0	$ (560)	$ 3,465
Repurchase Agreements	75,555	0	75,555	(75,555)	0	0
Total Liabilities	$ 79,580	$ 0	$ 79,580	$ (75,555)	$ (560)	$ 3,465

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 9. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Weighted average shares outstanding for basic earnings per common share	**25,622,338**	25,301,033	**25,576,740**	25,284,085
Dilutive effect of stock options, awards and warrants	**174,358**	444,118	**168,289**	435,608
Weighted average shares outstanding for diluted earnings per common share	**25,796,696**	25,745,151	**25,745,029**	25,719,693
Basic earnings per common share	**$ 0.84**	$ 0.81	**$ 2.54**	$ 2.33
Diluted earnings per common share	**$ 0.83**	$ 0.80	**$ 2.52**	$ 2.30

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) net of tax for the three months ended September 30, 2019 and 2018:

(dollars in thousands)	**Unrealized Gains and (Losses) on Available-for-Sales Securities**	**Defined Benefit Pension Gains (Losses)**	**Total**
Balance at July 1, 2019	**$ 10,818**	**$ (1,318)**	**$ 9,500**
Other comprehensive income before reclassification	**3,935**	**0**	**3,935**
Amounts reclassified from accumulated other comprehensive income (loss)	**(6)**	**38**	**32**
Net current period other comprehensive income	**3,929**	**38**	**3,967**
Balance at September 30, 2019	**$ 14,747**	**$ (1,280)**	**$ 13,467**

(dollars in thousands)	Unrealized Gains and (Losses) on Available-for-Sales Securities	Defined Benefit Pension Gains (Losses)	Total
Balance at July 1, 2018	$ (8,041)	$ (1,669)	$ (9,710)
Other comprehensive income before reclassification	(3,616)	0	(3,616)
Amounts reclassified from accumulated other comprehensive income (loss)	0	50	50
Net current period other comprehensive income	(3,616)	50	(3,566)
Balance at September 30, 2018	$ (11,657)	$ (1,619)	$ (13,276)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) net of tax for the nine months ended September 30, 2019 and 2018:

(dollars in thousands)	Unrealized Gains and (Losses) on Available-for-Sales Securities	Defined Benefit Pension Gains (Losses)	Total
Balance at January 1, 2019	**$ (4,796)**	**$ (1,395)**	**$ (6,191)**
Other comprehensive income before reclassification	**19,636**	**0**	**19,636**
Amounts reclassified from accumulated other comprehensive income (loss)	**(94)**	**116**	**22**
Net current period other comprehensive income	**19,542**	**116**	**19,658**
Balance at September 30, 2019	**$ 14,746**	**$ (1,279)**	**$ 13,467**

(dollars in thousands)	Unrealized Gains and (Losses) on Available-for-Sales Securities	Defined Benefit Pension Gains (Losses)	Total
Balance at January 1, 2018	$ 784	$ (1,454)	$ (670)
Other comprehensive income before reclassification	(12,519)	0	(12,519)
Amounts reclassified from accumulated other comprehensive income (loss)	6	148	154
Net current period other comprehensive income	(12,513)	148	(12,365)
Adoption of ASU 2018-02	140	(313)	(173)
Adoption of ASU 2016-01	(68)	0	(68)
Balance at September 30, 2018	$ (11,657)	$ (1,619)	$ (13,276)

Reclassifications out of accumulated comprehensive income for the three months ended September 30, 2019 are as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)		
Unrealized gains and losses on available-for-sale securities	**$ 6**	Net securities gains (losses)
Tax effect	**0**	Income tax expense
Subtotal	**6**	Net of tax
Amortization of defined benefit pension items	**(51)**	Other expense
Tax effect	**13**	Income tax expense
Subtotal	**(38)**	Net of tax
Total reclassifications for the period	**$ (32)**	Net income

Reclassifications out of accumulated comprehensive income for the three months ended September 30, 2018 are as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)			
Unrealized gains and losses on available-for-sale securities	$	0	Net securities gains (losses)
Tax effect		0	Income tax expense
Subtotal		0	Net of tax
Amortization of defined benefit pension items		(67)	Other expense
Tax effect		17	Income tax expense
Subtotal		(50)	Net of tax
Total reclassifications for the period	$	(50)	Net income

Reclassifications out of accumulated comprehensive income for the nine months ended September 30, 2019 are as follows:

Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified From Accumulated Other Comprehensive Income**		**Affected Line Item in the Statement Where Net Income is Presented**
(dollars in thousands)			
Unrealized gains and losses on available-for-sale securities	**$**	**94**	Net securities gains (losses)
Tax effect		**0**	Income tax expense
Subtotal		**94**	Net of tax
Amortization of defined benefit pension items		**(154)**	Other expense
Tax effect		**38**	Income tax expense
Subtotal		**(116)**	Net of tax
Total reclassifications for the period	**$**	**(22)**	Net income

Reclassifications out of accumulated comprehensive income for the nine months ended September 30, 2018 are as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)			
Unrealized gains and losses on available-for-sale securities	$	(6)	Net securities gains (losses)
Tax effect		0	Income tax expense
Subtotal		(6)	Net of tax
Amortization of defined benefit pension items		(200)	Other expense
Tax effect		52	Income tax expense
Subtotal		(148)	Net of tax
Total reclassifications for the period	$	(154)	Net income

NOTE 11. LEASES

The Company leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2029 and some include renewal options. Many of these leases require the payment of property taxes, insurance premiums, maintenance, utilities and other costs. In many cases, rentals are subject to increase in relation to a cost-of-living index. The Company accounts for lease and non-lease components together as a single lease component. The Company determines if an arrangement is a lease at inception. Operating leases are recorded as a right-of-use ("ROU") lease assets and are included in other assets on the consolidated balance sheet. The Company's corresponding lease obligations are included in other liabilities on the consolidated balance sheet. ROU lease assets represent the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases are leases having a term of twelve months or less. The Company recognizes short-term leases on a straight-line basis and does not record a related lease asset or liability for such leases, as allowed as practical expedient of the standard. The following is a maturity analysis of the operating lease liabilities as of September 30, 2019:

Years ending December 31, (in thousands)	Operating lease Obligation
2019	$ 136
2020	561
2021	581
2022	595
2023	606
2024 - 2029	3,495
Total undiscounted lease payments	5,974
Less imputed interest	(773)
Lease liability	$ 5,201
Right-of-use asset	$ 5,201

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Lease cost		
Operating lease cost	$ 128	$ 372
Short-term lease cost	6	18
Total lease cost	$ 134	$ 390
Other information		
Operating cash outflows from operating leases	$ 372	
Weighted-average remaining lease term - operating leases	10.1 years	
Weighted average discount rate - operating leases	2.8 %	

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

OVERVIEW

Net income in the first nine months of 2019 was $64.8 million, up 9.8% from $59.0 million for the comparable period of 2018. Diluted income per common share was $2.52 in the first nine months of 2019, up 9.6% from $2.30 in the comparable period of 2018. Annualized return on average total equity was 15.68% in the first nine months of 2019 versus 16.42% in the comparable period of 2018. Average equity increased at a faster pace than net income in 2019 due to an increase in the fair value adjustment for investment securities, net of tax, which increases equity but does not affect net income. Annualized return on average total assets was 1.76% in the first nine months of 2019 versus 1.67% in the comparable period of 2018. The average equity to average assets ratio was 11.22% in the first nine months of 2019 versus 10.16% in the comparable period of 2018.

Net income in the third quarter of 2019 was $21.5 million, up 4.3% from $20.6 million for the comparable period of 2018. Diluted income per common share was $0.83 in the third quarter of 2019, up 3.8% from $0.80 in the comparable period of 2018. Return on average total equity was 14.78% in the third quarter of 2019 versus 16.55% in the comparable period of 2018. Return on average total assets was 1.72% in the third quarters of 2019 and 2018. The average equity to average assets ratio was 11.65% in the third quarter of 2019 versus 10.38% in the comparable period of 2018.

Total assets were $4.948 billion as of September 30, 2019 versus $4.875 billion as of December 31, 2018, an increase of $72.9 million, or 1.5%. This increase was primarily due to a $106.3 million increase in net loans as well as a $27.7 million increase in securities available-for-sale and an increase in bank owned life insurance of $6.0 million, offset by a $80.3 million decrease in cash and cash equivalents. Balance sheet growth was primarily funded through growth in net income during 2019. Total deposits increased by $239.3 million while total borrowings decreased by $245.6 million. Securities sold under agreements to repurchase declined by $75.6 million to zero at September 30, 2019. Total equity increased by $62.7 million as a result of net income of $64.8 million as well as an increase in accumulated other comprehensive income of $19.7 million offset by dividends declared of $0.86 per share totaling $22.0 million.

CRITICAL ACCOUNTING POLICIES

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and the valuation and other-than-temporary impairment of investment securities.

Allowance for Loan Losses

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

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

The determination of the appropriate allowance is inherently subjective, as it requires significant estimates by management. The Company has an established process to determine the adequacy of the allowance for loan losses that generally includes consideration of the following factors: changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrowers' ability to repay. Consideration is not limited to these factors although they represent the most commonly cited factors. With respect to specific allocation levels for individual credits, management considers the current valuation of collateral and the amounts and timing of expected future cash flows as the primary measures. Management also considers trends in adversely classified loans based upon an ongoing review of those credits. With respect to pools of similar loans, allocations are assigned based upon historical experience unless the rate of loss is expected to be greater than historical losses as noted below. A detailed analysis is performed on loans that are classified but determined not to be impaired which incorporates different scenarios where the risk that the borrower will be unable or unwilling to repay its debt in full or on time is combined with an estimate of loss in the event the borrower cannot pay to develop non-specific allocations for such loan pools. These allocations may be adjusted based on the other factors cited above. An appropriate level of general allowance for pooled loans is determined after considering the following: application of historical loss percentages, emerging market risk, commercial loan focus and large credit concentration, new industry lending activity and general economic conditions. It is also possible that the following could affect the overall process: social, political, economic and terrorist events or activities. All of these factors are susceptible to change, which may be significant. As a result of this detailed process, the allowance results in two forms of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover probable losses inherent in the loan portfolio.

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

Allocations are also applied to categories of loans considered not to be individually impaired, but for which the rate of loss is expected to be consistent with or greater than historical averages. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values. In addition, general allocations are made for other pools of loans, including non-classified loans. These general pooled loan allocations are performed for portfolio segments of commercial and industrial, commercial real estate and multi-family, agri-business and agricultural, other commercial, consumer 1-4 family mortgage and other consumer loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a three-year historical average for loan losses for these portfolios, and are subjectively adjusted for economic factors and portfolio trends.

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

Valuation and Other-Than-Temporary Impairment of Investment Securities

The fair values of securities available-for-sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models, which utilize significant observable inputs such as matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgments and assumptions used in pricing could result in different estimates of value. The fair value of certain securities is determined using unobservable inputs, primarily observable inputs of similar securities.

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

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

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

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

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

RESULTS OF OPERATIONS

Overview

Selected income statement information for the three months and nine months ended September 30, 2019 and 2018 is presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2019**	2018	**2019**	2018
Income Statement Summary:				
Net interest income	**$ 39,545**	$ 37,925	**$ 116,165**	$ 111,681
Provision for loan losses	**1,000**	1,100	**2,985**	6,100
Noninterest income	**10,765**	10,624	**33,878**	30,225
Noninterest expense	**22,737**	22,200	**67,302**	63,705
Other Data:				
Efficiency ratio (1)	**45.19 %**	45.51 %	**44.86 %**	44.81 %
Dilutive EPS	**$ 0.83**	$ 0.80	**$ 2.52**	$ 2.30
Tangible capital ratio (2)	**11.74 %**	10.41 %	**11.74 %**	10.41 %
Net charge-offs/(recoveries) to average loans	**0.09 %**	0.05 %	**0.03 %**	0.17 %
Net interest margin	**3.38 %**	3.42 %	**3.40 %**	3.40 %
Noninterest income to total revenue	**21.40 %**	21.88 %	**22.58 %**	21.30 %

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

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

See reconciliation below.

(dollars in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Total Equity	**$ 584,436**	$ 498,541	**$ 584,436**	$ 498,541
Less: Goodwill	**(4,970)**	(4,970)	**(4,970)**	(4,970)
Plus: Deferred tax assets related to goodwill	**1,191**	1,180	**1,191**	1,180
Tangible Common Equity	**580,657**	494,751	**580,657**	494,751
Total Assets	**$ 4,948,155**	$ 4,757,619	**$ 4,948,155**	$ 4,757,619
Less: Goodwill	**(4,970)**	(4,970)	**(4,970)**	(4,970)
Plus: Deferred tax assets related to goodwill	**1,191**	1,180	**1,191**	1,180
Tangible Assets	**4,944,376**	4,753,829	**4,944,376**	4,753,829
Tangible Common Equity/Tangible Assets	**11.74 %**	10.41 %	**11.74 %**	10.41 %

Net Income

Net income was $64.8 million in the first nine months of 2019, an increase of $5.8 million, or 9.8%, versus net income of $59.0 million in the first nine months of 2018. The growth in net income of $5.8 million for the first nine months of 2019 as compared to the prior year period resulted primarily from growth in net interest income of $4.5 million, growth in noninterest income of $3.7 million and a decrease in provision expenses of $3.1 million. These increases were offset by an increase in noninterest expense of $3.6 million and an increase in income tax expense of $1.9 million.

Net income was $21.5 million in the third quarter of 2019, an increase of $884,000, or 4.3%, versus net income of $20.6 million in the third quarter of 2018. The increase was driven by growth in net interest income of $1.6 million, an increase in noninterest income of $141,000 and a decrease in provision expense of $100,000. These increases were offset by increased noninterest expense of $537,000 and an increase in income tax expense of $440,000.

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Net Interest Income

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

	Nine Months Ended September 30,					
	2019			2018		
(fully tax equivalent basis, dollars in thousands)	Average Balance	Interest Income	Yield (1)/ Rate	Average Balance	Interest Income	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	$ 3,940,812	$ 149,094	5.06 %	$ 3,799,844	$ 132,360	4.66 %
Tax exempt (1)	24,585	897	4.88	23,309	783	4.49
Investments: (1)						
Available for sale	601,098	13,501	3.00	558,784	12,729	3.05
Short-term investments	6,751	114	2.26	4,042	34	1.12
Interest bearing deposits	52,574	843	2.14	54,514	653	1.60
Total earning assets	$ 4,625,820	$ 164,449	4.75 %	$ 4,440,493	$ 146,559	4.41 %
Less: Allowance for loan losses	(49,829)			(47,276)		
Nonearning Assets						
Cash and due from banks	137,700			140,698		
Premises and equipment	58,910			56,615		
Other nonearning assets	155,795			141,239		
Total assets	$ 4,928,396			$ 4,731,769		
Interest Bearing Liabilities						
Savings deposits	$ 241,322	$ 205	0.11 %	$ 260,387	$ 255	0.13 %
Interest bearing checking accounts	1,636,757	20,242	1.65	1,475,695	12,442	1.13
Time deposits:						
In denominations under $100,000	276,283	3,914	1.89	263,384	2,849	1.45
In denominations over $100,000	1,142,633	19,770	2.31	1,229,302	15,942	1.73
Miscellaneous short-term borrowings	80,843	1,295	2.14	120,231	861	0.96
Long-term borrowings and subordinated debentures	30,928	1,307	5.65	30,930	1,212	5.24
Total interest bearing liabilities	$ 3,408,766	$ 46,733	1.83 %	$ 3,379,929	$ 33,561	1.33 %
Noninterest Bearing Liabilities						
Demand deposits	923,253			841,797		
Other liabilities	43,411			29,147		
Stockholders’ Equity	552,966			480,896		
Total liabilities and stockholders’ equity	$ 4,928,396			$ 4,731,769		
Interest Margin Recap						
Interest income/average earning assets		164,449	4.75		146,559	4.41
Interest expense/average earning assets		46,733	1.35		33,561	1.01
Net interest income and margin		$ 117,716	3.40 %		$ 112,998	3.40 %

(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 $1.5 million and $1.3 in the nine-month periods ended September 30, 2019 and 2018, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the nine months ended September 30, 2019 and 2018, 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, 2019 Average Balance	Interest Income	Yield (1)/ Rate	2018 Average Balance	Interest Income	Yield (1)/ Rate
Earning Assets						
Loans:						
Taxable (2)(3)	$ 3,991,572	$ 50,139	4.98 %	$ 3,814,831	$ 46,127	4.80 %
Tax exempt (1)	24,201	292	4.78	22,764	257	4.48
Investments: (1)						
Available for sale	614,784	4,509	2.91	569,567	4,263	2.97
Short-term investments	3,478	16	1.83	3,480	14	1.60
Interest bearing deposits	64,902	352	2.15	40,807	185	1.80
Total earning assets	$ 4,698,937	$ 55,308	4.67 %	$ 4,451,449	$ 50,846	4.53 %
Less: Allowance for loan losses	(50,732)			(48,137)		
Nonearning Assets						
Cash and due from banks	77,921			144,605		
Premises and equipment	59,268			57,545		
Other nonearning assets	156,109			143,491		
Total assets	$ 4,941,503			$ 4,748,953		
Interest Bearing Liabilities						
Savings deposits	$ 235,957	$ 62	0.10 %	$ 253,244	$ 79	0.12 %
Interest bearing checking accounts	1,667,690	6,712	1.60	1,407,460	4,455	1.26
Time deposits:						
In denominations under $100,000	278,598	1,383	1.97	270,480	1,055	1.55
In denominations over $100,000	1,124,393	6,535	2.31	1,235,951	5,884	1.89
Miscellaneous short-term borrowings	18,870	113	2.38	165,520	555	1.33
Long-term borrowings and subordinated debentures	30,928	419	5.37	30,928	426	5.46
Total interest bearing liabilities	$ 3,356,436	$ 15,224	1.80 %	$ 3,363,583	$ 12,454	1.47 %
Noninterest Bearing Liabilities						
Demand deposits	961,070			858,263		
Other liabilities	48,132			33,962		
Stockholders' Equity	575,865			493,145		
Total liabilities and stockholders' equity	$ 4,941,503			$ 4,748,953		
Interest Margin Recap						
Interest income/average earning assets		55,308	4.67		50,846	4.53
Interest expense/average earning assets		15,224	1.29		12,454	1.11
Net interest income and margin		$ 40,084	3.38 %		$ 38,392	3.42 %

(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 $539,000 and $467,000 in the three-month periods ended September 30, 2019 and 2018, respectively.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended September 30, 2019 and 2018, are included as taxable loan interest income.

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

Net interest income increased $4.5 million, or 4.0%, for the nine months ended September 30, 2019 compared with the first nine months of 2018. The increased level of net interest income during the first nine months of 2019 was largely driven by an increase in average earning assets of $185.3 million, due primarily to loan growth of $142.2 million and growth in investment securities of $42.3 million. Average loans outstanding increased $142.2 million to $3.965 billion during the nine months ended September 30, 2019 compared to $3.823 billion during the same period of 2018, with most of the growth being in commercial loans. The earning asset growth was funded through an increase in deposits. Average deposits increased $149.7 million to $4.220 billion during the nine months ended September 30, 2019 compared to $4.071 billion for the same period of 2018. During this same period average core deposits increased $200.2 million and average brokered deposits decreased $50.5 million. We define "core deposits" as total deposits (including all deposits by municipalities and other government agencies), excluding only brokered deposits. Average borrowings decreased by $39.4 million to $111.8 million in the nine months ended September 30, 2019, compared to $151.2 million during the same period of 2018.

The tax equivalent net interest margin was 3.40% for the first nine months of 2019 and 2018. The yield on earning assets totaled 4.75% during the nine months ended September 30, 2019 compared to 4.41% in the same period of 2018. Cost of funds (expressed as a percentage of average earning assets) totaled 1.35% during the first nine months of 2019 compared to 1.01% in the same period of 2018.

Average earning assets increased by $247.5 million for the three months ended September 30, 2019 compared with the same period of 2018. Average loans outstanding increased $178.2 million during the three months ended September 30, 2019 compared with the same period of 2018, with most of the growth being in commercial loans. In addition, investment securities increased by $45.2 million. The earning asset growth was funded through deposit growth offset by a decrease in borrowings. Average interest bearing deposits increased by $139.5 million, average noninterest bearing demand deposits increased by $102.8 million and average borrowings decreased by $146.7 million.

The tax equivalent net interest margin was 3.38% for the third quarter of 2019 compared to 3.42% during the third quarter of 2018. The decline in net interest margin during the third quarter of 2019 as compared to the prior year period resulted from increased costs of deposits that were not fully absorbed by increases in earning assets. The yield on earning assets totaled 4.67% during the third quarter of 2019 compared to 4.53% in the same period of 2018, while the cost of funds (expressed as a percentage of average earning assets) totaled 1.29% during the third quarter of 2019 compared to 1.11% in the same period of 2018.

Provision for Loan Losses

The Company recorded a provision for loan loss expense of $3.0 million and $1.0 million, respectively, in the nine-month and three-month periods ended September 30, 2019, compared to a provision of $6.1 million and $1.1 million, respectively, during the comparable periods of 2018. The primary factors impacting management's decision to record a lower the provision in the first nine months of 2019 were lower net charge-offs during the first nine months of 2019 versus the comparable period of 2018. Net charge-offs were $810,000 and $936,000, respectively, in the nine-month and three month periods ended September 30, 2019, compared to $4.9 million and $463,000 respectively, during the comparable periods of 2018. Additional factors considered by management included the continued stability in key loan quality metrics, including appropriate reserve coverage of nonperforming loans and stable economic conditions in the Company's markets, and changes in the allocation for specific watch list credits. Management's overall view on current credit quality was also a factor in the determination of the provision for loan losses. The Company's management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest Income

Noninterest income categories for the nine month and three-month periods ended September 30, 2019 and 2018 are shown in the following tables:

(dollars in thousands)	Nine Months Ended September 30, 2019	2018	Dollar Change	Percent Change
Wealth advisory fees	**$ 5,002**	$ 4,676	$ 326	7.0 %
Investment brokerage fees	**1,300**	1,043	257	24.6
Service charges on deposit accounts	**12,791**	11,542	1,249	10.8
Loan and service fees	**7,403**	6,925	478	6.9
Merchant card fee income	**1,982**	1,834	148	8.1
Bank owned life insurance	**1,246**	1,177	69	5.9
Mortgage banking income	**1,256**	998	258	25.9
Net securities gains (losses)	**94**	(6)	100	NA
Other income	**2,804**	2,036	768	37.7
Total noninterest income	**$ 33,878**	$ 30,225	$ 3,653	12.1 %
Noninterest income to total revenue	**22.58 %**	21.30 %		

(dollars in thousands)	Three Months Ended September 30, 2019	2018	Dollar Change	Percent Change
Wealth advisory fees	**$ 1,736**	$ 1,627	$ 109	6.7 %
Investment brokerage fees	**386**	376	10	2.7
Service charges on deposit accounts	**3,654**	4,114	(460)	(11.2)
Loan and service fees	**2,518**	2,327	191	8.2
Merchant card fee income	**690**	643	47	7.3
Bank owned life insurance	**515**	466	49	10.5
Mortgage banking income	**636**	319	317	99.4
Net securities gains (losses)	**6**	0	6	NA
Other income	**624**	752	(128)	(17.0)
Total noninterest income	**$ 10,765**	$ 10,624	$ 141	1.3 %
Noninterest income to total revenue	**21.40 %**	21.88 %		

The Company's noninterest income increased $3.7 million, or 12.1%, to $33.9 million for the nine months ended September 30, 2019, compared to $30.2 million for the prior period. Noninterest income was positively impacted by a $1.2 million increase over the prior year period in fee income for service charges on deposit accounts. In addition, due to continued growth in client relationships, loan and service fees increased $478,000, wealth advisory fees increased by $326,000, mortgage banking income increased by $258,000 and investment brokerage fees increased $257,000. Other income increased primarily due to a gain related to proceeds from bank owned life insurance.

The Company's noninterest income increased $141,000, or 1.3%, to $10.8 million for the third quarter of 2019, compared to $10.6 million for the third quarter of 2018. Mortgage banking income increased $317,000, driven by mortgage refinance volumes. Loan and service fees increased $191,000 and wealth advisory fees increased $109,000. Offsetting the increases was a decrease of $460,000 in service charges on deposit accounts driven by lower treasury management fees due to the discontinuance of a treasury management relationship in July, 2019. Third quarter service charges on deposits included approximately $789,000 of fees from the previously disclosed discontinued treasury management relationship as June fees were collected in July, 2019.

Noninterest Expense

Noninterest expense categories for the nine month and three-month periods ended September 30, 2019 and 2018 are shown in the following tables:

(dollars in thousands)	Nine Months Ended September 30, 2019	2018	Dollar Change	Percent Change
Salaries and employee benefits	**$ 37,231**	$ 36,267	$ 964	2.7 %
Net occupancy expense	**4,000**	3,892	108	2.8
Equipment costs	**4,143**	3,840	303	7.9
Data processing fees and supplies	**7,619**	7,292	327	4.5
Corporate and business development	**3,376**	3,070	306	10.0
FDIC insurance and other regulatory fees	**566**	1,282	(716)	(55.9)
Professional fees	**3,487**	2,716	771	28.4
Other expense	**6,880**	5,346	1,534	28.7
Total noninterest expense	**$ 67,302**	$ 63,705	$ 3,597	5.6 %

The Company’s noninterest expense increased by $3.6 million, or 5.6%, to $67.3 million in the first nine months of 2019 compared to $63.7 million in the prior year period. The increase was driven by salaries and employee benefits, which increased by 2.7%, or $964,000, primarily due to staffing increases in revenue producing areas and normal merit increases. Other expense increased by $1.5 million or 28.7% to $6.9 million from $5.3 million in the nine month period ended September 30, 2019. Professional fees increased $771,000 driven by higher legal fees and costs related to CECL implementation. Data processing fees increased $327,000 as a result of the Company’s continued investment in technology driven solutions. Offsetting these increases was a decrease in FDIC insurance and regulatory fees driven by credits received against the Banks’s FDIC deposit insurance assessment. In the third quarter of 2019, the FDIC announced that due to the reserve ratio exceeding 1.38%, banks with consolidated assets of under $10 billion would be receiving credits against their deposit insurance assessments. The Company anticipates receiving a total of $1.1 million in credits which will be fully utilized in the first quarter of 2020.

(dollars in thousands)	Three Months Ended September 30, 2019	2018	Dollar Change	Percent Change
Salaries and employee benefits	**$ 12,837**	$ 12,755	$ 82	0.6 %
Net occupancy expense	**1,351**	1,229	122	9.9
Equipment costs	**1,385**	1,316	69	5.2
Data processing fees and supplies	**2,620**	2,489	131	5.3
Corporate and business development	**999**	891	108	12.1
FDIC insurance and other regulatory fees	**(249)**	412	(661)	(160.4)
Professional fees	**1,479**	934	545	58.4
Other expense	**2,315**	2,174	141	6.5
Total noninterest expense	**$ 22,737**	$ 22,200	$ 537	2.4 %

The Company’s noninterest expense increased $537,000, or 2.4%, to $22.7 million in the third quarter of 2019, compared to $22.2 million in the third quarter of 2018. Professional fees increased $545,000 driven by higher legal fees and costs related to CECL implementation. Data processing fees increased $131,000 as a result of the Company’s continued investment in technology driven solutions. Net occupancy expense increased $122,000 due to higher depreciation and rent expense related to new branch locations as well as remodeling and improvements made to existing branches and other offices. Offsetting these increases was a $661,000 decrease in FDIC insurance and other regulatory fees driven by the credits received against the Bank’s FDIC assessment.

The Company's income tax expense increased $1.9 million and $440,000, respectively, in the nine-month and three-month periods ended September 30, 2019, compared to the same periods in 2018. The effective tax rate was 18.7% and 19.3%, respectively, in the nine-month and three-month periods ended September 30, 2019, compared to 18.1% and 18.5% for the comparable periods of 2018. The year to date effective tax rate for 2019 increased as compared to the prior year period primarily due to a reduced benefit related to employee long-term incentive stock awards.

FINANCIAL CONDITION

Overview

Total assets of the Company were $4.948 billion as of September 30, 2019, an increase of $72.9 million, or 1.5%, when compared to $4.875 billion as of December 31, 2018. Overall asset growth was primarily driven by a $106.3 million, or 2.8%, increase in net loans to $3.973 billion at September 30, 2019 from $3.866 billion December 31, 2018 and an increase of $27.7 million or 4.7% in securities available for sale to $613.2 million at September 30, 2019 from $585.5 billion at December 31, 2018. Offsetting these increases was a $80.3 million, or 37.0%, decrease in cash and cash equivalents. Total deposits increased $239.3 million while total borrowings decreased by $245.6 million. The increase is deposits was primarily driven by growth in core deposits of $287.5 million offset by a decrease in wholesale funding of $48.2 million. Core deposits were $4.167 billion as of September 30, 2019, an increase of $287.5 million, or 7.4%, when compared to $3.879 billion as of December 31, 2018. Additionally, commercial deposits increased by $231.9 million, or 21.6%, to $1.307 billion at September 30, 2019 compared to $1.075 billion at December 31, 2018.

Uses of Funds

Total Cash and Cash Equivalents

Total cash and cash equivalents decreased by $80.3 million, or 37% to $136.6 million at September 30, 2019, from $216.9 million at December 31, 2018. Cash and cash equivalents at December 31, 2018 reflect larger items in the process of clearing such as public funds checks outstanding for matured certificates of deposit which were distributed in the form of checks. Short-term investments include cash on deposit that earn interest such as excess liquidity maintained at the Federal Reserve Bank. Cash and cash equivalents balances will vary depending on the cyclical nature of the bank's liquidity position.

Investment Portfolio

The amortized cost and the fair value of securities as of September 30, 2019 and December 31, 2018 were as follows:

	September 30, 2019		December 31, 2018	
(dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
U.S. Treasury securities	**$ 995**	**$ 1,007**	$ 994	$ 987
U.S. government sponsored agencies	**2,303**	**2,308**	4,435	4,350
Mortgage-backed securities: residential	**291,427**	**296,232**	329,516	325,412
Mortgage-backed securities: commercial	**37,335**	**37,669**	38,712	38,141
State and municipal securities	**262,504**	**276,014**	217,964	216,659
Total	**$ 594,564**	**$ 613,230**	$ 591,621	$ 585,549

At September 30, 2019 and December 31, 2018, there were no holdings of securities of any one issuer, other than the U.S. government, government agencies and government sponsored entities, in an amount greater than 10% of stockholders' equity. Management is aware that, as interest rates rise, any unrealized loss in the investment portfolio will increase, and as interest rates fall the unrealized gain in the investment portfolio will rise. Since the majority of the bonds in the investment portfolio are fixed-rate, with only a few adjustable-rate bonds, we would expect our investment portfolio to follow this market value pattern. This is taken into consideration when evaluating the gain or loss of investment securities in the portfolio and the potential for other-than-temporary impairment.

Purchases of securities available for sale totaled $91.7 million in the first nine months of 2019. The purchases consisted primarily of state and municipal securities and purchases of mortgage-backed securities issued by government sponsored entities. Paydowns from prepayments and scheduled payments of $37.0 million were received in the first nine months of 2019, and the amortization of premiums, net of the accretion of discounts, was $2.9 million. Sales of securities totaled $38.5 million in the first nine months of 2019. Maturities and calls of securities totaled $14.0 million in the first nine months of 2019, as well as increased prepayment assumptions. The increase in the amortization of premiums, net of the accretion of discounts was primarily driven by the adoption of ASU 2017-08 on January 1, 2019, as well as the increase in prepayments that have resulted from decreased interest rates. No other-than-temporary impairment was recognized in the first nine months of 2019.

Purchases of securities available for sale totaled $100.7 million in the first nine months of 2018. The purchases consisted primarily of mortgage-backed securities issued by government sponsored entities and also purchases of state and municipal securities. Paydowns from prepayments and scheduled payments of $32.1 million were received in the first nine months of 2018, and the amortization of premiums, net of the accretion of discounts, was $2.5 million. Sales of securities totaled $12.3 million in the first nine months of 2018. Maturities and calls of securities totaled $9.9 million in the first nine months of 2018. No other-than-temporary impairment was recognized in the first nine months of 2018.

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

Real Estate Mortgage Loans Held-for-Sale

Real estate mortgage loans held-for-sale increased by $5.1 million, or 223.8%, to $7.4 million at September 30, 2019, from $2.3 million at December 31, 2018. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. The Company generally sells all of the qualifying mortgage loans it originates on the secondary market. Proceeds from sales totaled $39.0 million in the first nine months of 2019 compared to $39.4 million in the first nine months of 2018.

Loan Portfolio

The loan portfolio by portfolio segment as of September 30, 2019 and December 31, 2018 is summarized as follows:

(dollars in thousands)	**September 30, 2019**		December 31, 2018		Current Period Change
Commercial and industrial loans	**$ 1,432,330**	**35.6 %**	$ 1,405,379	35.9 %	$ 26,951
Commercial real estate and multi-family residential loans	**1,680,808**	**41.7**	1,569,635	40.1	111,173
Agri-business and agricultural loans	**329,967**	**8.2**	370,513	9.5	(40,546)
Other commercial loans	**100,100**	**2.5**	95,657	2.4	4,443
Consumer 1-4 family mortgage loans	**390,775**	**9.7**	389,078	9.9	1,697
Other consumer loans	**90,631**	**2.3**	86,064	2.2	4,567
Subtotal, gross loans	**4,024,611**	**100.0 %**	3,916,326	100.0 %	108,285
Less: Allowance for loan losses	**(50,628)**		(48,453)		(2,175)
Net deferred loan fees	**(1,390)**		(1,581)		191
Loans, net	**$ 3,972,593**		$ 3,866,292		$ 106,301

Total loans, excluding real estate mortgage loans held for sale and deferred fees, increased by $108.3 million to $4.025 billion at September 30, 2019 from $3.916 billion at December 31, 2018. The increase was concentrated in the commercial real estate and commercial and industrial categories and reflects the Company’s long standing strategic plan that is focused on expanding and growing the commercial lending business throughout our market areas. The increase was partially offset by loan repayments in agri-business and agricultural loans which have declined since year-end due to seasonal loan repayments as well as declines in volume due to the impact of the flattened yield curve and clients opting for long-term fixed rate financing from other financial services firms.

The following table summarizes the Company's non-performing assets as of September 30, 2019 and December 31, 2018:

(dollars in thousands)	September 30, 2019	December 31, 2018
Nonaccrual loans including nonaccrual troubled debt restructured loans	$ 18,657	$ 7,260
Loans past due over 90 days and still accruing	306	0
Total nonperforming loans	$ 18,963	$ 7,260
Other real estate owned	316	316
Repossessions	7	0
Total nonperforming assets	$ 19,286	$ 7,576
Impaired loans including troubled debt restructurings	$ 28,070	$ 26,661
Nonperforming loans to total loans	0.47 %	0.19 %
Nonperforming assets to total assets	0.39 %	0.16 %
Performing troubled debt restructured loans	$ 5,975	$ 8,016
Nonperforming troubled debt restructured loans (included in nonaccrual loans)	3,422	4,384
Total troubled debt restructured loans	$ 9,397	$ 12,400

Total nonperforming assets increased by $11.7 million, or 154.6%, to $19.3 million during the nine-month period ended September 30, 2019. The increase in nonperforming assets was primarily due to four commercial relationships being placed in nonaccrual status.

A loan is impaired when full payment under the original loan terms is not expected. Impairment for smaller loans that are similar in nature and which are not in nonaccrual or troubled debt restructured status, such as residential mortgage, consumer, and credit card loans, is determined based on the class of loans and impairment is determined on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows or at the fair value of collateral if repayment is expected solely from the collateral.

Total impaired loans increased by $1.4 million, or 5.3%, to $28.1 million at September 30, 2019 from $26.7 million at December 31, 2018. The increase in the impaired loans category was primarily due to the increase in nonaccrual loans.

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

At September 30, 2019, the allowance for loan losses was 1.26% of total loans outstanding, versus 1.24% of total loans outstanding at December 31, 2018. At September 30, 2019, management believed the allowance for loan losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions do not remain stable, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the allowance for loan losses. The process of identifying probable incurred credit losses is a subjective process. Therefore, the Company maintains a general allowance to cover probable credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve includes the considerations below.

The Company has a relatively high percentage of commercial and commercial real estate loans, most of which are extended to small or medium-sized businesses from a wide variety of industries. Generally, this type of lending has more credit risk than other types of lending because of the size and diversity of the credits. The Company manages this risk by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and market area.

As of September 30, 2019, on the basis of management's review of the loan portfolio, the Company had 94 credits totaling $202.9 million on the classified loan list versus 91 credits totaling $186.6 million on December 31, 2018. The increased in classified loans for the first nine months of 2019 resulted primarily from three commercial borrowers. As of September 30, 2019, the Company had $114.8 million of assets classified as Special Mention, $89.0 million classified as Substandard, $0 classified as Doubtful and $0 classified as Loss as compared to $101.4 million, $85.2 million, $0 and $0, respectively, at December 31, 2018.

Allowance estimates are developed by management after taking into account actual loss experience adjusted for current economic conditions. The Company has regular discussions regarding this methodology with regulatory authorities. Allowance estimates are considered a prudent measurement of the risk in the Company's loan portfolio and are applied to individual loans based on loan type. In accordance with current accounting guidance, the allowance is provided for losses that have been incurred as of the balance sheet date and is based on past events and current economic conditions and does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. For a more thorough discussion of the allowance for loan losses methodology see the Critical Accounting Policies section of this Item 2.

The allowance for loan losses increased 4.5%, or $2.2 million, from $48.5 million at December 31, 2018 to $50.6 million at September 30, 2019. Pooled loan allocations increased from $35.1 million at December 31, 2018 to $37.3 million at September 30, 2019, which was primarily due to management's view of current credit quality, the current economic environment and loan growth. Impaired loan allocations were $10.4 million at September 30, 2019 and $10.0 million at December 31, 2018. The unallocated component of the allowance for loan losses was $2.9 million at September 30, 2019 and $3.3 million at December 31, 2018. While general trends in the overall economy and credit quality were stable, the Company believes that the unallocated component is appropriate given the uncertainty that exists regarding near term economic conditions. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as the level of classified credits, economic uncertainties, industry trends impacting specific portfolio segments, broad portfolio quality trends and trends in the composition of the Company's large commercial loan portfolio and related large dollar exposures to individual borrowers.

Most of the Company's recent loan growth has been concentrated in the commercial loan portfolio, which can result in overall asset quality being influenced by a small number of credits. Management has historically considered growth and portfolio composition when determining loan loss allocations. Management believes that it is prudent to continue to provide for loan losses in a manner consistent with its historical approach due to the loan growth described above and current economic conditions.

Loan growth for the first nine months of 2019 has been moderate and economic conditions in the Company's markets have been stable. While there has been an increase of $11.7 million in nonperforming assets since year-end, management does not believe that the increase is reflective of any broader concerns and watch list loans are stable at $203.8 million compared to $186.6 million at December 31, 2018, which represents 5.04% of total loans at September 30, 2019 compared to 4.77% at December 31, 2018. The increase in watch list loans since year end was primarily impacted by an increase of $15.8 million in non-impaired watch list loans as well as an increase of $1.4 million in impaired watch list loans. While the growth is not robust, commercial real estate activity and manufacturing growth is occurring. The Company's continued growth strategy promotes diversification among industries as well as continued focus on the enforcement of a disciplined credit culture and a conservative position in loan work-out situations. The Company believes that historical industry-specific issues in the Company's markets have are stable and continue to be somewhat mitigated by its overall expansion strategy.

Sources of Funds

The average daily deposits and borrowings together with average rates paid on those deposits and borrowings for the nine months ended September 30, 2019 and 2018 are summarized in the following table:

	Nine months ended September 30,			
	2019		2018	
(dollars in thousands)	**Balance**	**Rate**	Balance	Rate
Noninterest bearing demand deposits	**$ 923,253**	**0.00 %**	$ 841,797	0.00 %
Savings and transaction accounts:				
Savings deposits	**241,322**	**0.11**	260,387	0.13
Interest bearing demand deposits	**1,636,757**	**1.65**	1,475,695	1.13
Time deposits:				
Deposits of $100,000 or more	**1,142,633**	**2.31**	1,229,302	1.73
Other time deposits	**276,283**	**1.89**	263,384	1.45
Total deposits	**$ 4,220,248**	**1.40 %**	$ 4,070,565	1.03 %
FHLB advances and other borrowings	**111,771**	**3.11**	151,161	1.83
Total funding sources	**$ 4,332,019**	**1.44 %**	$ 4,221,726	1.06 %

Deposits and Borrowings

As of September 30, 2019, total deposits increased by $239.3 million, or 5.9%, from December 31, 2018. Core deposits increased by $287.5 million to $4.167 billion as of September 30, 2019 from $3.879 billion as of December 31, 2018. Total brokered deposits were $116.7 million at September 30, 2019 compared to $164.9 million at December 31, 2018 reflecting a $48.2 million decrease during the first nine months of 2019.

Since December 31, 2018, the change in core deposits was comprised of increases in commercial deposits of $231.9 million and in public funds deposits of $65.9 million, which were offset by a decrease in retail deposits of $10.3 million. Total public funds deposits, including public funds transaction accounts, were $1.281 billion at September 30, 2019 and $1.216 billion at December 31, 2018.

The following table summarizes deposit composition at September 30, 2019 and December 31, 2018:

(dollars in thousands)	**September 30, 2019**	December 31, 2018	Current Period Change
Retail	**$ 1,577,880**	$ 1,588,225	$ (10,345)
Commercial	**1,307,361**	1,075,419	231,942
Public funds	**1,281,451**	1,215,533	65,918
Core deposits	**$ 4,166,692**	$ 3,879,177	$ 287,515
Brokered deposits	**116,698**	164,888	(48,190)
Total deposits	**$ 4,283,390**	$ 4,044,065	$ 239,325

Total borrowings decreased by $245.6 million, or 88.8%, from December 31, 2018. The decrease consisted of $170.0 million in Federal home Loan Bank advances due to repayments, as well as $75.6 million in securities sold under agreements to repurchase. The Company utilizes wholesale funding, including brokered deposits and Federal Home Loan Bank advances, to supplement funding of assets, which is primarily used for loan and investment securities growth.

Capital

As of September 30, 2019, total stockholders' equity was $584.3 million, an increase of $62.7 million, or 12.0%, from $521.6 million at December 31, 2018. In addition to net income of $64.8 million, other increases in equity during the first nine months of 2019 included a $19.7 million change in accumulated other comprehensive income component of equity, which was primarily driven by a net increase in the fair value of available-for-sale securities and $3.6 million in stock based compensation expense. Offsetting the increases to stockholders’ equity were decreases due to dividends declared and paid in the amount of $22.0 million and $2.1 million in stock activity under equity compensation plans. As of September 30, 2019 the Company has not made any share repurchases under the share repurchase program approved by the Company’s board of directors on January 8, 2019.

The impact on equity by other comprehensive income (loss) is not included in regulatory capital. The banking regulators have established guidelines for leverage capital requirements, expressed in terms of Tier 1, or core capital, as a percentage of average assets, to measure the soundness of a financial institution. In addition, banking regulators have established risk-based capital guidelines for U.S. banking organizations. As of September 30, 2019, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

The actual capital amounts and ratios of the Company and the Bank as of September 30, 2019 and December 31, 2018, are presented in the table below:

	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2019:								
Total Capital (to Risk Weighted Assets)								
Consolidated	**$ 646,626**	**14.78 %**	**$ 349,958**	**8.00 %**	**$ 459,320**	**N/A**	**N/A**	**N/A**
Bank	**$ 625,805**	**14.34 %**	**$ 349,234**	**8.00 %**	**$ 458,369**	**10.50 %**	**$ 436,558**	**10.00 %**
Tier I Capital (to Risk Weighted Assets)								
Consolidated	**$ 595,909**	**13.62 %**	**$ 262,469**	**6.00 %**	**$ 371,831**	**N/A**	**N/A**	**N/A**
Bank	**$ 575,087**	**13.17 %**	**$ 261,925**	**6.00 %**	**$ 371,061**	**8.50 %**	**$ 349,234**	**8.00 %**
Common Equity Tier 1 (CET1)								
Consolidated	**$ 565,909**	**12.94 %**	**$ 196,851**	**4.50 %**	**$ 306,213**	**N/A**	**N/A**	**N/A**
Bank	**$ 575,087**	**13.17 %**	**$ 196,444**	**4.50 %**	**$ 305,580**	**7.00 %**	**$ 283,753**	**6.50 %**
Tier I Capital (to Average Assets)								
Consolidated	**$ 595,909**	**12.07 %**	**$ 197,479**	**4.00 %**	**$ 197,479**	**N/A**	**N/A**	**N/A**
Bank	**$ 575,087**	**11.73 %**	**$ 196,134**	**4.00 %**	**$ 196,134**	**4.00 %**	**$ 245,168**	**5.00 %**
As of December 31, 2018:								
Total Capital (to Risk Weighted Assets)								
Consolidated	$ 601,379	14.20 %	$ 338,690	8.00 %	$ 418,070	N/A	N/A	N/A
Bank	$ 583,206	13.80 %	$ 338,098	8.00 %	$ 417,340	9.875 %	$ 422,623	10.00 %
Tier I Capital (to Risk Weighted Assets)								
Consolidated	$ 552,836	13.06 %	$ 254,017	6.00 %	$ 333,398	N/A	N/A	N/A
Bank	$ 534,664	12.65 %	$ 253,574	6.00 %	$ 332,815	7.875 %	$ 338,098	8.00 %
Common Equity Tier 1 (CET1)								
Consolidated	$ 522,836	12.35 %	$ 190,513	4.50 %	$ 269,893	N/A	N/A	N/A
Bank	$ 534,664	12.65 %	$ 190,180	4.50 %	$ 269,422	6.375 %	$ 274,705	6.50 %
Tier I Capital (to Average Assets)								
Consolidated	$ 552,836	11.44 %	$ 193,305	4.00 %	$ 193,305	N/A	N/A	N/A
Bank	$ 534,664	11.06 %	$ 193,312	4.00 %	$ 193,312	4.00 %	$ 241,639	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 Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "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. A number of factors, many of which are beyond the Company to control or predict, could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These factors include, but are not limited to, the following:

- the effects of future economic, trade, business and market conditions and changes, both domestic and foreign, including the effects of federal trade policies;
- governmental monetary and fiscal policies;
- the timing and scope of any legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators;
- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities and other interest sensitive assets and liabilities;
- changes in borrowers' credit risks and payment behaviors;
- changes in the availability and cost of credit and capital in the financial markets;
- the effects of disruption and volatility in capital markets on the value of our investment portfolio;
- cyber-security risks and or cyber-security damage that could result from attacks on the Company's or third party service providers networks or data of the Company;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the effects of the transition from the London Interbank Offered Rate (LIBOR) to other, alternative reference rates;
- changes in technology or products that may be more difficult or costly, or less effective than anticipated;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events, including storms, droughts, tornados and flooding, that may affect general economic conditions, including agricultural production and demand and prices for agricultural goods and land used for agricultural purposes, generally and in our markets;
- the failure of assumptions and estimates used in our reviews of our loan portfolio, underlying the establishment of reserves for possible loan losses, our analysis of our capital position and other estimates;
- changes in the scope and cost of FDIC insurance, the state of Indiana's Public Deposit Insurance Fund and other coverages;
- changes in accounting policies, rules and practices; and
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk represents the Company's primary market risk exposure. The Company does not have a material exposure to foreign currency exchange risk, does not have any material amount of derivative financial instruments and does not maintain a trading portfolio. The Corporate Risk Committee of the Board of Directors annually reviews and approves the policy used to manage interest rate risk. The policy was last reviewed and approved in July 2019. The policy sets guidelines for balance sheet structure, which are designed to protect the Company from the impact that interest rate changes could have on net income but do not necessarily indicate the effect on future net interest income. The Company, through its Asset and Liability Committee, manages interest rate risk by monitoring the computer simulated earnings impact of various rate scenarios and general market conditions. The Company then modifies its long-term risk parameters by attempting to generate the types of loans, investments, and deposits that currently fit the Company's needs, as determined by its Asset and Liability Committee. This computer simulation analysis measures the net interest income impact of various interest rate scenario changes during the next twelve months. The Company continually evaluates the assumptions used in the model. The current balance sheet structure is considered to be within acceptable risk levels.

Interest rate scenarios for the base, falling 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, 2019. 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 (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	$ 160,465	$ 149,468	$ 155,266	$ 157,959	$ 162,609	$ 164,700	$ 168,806	$ 176,517	$ 183,878
Variance from Base		$ (10,997)	$ (5,199)	$ (2,506)	$ 2,144	$ 4,235	$ 8,341	$ 16,052	$ 23,413
Percent of change from Base		(6.85)%	(3.24)%	(1.56)%	1.34 %	2.64 %	5.20 %	10.00 %	14.59 %

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, 2019. 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 Securities and Exchange Commission 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, 2019, there were no changes to the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal proceedings

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

Item 1A. Risk Factors

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, 2018. 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

On February 8, 2019, the Company issued 224,066 shares of common stock to the holder of a warrant the Company originally issued to the Treasury in February 2009. The aggregate exercise price was approximately $4.2 million, which was paid pursuant to a cashless exercise of the warrant. The issuance of the shares was exempt from registration pursuant to Section 3(a)(9) under the Securities Act of 1933.

ISSUER PURCHASES OF EQUITY SECURITIES

On January 8, 2019, the Company's board of directors approved a share repurchase program, under which the Company is authorized to repurchase, from time to time as the Company deems appropriate, shares of the Company's common stock with an aggregate purchase price of up to $30 million. Repurchases may be made in the open market, through block trades or otherwise, and in privately negotiated transactions. The repurchase program expires on December 31, 2019. 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.

The following table provides information as of September 30, 2019 with respect to shares of common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31	3,497	$ 46.48	0	$ 30,000,000
August 1-31	1,203	43.98	0	30,000,000
September 1-30	0	0	0	30,000,000
Total	4,700	$ 45.84	0	$ 30,000,000

(a) The shares purchased during the periods were credited to the deferred share accounts of non-employee directors under the Company's directors' deferred compensation plan. These shares were purchased in the ordinary course of business and consistent with past practice.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None

Item 6. Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data File Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018; (ii) Consolidated Statements of Income for the three months and nine months ended September 30, 2019 and September 30, 2018; (iii) Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2019 and September 30, 2018; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months and nine months ended September 30, 2019 and September 30, 2018; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and September 30, 2018; and (vi) Notes to Unaudited Consolidated Financial Statements.

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, 2019	/s/ David M. Findlay David M. Findlay – President and Chief Executive Officer
Date: November 1, 2019	/s/ Lisa M. O'Neill Lisa M. O'Neill – Executive Vice President and Chief Financial Officer (principal financial officer)
Date: November 1, 2019	/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, 2019

/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, 2019

/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, 2019 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, 2019

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, 2019 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, 2019

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.