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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024.

OR

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

For the transition period from ________ to ________.

COMMISSION FILE NUMBER 0-14703

NBT BANCORP INC.

(Exact name of registrant as specified in its charter)

Delaware	**16-1268674**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

52 South Broad Street, Norwich, New York 13815
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(607) 337-2265**

None
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NBTB	The NASDAQ Stock Market LLC

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of October 31, 2024, there were 47,177,534 shares outstanding of the Registrant's Common Stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q - Quarter Ended September 30, 2024

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	
ITEM 1.	FINANCIAL STATEMENTS (Unaudited)	
	Consolidated Balance Sheets	4
	Consolidated Statements of Income	5
	Consolidated Statements of Comprehensive Income (Loss)	6
	Consolidated Statements of Changes in Stockholders' Equity	7
	Consolidated Statements of Cash Flows	8
	Notes to Unaudited Interim Consolidated Financial Statements	10
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	52
ITEM 4.	CONTROLS AND PROCEDURES	52
PART II	**OTHER INFORMATION**	
ITEM 1.	LEGAL PROCEEDINGS	52
ITEM 1A.	RISK FACTORS	52
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	55
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	55
ITEM 4.	MINE SAFETY DISCLOSURES	55
ITEM 5.	OTHER INFORMATION	55
ITEM 6.	EXHIBITS	56
SIGNATURES		57

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

When references to "NBT", "we," "our," "us," and "the Company" are made in this report, we mean NBT Bancorp Inc. and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, NBT Bancorp Inc. When we refer to the "Bank" in this report, we mean its only bank subsidiary, NBT Bank, National Association, and its subsidiaries.

The acronyms and abbreviations identified below are used throughout this report, including the Notes to Unaudited Interim Consolidated Financial Statements. You may find it helpful to refer to this page as you read this report.

AFS	available for sale
AIR	accrued interest receivable
AOCI	accumulated other comprehensive income (loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BP(S)	basis point(s)
C&I	Commercial & Industrial
CECL	current expected credit losses
CD	certificate of deposit
CME	Chicago Mercantile Exchange Clearing House
CRE	Commercial Real Estate
EPS	earnings per share
Evans	Evans Bancorp, Inc.
Evans Bank	Evans Bank, National Association
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FOMC	Federal Open Market Committee
FRB	Federal Reserve Board
FTE	fully taxable equivalent
GAAP	generally accepted accounting principles in the United States of America
HTM	held to maturity
LGD	loss given default
LIBOR	London Interbank Offered Rate
MMDA	money market deposit accounts
NASDAQ	The NASDAQ Stock Market LLC
NIM	net interest margin
NOW	negotiable order of withdrawal
OCC	Office of the Comptroller of the Currency
OREO	other real estate owned
PCD	purchased credit deteriorated
PD	probability of default
Salisbury	Salisbury Bancorp, Inc.
Salisbury Bank	Salisbury Bank and Trust Company
SEC	U.S. Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
TDRs	troubled debt restructurings

ITEM 1. FINANCIAL STATEMENTS

NBT Bancorp Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

(In thousands, except share and per share data)	September 30, 2024	December 31, 2023
Assets		
Cash and due from banks	**$ 250,788**	$ 173,811
Short-term interest-bearing accounts	**231,671**	31,378
Equity securities, at fair value	**41,974**	37,591
Securities available for sale, at fair value	**1,509,338**	1,430,858
Securities held to maturity (fair value $781,868 and $814,524, respectively)	**854,941**	905,267
Federal Reserve and Federal Home Loan Bank stock	**37,732**	45,861
Loans held for sale	**3,713**	3,371
Loans	**9,907,041**	9,650,713
Less allowance for loan losses	**119,500**	114,400
Net loans	**$ 9,787,541**	$ 9,536,313
Premises and equipment, net	**80,133**	80,675
Goodwill	**362,010**	361,851
Intangible assets, net	**35,843**	40,443
Bank owned life insurance	**271,178**	265,732
Other assets	**372,690**	395,889
Total assets	**$ 13,839,552**	$ 13,309,040
Liabilities		
Demand (noninterest bearing)	**$ 3,476,218**	$ 3,413,829
Savings, NOW and money market	**6,678,936**	6,230,456
Time	**1,433,124**	1,324,709
Total deposits	**$ 11,588,278**	$ 10,968,994
Short-term borrowings	**204,959**	386,651
Long-term debt	**29,682**	29,796
Subordinated debt, net	**120,829**	119,744
Junior subordinated debt	**101,196**	101,196
Other liabilities	**272,628**	276,968
Total liabilities	**$ 12,317,572**	$ 11,883,349
Stockholders' equity		
Preferred stock, $0.01 par value. 2,500,000 shares authorized	**$ -**	$ -
Common stock, $0.01 par value. 100,000,000 shares authorized; 53,974,492 shares issued	**540**	540
Additional paid-in-capital	**742,524**	740,943
Retained earnings	**1,080,245**	1,021,831
Accumulated other comprehensive loss	**(125,736)**	(160,934)
Common stock in treasury, at cost, 6,797,664 and 6,864,593 shares, respectively	**(175,593)**	(176,689)
Total stockholders' equity	**$ 1,521,980**	$ 1,425,691
Total liabilities and stockholders' equity	**$ 13,839,552**	$ 13,309,040

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Interest, fee and dividend income				
Interest and fees on loans	**$ 141,991**	$ 122,097	**$ 411,743**	$ 329,931
Securities available for sale	**7,815**	7,495	**22,501**	22,604
Securities held to maturity	**5,042**	5,281	**15,535**	15,307
Other	**1,382**	2,221	**4,154**	4,033
Total interest, fee and dividend income	**$ 156,230**	$ 137,094	**$ 453,933**	$ 371,875
Interest expense				
Deposits	**$ 49,106**	$ 30,758	**$ 140,133**	$ 61,888
Short-term borrowings	**1,431**	7,612	**7,751**	20,657
Long-term debt	**292**	294	**873**	631
Subordinated debt	**1,810**	1,612	**5,416**	4,281
Junior subordinated debt	**1,922**	1,923	**5,743**	5,372
Total interest expense	**$ 54,561**	$ 42,199	**$ 159,916**	$ 92,829
Net interest income	**$ 101,669**	$ 94,895	**$ 294,017**	$ 279,046
Provision for loan losses	**2,920**	12,633	**17,398**	20,148
Net interest income after provision for loan losses	**$ 98,749**	$ 82,262	**$ 276,619**	$ 258,898
Noninterest income				
Service charges on deposit accounts	**$ 4,340**	$ 3,979	**$ 12,676**	$ 11,260
Card services income	**5,897**	5,503	**16,679**	15,469
Retirement plan administration fees	**14,578**	12,798	**43,663**	35,995
Wealth management	**10,929**	9,297	**30,799**	25,611
Insurance services	**4,913**	4,361	**13,149**	12,008
Bank owned life insurance income	**1,868**	1,568	**6,054**	4,974
Net securities gains (losses)	**476**	(183)	**2,567**	(9,822)
Other	**2,773**	2,913	**8,811**	8,195
Total noninterest income	**$ 45,774**	$ 40,236	**$ 134,398**	$ 103,690
Noninterest expense				
Salaries and employee benefits	**$ 59,641**	$ 49,248	**$ 170,738**	$ 144,237
Technology and data services	**9,920**	9,677	**28,919**	27,989
Occupancy	**7,754**	7,090	**23,523**	21,233
Professional fees and outside services	**4,871**	4,149	**14,289**	12,486
Office supplies and postage	**1,756**	1,700	**5,425**	5,004
FDIC assessment	**1,815**	1,657	**5,217**	4,397
Advertising	**711**	667	**2,396**	1,841
Amortization of intangible assets	**2,062**	1,609	**6,363**	2,603
Loan collection and other real estate owned, net	**560**	569	**1,828**	2,115
Acquisition expenses	**543**	7,917	**543**	9,724
Other	**6,112**	6,514	**17,865**	17,284
Total noninterest expense	**$ 95,745**	$ 90,797	**$ 277,106**	$ 248,913
Income before income tax expense	**$ 48,778**	$ 31,701	**$ 133,911**	$ 113,675
Income tax expense	**10,681**	7,095	**29,275**	25,339
Net income	**$ 38,097**	$ 24,606	**$ 104,636**	$ 88,336
Earnings per share				
Basic	**$ 0.81**	$ 0.54	**$ 2.22**	$ 2.02
Diluted	**$ 0.80**	$ 0.54	**$ 2.21**	$ 2.01

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Net income	**$ 38,097**	$ 24,606	**$ 104,636**	$ 88,336
Other comprehensive income (loss), net of tax:				
Securities available for sale:				
Unrealized net holding gains (losses) arising during the period, gross	**$ 49,019**	$ (24,059)	**$ 45,283**	$ (35,117)
Tax effect	**(12,255)**	6,015	**(11,321)**	8,780
Unrealized net holding gains (losses) arising during the period, net	**$ 36,764**	$ (18,044)	**$ 33,962**	$ (26,337)
Reclassification adjustment for net losses in net income, gross	**$ -**	$ -	**$ -**	$ 9,450
Tax effect	**-**	-	**-**	(2,363)
Reclassification adjustment for net losses in net income, net	**$ -**	$ -	**$ -**	$ 7,087
Amortization of unrealized net gains for the reclassification of available for sale securities to held to maturity, gross	**$ 87**	$ 105	**$ 274**	$ 328
Tax effect	**(21)**	(26)	**(68)**	(82)
Amortization of unrealized net gains for the reclassification of available for sale securities to held to maturity, net	**$ 66**	$ 79	**$ 206**	$ 246
Total securities available for sale, net	**$ 36,830**	$ (17,965)	**$ 34,168**	$ (19,004)
Pension and other benefits:				
Amortization of prior service cost and actuarial losses, gross	**$ 471**	$ 648	**$ 2,374**	$ 1,946
Tax effect	**(118)**	(162)	**(594)**	(487)
Amortization of prior service cost and actuarial losses, net	**$ 353**	$ 486	**$ 1,780**	$ 1,459
Increase in unrecognized actuarial loss, gross	**$ -**	$ -	**$ (1,000)**	$ -
Tax effect	**-**	-	**250**	-
Increase in unrecognized actuarial loss, net	**$ -**	$ -	**$ (750)**	$ -
Total pension and other benefits, net	**$ 353**	$ 486	**$ 1,030**	$ 1,459
Total other comprehensive income (loss)	**$ 37,183**	$ (17,479)	**$ 35,198**	$ (17,545)
Comprehensive income	**$ 75,280**	$ 7,127	**$ 139,834**	$ 70,791

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (unaudited)

(In thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock in Treasury	Total
Balance at June 30, 2024	**$ 540**	**$ 741,933**	**$ 1,058,187**	**$ (162,919)**	**$ (175,786)**	**$ 1,461,955**
Net income	-	-	38,097	-	-	38,097
Cash dividends - $0.34 per share	-	-	(16,039)	-	-	(16,039)
Net issuance of 11,459 shares to employee and other stock plans	-	(373)	-	-	193	(180)
Stock-based compensation	-	964	-	-	-	964
Other comprehensive income	-	-	-	37,183	-	37,183
Balance at September 30, 2024	**$ 540**	**$ 742,524**	**$ 1,080,245**	**$ (125,736)**	**$ (175,593)**	**$ 1,521,980**
Balance at June 30, 2023	**$ 497**	**$ 578,322**	**$ 996,920**	**$ (190,100)**	**$ (175,146)**	**$ 1,210,493**
Net income	-	-	24,606	-	-	24,606
Cash dividends - $0.32 per share	-	-	(15,067)	-	-	(15,067)
Issuance of 4,322,999 shares of common stock for acquisition	43	161,680	-	-	-	161,723
Purchase of 68,500 treasury shares	-	-	-	-	(2,166)	(2,166)
Net issuance of 6,334 shares to employee and other stock plans	-	(250)	-	-	136	(114)
Stock-based compensation	-	825	-	-	-	825
Other comprehensive (loss)	-	-	-	(17,479)	-	(17,479)
Balance at September 30, 2023	**$ 540**	**$ 740,577**	**$ 1,006,459**	**$ (207,579)**	**$ (177,176)**	**$ 1,362,821**

(In thousands, except share and per share data)	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock in Treasury	Total
Balance at December 31, 2023	**$ 540**	**$ 740,943**	**$ 1,021,831**	**$ (160,934)**	**$ (176,689)**	**$ 1,425,691**
Net income	-	-	104,636	-	-	104,636
Cash dividends - $0.98 per share	-	-	(46,222)	-	-	(46,222)
Purchase of 7,600 treasury shares	-	-	-	-	(251)	(251)
Net issuance of 74,529 shares to employee and other stock plans	-	(3,574)	-	-	1,347	(2,227)
Stock-based compensation	-	5,155	-	-	-	5,155
Other comprehensive income	-	-	-	35,198	-	35,198
Balance at September 30, 2024	**$ 540**	**$ 742,524**	**$ 1,080,245**	**$ (125,736)**	**$ (175,593)**	**$ 1,521,980**
Balance at December 31, 2022	**$ 497**	**$ 577,853**	**$ 958,433**	**$ (190,034)**	**$ (173,195)**	**$ 1,173,554**
Cumulative effect adjustment for ASU 2022-02 implementation as of January 1, 2023	-	-	502	-	-	502
Net income	-	-	88,336	-	-	88,336
Cash dividends - $0.92 per share	-	-	(40,812)	-	-	(40,812)
Issuance of 4,322,999 shares of common stock for acquisition	43	161,680	-	-	-	161,723
Purchase of 155,500 treasury shares	-	-	-	-	(4,944)	(4,944)
Net issuance of 62,275 shares to employee and other stock plans	-	(3,093)	-	-	963	(2,130)
Stock-based compensation	-	4,137	-	-	-	4,137
Other comprehensive (loss)	-	-	-	(17,545)	-	(17,545)
Balance at September 30, 2023	**$ 540**	**$ 740,577**	**$ 1,006,459**	**$ (207,579)**	**$ (177,176)**	**$ 1,362,821**

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Nine Months Ended September 30, 2024	2023
Operating activities		
Net income	$ **104,636**	$ 88,336
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	**17,398**	20,148
Depreciation and amortization of premises and equipment	**8,609**	7,808
Net amortization on securities	**1,926**	2,057
Amortization of intangible assets	**6,363**	2,603
Amortization of operating lease right-of-use assets	**5,615**	5,029
Excess tax benefit on stock-based compensation	**(185)**	(239)
Stock-based compensation expense	**5,155**	4,137
Bank owned life insurance income	**(6,054)**	(4,974)
Amortization of subordinated debt issuance costs	**328**	328
Proceeds from sale of loans held for sale	**85,479**	26,108
Originations of loans held for sale	**(85,484)**	(29,167)
Net gain on sale of loans held for sale	**(136)**	(88)
Net securities (gains) losses	**(2,567)**	9,822
Net gains on sale of other real estate owned	**-**	(50)
Net change in other assets and other liabilities	**(1,688)**	(10,054)
Net cash provided by operating activities	$ **139,395**	$ 121,804
Investing activities		
Net cash (used in) provided by acquisitions	$ **(983)**	$ 44,564
Securities available for sale:		
Proceeds from maturities, calls and principal paydowns	**101,583**	90,415
Proceeds from sales	**2,284**	124,577
Purchases	**(135,436)**	-
Securities held to maturity:		
Proceeds from maturities, calls and principal paydowns	**121,314**	81,949
Purchases	**(71,984)**	(77,930)
Equity securities:		
Purchases	**(18)**	(4)
Other:		
Net increase in loans	**(268,954)**	(349,168)
Proceeds from Federal Home Loan Bank stock redemption	**70,143**	84,378
Purchases of Federal Reserve and Federal Home Loan Bank stock	**(62,014)**	(88,260)
Proceeds from settlement of bank owned life insurance	**608**	3,185
Purchases of premises and equipment, net	**(8,111)**	(6,333)
Proceeds from sales of other real estate owned	**-**	229
Net cash used in investing activities	$ **(251,568)**	$ (92,398)
Financing activities		
Net increase in deposits	$ **619,284**	$ 596,543
Net decrease in short-term borrowings	**(181,692)**	(128,214)
Proceeds from long-term debt	**-**	25,000
Repayments of long-term debt	**(114)**	(80)
Proceeds from the issuance of shares to employee and other stock plans	**61**	-
Cash paid by employer for tax-withholding on stock issuance	**(1,623)**	(1,595)
Purchase of treasury stock	**(251)**	(4,944)
Cash dividends	**(46,222)**	(40,812)
Net cash provided by financing activities	$ **389,443**	$ 445,898
Net increase in cash and cash equivalents	$ **277,270**	$ 475,304
Cash and cash equivalents at beginning of period	**205,189**	197,350
Cash and cash equivalents at end of period	$ **482,459**	$ 672,654

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited) (continued)

	Nine Months Ended September 30,			
		2024		**2023**
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest expense	**$**	**162,973**	$	78,130
Income taxes paid, net of refund		**17,115**		26,663
Noncash investing activities:				
Loans transferred to other real estate owned	**$**	**127**	$	74
Acquisitions:				
Fair value of assets acquired, excluding acquired cash and goodwill	**$**	**1,763**	$	1,417,392
Fair value of liabilities assumed		**-**		1,380,386

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Notes to Unaudited Interim Consolidated Financial Statements
September 30, 2024

1. Description of Business

NBT Bancorp Inc. is a registered financial holding company incorporated in the state of Delaware in 1986, with its principal headquarters located in Norwich, New York. The principal assets of NBT Bancorp Inc. consist of all of the outstanding shares of common stock of its subsidiaries, including: NBT Bank, National Association (the "Bank"), NBT Financial Services, Inc. ("NBT Financial"), NBT Holdings, Inc. ("NBT Holdings"), CNBF Capital Trust I, NBT Statutory Trust I, NBT Statutory Trust II, Alliance Financial Capital Trust I and Alliance Financial Capital Trust II (collectively, the "Trusts"). The principal sources of revenue for NBT Bancorp Inc. are the management fees and dividends it receives from the Bank, NBT Financial and NBT Holdings. Collectively, NBT Bancorp Inc. and its subsidiaries are referred to herein as (the "Company").

The Company's business, primarily conducted through the Bank, consists of providing commercial banking, retail banking and wealth management services primarily to customers in its market area, which includes upstate New York, northeastern Pennsylvania, southern New Hampshire, western Massachusetts, Vermont, southern Maine and central and northwestern Connecticut. The Company has been, and intends to continue to be, a community-oriented financial institution offering a variety of financial services. The Company's business philosophy is to operate as a community bank with local decision-making, providing a broad array of banking and financial services to retail, commercial and municipal customers. The Company completed the acquisition of Salisbury in August of 2023, a commercial bank with $1.46 billion in assets with 13 banking offices in northwestern Connecticut, the Hudson Valley region of New York and southwestern Massachusetts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of NBT Bancorp Inc. and its wholly-owned subsidiaries: the Bank, NBT Financial and NBT Holdings. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods in accordance with GAAP and in accordance with the instructions for the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X as promulgated by the SEC. Accordingly, the consolidated financial statements do not include all of the information and notes necessary for complete financial statements in conformity with GAAP. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2023 Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. All material intercompany transactions have been eliminated in consolidation. Amounts previously reported in the consolidated financial statements are reclassified whenever necessary to conform to the current period presentation. The Company has evaluated subsequent events for potential recognition and/or disclosure, and none were identified.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

Estimates associated with the allowance for credit losses and pension accounting are particularly susceptible to material change in the near term.

3. Recent Accounting Pronouncements

Accounting Standards Issued Not Yet Adopted

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements*, which amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification. The ASU was issued in response to the SEC's August 2018 final rule that updated and simplified disclosure requirements that the SEC believed were redundant, duplicative, overlapping, outdated, or superseded. The new guidance is intended to align GAAP requirements with those of the SEC. The ASU will become effective on the earlier of the date on which the SEC removes its disclosure requirements for the related disclosure or June 30, 2027. Early adoption is not permitted. Aside from meeting the new disclosure requirements, the adoption is not expected to have a material impact on the consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Improvements to Reportable Segment Disclosures*, to improve the reportable segment disclosure requirements by requiring annual and interim disclosure of incremental segment information. In addition, the amendments will enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment and include other disclosure requirements. The amendments in this ASU are effective for the Company for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, and early adoption is permitted. Aside from meeting the new disclosure requirements, the adoption is not expected to have a material impact on the consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, that addresses requests for improved income tax disclosures from investors, lenders, creditors and other allocators of capital that use the financial statements to make capital allocation decisions. The ASU requires enhanced disclosures primarily related to existing rate reconciliation and income taxes paid information to help investors better assess how the Company's operations and related tax risks and tax planning and operational opportunities affect the Company's tax rate and prospects for future cash flows. The ASU 2023-09 improves the transparency of income tax disclosures. The amendments in this ASU are effective for the Company on January 1, 2025 and should be applied on a prospective basis. Retrospective application and early adoption are permitted. Aside from meeting the new disclosure requirements, the adoption is not expected to have a material impact on the consolidated financial statements.

4. Acquisitions

Pending Acquisition of Evans Bancorp, Inc.

On September 9, 2024, the Company and the Bank, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Evans and Evans Bank, Evans's subsidiary, pursuant to which the Company will acquire Evans. Evans, with assets of approximately $2.28 billion at September 30, 2024, is headquartered in Williamsville, New York. Its primary subsidiary, Evans Bank, is a federally-chartered national banking association with 18 banking locations in Western New York.

Subject to the terms and conditions of the Merger Agreement, which has been approved by the boards of directors of each party, Evans will merge with and into the Company, with the Company as the surviving entity, and immediately thereafter, Evans Bank will merge with and into the Bank, with the Bank as the surviving bank (the "Merger").

Under the terms of the Merger Agreement, each outstanding share of Evans common stock will be converted into the right to receive 0.91 shares of the Company's common stock. The Merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the shareholders of Evans, and is expected to close in the second quarter of 2025.

Prior Period Acquisitions

On August 11, 2023, the Company completed the acquisition of Salisbury through the merger of Salisbury with and into the Company, with the Company surviving the merger, for $161.7 million in stock. Salisbury Bank, Salisbury's subsidiary, was a Connecticut-chartered commercial bank headquartered in Lakeville, Connecticut with 13 banking offices. The acquisition enhanced the Company's presence in Massachusetts' Berkshire county, and extended its footprint into New York's Dutchess, Orange and Ulster counties and into Connecticut's Litchfield county. In connection with the acquisition, the Company issued 4.32 million shares of common stock and acquired approximately $1.46 billion of identifiable assets. Preliminary goodwill of $78.1 million was recognized during the quarter ended September 30, 2023 as a result of the merger and is not amortizable or deductible for tax purposes. During the fourth quarter of 2023, the Company revised the estimated fair value of premises and equipment, net and related deferred income taxes based upon receipt of land and building appraisals, which resulted in a $1.7 million increase in goodwill. Total goodwill of $79.7 million was recognized as a result of the merger. The effects of the acquired assets and liabilities have been included in the consolidated financial statements since that date. As a result of the full integration of the operations of Salisbury, it is not practicable to determine all revenue or net income included in the Company's operating results relating to Salisbury since the date of acquisition as Salisbury results cannot be separately identified.

The Company determined that this acquisition constituted a business combination and therefore was accounted for using the acquisition method of accounting. Accordingly, as of the date of the acquisition, the Company recorded the assets acquired, liabilities assumed and consideration paid at fair value based on management's best estimates using information available at the date of the acquisition and these estimates are subject to adjustment based on updated information not available at the time of the acquisition. The amount of goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company with Salisbury.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed:

		August 11, 2023
(In thousands)		**Salisbury Bancorp, Inc.**
Consideration:		
Cash paid to shareholders (fractional shares)	$	15
Common stock issuance		161,723
Total net consideration	$	161,738
Recognized amounts of identifiable assets acquired and (liabilities) assumed:		
Cash and cash equivalents	$	48,665
Securities available for sale		122,667
Loans, net of allowance for credit losses on purchased credit deteriorated loans		1,174,237
Premises and equipment, net		13,026
Core deposit intangibles		31,188
Wealth management customer intangible		4,654
Bank owned life insurance		30,315
Other assets		37,631
Total identifiable assets acquired	$	1,462,383
Deposits	$	(1,308,976)
Borrowings		(55,461)
Other liabilities		(15,949)
Total liabilities assumed	$	(1,380,386)
Total identifiable assets, net	$	81,997
Goodwill	$	79,741

The following is a description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed. The Company used an independent valuation specialist to assist with the determination of fair values for certain acquired assets and assumed liabilities.

Cash and due from banks - The estimated fair value was determined to approximate the carrying amount of these assets.

Securities available for sale - The estimated fair value of the investment portfolio was based on quoted market prices and dealer quotes. The investment securities were sold immediately after the merger and no gains or losses were recorded.

Loans - The estimated fair value of loans were based on a discounted cash flow methodology applied on a pooled basis for non-PCD loans and for PCD loans. The valuation considered underlying characteristics including loan type, term, rate, payment schedule and credit rating. Other factors included assumptions related to prepayments, probability of default and loss given default. The discount rates applied were based on a build-up approach considering the funding mix, servicing costs, liquidity premium and factors related to performance risk.

Core deposit intangible - The core deposit intangible was valued utilizing the cost savings method approach, which recognizes the cost savings represented by the expense of maintaining the core deposit base versus the cost of an alternative funding source. The valuation incorporates assumptions related to account retention, discount rates, deposit interest rates, deposit maintenance costs and alternative funding rates.

Wealth management customer intangible - The wealth management customer intangible was valued utilizing the income approach, which employs a present value analysis, which calculates the expected after-tax cash flow benefits of the net revenues generated by the acquired customers over the expected lives of the acquired customers, discounted at a long-term market-oriented after-tax rate of return on investment. The value assigned to the acquired customers represents the future economic benefit from acquiring the customers (net of operating expenses).

Deposits - The fair value of noninterest bearing demand deposits, interest checking, money market and savings deposit accounts from Salisbury were assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificate of deposit (time deposit accounts) were valued at the present value of the certificates' expected contractual payments discounted at market rates for similar certificates.

Borrowings - The estimated fair value of short-term borrowings was determined to approximate stated value. Subordinated debt was valued using a discounted cash flow approach incorporating a discount rate that incorporated similar terms, maturity and credit rating.

Accounting for Acquired Loans - Acquired loans are classified into two categories: PCD loans and non-PCD loans. PCD loans are defined as a loan or group of loans that have experienced more than insignificant credit deterioration since origination. Non-PCD loans had an allowance established on acquisition date, which was recognized as an expense through the provision for credit losses. For PCD loans, an allowance was recognized by adding it to the fair value of the loan, which is the amortized cost. There is no provision for credit loss expense recognized on PCD loans because the initial allowance is established by grossing-up the amortized cost of the PCD loan. The allowance for credit losses on non-PCD loans of $8.8 million was recorded through the provision for loan losses within the unaudited interim consolidated statements of income. The following table provides details related to the fair value of acquired PCD loans.

(In thousands)	**PCD Loans**
Par value of PCD loans at acquisition	$ 219,076
Allowance for credit losses at acquisition	5,772
Discount at acquisition	(24,512)
Fair value of PCD loans at acquisition	$ 200,336

Direct costs related to the acquisition were expensed as incurred. Acquisition integration-related expenses were $7.9 million and $9.7 million during the three and nine months ended September 30, 2023, respectively. These amounts have been separately stated in the unaudited interim consolidated statements of income and are included in operating activities in the unaudited interim consolidated statements of cash flows.

Supplemental Pro Forma Financial Information (Unaudited)

The following table presents certain unaudited pro forma financial information for illustrative purposes only, for the three and nine months ended September 30, 2023, as if Salisbury had been acquired on January 1, 2023. This unaudited pro forma information combines the historical results of Salisbury with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. The unaudited pro forma information does not consider any changes to the provision expense resulting from recording loan assets at fair value, cost savings or business synergies. As a result, actual amounts would have differed from the unaudited pro forma information presented and the differences could be significant.

	Pro Forma (Unaudited)	
	Three Months Ended	**Nine Months Ended**
(In thousands)	**September 30, 2023**	**September 30, 2023**
Total revenue, net of interest expense	$ 130,881	$ 404,580
Net income	12,182	81,859

Other Acquisitions

In July 2024, the Company, through its subsidiary, NBT Insurance Agency, LLC, a full-service insurance agency, completed the acquisition of substantially all of the assets of Karl W. Reynard, Inc. located in Stamford, NY for a total consideration of $1.2 million. Karl W. Reynard, Inc. was a long-established property and casualty agency offering personal and commercial lines. This strategic acquisition expands the presence of NBT Insurance Agency, LLC in the Catskills, where the agency and the Bank are well established. As part of the acquisition, the Company recorded goodwill of $0.2 million and a $1.0 million contingent consideration recorded in other liabilities on the unaudited interim consolidated balance sheets.

In July 2023, the Company, through its subsidiary, EPIC Advisors Inc., completed its acquisition of certain assets of Retirement Direct, LLC, a retirement plan administration business based near Charlotte, North Carolina for a total consideration of $2.8 million. As part of the acquisition, the Company recorded goodwill of $0.9 million and a $1.0 million contingent consideration recorded in other liabilities on the unaudited interim consolidated balance sheets.

The operating results of the acquired companies are included in the consolidated results after the date of acquisition.

5. Securities

The amortized cost, estimated fair value and unrealized gains (losses) of AFS securities are as follows:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
As of September 30, 2024				
U.S. treasury	**$ 133,704**	**$ 118**	**$ (5,284)**	**$ 128,538**
Federal agency	**248,357**	**-**	**(25,718)**	**222,639**
State & municipal	**95,657**	**7**	**(6,761)**	**88,903**
Mortgage-backed:				
Government-sponsored enterprises	**387,388**	**138**	**(33,068)**	**354,458**
U.S. government agency securities	**72,076**	**14**	**(4,824)**	**67,266**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**478,051**	**303**	**(36,269)**	**442,085**
U.S. government agency securities	**184,570**	**116**	**(22,642)**	**162,044**
Corporate	**48,472**	**-**	**(5,067)**	**43,405**
Total AFS securities	**$ 1,648,275**	**$ 696**	**$ (139,633)**	**$ 1,509,338**
As of December 31, 2023				
U.S. treasury	$ 133,302	$ -	$ (8,278)	$ 125,024
Federal agency	248,384	-	(33,644)	214,740
State & municipal	96,251	11	(9,956)	86,306
Mortgage-backed:				
Government-sponsored enterprises	399,532	7	(44,264)	355,275
U.S. government agency securities	74,281	14	(7,302)	66,993
Collateralized mortgage obligations:				
Government-sponsored enterprises	452,715	15	(48,257)	404,473
U.S. government agency securities	162,171	-	(25,100)	137,071
Corporate	48,442	-	(7,466)	40,976
Total AFS securities	$ 1,615,078	$ 47	$ (184,267)	$ 1,430,858

There was no allowance for credit losses on AFS securities as of September 30, 2024 and December 31, 2023.

During the three months ended September 30, 2024 and September 30, 2023, no gains or losses were reclassified out of AOCI and into earnings. During the nine months ended September 30, 2023, there were $4.5 million of gross realized losses reclassified out of AOCI and into earnings and the Company incurred a $5.0 million loss on the write-off of an AFS corporate debt security from a subordinated debt investment of a financial institution that failed. The $5.0 million loss was reclassified out of AOCI and into earnings in net securities gains (losses) in the unaudited interim consolidated statements of income. During the nine months ended September 30, 2024, the Company sold the previously written-off security and recognized a gain of $2.3 million into earnings in net securities gains (losses) in the unaudited interim consolidated statements of income.

The amortized cost, estimated fair value and unrealized gains (losses) of HTM securities are as follows:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
As of September 30, 2024				
Federal agency	**$ 100,000**	**$ -**	**$ (14,264)**	**$ 85,736**
Mortgage-backed:				
Government-sponsored enterprises	**213,569**	**-**	**(26,732)**	**186,837**
U.S. government agency securities	**15,616**	**2**	**(139)**	**15,479**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**172,596**	**84**	**(8,240)**	**164,440**
U.S. government agency securities	**61,657**	**-**	**(9,481)**	**52,176**
State & municipal	**291,503**	**169**	**(14,472)**	**277,200**
Total HTM securities	**$ 854,941**	**$ 255**	**$ (73,328)**	**$ 781,868**
As of December 31, 2023				
Federal agency	$ 100,000	$ -	$ (17,784)	$ 82,216
Mortgage-backed:				
Government-sponsored enterprises	228,720	-	(31,613)	197,107
U.S. government agency securities	17,086	3	(566)	16,523
Collateralized mortgage obligations:				
Government-sponsored enterprises	187,457	57	(12,021)	175,493
U.S. government agency securities	63,878	-	(10,908)	52,970
State & municipal	308,126	211	(18,122)	290,215
Total HTM securities	$ 905,267	$ 271	$ (91,014)	$ 814,524

At September 30, 2024 and December 31, 2023, all of the mortgage-backed HTM securities were comprised of U.S. government agency and government-sponsored enterprises securities.

The Company recorded no gains from calls on HTM securities for the three and nine months ended September 30, 2024 and 2023.

AFS and HTM securities with amortized costs totaling $1.88 billion at September 30, 2024 and $2.03 billion at December 31, 2023, were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at September 30, 2024 and December 31, 2023, AFS and HTM securities with an amortized cost totaling $190.7 million and $177.2 million, respectively, were pledged as collateral for securities sold under repurchase agreements.

The following tables set forth information with regard to gains and (losses) on equity securities:

	Three Months Ended September 30,	
(In thousands)	2024	2023
Net gains (losses) recognized on equity securities	**$ 476**	$ (183)
Less: Net gains (losses) recognized on equity securities sold during the period	**-**	-
Unrealized gains (losses) recognized on equity securities still held	**$ 476**	$ (183)

	Nine Months Ended September 30,	
(In thousands)	2024	2023
Net gains (losses) recognized on equity securities	**$ 283**	$ (372)
Less: Net gains (losses) recognized on equity securities sold during the period	**-**	-
Unrealized gains (losses) recognized on equity securities still held	**$ 283**	$ (372)

As of September 30, 2024 and December 31, 2023, the carrying value of equity securities without readily determinable fair values was $1.0 million. The Company performed a qualitative assessment to determine whether the investments were impaired and identified no credit concerns as of September 30, 2024 and 2023. There were no impairments, or downward or upward adjustments recognized for equity securities without readily determinable fair values during the three and nine months ended September 30, 2024 and 2023.

The following table sets forth information with regard to contractual maturities of debt securities at September 30, 2024:

(In thousands)	Amortized Cost	Estimated Fair Value
AFS debt securities:		
Within one year	$ 40,409	$ 40,282
From one to five years	637,648	590,469
From five to ten years	244,195	224,850
After ten years	726,023	653,737
Total AFS debt securities	$ 1,648,275	$ 1,509,338
HTM debt securities:		
Within one year	$ 94,236	$ 94,130
From one to five years	143,062	139,223
From five to ten years	218,104	194,873
After ten years	399,539	353,642
Total HTM debt securities	$ 854,941	$ 781,868

Maturities of mortgage-backed, collateralized mortgage obligations and asset-backed securities are based on their estimated average lives. Actual maturities may differ from estimated average lives or contractual maturities because, in certain cases, borrowers have the right to call or prepay obligations, with or without call or prepayment penalties.

Except for U.S. government securities and government-sponsored enterprises securities, there were no holdings, when taken in the aggregate, of any single issuer that exceeded 10% of consolidated stockholders' equity at September 30, 2024 and December 31, 2023.

The following table sets forth information with regard to investment securities with unrealized losses, for which an allowance for credit losses has not been recorded, segregated according to the length of time the securities were in a continuous unrealized loss position:

	Less Than 12 Months			12 Months or Longer			Total		
(In thousands)	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses	Number of Positions
As of September 30, 2024									
AFS securities:									
U.S. treasury	$ -	$ -	-	$ 118,430	$ (5,284)	7	$ 118,430	$ (5,284)	7
Federal agency	-	-	-	222,639	(25,718)	16	222,639	(25,718)	16
State & municipal	-	-	-	88,132	(6,761)	66	88,132	(6,761)	66
Mortgage-backed	15,893	(47)	2	389,558	(37,845)	153	405,451	(37,892)	155
Collateralized mortgage obligations	36,841	(74)	5	510,166	(58,837)	119	547,007	(58,911)	124
Corporate	1,455	(24)	1	41,950	(5,043)	14	43,405	(5,067)	15
Total securities with unrealized losses	$54,189	$ (145)	8	$1,370,875	$ (139,488)	375	$1,425,064	$ (139,633)	383
HTM securities:									
Federal agency	$ -	$ -	-	$ 85,736	$ (14,264)	4	$ 85,736	$ (14,264)	4
Mortgage-backed	-	-	-	202,256	(26,871)	34	202,256	(26,871)	34
Collateralized mortgage obligation	-	-	-	208,993	(17,721)	52	208,993	(17,721)	52
State & municipal	2,908	(2)	3	174,003	(14,470)	187	176,911	(14,472)	190
Total securities with unrealized losses	$ 2,908	$ (2)	3	$ 670,988	$ (73,326)	277	$ 673,896	$ (73,328)	280
As of December 31, 2023									
AFS securities:									
U.S. treasury	$ -	$ -	-	$ 125,024	$ (8,278)	8	$ 125,024	$ (8,278)	8
Federal agency	-	-	-	214,740	(33,644)	16	214,740	(33,644)	16
State & municipal	-	-	-	85,528	(9,956)	66	85,528	(9,956)	66
Mortgage-backed	53	(1)	7	421,259	(51,565)	156	421,312	(51,566)	163
Collateralized mortgage obligations	1,333	(6)	2	536,678	(73,351)	118	538,011	(73,357)	120
Corporate	1,379	(75)	1	39,597	(7,391)	14	40,976	(7,466)	15
Total securities with unrealized losses	$ 2,765	$ (82)	10	$1,422,826	$ (184,185)	378	$1,425,591	$ (184,267)	388
HTM securities:									
Federal agency	$ -	$ -	-	$ 82,216	$ (17,784)	4	$ 82,216	$ (17,784)	4
Mortgage-backed	12,221	(365)	1	201,320	(31,814)	33	213,541	(32,179)	34
Collateralized mortgage obligations	-	-	-	219,820	(22,929)	54	219,820	(22,929)	54
State & municipal	14,422	(127)	21	171,904	(17,995)	189	186,326	(18,122)	210
Total securities with unrealized losses	$26,643	$ (492)	22	$ 675,260	$ (90,522)	280	$ 701,903	$ (91,014)	302

The Company does not believe that the AFS securities in an unrealized loss position as of September 30, 2024 and December 31, 2023, which consisted of 383 and 388 individual securities, respectively, represented a credit loss impairment. AFS debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. As of September 30, 2024 and December 31, 2023, the majority of the AFS securities in an unrealized loss position consisted of debt securities issued by U.S. government agencies or U.S. government-sponsored enterprises that carry the explicit and/or implicit guarantee of the U.S. government, which are widely recognized as “risk-free” and have a long history of zero credit losses. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to, nor is it more likely than not that the Company will be required to sell these securities before recovery of its amortized cost basis, which may be at maturity. The Company elected to exclude AIR from the amortized cost basis of debt securities. AIR on AFS debt securities totaled $4.1 million at September 30, 2024 and $3.9 million at December 31, 2023, and is excluded from the estimate of credit losses and is reported in the other assets financial statement line.

None of the Bank’s HTM debt securities were past due or on nonaccrual status as of September 30, 2024 and December 31, 2023. There was no accrued interest reversed against interest income for the three and nine months ended September 30, 2024 or the year ended December 31, 2023 as all securities remained in accrual status. In addition, there were no collateral-dependent HTM debt securities as of September 30, 2024 and December 31, 2023. There was no allowance for credit losses on HTM securities as of September 30, 2024 and December 31, 2023. As of September 30, 2024 and December 31, 2023, 66% of the Company’s HTM debt securities were issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, which are widely recognized as “risk-free,” and have a long history of zero credit losses. Therefore, the Company did not record an allowance for credit losses for these securities as of September 30, 2024 and December 31, 2023. The remaining HTM debt securities at September 30, 2024 and December 31, 2023 were comprised of state and municipal obligations with bond ratings of A to AAA. Based on the Company's CECL methodology, the expected credit loss on the HTM municipal bond portfolio was deemed immaterial, therefore no allowance for credit loss was recorded as of September 30, 2024 and December 31, 2023. AIR on HTM debt securities totaled $3.8 million at September 30, 2024 and $4.7 million at December 31, 2023 and is excluded from the estimate of credit losses and reported in the other assets financial statement line.

6. Loans

A summary of loans, net of deferred fees and origination costs, by category is as follows:

(In thousands)	September 30, 2024	December 31, 2023
Commercial & industrial	**$ 1,458,926**	$ 1,354,248
Commercial real estate	**3,792,498**	3,626,910
Residential real estate	**2,143,766**	2,125,804
Home equity	**328,687**	337,214
Indirect auto	**1,235,175**	1,130,132
Residential solar	**839,659**	917,755
Other consumer	**108,330**	158,650
Total loans	**$ 9,907,041**	$ 9,650,713

Included in the above loans are net deferred loan origination (fees) costs totaling ($72.8) million and ($98.2) million at September 30, 2024 and December 31, 2023, respectively.

7. Allowance for Credit Losses and Credit Quality of Loans

The allowance for credit losses totaled $119.5 million at September 30, 2024, compared to $114.4 million at December 31, 2023. The allowance for credit losses as a percentage of loans was 1.21% at September 30, 2024, compared to 1.19% at December 31, 2023.

The allowance for credit losses calculation incorporated a 6-quarter forecast period to account for forecast economic conditions under each scenario utilized in the measurement. For periods beyond the 6-quarter forecast, the model reverts to long-term economic conditions over a 4-quarter reversion period on a straight-line basis. The Company considers a baseline, upside and downside economic forecast in measuring the allowance.

The quantitative model as of September 30, 2024 incorporated a baseline economic outlook along with an alternative downside scenario sourced from a reputable third-party to accommodate other potential economic conditions in the model. At September 30, 2024, the weightings were 80% and 20% for the baseline and downside economic forecasts, respectively. The baseline outlook reflects an economic environment where the Northeast unemployment rate increases slightly but remains around 4.1% during the forecast period. Northeast GDP’s annualized growth (on a quarterly basis) is expected to start the fourth quarter of 2024 at approximately 3.9% and remains relatively stable during the forecast period. Key assumptions in the baseline economic outlook included the Federal Reserve cutting rates at the September and December meetings, the economy remaining at full employment, and continued tapering of the Federal Reserve balance sheet. The alternative downside scenario assumed deteriorated economic conditions from the baseline outlook. Under this scenario, Northeast unemployment rises from 4.0% in the third quarter of 2024 to a peak of 7.5% in the fourth quarter of 2025. These scenarios and their respective weightings are evaluated at each measurement date and reflect management’s expectations as of September 30, 2024. Additional adjustments were made for factors not incorporated in the forecasts or the model, such as loss rate expectations for certain loan pools, considerations for inflation, and recent trends in asset value indices. Additional monitoring for industry concentrations, loan growth, and policy exceptions was also conducted.

The quantitative model as of June 30, 2024 incorporated a baseline economic outlook along with an alternative downside scenario sourced from a reputable third-party to accommodate other potential economic conditions in the model. At June 30, 2024, the weightings were 80% and 20% for the baseline and downside economic forecasts, respectively. The baseline outlook reflected an economic environment where the Northeast unemployment rate increases slightly from 4.0% to 4.1% during the forecast period. Northeast GDP's annualized growth (on a quarterly basis) was expected to start the third quarter of 2024 at approximately 3.7% and increase slightly to 3.8% before the end of the forecast period. Key assumptions in the baseline economic outlook included the Federal Reserve cutting rates with two 25 basis point cuts at the September and December meetings, the economy remaining at full employment, and continued tapering of the Federal Reserve balance sheet. The alternative downside scenario assumed deteriorated economic conditions from the baseline outlook. Under this scenario, Northeast unemployment rises from 4.0% in the second quarter of 2024 to a peak of 7.2% in the fourth quarter of 2025. These scenarios and their respective weightings are evaluated at each measurement date and reflect management's expectations as of June 30, 2024. Additional adjustments were made for factors not incorporated in the forecasts or the model, such as loss rate expectations for certain loan pools, considerations for inflation, and recent trends in asset value indices. Additional monitoring for industry concentrations, loan growth, and policy exceptions was also conducted.

The methodology for prepayment assumptions was revised during the second quarter of 2024 from a static, current rate experience approach to one that includes both current experience and long-term average behavior. The change to the methodology increased the allowance for loan losses by approximately 3% as of June 30, 2024. The longer-average effective life portfolios such as the residential mortgage and residential solar segments experienced a greater impact resulting from the change in methodology. The change in prepayment methodology provided an improved estimate of expected prepayments, particularly for the longer-lived portfolios.

The quantitative model as of December 31, 2023 incorporated a baseline economic outlook along with an alternative downside scenario sourced from a reputable third-party to accommodate other potential economic conditions in the model. At December 31, 2023, the weightings were 70% and 30% for the baseline and downside economic forecasts, respectively. The baseline outlook reflected an unemployment rate environment starting at 3.8% and increasing slightly during the forecast period to 4.1%. Northeast GDP's annualized growth (on a quarterly basis) was expected to start the first quarter of 2024 at approximately 3.7% before decreasing to a low of 2.9% in the third quarter of 2024 and then increasing to 3.8% by the end of the forecast period. Other utilized economic variable forecasts are mixed compared to the prior year, with retail sales improving, business output mixed and housing starts down. Key assumptions in the baseline economic outlook included currently being in a full employment economy, continued tapering of the Federal Reserve balance sheet and the FOMC beginning to cut rates in the second quarter of 2024. The alternative downside scenario assumed deteriorated economic conditions from the baseline outlook. Under this scenario, Northeast unemployment increases to a peak of 7.0% in the first quarter of 2025. These scenarios and their respective weightings are evaluated at each measurement date and reflect management's expectations as of December 31, 2023. Additional qualitative adjustments were made for factors not incorporated in the forecasts or the model, such as loss rate expectations for certain loan pools, considerations for inflation and recent trends in asset value indices. Additional monitoring for industry concentrations, loan growth and policy exceptions was also conducted.

There were no loans purchased with credit deterioration during the nine months ended September 30, 2024. There were $219.5 million of PCD loans acquired from Salisbury during the year ended December 31, 2023, which resulted in an allowance for credit losses at acquisition of $5.8 million. During the nine months ended September 30, 2024, the Company purchased $2.0 million of residential loans at a 7.0% premium with a $20 thousand allowance for credit losses recorded for these loans. During 2023, the Company purchased $3.8 million of residential loans at a 7.0% premium with a $31 thousand allowance for credit losses recorded for these loans.

The Company made a policy election to report AIR in the other assets line item on the consolidated balance sheets. AIR on loans totaled $34.2 million at September 30, 2024 and $34.1 million at December 31, 2023 with no estimated allowance for credit losses related to AIR as of September 30, 2024 and December 31, 2023 as it is excluded from amortized cost.

The Company's January 1, 2023 adoption of ASU 2022-02, *Financial Instruments - CECL Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* resulted in an insignificant change to its methodology for estimating the allowance for credit losses on TDRs. The ASU eliminated the guidance on TDRs and requires an evaluation on all loan modifications to determine if they result in a new loan or a continuation of the existing loan. The decrease in allowance for credit loss on TDR loans relating to adoption of ASU 2022-02 was $0.6 million.

The following tables present the activity in the allowance for credit losses by our portfolio segments:

(In thousands)	Commercial Loans	Consumer Loans	Residential	Total
Balance as of June 30, 2024	**$ 46,708**	**$ 47,918**	**$ 25,874**	**$ 120,500**
Charge-offs	**(1,117)**	**(4,926)**	**(34)**	**(6,077)**
Recoveries	**275**	**1,789**	**93**	**2,157**
Provision	**1,372**	**835**	**713**	**2,920**
Ending balance as of September 30, 2024	**$ 47,238**	**$ 45,616**	**$ 26,646**	**$ 119,500**
Balance as of June 30, 2023	$ 36,963	$ 47,883	$ 15,554	$ 100,400
Allowance for credit loss on PCD acquired loans	5,300	19	453	5,772
Charge-offs	(138)	(6,167)	(16)	(6,321)
Recoveries	474	1,549	94	2,117
Provision	4,121	3,990	4,522	12,633
Ending balance as of September 30, 2023	$ 46,720	$ 47,274	$ 20,607	$ 114,601

(In thousands)	Commercial Loans	Consumer Loans	Residential	Total
Balance as of December 31, 2023	**$ 45,903**	**$ 46,427**	**$ 22,070**	**$ 114,400**
Charge-offs	**(2,401)**	**(15,835)**	**(148)**	**(18,384)**
Recoveries	**765**	**4,999**	**322**	**6,086**
Provision	**2,971**	**10,025**	**4,402**	**17,398**
Ending balance as of September 30, 2024	**$ 47,238**	**$ 45,616**	**$ 26,646**	**$ 119,500**
Balance as of January 1, 2023 (after adoption of ASU 2022-02)	$ 34,662	$ 50,951	$ 14,539	$ 100,152
Allowance for credit loss on PCD acquired loans	5,300	19	453	5,772
Charge-offs	(514)	(16,346)	(460)	(17,320)
Recoveries	1,112	4,367	370	5,849
Provision	6,160	8,283	5,705	20,148
Ending balance as of September 30, 2023	$ 46,720	$ 47,274	$ 20,607	$ 114,601

The allowance for credit losses as of September 30, 2024 was consistent with the allowance estimates as of June 30, 2024 and increased compared to the allowance estimates as of December 31, 2023. The increase from December 31, 2023 was primarily due to providing for current year loan growth, the slowing of prepayment speed assumptions, including the changes in prepayment model assumptions and an additional specific reserve established in the second quarter of 2024 relating to a commercial relationship individually evaluated for credit loss. These increases to the allowance for credit losses were partially offset by the change in forecast scenario weightings from 70% baseline and 30% downside to 80% baseline and 20% downside, and the shift in loan composition driven by other consumer and residential solar portfolios that are in a planned run-off status.

The allowance for credit losses as of September 30, 2023 incorporated the recording of $14.5 million of allowance for acquired Salisbury loans as of the acquisition date, which included both the $8.8 million of non-PCD allowance recognized through the provision for loan losses and the $5.8 million of PCD allowance reclassified from loans.

Individually Evaluated Loans

The threshold for evaluating classified, commercial and commercial real estate loans risk graded substandard or doubtful, and nonperforming loans individually evaluated for credit loss is $1.0 million. As of September 30, 2024, two relationships were identified for individual credit loss evaluation which had an amortized cost basis of $16.6 million, with $1.7 million of allowance for credit loss. As of December 31, 2023, the same two relationships were identified for individual credit loss evaluation which had an amortized cost basis of $17.3 million, with no allowance for credit loss. As of September 30, 2024 and December 31, 2023, there were $1.3 million and $17.3 million, respectively, of loans in nonaccrual status that were individually evaluated for expected credit loss without an allowance for credit losses.

The following table sets forth information with regard to past due and nonperforming loans by loan segment:

(In thousands)		31-60 Days Past Due Accruing		61-90 Days Past Due Accruing		Greater Than 90 Days Past Due Accruing		Total Past Due Accruing		Nonaccrual		Current		Recorded Total Loans
As of September 30, 2024														
Commercial loans:														
C&I	**$**	**2,485**	**$**	**97**	**$**	**-**	**$**	**2,582**	**$**	**2,452**	**$**	**1,455,471**	**$**	**1,460,505**
CRE		**5,439**		**133**		**-**		**5,572**		**18,009**		**3,595,502**		**3,619,083**
Total commercial loans	**$**	**7,924**	**$**	**230**	**$**	**-**	**$**	**8,154**	**$**	**20,461**	**$**	**5,050,973**	**$**	**5,079,588**
Consumer loans:														
Auto	**$**	**10,200**	**$**	**1,757**	**$**	**919**	**$**	**12,876**	**$**	**1,679**	**$**	**1,189,734**	**$**	**1,204,289**
Residential solar		**2,973**		**1,837**		**1,284**		**6,094**		**190**		**833,375**		**839,659**
Other consumer		**1,626**		**1,029**		**754**		**3,409**		**304**		**119,995**		**123,708**
Total consumer loans	**$**	**14,799**	**$**	**4,623**	**$**	**2,957**	**$**	**22,379**	**$**	**2,173**	**$**	**2,143,104**	**$**	**2,167,656**
Residential	**$**	**3,850**	**$**	**465**	**$**	**1,024**	**$**	**5,339**	**$**	**10,704**	**$**	**2,643,754**	**$**	**2,659,797**
Total loans	**$**	**26,573**	**$**	**5,318**	**$**	**3,981**	**$**	**35,872**	**$**	**33,338**	**$**	**9,837,831**	**$**	**9,907,041**

(In thousands)		31-60 Days Past Due Accruing		61-90 Days Past Due Accruing		Greater Than 90 Days Past Due Accruing		Total Past Due Accruing		Nonaccrual		Current		Recorded Total Loans
As of December 31, 2023														
Commercial loans:														
C&I	$	414	$	33	$	1	$	448	$	3,441	$	1,393,616	$	1,397,505
CRE		803		835		-		1,638		18,126		3,413,984		3,433,748
Total commercial loans	$	1,217	$	868	$	1	$	2,086	$	21,567	$	4,807,600	$	4,831,253
Consumer loans:														
Auto	$	10,115	$	2,011	$	1,067	$	13,193	$	2,106	$	1,084,143	$	1,099,442
Residential solar		3,074		1,301		915		5,290		245		912,220		917,755
Other consumer		2,343		1,811		1,124		5,278		215		164,867		170,360
Total consumer loans	$	15,532	$	5,123	$	3,106	$	23,761	$	2,566	$	2,161,230	$	2,187,557
Residential	$	3,836	$	399	$	554	$	4,789	$	10,080	$	2,617,034	$	2,631,903
Total loans	$	20,585	$	6,390	$	3,661	$	30,636	$	34,213	$	9,585,864	$	9,650,713

Credit Quality Indicators

The Company has developed an internal loan grading system to evaluate and quantify the Company's loan portfolio with respect to quality and risk, focusing on, among other things, borrowers financial strength, experience and depth of borrower's management, primary and secondary sources of repayment, payment history, nature of the business and industry outlook. The internal grading system enables the Company to monitor the quality of the entire loan portfolio on a consistent basis and provide management with an early warning system, which facilitates recognition and response to problem loans and potential problem loans.

Commercial Grading System

For C&I and CRE loans, the Company uses a grading system that relies on quantifiable and measurable characteristics when available. This includes comparison of financial strength to available industry averages, comparison of transaction factors (loan terms and conditions) to loan policy and comparison of credit history to stated repayment terms and industry averages. Some grading factors are necessarily more subjective such as economic and industry factors, regulatory environment and management. C&I and CRE loans are graded Doubtful, Substandard, Special Mention and Pass.

Doubtful

A Doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as a loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral and refinancing. Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information. Nonaccrual treatment is required for Doubtful assets because of the high probability of loss.

Substandard

Substandard loans have a high probability of payment default or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some Substandard loans, the likelihood of full collection of interest and principal may be in doubt and those loans should be placed on nonaccrual. Although Substandard assets in the aggregate will have a distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be rated Substandard.

Special Mention

Special Mention loans have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the Company's position at some future date. These loans pose elevated risk, but their weakness does not yet justify a Substandard classification. Borrowers may be experiencing adverse operating trends (i.e., declining revenues or margins) or may be struggling with an ill-proportioned balance sheet (i.e., increasing inventory without an increase in sales, high leverage and/or tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a Special Mention rating. Although a Special Mention loan has a higher probability of default than a Pass asset, its default is not imminent.

Pass

Loans graded as Pass encompass all loans not graded as Doubtful, Substandard or Special Mention. Pass loans are in compliance with loan covenants and payments are generally made as agreed. Pass loans range from superior quality to fair quality. Pass loans also include any portion of a government guaranteed loan, including Paycheck Protection Program loans.

Consumer and Residential Grading System

Consumer and Residential loans are graded as either Nonperforming or Performing.

Nonperforming

Nonperforming loans are loans that are (1) over 90 days past due and interest is still accruing or (2) on nonaccrual status.

Performing

All loans not meeting any of the above criteria are considered Performing.

The following tables illustrate the Company's credit quality by loan class by vintage and includes gross charge-offs by loan class by vintage. Included in other consumer gross charge-offs for the nine months ended September 30, 2024, the Company recorded $0.2 million in overdrawn deposit accounts reported as 2023 originations and $0.5 million in overdrawn deposit accounts reported as 2024 originations. Included in other consumer gross charge-offs for the year ended December 31, 2023, the Company recorded $0.2 million in overdrawn deposit accounts reported as 2022 originations and $0.8 million in overdrawn deposit accounts reported as 2023 originations.

(In thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of September 30, 2024									
C&I									
By internally assigned grade:									
Pass	$ 205,707	$ 185,044	$ 210,068	$ 193,872	$ 128,275	$ 106,919	$ 354,396	$ 1,006	$ 1,385,287
Special mention	-	3,627	4,333	354	3,273	1,237	29,624	156	42,604
Substandard	1,574	3,590	2,234	1,465	210	5,108	18,208	107	32,496
Doubtful	-	86	2	30	-	-	-	-	118
Total C&I	$ 207,281	$ 192,347	$ 216,637	$ 195,721	$ 131,758	$ 113,264	$ 402,228	$ 1,269	$ 1,460,505
Current-period gross charge-offs	$ -	$ (60)	$ (970)	$ (46)	$ -	$ (1,325)	$ -	$ -	$ (2,401)
CRE									
By internally assigned grade:									
Pass	$ 320,351	$ 340,273	$ 531,189	$ 528,054	$ 425,647	$ 954,218	$ 304,846	$ 59,356	$ 3,463,934
Special mention	1,086	5,838	13,492	5,873	5,137	18,463	2,156	1,135	53,180
Substandard	-	1,056	19,195	17,812	3,353	58,387	1,666	500	101,969
Total CRE	$ 321,437	$ 347,167	$ 563,876	$ 551,739	$ 434,137	$ 1,031,068	$ 308,668	$ 60,991	$ 3,619,083
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auto									
By payment activity:									
Performing	$ 428,158	$ 356,542	$ 267,785	$ 104,174	$ 24,059	$ 20,973	$ -	$ -	$ 1,201,691
Nonperforming	330	688	803	537	147	93	-	-	2,598
Total auto	$ 428,488	$ 357,230	$ 268,588	$ 104,711	$ 24,206	$ 21,066	$ -	$ -	$ 1,204,289
Current-period gross charge-offs	$ (76)	$ (1,047)	$ (1,266)	$ (692)	$ (74)	$ (292)	$ -	$ -	$ (3,447)
Residential solar									
By payment activity:									
Performing	$ 2,835	$ 126,251	$ 405,550	$ 169,484	$ 58,968	$ 75,097	$ -	$ -	$ 838,185
Nonperforming	-	28	1,086	120	87	153	-	-	1,474
Total residential solar	$ 2,835	$ 126,279	$ 406,636	$ 169,604	$ 59,055	$ 75,250	$ -	$ -	$ 839,659
Current-period gross charge-offs	$ -	$ (441)	$ (3,152)	$ (582)	$ (103)	$ (561)	$ -	$ -	$ (4,839)
Other consumer									
By payment activity:									
Performing	$ 14,484	$ 7,740	$ 15,144	$ 32,682	$ 13,025	$ 18,494	$ 21,058	$ 23	$ 122,650
Nonperforming	-	39	239	419	116	224	1	20	1,058
Total other consumer	$ 14,484	$ 7,779	$ 15,383	$ 33,101	$ 13,141	$ 18,718	$ 21,059	$ 43	$ 123,708
Current-period gross charge-offs	$ (473)	$ (311)	$ (1,706)	$ (3,493)	$ (831)	$ (735)	$ -	$ -	$ (7,549)
Residential									
By payment activity:									
Performing	$ 141,624	$ 221,221	$ 369,507	$ 432,012	$ 252,908	$ 956,789	$ 258,040	$ 15,968	$ 2,648,069
Nonperforming	-	796	319	1,782	190	8,552	-	89	11,728
Total residential	$ 141,624	$ 222,017	$ 369,826	$ 433,794	$ 253,098	$ 965,341	$ 258,040	$ 16,057	$ 2,659,797
Current-period gross charge-offs	$ -	$ (34)	$ -	$ -	$ -	$ (114)	$ -	$ -	$ (148)
Total loans	$ 1,116,149	$ 1,252,819	$ 1,840,946	$ 1,488,670	$ 915,395	$ 2,224,707	$ 989,995	$ 78,360	$ 9,907,041
Current-period gross charge-offs	$ (549)	$ (1,893)	$ (7,094)	$ (4,813)	$ (1,008)	$ (3,027)	$ -	$ -	$ (18,384)

(In thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2023									
C&I									
By internally assigned grade:									
Pass	$ 229,249	$ 270,796	$ 241,993	$ 158,051	$ 74,469	$ 63,826	$ 299,248	$ 2,923	$ 1,340,555
Special mention	420	1,672	277	3,524	87	1,854	19,489	-	27,323
Substandard	1,496	2,461	1,609	282	2,266	5,632	14,266	1,607	29,619
Doubtful	-	1	2	-	4	1	-	-	8
Total C&I	$ 231,165	$ 274,930	$ 243,881	$ 161,857	$ 76,826	$ 71,313	$ 333,003	$ 4,530	$ 1,397,505
Current-period gross charge-offs	$ (24)	$ (3,021)	$ (5)	$ (86)	$ -	$ (600)	$ -	$ -	$ (3,736)
CRE									
By internally assigned grade:									
Pass	$ 353,161	$ 518,201	$ 561,897	$ 452,110	$ 327,804	$ 739,189	$ 294,039	$ 33,705	$ 3,280,106
Special mention	3,577	4,472	10,711	7,055	9,967	39,460	2,970	-	78,212
Substandard	370	731	21,807	1,146	2,996	37,418	10,962	-	75,430
Total CRE	$ 357,108	$ 523,404	$ 594,415	$ 460,311	$ 340,767	$ 816,067	$ 307,971	$ 33,705	$ 3,433,748
Current-period gross charge-offs	$ -	$ -	$ -	$ -	$ (114)	$ (304)	$ -	$ -	$ (418)
Auto									
By payment activity:									
Performing	$ 474,369	$ 363,516	$ 157,251	$ 42,644	$ 45,406	$ 13,071	$ 12	$ -	$ 1,096,269
Nonperforming	532	1,241	830	190	306	74	-	-	3,173
Total auto	$ 474,901	$ 364,757	$ 158,081	$ 42,834	$ 45,712	$ 13,145	$ 12	$ -	$ 1,099,442
Current-period gross charge-offs	$ (102)	$ (1,183)	$ (1,066)	$ (340)	$ (301)	$ (295)	$ -	$ -	$ (3,287)
Residential solar									
By payment activity:									
Performing	$ 155,425	$ 430,855	$ 178,839	$ 65,382	$ 46,554	$ 39,540	$ -	$ -	$ 916,595
Nonperforming	-	837	205	18	47	53	-	-	1,160
Total residential solar	$ 155,425	$ 431,692	$ 179,044	$ 65,400	$ 46,601	$ 39,593	$ -	$ -	$ 917,755
Current-period gross charge-offs	$ (150)	$ (1,930)	$ (923)	$ (45)	$ (558)	$ (345)	$ -	$ -	$ (3,951)
Other consumer									
By payment activity:									
Performing	$ 13,089	$ 27,394	$ 57,876	$ 21,087	$ 14,548	$ 15,964	$ 19,042	$ 21	$ 169,021
Nonperforming	-	244	685	144	56	161	4	45	1,339
Total other consumer	$ 13,089	$ 27,638	$ 58,561	$ 21,231	$ 14,604	$ 16,125	$ 19,046	$ 66	$ 170,360
Current-period gross charge-offs	$ (885)	$ (3,744)	$ (7,511)	$ (1,329)	$ (832)	$ (568)	$ -	$ -	$ (14,869)
Residential									
By payment activity:									
Performing	$ 212,799	$ 366,860	$ 453,206	$ 267,845	$ 167,860	$ 876,563	$ 260,836	$ 15,300	$ 2,621,269
Nonperforming	134	430	1,121	385	591	7,460	-	513	10,634
Total residential	$ 212,933	$ 367,290	$ 454,327	$ 268,230	$ 168,451	$ 884,023	$ 260,836	$ 15,813	$ 2,631,903
Current-period gross charge-offs	$ -	$ -	$ (81)	$ (30)	$ -	$ (406)	$ -	$ -	$ (517)
Total loans	$ 1,444,621	$ 1,989,711	$ 1,688,309	$ 1,019,863	$ 692,961	$ 1,840,266	$ 920,868	$ 54,114	$ 9,650,713
Current-period gross charge-offs	$ (1,161)	$ (9,878)	$ (9,586)	$ (1,830)	$ (1,805)	$ (2,518)	$ -	$ -	$ (26,778)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The allowance for losses on unfunded commitments totaled $4.6 million as of September 30, 2024, compared to $5.1 million as of December 31, 2023.

The reserve for unfunded loan commitments was $0.3 million for three months ended September 30, 2024, compared to ($0.4) million in the prior quarter and $0.5 million for the same period in the prior year. Included in the reserve for unfunded loan commitments for the three months ended September 30, 2023, was $0.8 million of acquisition-related provision for unfunded loan commitments due to the Salisbury acquisition. The reserve for unfunded loan commitments was ($0.6) million for the nine months ended September 30, 2024, compared to ($0.3) million for the nine months ended September 30, 2023.

Loan Modifications to Borrowers Experiencing Financial Difficulties

When the Company modifies a loan with financial difficulty, such modifications generally include one or a combination of the following: an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a change in scheduled payment amount; or principal forgiveness.

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted:

	Three Months Ended September 30, 2024			
	Term Extension		Combination - Term Extension and Interest Rate Reduction	
(Dollars in thousands)	Amortized Cost	% of Total Class of Financing Receivables	Amortized Cost	% of Total Class of Financing Receivables
Residential	**$ 576**	**0.022%**	**$ 254**	**0.010%**
Total	**$ 576**		**$ 254**	

	Three Months Ended September 30, 2023			
	Term Extension		Interest Rate Reduction	
(Dollars in thousands)	Amortized Cost	% of Total Class of Financing Receivables	Amortized Cost	% of Total Class of Financing Receivables
Residential	$ 145	0.006%	$ 31	0.001%
Total	$ 145		$ 31	

	Nine Months Ended September 30, 2024			
	Term Extension		Combination - Term Extension and Interest Rate Reduction	
(Dollars in thousands)	Amortized Cost	% of Total Class of Financing Receivables	Amortized Cost	% of Total Class of Financing Receivables
Residential	**$ 1,054**	**0.040%**	**$ 284**	**0.011%**
Total	**$ 1,054**		**$ 284**	

	Nine Months Ended September 30, 2023					
	Term Extension		Interest Rate Reduction		Combination - Term Extension and Interest Rate Reduction	
(Dollars in thousands)	Amortized Cost	% of Total Class of Financing Receivables	Amortized Cost	% of Total Class of Financing Receivables	Amortized Cost	% of Total Class of Financing Receivables
Residential	$ 386	0.015%	$ 31	0.001%	$ 165	0.006%
Total	$ 386		$ 31		$ 165	

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulties:

	Three Months Ended September 30, 2024	
Loan Type	**Term Extension**	**Interest Rate Reduction**
Residential	**Added a weighted-average 8.2 years to the life of loans, which reduced monthly payment amounts for the borrowers**	**Interest Rates were reduced by an average of 0.25%**

	Three Months Ended September 30, 2023	
Loan Type	**Term Extension**	**Interest Rate Reduction**
Residential	Added a weighted-average 17 years to the life of loans, which reduced monthly payment amounts for the borrowers	Interest Rates were reduced by an average of 1%

	Nine Months Ended September 30, 2024	
Loan Type	**Term Extension**	**Interest Rate Reduction**
Residential	**Added a weighted-average 6.5 years to the life of loans, which reduced monthly payment amounts for the borrowers**	**Interest Rates were reduced by an average of 0.6%**

	Nine Months Ended September 30, 2023	
Loan Type	**Term Extension**	**Interest Rate Reduction**
Residential	Added a weighted-average 15 years to the life of loans, which reduced monthly payment amounts for the borrowers	Interest Rates were reduced by an average of 2.25%

There were no financing receivables that had a payment default during the three months ended September 30, 2024, that were modified to borrowers experiencing financial difficulty modified in the twelve months prior to that default. There were $171 thousand in financing receivables with term extension modifications that had payment defaults during the nine months ended September 30, 2024, that were modified to borrowers experiencing financial difficulty modified in the twelve months prior to that default. There were no financing receivables that had a payment default during the three and nine months ended September 30, 2023, that were modified to borrowers experiencing financial difficulty modified in the twelve months prior to that default.

The following table depicts the performance of loans that have been modified to borrowers experiencing financial difficulty that were modified in the prior twelve months:

	Payment Status (Amortized Cost Basis)			
(In thousands)	**Current**	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater than 90 Days Past Due**
As of September 30, 2024				
Residential	**$ 1,232**	**$ -**	**$ -**	**$ 163**
Total	**$ 1,232**	**$ -**	**$ -**	**$ 163**

8. Short-Term Borrowings

In addition to the liquidity provided by balance sheet cash flows, liquidity must also be supplemented with additional sources such as credit lines from correspondent banks as well as borrowings from the FHLB and the Federal Reserve Bank. Other funding alternatives may also be appropriate from time to time, including wholesale and retail repurchase agreements and brokered CD accounts.

Information related to short-term borrowings is summarized as follows:

(In thousands)	**September 30, 2024**	**December 31, 2023**
Securities sold under repurchase agreements	**$ 104,959**	$ 93,651
Other short-term borrowings	**100,000**	293,000
Total short-term borrowings	**$ 204,959**	$ 386,651

See Note 5 for additional information regarding securities pledged as collateral for securities sold under the repurchase agreements.

9. Defined Benefit Post-Retirement Plans

The Company has a qualified, noncontributory, defined benefit pension plan (the "Plan") covering substantially all of its employees at September 30, 2024. Benefits paid from the Plan are based on age, years of service, compensation and social security benefits and are determined in accordance with defined formulas. The Company's policy is to fund the Plan in accordance with Employee Retirement Income Security Act of 1974 standards. Assets of the Plan are invested in publicly traded stocks, bonds and mutual funds. In addition to the Plan, the Company provides supplemental employee retirement plans to certain current and former executives. These supplemental employee retirement plans and the Plan are collectively referred to herein as "Pension Benefits."

In addition, the Company provides certain health care benefits for retired employees. Benefits were accrued over the employees' active service period. Only employees that were employed by the Company on or before January 1, 2000 are eligible to receive post-retirement health care benefits. These post-retirement benefits are referred to herein as "Other Benefits."

Accounting standards require an employer to: (1) recognize the overfunded or underfunded status of defined benefit post-retirement plans, which is measured as the difference between plan assets at fair value and the benefit obligation, as an asset or liability in its balance sheet; (2) recognize changes in that funded status in the year in which the changes occur through comprehensive income; and (3) measure the defined benefit plan assets and obligations as of the date of its year-end balance sheet.

The Company made no voluntary contributions to the Pension Benefits and Other Benefits plans during the three and nine months ended September 30, 2024 and 2023.

The components of expense for Pension Benefits and Other Benefits are set forth below:

	Pension Benefits		**Other Benefits**	
	Three Months Ended September 30,		**Three Months Ended September 30,**	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Components of net periodic cost:				
Service cost	**$ 552**	$ 476	**$ 1**	$ 1
Interest cost	**1,007**	999	**58**	56
Expected return on plan assets	**(1,972)**	(1,844)	**-**	-
Net amortization	**472**	669	**(1)**	(21)
Total net periodic cost	**$ 59**	$ 300	**$ 58**	$ 36

	Pension Benefits		**Other Benefits**	
	Nine Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Components of net periodic cost:				
Service cost	**$ 1,579**	$ 1,440	**$ 3**	$ 3
Interest cost	**3,018**	3,019	**168**	168
Expected return on plan assets	**(5,937)**	(5,550)	**-**	-
Net amortization	**2,377**	2,009	**(3)**	(63)
Total net periodic cost	**$ 1,037**	$ 918	**$ 168**	$ 108

The service cost component of the net periodic cost is included in Salaries and Employee Benefits and the interest cost, expected return on plan assets and net amortization components are included in Other Noninterest Expense on the unaudited interim consolidated statements of income.

10. Earnings Per Share

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity (such as the Company's dilutive stock options and restricted stock units).

The following is a reconciliation of basic and diluted EPS for the periods presented in the unaudited interim consolidated statements of income:

	Three Months Ended September 30,			
(In thousands, except per share data)		**2024**		**2023**
Basic EPS:				
Weighted average common shares outstanding		**47,172**		45,163
Net income available to common stockholders	**$**	**38,097**	$	24,606
Basic EPS	**$**	**0.81**	$	0.54
Diluted EPS:				
Weighted average common shares outstanding		**47,172**		45,163
Dilutive effect of common stock options and restricted stock		**301**		236
Weighted average common shares and common share equivalents		**47,473**		45,399
Net income available to common stockholders	**$**	**38,097**	$	24,606
Diluted EPS	**$**	**0.80**	$	0.54
Anti-dilutive stock options and restricted stock outstanding		**-**		27

	Nine Months Ended September 30,			
(In thousands, except per share data)		**2024**		**2023**
Basic EPS:				
Weighted average common shares outstanding		**47,159**		43,662
Net income available to common stockholders	**$**	**104,636**	$	88,336
Basic EPS	**$**	**2.22**	$	2.02
Diluted EPS:				
Weighted average common shares outstanding		**47,159**		43,662
Dilutive effect of common stock options and restricted stock		**251**		234
Weighted average common shares and common share equivalents		**47,410**		43,896
Net income available to common stockholders	**$**	**104,636**	$	88,336
Diluted EPS	**$**	**2.21**	$	2.01
Anti-dilutive stock options and restricted stock outstanding		**1**		25

11. Reclassification Adjustments Out of Other Comprehensive Income (Loss)

The following table summarizes the reclassification adjustments out of AOCI:

Detail About AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Consolidated Statements of Comprehensive Income (Loss)
	Three Months Ended		
(In thousands)	September 30, 2024	September 30, 2023	
AFS securities:			
Amortization of unrealized gains related to securities transfer	**$ 87**	$ 105	Interest income
Tax effect	**$ (21)**	$ (26)	Income tax (benefit)
Net of tax	**$ 66**	$ 79	
Pension and other benefits:			
Amortization of net losses	**$ 474**	$ 638	Other noninterest expense
Amortization of prior service costs	**(3)**	10	Other noninterest expense
Tax effect	**$ (118)**	$ (162)	Income tax (benefit)
Net of tax	**$ 353**	$ 486	
Total reclassifications, net of tax	**$ 419**	$ 565	

Detail About AOCI Components	Amount Reclassified from AOCI		Affected Line item in the Consolidated Statements of Comprehensive Income (Loss)
	Nine Months Ended		
(In thousands)	September 30, 2024	September 30, 2023	
AFS securities:			
Losses on AFS securities	**$ -**	$ 9,450	Net securities (gains) losses
Amortization of unrealized gains related to securities transfer	**274**	328	Interest income
Tax effect	**$ (68)**	$ (2,445)	Income tax (benefit)
Net of tax	**$ 206**	$ 7,333	
Pension and other benefits:			
Amortization of net losses	**$ 2,382**	$ 1,918	Other noninterest expense
Amortization of prior service costs	**(8)**	28	Other noninterest expense
Tax effect	**$ (594)**	$ (487)	Income tax (benefit)
Net of tax	**$ 1,780**	$ 1,459	
Total reclassifications, net of tax	**$ 1,986**	$ 8,792	

12. Derivative Instruments and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate risk, primarily by managing the amount, sources and duration of its assets and liabilities and through the use of derivative instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which is determined by interest rates. Generally, the Company may use derivative financial instruments to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments. Currently, the Company has interest rate derivatives resulting from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

Derivatives Not Designated as Hedging Instruments

The Company enters into interest rate swaps to facilitate customer transactions and meet their financing needs. These swaps are considered derivatives, but are not designated as hedging relationships. These instruments have interest rate and credit risk associated with them. To mitigate the interest rate risk, the Company enters into offsetting interest rate swaps with counterparties. The counterparty swaps are also considered derivatives and are also not designated as hedging relationships. Interest rate swaps are recorded within other assets or other liabilities on the consolidated balance sheets at their estimated fair value. Changes to the fair value of assets and liabilities arising from these derivatives are included, net, in other operating income in the consolidated statements of income.

The Company is subject to over-the-counter derivative clearing requirements, which require certain derivatives to be cleared through central clearing houses. Accordingly, the Company clears certain derivative transactions through the CME. The CME requires the Company to post initial and variation margin payments to mitigate the risk of non-payment, the latter of which is received or paid daily based on the net asset or liability position of the contracts. A daily settlement occurs through the CME for changes in the fair value of centrally cleared derivatives. Not all of the derivatives are required to be cleared through the daily clearing agent. As a result, the total fair values of loan level derivative assets and liabilities recognized on the Company's financial statements are not equal and offsetting.

In 2017, the U.K. Financial Conduct Authority announced its intention to stop compelling banks to submit rates for the calculation of LIBOR after 2021. In 2022, the Federal Reserve adopted a final rule implementing the Adjustable Interest Rate (LIBOR) Act by identifying benchmark rates based on SOFR that replaced LIBOR in certain financial contracts after June 30, 2023. In 2023, the Company transitioned all of its financial instruments to an alternative benchmark rate.

As of September 30, 2024 and December 31, 2023, the Company had twenty and twelve risk participation agreements, respectively, with financial institution counterparties for interest rate swaps related to participated loans. Risk participation agreements provide credit protection to the financial institution that originated the swap transaction should the borrower fail to perform on its obligation. The Company enters into both risk participation agreements in which it purchases credit protection from other financial institutions and those in which it provides credit protection to other financial institutions.

The following table summarizes the derivatives outstanding:

(In thousands)	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
As of September 30, 2024						
Derivatives not designated as hedging instruments						
Interest rate derivatives	**$ 1,393,024**	Other assets	**$ 80,351**	**$ 1,393,024**	Other liabilities	**$ 80,218**
Risk participation agreements	**91,093**	Other assets	**136**	**19,740**	Other liabilities	**8**
Total derivatives not designated as hedging instruments			**$ 80,487**			**$ 80,226**
Netting adjustments[1]			**17,120**			**(10)**
Net derivatives in the balance sheet			**$ 63,367**			**$ 80,236**
Derivatives not offset on the balance sheet			**$ 9,696**			**$ 9,696**
Cash collateral[2]			**-**			**-**
Net derivative amounts			**$ 53,671**			**$ 70,540**
As of December 31, 2023						
Derivatives not designated as hedging instruments						
Interest rate derivatives	$ 1,303,711	Other assets	$ 95,972	$ 1,303,711	Other liabilities	$ 95,869
Risk participation agreements	62,112	Other assets	19	16,146	Other liabilities	6
Total derivatives not designated as hedging instruments			$ 95,991			$ 95,875
Netting adjustments[1]			20,849			-
Net derivatives in the balance sheet			$ 75,142			$ 95,875
Derivatives not offset on the balance sheet			$ 2,930			$ 2,930
Cash collateral[2]			-			-
Net derivative amounts			$ 72,212			$ 92,945

(1) Netting adjustments represents the amounts recorded to convert derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance on the settle to market rules for cleared derivatives. The CME legally characterizes the variation margin posted between counterparties as settlements of the outstanding derivative contracts instead of cash collateral.

(2) Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The other collateral consists of securities and is exchanged under bilateral collateral and master netting agreements that allow us to offset the net derivative position with the related collateral. The application of the other collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

The following table indicates the gain or loss recognized in income on derivatives not designated as a hedging relationship:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2024	2023	2024	2023
Derivatives not designated as hedging instruments:				
Increase (decrease) in other income	**$ 65**	$ (65)	**$ 151**	$ (65)

13. Fair Value Measurements and Fair Value of Financial Instruments

GAAP states that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are not adjusted for transaction costs. A fair value hierarchy exists within GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. The Company does not adjust the quoted prices for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations or quote from alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid agency securities, less liquid listed equities, state, municipal and provincial obligations and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy. Certain common equity securities are reported at fair value utilizing Level 1 inputs (exchange quoted prices). Other investment securities are reported at fair value utilizing Level 1 and Level 2 inputs. The prices for Level 2 instruments are obtained through an independent pricing service or dealer market participants with whom the Company has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Management reviews the methodologies used by its third-party providers in pricing the securities.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions. Valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate will be used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets and changes in financial ratios or cash flows.

The following tables set forth the Company's financial assets and liabilities measured on a recurring basis that were accounted for at fair value. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

(In thousands)	**Level 1**	**Level 2**	**Level 3**	**September 30, 2024**
Assets:				
AFS securities:				
U.S. treasury	**$ 128,538**	**$ -**	**$ -**	**$ 128,538**
Federal agency	**-**	**222,639**	**-**	**222,639**
State & municipal	**-**	**88,903**	**-**	**88,903**
Mortgage-backed	**-**	**421,724**	**-**	**421,724**
Collateralized mortgage obligations	**-**	**604,129**	**-**	**604,129**
Corporate	**-**	**43,405**	**-**	**43,405**
Total AFS securities	**$ 128,538**	**$ 1,380,800**	**$ -**	**$ 1,509,338**
Equity securities	**40,974**	**1,000**	**-**	**41,974**
Derivatives	**-**	**63,367**	**-**	**63,367**
Total	**$ 169,512**	**$ 1,445,167**	**$ -**	**$ 1,614,679**
Liabilities:				
Derivatives	**$ -**	**$ 80,236**	**$ -**	**$ 80,236**
Total	**$ -**	**$ 80,236**	**$ -**	**$ 80,236**

(In thousands)	**Level 1**	**Level 2**	**Level 3**	**December 31, 2023**
Assets:				
AFS securities:				
U.S. treasury	$ 125,024	$ -	$ -	$ 125,024
Federal agency	-	214,740	-	214,740
State & municipal	-	86,306	-	86,306
Mortgage-backed	-	422,268	-	422,268
Collateralized mortgage obligations	-	541,544	-	541,544
Corporate	-	40,976	-	40,976
Total AFS securities	$ 125,024	$ 1,305,834	$ -	$ 1,430,858
Equity securities	36,591	1,000	-	37,591
Derivatives	-	75,142	-	75,142
Total	$ 161,615	$ 1,381,976	$ -	$ 1,543,591
Liabilities:				
Derivatives	$ -	$ 95,875	$ -	$ 95,875
Total	$ -	$ 95,875	$ -	$ 95,875

GAAP requires disclosure of assets and liabilities measured and recorded at fair value on a non-recurring basis such as goodwill, loans held for sale, other real estate owned, collateral-dependent loans individually evaluated for expected credit losses and HTM securities. Loans with fair value of $3.0 million as of September 30, 2024 were individually evaluated for expected credit losses where the amortized cost was adjusted to fair value. There were no loans individually evaluated for expected credit losses where the amortized cost was adjusted to fair value as of December 31, 2023. The Company uses the fair value of underlying collateral, less costs to sell, to estimate the allowance for credit losses for individually evaluated collateral dependent loans. The appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses ranging from 10% to 50%. Based on the valuation techniques used, the fair value measurements for collateral dependent individually evaluated loans are classified as Level 3.

The following table sets forth information with regard to estimated fair values of financial instruments. This table excludes financial instruments for which the carrying amount approximates fair value. Financial instruments for which the fair value approximates carrying value include cash and cash equivalents, AFS securities, equity securities, accrued interest receivable, non-maturity deposits, short-term borrowings, accrued interest payable and derivatives.

		September 30, 2024		December 31, 2023	
(In thousands)	**Fair Value Hierarchy**	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:					
HTM securities	2	**$ 854,941**	**$ 781,868**	$ 905,267	$ 814,524
Net loans	3	**9,791,254**	**9,536,670**	9,539,684	9,216,162
Financial liabilities:					
Time deposits	2	**$ 1,433,124**	**$ 1,424,694**	$ 1,324,709	$ 1,285,999
Long-term debt	2	**29,682**	**29,666**	29,796	29,416
Subordinated debt	1	**121,138**	**117,140**	120,380	113,757
Junior subordinated debt	2	**101,196**	**103,968**	101,196	102,337

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has a substantial wealth operation that contributes net fee income annually. The wealth management operation is not considered a financial instrument and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities include the benefits resulting from the low-cost funding of deposit liabilities as compared to the cost of borrowing funds in the market and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimate of fair value.

HTM Securities

The fair value of the Company's HTM securities is primarily measured using information from a third-party pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Net Loans

Net loans include portfolio loans and loans held for sale. Loans were first segregated by type and then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments, and those expected future cash flows also includes credit risk, illiquidity risk and other market factors to calculate the exit price fair value in accordance with ASC 820.

Time Deposits

The fair value of time deposits was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments. The fair values of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Long-Term Debt

The fair value of long-term debt was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments.

Subordinated Debt

The fair value of subordinated debt has been measured using the observable market price as of the period reported.

Junior Subordinated Debt

The fair value of junior subordinated debt has been estimated using a discounted cash flow analysis.

14. Commitments and Contingencies

The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit and certain agricultural real estate loans sold to investors with recourse, with the sold portion having a government guarantee that is assignable back to the Company upon repurchase of the loan in the event of default. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, unused lines of credit, standby letters of credit and loans sold with recourse is represented by the contractual amount of those instruments. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness. Commitments to extend credit and unused lines of credit totaled $2.86 billion at September 30, 2024 and $2.68 billion at December 31, 2023.

Since many loan commitments, standby letters of credit and guarantees and indemnification contracts expire without being funded in whole or in part, the contract amounts are not necessarily indicative of future cash flows. The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit.

The Company guarantees the obligations or performance of customers by issuing standby letters of credit to third-parties. These standby letters of credit are generally issued in support of third-party debt, such as corporate debt issuances, industrial revenue bonds and municipal securities. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers and letters of credit are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have one year expirations with an option to renew upon annual review; therefore, the total amounts do not necessarily represent future cash requirements. Standby letters of credit totaled $47.5 million at September 30, 2024 and $44.7 million at December 31, 2023. As of September 30, 2024 and December 31, 2023, the fair value of the Company's standby letters of credit was not significant.

NBT BANCORP INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to provide a concise description of the consolidated financial condition and results of operations of NBT Bancorp Inc. ("NBT") and its wholly-owned subsidiaries, including NBT Bank, National Association (the "Bank"), NBT Financial Services, Inc. ("NBT Financial") and NBT Holdings, Inc. ("NBT Holdings") (collectively referred to herein as the "Company"). This discussion will focus on results of operations, financial condition, capital resources and asset/liability management. Reference should be made to the Company's consolidated financial statements and footnotes thereto included in this Form 10-Q as well as to the Company's Annual Report on Form 10-K for the year ended December 31, 2023 for an understanding of the following discussion and analysis. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results of the full year ending December 31, 2024 or any future period.

Forward-Looking Statements

Certain statements in this filing and future filings by the Company with the SEC, in the Company's press releases or other public or stockholder communications or in oral statements made with the approval of an authorized executive officer, contain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of phrases such as "anticipate," "believe," "expect," "forecasts," "projects," "will," "can," "would," "should," "could," "may," or other similar terms. There are a number of factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) local, regional, national and international economic conditions, including actual or potential stress in the banking industry, and the impact they may have on the Company and its customers, and the Company's assessment of that impact; (2) changes in the level of nonperforming assets and charge-offs; (3) changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; (4) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the FRB; (5) inflation, interest rates, securities market and monetary fluctuations; (6) political instability; (7) acts of war, including international military conflicts, or terrorism; (8) the timely development and acceptance of new products and services and the perceived overall value of these products and services by users; (9) changes in consumer spending, borrowing and saving habits; (10) changes in the financial performance and/or condition of the Company's borrowers; (11) technological changes; (12) acquisition and integration of acquired businesses; (13) governmental approvals of the Evans merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the merger; (14) the shareholders of Evans may fail to approve the merger; (15) the ability to increase market share and control expenses; (16) changes in the competitive environment among financial holding companies; (17) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply, including those under the Dodd-Frank Act, and the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018; (18) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the FASB and other accounting standard setters; (19) changes in the Company's organization, compensation and benefit plans; (20) the costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews; (21) greater than expected costs or difficulties related to the integration of new products and lines of business; and (22) the Company's success at managing the risks involved in the foregoing items.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and advises readers that various factors, including, but not limited to, those described above and other factors discussed in the Company's annual and quarterly reports previously filed with the SEC, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to differ materially from those anticipated or projected.

Unless required by law, the Company does not undertake, and specifically disclaims any obligations to, publicly release any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Non-GAAP Measures

This Quarterly Report on Form 10-Q contains financial information determined by methods other than in accordance with GAAP. Where non-GAAP disclosures are used in this Form 10-Q, the comparable GAAP measure, as well as a reconciliation to the comparable GAAP measure, is provided in the accompanying tables. Management believes that these non-GAAP measures provide useful information that is important to an understanding of the results of the Company's core business as well as provide information standard in the financial institution industry. Non-GAAP measures should not be considered a substitute for financial measures determined in accordance with GAAP and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Amounts previously reported in the consolidated financial statements are reclassified whenever necessary to conform to current period presentation.

Critical Accounting Estimates

SEC guidance requires disclosure of "critical accounting estimates." The SEC defines "critical accounting estimates" as those estimates made in accordance with GAAP that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the registrant. The Company follows financial accounting and reporting policies that are in accordance with GAAP. The more significant of these policies are summarized in Note 1 to the consolidated financial statements presented in our 2023 Annual Report on Form 10-K. Refer to Note 3 to the unaudited interim consolidated financial statements in this Quarterly Report on Form 10-Q for recently adopted accounting standards. Not all significant accounting policies require management to make difficult, subjective or complex judgments. The allowance for credit losses and the allowance for unfunded commitments policies are deemed to meet the SEC's definition of a critical accounting estimate.

Allowance for Credit Losses and Unfunded Commitments

The allowance for credit losses consists of the allowance for credit losses and the allowance for losses on unfunded commitments. The measurement of CECL on financial instruments requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses under the CECL methodology is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. The Company then considers whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period from which historical experience was used. Finally, the Company considers forecasts about future economic conditions that are reasonable and supportable. The allowance for credit losses for loans, as reported in our consolidated statements of financial condition, is adjusted by an expense for credit losses, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries. The allowance for losses on unfunded commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments unconditionally cancellable by the Company. The allowance for losses on unfunded commitments is determined by estimating future draws and applying the expected loss rates on those draws.

Management of the Company considers the accounting policy relating to the allowance for credit losses to be a critical accounting estimate given the uncertainty in evaluating the level of the allowance required to cover management's estimate of all expected credit losses over the expected contractual life of our loan portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. While management's current evaluation of the allowance for credit losses indicates that the allowance is appropriate, the allowance may need to be increased under adversely different conditions or assumptions. The impact of utilizing the CECL methodology to calculate the reserve for credit losses will be significantly influenced by the composition, characteristics and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Material changes to these and other relevant factors may result in greater volatility to the reserve for credit losses, and therefore, greater volatility to our reported earnings.

One of the most significant judgments involved in estimating the Company's allowance for credit losses relates to the macroeconomic forecasts used to estimate expected credit losses over the forecast period. As of September 30, 2024, the quantitative model incorporated a baseline economic outlook along with an alternative downside scenario sourced from a reputable third-party to accommodate other potential economic conditions in the model. At September 30, 2024, the weightings were 80% and 20% for the baseline and downside economic forecasts, respectively. The baseline outlook reflects an economic environment where the Northeast unemployment rate increases slightly but remains around 4.1% during the forecast period. Northeast GDP's annualized growth (on a quarterly basis) is expected to start the fourth quarter of 2024 at approximately 3.9% and remains relatively stable during the forecast period. Key assumptions in the baseline economic outlook included the Federal Reserve cutting rates at the September and December meetings, the economy remaining at full employment, and continued tapering of the Federal Reserve balance sheet. The alternative downside scenario assumed deteriorated economic conditions from the baseline outlook. Under this scenario, Northeast unemployment rises from 4.0% in the third quarter of 2024 to a peak of 7.5% in the fourth quarter of 2025. These scenarios and their respective weightings are evaluated at each measurement date and reflect management's expectations as of September 30, 2024. Additional adjustments were made for factors not incorporated in the forecasts or the model, such as loss rate expectations for certain loan pools, considerations for inflation, and recent trends in asset value indices. Additional monitoring for industry concentrations, loan growth, and policy exceptions was also conducted. To demonstrate the sensitivity of the allowance for credit losses estimate to macroeconomic forecast weightings assumptions as of September 30, 2024, the Company attributed the change in scenario weightings to the change in the allowance for credit losses, with a 10% decrease to the downside scenario and a 10% increase to the baseline scenario causing a 4% decrease in the overall estimated allowance for credit losses. To further demonstrate the sensitivity of the allowance for credit losses estimate to macroeconomic forecast weightings assumptions as of September 30, 2024, the Company increased the downside scenario to 100% which resulted in a 33% increase in the overall estimated allowance for credit losses.

The Company's policies on the CECL methodology for allowance for credit losses are disclosed in Note 1 to the consolidated financial statements presented in our 2023 Annual Report on Form 10-K. All accounting policies are important and as such, the Company encourages the reader to review each of the policies included in Note 1 to the consolidated financial statements presented in our 2023 Annual Report on Form 10-K to obtain a better understanding of how the Company's financial performance is reported. Refer to Note 3 to the unaudited interim consolidated financial statements in this Quarterly Report on Form 10-Q for recently adopted accounting standards.

Evans Bancorp, Inc. Merger

On September 9, 2024, the Company and the Bank, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Evans and Evans Bank, Evans's subsidiary, pursuant to which the Company will acquire Evans. Evans, with assets of approximately $2.28 billion at September 30, 2024, is headquartered in Williamsville, New York. Its primary subsidiary, Evans Bank, is a federally-chartered national banking association with 18 banking locations in Western New York.

Subject to the terms and conditions of the Merger Agreement, which has been approved by the boards of directors of each party, Evans will merge with and into the Company, with the Company as the surviving entity, and immediately thereafter, Evans Bank will merge with and into the Bank, with the Bank as the surviving bank (the "Merger").

Under the terms of the Merger Agreement, each outstanding share of Evans common stock will be converted into the right to receive 0.91 shares of the Company's common stock. The Merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval by the shareholders of Evans, and is expected to close in the second quarter of 2025.

The Company incurred acquisition expenses related to the merger with Evans of $0.5 million for the three and nine months ended September 30, 2024.

Salisbury Bancorp, Inc. Merger

On August 11, 2023, NBT completed its acquisition of Salisbury. Salisbury Bank was a Connecticut-chartered commercial bank with 13 banking offices in northwestern Connecticut, the Hudson Valley region of New York, and southwestern Massachusetts. In connection with the acquisition, the Company issued 4.32 million shares of common stock and acquired approximately $1.46 billion of identifiable assets, including $1.18 billion of loans, $122.7 million in investment securities which were sold immediately after the merger, $31.2 million of core deposit intangibles and $4.7 million in a wealth management customer intangible, as well as $1.31 billion in deposits. As of the acquisition date, the fair value discount was $78.7 million for loans, net of the reclassification of the purchase credit deteriorated allowance, and was $3.0 million for subordinated debt. The Company established a $14.5 million allowance for acquired Salisbury loans which included both the $5.8 million allowance for PCD loans reclassified from loans and the $8.8 million allowance for non-PCD loans recognized through the provision for loan losses.

The Company incurred acquisition expenses related to the merger with Salisbury of $7.9 million for the three months ended September 30, 2023 and $9.7 million for the nine months ended September 30, 2023.

Executive Summary

Significant factors management reviews to evaluate the Company's operating results and financial condition include, but are not limited to, net income and EPS, return on average assets and equity, NIM, noninterest income, operating expenses, asset quality indicators, loan and deposit growth, capital management, liquidity and interest rate sensitivity, enhancements to customer products and services, technology advancements, market share and peer comparisons.

Net income for the three months ended September 30, 2024 was $38.1 million, up $13.5 million from the third quarter of 2023 and up $5.4 million from the second quarter of 2024. Diluted earnings per share were $0.80 for the three months ended September 30, 2024, up $0.26 from the third quarter of 2023 and up $0.11 from the second quarter of 2024. Net income for the nine months ended September 30, 2024 was $104.6 million, or $2.21 per diluted common share, up $16.3 million from $88.3 million, or $2.01 per diluted common share for the nine months ended September 30, 2023.

Operating net income[(1)], a non-GAAP measure, which excludes acquisition expenses, acquisition-related provision for credit losses and securities gains (losses), net of tax, was $38.1 million, or $0.80 per diluted common share, for the three months ended September 30, 2024, compared to $0.84 per diluted common share for the third quarter of 2023 and $0.69 per diluted common share for the second quarter of 2024. Operating net income[(1)], for the nine months ended September 30, 2024, was $103.1 million, or $2.17 per diluted common share, down $7.9 million from $110.9 million, or $2.53 per diluted common share for the nine months ended September 30, 2023.

In the first quarter of 2023, the Company incurred a $5.0 million securities loss on the write-off of an AFS subordinated debt investment of a failed financial institution. In the first quarter of 2024, the Company sold the previously written-off subordinated debt security and recognized a gain of $2.3 million. In the second quarter 2023, the Company incurred a $4.5 million securities loss on the sale of two subordinated debt securities held in the AFS portfolio.

The following information should be considered in connection with the Company's results for the three and nine months ended September 30, 2024:

- Net interest income for the three months ended September 30, 2024 was $101.7 million, up $6.8 million, or 7.1%, from the third quarter of 2023 and up $4.5 million, or 4.6%, from the second quarter of 2024. Net interest income for the nine months ended September 30, 2024 was $294.0 million, up $15.0 million, or 5.4%, from the same period in 2023.
- The Company recorded a provision for loan losses of $2.9 million for the three months ended September 30, 2024, compared to $12.6 million in the third quarter of 2023 and $8.9 million in the second quarter of 2024. Provision for loan losses was $17.4 million for the nine months ended September 30, 2024 down $2.8 million from the same period in 2023. Included in the provision expense for the three and nine months ended September 30, 2023 was $8.8 million of acquisition-related provision for loan losses.
- Excluding securities gains (losses), noninterest income represented 31% of total revenues and was $45.3 million for the three months ended September 30, 2024, up $4.9 million, or 12.1%, from the third quarter of 2023 and up $2.0 million, or 4.6%, from the second quarter of 2024. Excluding securities gains (losses), noninterest income was $131.8 million for the nine months ended September 30, 2024 up $18.3 million from the same period in 2023.
- Noninterest expense, excluding acquisition expenses, was up $12.3 million, or 14.9%, from the third quarter of 2023 and was up $5.6 million, or 6.3%, from the second quarter of 2024. Noninterest expense, excluding acquisition expenses, for the nine months ended September 30, 2024, was up $37.4 million, or 15.6%, for the same period in 2023.
- Period end total loans were $9.91 billion, up $256.3 million, or 3.5% annualized, from December 31, 2023.
- Credit quality metrics including net charge-offs to average loans were 0.17%, annualized, and allowance for loan losses to total loans was 1.21%.
- Period end total deposits were $11.59 billion, up $619.3 million, or 5.6%, from December 31, 2023.

(1) Non-GAAP measure - Refer to non-GAAP reconciliation below.

Results of Operations

The following table sets forth certain financial highlights:

	Three Months Ended			Nine Months Ended	
	September 30, 2024	**June 30, 2024**	**September 30, 2023**	**September 30, 2024**	**September 30, 2023**
Performance:					
Diluted earnings per share	**$ 0.80**	$ 0.69	$ 0.54	**$ 2.21**	$ 2.01
Return on average assets[2]	**1.12%**	0.98%	0.76%	**1.04%**	0.97%
Return on average equity[2]	**10.21%**	9.12%	7.48%	**9.62%**	9.54%
Return on average tangible common equity[2]	**14.54%**	13.23%	10.73%	**13.89%**	13.00%
Net interest margin, (FTE)[2]	**3.27%**	3.18%	3.21%	**3.20%**	3.34%
Capital:					
Equity to assets	**11.00%**	10.83%	9.86%	**11.00%**	9.86%
Tangible equity ratio	**8.36%**	8.11%	7.15%	**8.36%**	7.15%
Book value per share	**$ 32.26**	$ 31.00	$ 28.94	**$ 32.26**	$ 28.94
Tangible book value per share	**$ 23.83**	$ 22.54	$ 20.39	**$ 23.83**	$ 20.39
Leverage ratio	**10.29%**	10.16%	10.23%	**10.29%**	10.23%
Common equity tier 1 capital ratio	**11.86%**	11.70%	11.31%	**11.86%**	11.31%
Tier 1 capital ratio	**12.77%**	12.61%	12.23%	**12.77%**	12.23%
Total risk-based capital ratio	**15.02%**	14.88%	14.45%	**15.02%**	14.45%

The following table provides non-GAAP reconciliations:

	Three Months Ended			Nine Months Ended	
(In thousands, except per share data)	**September 30, 2024**	**June 30, 2024**	**September 30, 2023**	**September 30, 2024**	**September 30, 2023**
Return on average tangible common equity:					
Net income	**$ 38,097**	$ 32,716	$ 24,606	**$ 104,636**	$ 88,336
Amortization of intangible assets (net of tax)	**1,547**	1,600	1,206	**4,772**	1,952
Net income, excluding intangible amortization	**$ 39,644**	$ 34,316	$ 25,812	**$ 109,408**	$ 90,288
Average stockholders’ equity	**$ 1,483,998**	$ 1,443,351	$ 1,305,686	**$ 1,452,433**	$ 1,238,192
Less: average goodwill and other intangibles	**399,113**	399,968	350,912	**400,275**	309,309
Average tangible common equity	**$ 1,084,885**	$ 1,043,383	$ 954,774	**$ 1,052,158**	$ 928,883
Return on average tangible common equity[2]	**14.54%**	13.23%	10.73%	**13.89%**	13.00%
Tangible equity ratio:					
Stockholders’ equity	**$ 1,521,980**	$ 1,461,955	$ 1,362,821	**$ 1,521,980**	$ 1,362,821
Intangibles	**397,853**	398,686	402,745	**397,853**	402,745
Assets	**$ 13,839,552**	$ 13,501,909	$ 13,827,628	**$ 13,839,552**	$ 13,827,628
Tangible equity ratio	**8.36%**	8.11%	7.15%	**8.36%**	7.15%
Tangible book value per share:					
Stockholders’ equity	**$ 1,521,980**	$ 1,461,955	$ 1,362,821	**$ 1,521,980**	$ 1,362,821
Intangibles	**397,853**	398,686	402,745	**397,853**	402,745
Tangible equity	**$ 1,124,127**	$ 1,063,269	$ 960,076	**$ 1,124,127**	$ 960,076
Diluted common shares outstanding	**47,177**	47,165	47,088	**47,177**	47,088
Tangible book value per share	**$ 23.83**	$ 22.54	$ 20.39	**$ 23.83**	$ 20.39
Operating net income:					
Net income	**$ 38,097**	$ 32,716	$ 24,606	**$ 104,636**	$ 88,336
Acquisition expenses	**543**	-	7,917	**543**	9,724
Acquisition-related provision for credit losses	**-**	-	8,750	**-**	8,750
Acquisition-related reserve for unfunded loan commitments	**-**	-	836	**-**	836
Securities (gains) losses	**(476)**	92	183	**(2,567)**	9,822
Adjustments to net income	**$ 67**	$ 92	$ 17,686	**$ (2,024)**	$ 29,132
Adjustments to net income (net of tax)	**$ 52**	$ 72	$ 13,730	**$ (1,579)**	$ 22,577
Operating net income	**$ 38,149**	$ 32,788	$ 38,336	**$ 103,057**	$ 110,913
Operating diluted earnings per share	**$ 0.80**	$ 0.69	$ 0.84	**$ 2.17**	$ 2.53

(2) Annualized.

Net Interest Income

Net interest income is the difference between interest income on earning assets, primarily loans and securities and interest expense on interest-bearing liabilities, primarily deposits and borrowings. Net interest income is affected by the interest rate spread, the difference between the yield on interest-earning assets and cost of interest-bearing liabilities, as well as the volumes of such assets and liabilities. Net interest income is one of the key determining factors in a financial institution's performance as it is the principal source of earnings.

Net interest income was $101.7 million for the third quarter of 2024, up $4.5 million, or 4.6%, from the previous quarter. The FTE net interest margin was 3.27% for the three months ended September 30, 2024, an increase of 9 bps from the previous quarter. Interest income increased $5.5 million, or 3.6%, as the yield on average interest-earning assets increased 9 bps from the prior quarter to 5.01%, while average interest-earning assets of $12.45 billion increased $79.2 million from the prior quarter, primarily due to organic loan growth slightly offset by a decrease in the average balance of securities. Interest expense was up $1.0 million, or 1.8%, as the cost of interest-bearing liabilities increased 2 bps to 2.60% for the quarter ended September 30, 2024, driven by interest-bearing deposit costs increasing 6 bps, which were partially offset by lower average balances of short-term borrowings. Included in net interest income was $2.7 million of acquisition-related net accretion for the three months ended September 30, 2024 and $2.6 million of acquisition-related net accretion for the three months ended June 30, 2024.

Net interest income was $101.7 million for the third quarter of 2024, up $6.8 million, or 7.1%, from the third quarter of 2023. The FTE net interest margin was 3.27% for the three months ended September 30, 2024, an increase of 6 bps from the third quarter of 2023. Interest income increased $19.1 million, or 14.0%, as the yield on average interest-earning assets increased 38 bps from the same period in 2023 to 5.01%, while average interest-earning assets increased $644.2 million, or 5.5%, from the third quarter of 2023 primarily due to the Salisbury acquisition and organic loan growth. Interest expense increased $12.4 million, or 29.3%, as the cost of interest-bearing liabilities increased 42 bps to 2.60% for the quarter ended September 30, 2024, primarily due to both a 67 bps increase in interest-bearing deposit costs and a $1.13 billion increase in interest-bearing deposits as a result of the Salisbury acquisition, which were partially offset by a decrease of $491.5 million in the average balance of short-term borrowings and the 574 bps rate paid on those borrowings. Included in net interest income was $2.7 million of acquisition-related net accretion for the three months ended September 30, 2024 and $1.4 million of acquisition-related net accretion for the three months ended September 30, 2023.

Net interest income for the nine months ended September 30, 2024 was $294.0 million, up $15.0 million, or 5.4%, from the same period in 2023. FTE net interest margin was 3.20% for the nine months ended September 30, 2024, a decrease of 14 bps from the same period in 2023. Interest income increased $82.1 million, or 22.1%, as the yield on average interest-earning assets increased 49 bps from the same period in 2023 to 4.93%, while average interest-earning assets of $12.36 billion increased $1.13 billion primarily due to the Salisbury acquisition and organic loan growth, partially offset by the decrease in securities. Interest expense was up $67.1 million, or 72.3%, for the nine months ended September 30, 2024 as compared to the same period in 2023 driven by interest-bearing deposit costs increasing 109 bps and a $1.47 billion increase in interest-bearing deposits as a result of the Salisbury acquisition, partially offset by a decrease of $347.0 million in the average balances of short-term borrowings and the 548 bps rate paid on those borrowings. Included in net interest income was $7.8 million of acquisition-related net accretion for the nine months ended September 30, 2024 and $1.4 million of acquisition-related net accretion for the nine months ended September 30, 2023.

Average Balances and Net Interest Income

The following tables include the condensed consolidated average balance sheet, an analysis of interest income/expense and average yield/rate for each major category of earning assets and interest-bearing liabilities on a taxable equivalent basis.

Three Months Ended	September 30, 2024			September 30, 2023		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
Assets:						
Short-term interest-bearing accounts	$ 62,210	$ 762	4.87%	$ 121,384	$ 1,304	4.26%
Securities taxable[1]	2,266,930	11,359	1.99%	2,364,809	11,314	1.90%
Securities tax-exempt[1] [3]	217,251	1,897	3.47%	219,427	1,850	3.34%
FRB and FHLB stock	35,395	620	6.97%	53,841	917	6.76%
Loans[2] [3]	9,865,412	142,231	5.74%	9,043,582	122,277	5.36%
Total interest-earning assets	$ 12,447,198	$ 156,869	5.01%	$ 11,803,043	$ 137,662	4.63%
Other assets	1,072,277			968,220		
Total assets	$ 13,519,475			$ 12,771,263		
Liabilities and stockholders' equity:						
Money market deposit accounts	$ 3,342,845	$ 30,907	3.68%	$ 2,422,451	$ 17,739	2.91%
NOW deposit accounts	1,600,547	3,511	0.87%	1,513,420	2,165	0.57%
Savings deposits	1,566,316	188	0.05%	1,707,094	176	0.04%
Time deposits	1,442,424	14,500	4.00%	1,178,352	10,678	3.60%
Total interest-bearing deposits	$ 7,952,132	$ 49,106	2.46%	$ 6,821,317	$ 30,758	1.79%
Federal funds purchased	2,609	35	5.34%	6,033	82	5.39%
Repurchase agreements	98,035	691	2.80%	71,516	253	1.40%
Short-term borrowings	48,875	705	5.74%	540,380	7,277	5.34%
Long-term debt	29,696	292	3.91%	29,800	294	3.91%
Subordinated debt, net	120,594	1,810	5.97%	109,160	1,612	5.86%
Junior subordinated debt	101,196	1,922	7.56%	101,196	1,923	7.54%
Total interest-bearing liabilities	$ 8,353,137	$ 54,561	2.60%	$ 7,679,402	$ 42,199	2.18%
Demand deposits	3,389,894			3,498,424		
Other liabilities	292,446			287,751		
Stockholders' equity	1,483,998			1,305,686		
Total liabilities and stockholders' equity	$ 13,519,475			$ 12,771,263		
Net interest income (FTE)		$ 102,308			$ 95,463	
Interest rate spread			2.41%			2.45%
Net interest margin (FTE)			3.27%			3.21%
Taxable equivalent adjustment		$ 639			$ 568	
Net interest income		$ 101,669			$ 94,895	

(1) Securities are shown at average amortized cost.
(2) For purposes of these computations, nonaccrual loans and loans held for sale are included in the average loan balances outstanding.
(3) Interest income for tax-exempt securities and loans have been adjusted to an FTE basis using the statutory Federal income tax rate of 21%.

Nine Months Ended	September 30, 2024			September 30, 2023		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**
Assets:						
Short-term interest-bearing accounts	**$ 53,048**	**$ 1,963**	**4.94%**	$ 61,677	$ 1,751	3.80%
Securities taxable[1]	**2,275,212**	**33,336**	**1.96%**	2,400,237	34,218	1.91%
Securities tax-exempt[1] [3]	**224,557**	**5,950**	**3.54%**	207,812	4,675	3.01%
FRB and FHLB stock	**39,310**	**2,191**	**7.45%**	48,860	2,282	6.24%
Loans[2] [3]	**9,771,118**	**412,448**	**5.64%**	8,516,793	330,314	5.19%
Total interest-earning assets	**$ 12,363,245**	**$ 455,888**	**4.93%**	$ 11,235,379	$ 373,240	4.44%
Other assets	**1,064,080**			880,655		
Total assets	**$ 13,427,325**			$ 12,116,034		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 3,242,453**	**$ 88,185**	**3.63%**	$ 2,207,126	$ 36,107	2.19%
NOW deposit accounts	**1,601,507**	**9,630**	**0.80%**	1,525,089	4,989	0.44%
Savings deposits	**1,586,834**	**541**	**0.05%**	1,732,205	462	0.04%
Time deposits	**1,395,520**	**41,777**	**4.00%**	893,407	20,330	3.04%
Total interest-bearing deposits	**$ 7,826,314**	**$ 140,133**	**2.39%**	$ 6,357,827	$ 61,888	1.30%
Federal funds purchased	**17,387**	**721**	**5.54%**	32,784	1,266	5.16%
Repurchase agreements	**88,986**	**1,340**	**2.01%**	66,162	416	0.84%
Short-term borrowings	**138,812**	**5,690**	**5.48%**	485,804	18,975	5.22%
Long-term debt	**29,734**	**873**	**3.92%**	22,373	631	3.77%
Subordinated debt, net	**120,237**	**5,416**	**6.02%**	101,114	4,281	5.66%
Junior subordinated debt	**101,196**	**5,743**	**7.58%**	101,196	5,372	7.10%
Total interest-bearing liabilities	**$ 8,322,666**	**$ 159,916**	**2.57%**	$ 7,167,260	$ 92,829	1.73%
Demand deposits	**3,356,923**			3,439,275		
Other liabilities	**295,303**			271,307		
Stockholders' equity	**1,452,433**			1,238,192		
Total liabilities and stockholders' equity	**$ 13,427,325**			$ 12,116,034		
Net interest income (FTE)		**$ 295,972**			$ 280,411	
Interest rate spread			**2.36%**			2.71%
Net interest margin (FTE)			**3.20%**			3.34%
Taxable equivalent adjustment		**$ 1,955**			$ 1,365	
Net interest income		**$ 294,017**			$ 279,046	

(1) Securities are shown at average amortized cost.
(2) For purposes of these computations, nonaccrual loans and loans held for sale are included in the average loan balances outstanding.
(3) Interest income for tax-exempt securities and loans have been adjusted to an FTE basis using the statutory Federal income tax rate of 21%.

The following table presents changes in interest income and interest expense attributable to changes in volume (change in average balance multiplied by prior year rate), changes in rate (change in rate multiplied by prior year volume) and the net change in net interest income. The net change attributable to the combined impact of volume and rate has been allocated to each in proportion to the absolute dollar amounts of change.

Three Months Ended September 30,	**Increase (Decrease) 2024 over 2023**		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest-bearing accounts	**$ (707)**	**$ 165**	**$ (542)**
Securities taxable	**(492)**	**537**	**45**
Securities tax-exempt	**(19)**	**66**	**47**
FRB and FHLB stock	**(325)**	**28**	**(297)**
Loans	**11,327**	**8,627**	**19,954**
Total FTE interest income	**$ 9,784**	**$ 9,423**	**$ 19,207**
Money market deposit accounts	**$ 7,745**	**$ 5,423**	**$ 13,168**
NOW deposit accounts	**130**	**1,216**	**1,346**
Savings deposits	**(15)**	**27**	**12**
Time deposits	**2,546**	**1,276**	**3,822**
Federal funds purchased	**(46)**	**(1)**	**(47)**
Repurchase agreements	**119**	**319**	**438**
Short-term borrowings	**(7,071)**	**499**	**(6,572)**
Long-term debt	**(2)**	**-**	**(2)**
Subordinated debt, net	**167**	**31**	**198**
Junior subordinated debt	**-**	**(1)**	**(1)**
Total FTE interest expense	**$ 3,573**	**$ 8,789**	**$ 12,362**
Change in FTE net interest income	**$ 6,211**	**$ 634**	**$ 6,845**

Nine Months Ended September 30,	**Increase (Decrease) 2024 over 2023**		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest-bearing accounts	**$ (268)**	**$ 480**	**$ 212**
Securities taxable	**(1,795)**	**913**	**(882)**
Securities tax-exempt	**399**	**876**	**1,275**
FRB and FHLB stock	**(489)**	**398**	**(91)**
Loans	**51,553**	**30,581**	**82,134**
Total FTE interest income	**$ 49,400**	**$ 33,248**	**$ 82,648**
Money market deposit accounts	**$ 21,618**	**$ 30,460**	**$ 52,078**
NOW deposit accounts	**262**	**4,379**	**4,641**
Savings deposits	**(41)**	**120**	**79**
Time deposits	**13,754**	**7,693**	**21,447**
Federal funds purchased	**(632)**	**87**	**(545)**
Repurchase agreements	**183**	**741**	**924**
Short-term borrowings	**(14,165)**	**880**	**(13,285)**
Long-term debt	**216**	**26**	**242**
Subordinated debt, net	**852**	**283**	**1,135**
Junior subordinated debt	**-**	**371**	**371**
Total FTE interest expense	**$ 22,047**	**$ 45,040**	**$ 67,087**
Change in net FTE interest income	**$ 27,353**	**$ (11,792)**	**$ 15,561**

Noninterest Income

Noninterest income is a significant source of revenue for the Company and an important factor in the Company's results of operations. The following table sets forth information by category of noninterest income for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Service charges on deposit accounts	**$ 4,340**	$ 3,979	**$ 12,676**	$ 11,260
Card services income	**5,897**	5,503	**16,679**	15,469
Retirement plan administration fees	**14,578**	12,798	**43,663**	35,995
Wealth management	**10,929**	9,297	**30,799**	25,611
Insurance services	**4,913**	4,361	**13,149**	12,008
Bank owned life insurance income	**1,868**	1,568	**6,054**	4,974
Net securities gains (losses)	**476**	(183)	**2,567**	(9,822)
Other	**2,773**	2,913	**8,811**	8,195
Total noninterest income	**$ 45,774**	$ 40,236	**$ 134,398**	$ 103,690

Noninterest income for the three months ended September 30, 2024 was $45.8 million, up $2.5 million, or 5.9%, from the prior quarter and up $5.5 million, or 13.8%, from the third quarter of 2023. Excluding net securities gains (losses), noninterest income for the three months ended September 30, 2024 was $45.3 million, up $2.0 million, or 4.6%, from the prior quarter and up $4.9 million, or 12.1%, from the third quarter of 2023. The increase from the prior quarter was primarily driven by an increase in wealth management fees and insurance services. Wealth management fees increased from the prior quarter due to organic growth and seasonal activity-based fees. Insurance services increased from the prior quarter due to seasonal renewals. The increase from the third quarter of 2023 was driven by an increase in retirement plan administration fees, wealth management fees and insurance services. Retirement plan administration fees increased from the third quarter of 2023 driven by organic growth and higher market levels. Wealth management fees increased in the third quarter of 2023 driven by the addition of Salisbury revenues, organic growth and market performance. Insurance services increased from the third quarter of 2023 due to organic growth.

Noninterest income for the nine months ended September 30, 2024 was $134.4 million, up $30.7 million, or 29.6%, from the same period in 2023. Excluding net securities gains (losses), noninterest income for the nine months ended September 30, 2024 was $131.8 million, up $18.3 million, or 16.1%, from the same period in 2023. The increase from the prior year was primarily due to an increase in retirement plan administration fees and wealth management fees. The increase in retirement plan administration fees was driven by higher market level, the acquisition of Retirement Direct, LLC, organic growth and higher activity based fees. The increase in wealth management fees was driven by the addition of Salisbury revenues, organic growth and market performance.

Noninterest Expense

Noninterest expenses are also an important factor in the Company's results of operations. The following table sets forth the major components of noninterest expense for the periods indicated:

(In thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Salaries and employee benefits	**$ 59,641**	$ 49,248	**$ 170,738**	$ 144,237
Technology and data services	**9,920**	9,677	**28,919**	27,989
Occupancy	**7,754**	7,090	**23,523**	21,233
Professional fees and outside services	**4,871**	4,149	**14,289**	12,486
Office supplies and postage	**1,756**	1,700	**5,425**	5,004
FDIC assessment	**1,815**	1,657	**5,217**	4,397
Advertising	**711**	667	**2,396**	1,841
Amortization of intangible assets	**2,062**	1,609	**6,363**	2,603
Loan collection and other real estate owned, net	**560**	569	**1,828**	2,115
Acquisition expenses	**543**	7,917	**543**	9,724
Other	**6,112**	6,514	**17,865**	17,284
Total noninterest expense	**$ 95,745**	$ 90,797	**$ 277,106**	$ 248,913

Noninterest expense for the three months ended September 30, 2024 was $95.7 million, up $6.2 million, or 6.9%, from the prior quarter and up $4.9 million, or 5.4%, from the third quarter of 2023. Excluding acquisition expenses, noninterest expense for the three months ended September 30, 2024 was $95.2 million, up $5.6 million, or 6.3%, from the prior quarter and up $12.3 million, or 14.9%, from the third quarter of 2023. The increase from the prior quarter was primarily driven by higher salaries and employee benefits due to one additional payroll day and an increase in other benefits including higher levels of incentive compensation. In addition, the increase from the prior quarter was driven by higher technology and data services due to timing of planned initiatives and continued investment in digital platform solutions. The increase from the third quarter of 2023 was driven by higher salaries and employee benefits due to the Salisbury acquisition, merit pay increases, higher levels of incentive compensation, along with higher medical and other benefit costs. In addition, the increase in occupancy expense, professional fees and outside services and amortization of intangible assets were impacted by additional expenses from the Salisbury acquisition.

Noninterest expense for the nine months ended September 30, 2024 was $277.1 million, up $28.2 million, or 11.3%, from the same period in 2023. Excluding acquisition expenses, noninterest expense for the nine months ended September 30, 2024 was $276.6 million, up $37.4 million, or 15.6%, from the same period in 2023. The increase from the prior year was driven by higher salaries and employee benefits due to the Salisbury acquisition, merit pay increases, higher levels of incentive compensation and higher medical and other benefit costs. In addition, the increase in occupancy expense, professional fees and outside services and amortization of intangible assets were impacted by additional expenses from the Salisbury acquisition.

Income Taxes

Income tax expense for the three months ended September 30, 2024 was $10.7 million, up $1.5 million from the prior quarter and up $3.6 million from the third quarter of 2023. The effective tax rate was 21.9% for the third quarter of 2024 compared to 22.0% for the prior quarter and 22.4% for the third quarter of 2023.

Income tax expense for the nine months ended September 30, 2024 was $29.3 million, up $3.9 million from the same period in 2023 due to an increase in pre-tax net income. The effective tax rate was 21.9% for the nine months ended September 30, 2024, compared to 22.3% for the nine months ended September 30, 2023. The decrease in the effective tax rate from 2023 was due to a higher level of tax-exempt income as a percentage of total taxable income.

ANALYSIS OF FINANCIAL CONDITION

Securities

Total securities increased $32.5 million, or 1.4%, from December 31, 2023 to September 30, 2024. The securities portfolio represented 17.4% of total assets as of September 30, 2024 as compared to 17.8% of total assets as of December 31, 2023.

The following table details the composition of securities AFS, securities HTM and equity securities for the periods indicated:

	September 30, 2024	December 31, 2023
Mortgage-backed securities:		
With maturities 15 years or less	**12%**	12%
With maturities greater than 15 years	**9%**	10%
Collateral mortgage obligations	**37%**	36%
Municipal securities	**16%**	17%
U.S. agency notes	**22%**	21%
Corporate	**2%**	2%
Equity securities	**2%**	2%
Total	**100%**	100%

The Company's mortgage-backed securities, U.S. agency notes and collateralized mortgage obligations are all guaranteed by Fannie Mae, Freddie Mac, FHLB, Federal Farm Credit Banks or Ginnie Mae ("GNMA"). GNMA securities are considered similar in credit quality to U.S. Treasury securities, as they are backed by the full faith and credit of the U.S. government. Currently, there are no subprime mortgages in our investment portfolio.

Loans

A summary of the loan portfolio by major categories[(1)], net of deferred fees and origination costs, for the periods indicated is as follows:

(In thousands)	September 30, 2024	December 31, 2023
Commercial & industrial	**$ 1,458,926**	$ 1,354,248
Commercial real estate	**3,792,498**	3,626,910
Residential real estate	**2,143,766**	2,125,804
Home equity	**328,687**	337,214
Indirect auto	**1,235,175**	1,130,132
Residential solar	**839,659**	917,755
Other consumer	**108,330**	158,650
Total loans	**$ 9,907,041**	$ 9,650,713

(1) Loans are summarized by business line which do not align to how the Company assesses credit risk in the allowance for credit losses.

Total loans increased by $256.3 million, or 3.5% annualized, from December 31, 2023 to September 30, 2024. Excluding the other consumer and residential solar portfolios that are in a planned run-off status, period end loans increased $384.4 million, or 6.0% annualized. Commercial and industrial loans increased $104.7 million to $1.46 billion; commercial real estate loans increased $165.6 million to $3.79 billion; and total consumer loans decreased $13.9 million to $4.66 billion. Total loans represent approximately 71.6% of assets as of September 30, 2024, as compared to 72.5% as of December 31, 2023.

Loans in the C&I and CRE portfolios consist primarily of loans made to small and medium-sized entities. The Company offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs such as inventory and receivables, business expansion, equipment purchases, livestock purchases and seasonal crop expenses. These loans are usually collateralized by business assets such as equipment, accounts receivable and perishable agricultural products, which are exposed to industry price volatility. The Company extends CRE loans to facilitate various real estate transactions, encompassing acquisitions, refinancing, expansions and enhancements to both commercial and agricultural properties. These loans are secured by liens on real estate assets, covering a spectrum of properties including apartments, commercial structures, healthcare facilities and others, whether occupied by owners or non-owners. Risks associated with the CRE portfolio pertain to the borrowers' capacity to meet interest and principal payments throughout the loan's duration, as well as their ability to secure financing upon the loan's maturity. The Company has a risk management framework that includes rigorous underwriting standards, targeted portfolio stress testing, interest rate sensitivities on commercial borrowers and comprehensive credit risk monitoring mechanisms. The Company remains vigilant in monitoring market trends, economic indicators and regulatory developments to promptly adapt our risk management strategies as needed.

Within the CRE portfolio, approximately 81% comprises Non-Owner Occupied CRE, with the remaining 19% being Owner-Occupied CRE. Non-Owner Occupied CRE includes diverse sectors across the Company's markets such as residential rental properties (43%), and office spaces (18%), along with retail, manufacturing, mixed use, hotels and others. Notably, office CRE loans account for 6% of the total outstanding loans, predominantly serving suburban medical and professional tenants across suburban and small urban markets. These loans carry an average size of $1.9 million, with 10% maturing over the next two years. As of September 30, 2024 and December 31, 2023, the total CRE construction and development loans amounted to $286.9 million and $347.2 million, respectively.

Allowance for Credit Losses, Provision for Loan Losses and Nonperforming Assets

Beginning January 1, 2023, the Company adopted ASU 2022-02 *Financial Instruments - CECL Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* which resulted in an insignificant change to the Company's methodology for estimating the allowance for credit losses on TDRs since December 31, 2022. The January 1, 2023 decrease in the allowance for credit loss on TDR loans relating to the adoption of ASU 2022-02 was $0.6 million, which increased retained earnings by $0.5 million and decreased the deferred tax asset by $0.1 million.

Management considers the accounting policy relating to the allowance for credit losses to be a critical estimate given the degree of judgment exercised in evaluating the level of the allowance required to estimate expected credit losses over the expected contractual life of our loan portfolio and the material effect that such judgments can have on the consolidated results of operations.

The CECL methodology requires an estimate of the credit losses expected over the life of a loan (or pool of loans). The allowance for credit losses is a valuation account that is deducted from, or added to, the loans' amortized cost basis to present the net, lifetime amount expected to be collected on the loans. Loan losses are charged off against the allowance when management believes a loan balance is confirmed to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Required additions or reductions to the allowance for credit losses are made periodically by charges or credits to the provision for loan losses. These are necessary to maintain the allowance at a level which management believes is reasonably reflective of the overall loss expected over the contractual life of the loan portfolio, adjusted for expected prepayments. While management uses available information to recognize losses on loans, additions or reductions to the allowance may fluctuate from one reporting period to another. These fluctuations are reflective of changes in risk associated with portfolio content and/or changes in management's assessment of any or all of the determining factors discussed above. Management considers the allowance for credit losses to be appropriate based on evaluation and analysis of the loan portfolio.

Management estimates the allowance balance for credit losses using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Company historical loss experience was supplemented with peer information when there was insufficient loss data for the Company. Significant management judgment is required at each point in the measurement process.

The allowance for credit losses is measured on a collective (pool) basis, with both a quantitative and qualitative analysis that is applied on a quarterly basis, when similar risk characteristics exist. The respective quantitative allowance for each segment is measured using an econometric, discounted probability of default and loss given default modeling methodology in which distinct, segment-specific multi-variate regression models are applied to multiple, probabilistically weighted external economic forecasts. Under the discounted cash flows methodology, expected credit losses are estimated over the effective life of the loans by measuring the difference between the net present value of modeled cash flows and amortized cost basis. After quantitative considerations, management applies additional qualitative adjustments so that the allowance for credit loss is reflective of the estimate of lifetime losses that exist in the loan portfolio at the balance sheet date.

Portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. Upon adoption of CECL, management revised the manner in which loans were pooled for similar risk characteristics. Management developed segments for estimating loss based on type of borrower and collateral which is generally based upon federal call report segmentation and have been combined or subsegmented as needed to ensure loans of similar risk profiles are appropriately pooled.

Additional information about our allowance for credit losses is included in Note 7 to the unaudited interim consolidated financial statements in this Quarterly Report on Form 10-Q as well as in the "Critical Accounting Estimates" section of Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's management considers the allowance for credit losses to be appropriate based on evaluation and analysis of the loan portfolio.

The allowance for credit losses totaled $119.5 million at September 30, 2024, as compared to $120.5 million at June 30, 2024 and $114.6 million at September 30, 2023. The allowance for credit losses as a percentage of loans was 1.21% at September 30, 2024, compared to 1.22% at June 30, 2024 and 1.19% at September 30, 2023. The allowance for credit losses as of September 30, 2024 was consistent with the allowance estimates as of June 30, 2024. The increase in the allowance for credit losses from September 30, 2023 to September 30, 2024 was primarily due to providing for organic loan growth, the slowing of prepayment speed assumptions, including the change in prepayment model assumptions and an additional specific reserve established in the second quarter of 2024 relating to a commercial relationship individually evaluated for credit loss. These increases to the allowance for credit losses were partially offset by a change in forecast scenario weightings from 70% baseline and 30% downside to 80% baseline and 20% downside, and the shift in loan composition driven by other consumer and residential solar portfolios that are in a planned run-off status.

The allowance for credit losses as of September 30, 2023 incorporates the recording of $14.5 million of allowance for acquired Salisbury loans as of the acquisition date, which included both the $8.8 million of non-PCD allowance recognized through the provision for loan losses and the $5.8 million of PCD allowance reclassified from loans.

The allowance for credit losses was 320.21% of nonperforming loans at September 30, 2024, compared to 316.37% at June 30, 2024 and 472.31% at September 30, 2023. The allowance for credit losses was 358.45% of nonaccrual loans at September 30, 2024, compared to 346.71% of nonaccrual loans at June 30, 2024 and 552.67% of nonaccrual loans at September 30, 2023. The decline in the coverage of the allowance to nonperforming and nonaccrual loans from September 30, 2023 to September 30, 2024 largely relates to one nonperforming relationship that is individually evaluated for purposes of the allowance for credit losses which had a $1.7 million specific reserve established during the three months ended June 30, 2024.

The provision for loan losses was $2.9 million for three months ended September 30, 2024, compared to $8.9 million in the prior quarter and $12.6 million for the same period in the prior year. Included in the provision expense for the three months ended September 30, 2023, was $8.8 million of acquisition-related provision for loan losses due to the Salisbury acquisition. Provision expense decreased compared to the prior quarter due lower levels of loan growth the third quarter of 2024 including the run-off of the other consumer and residential solar portfolios, the stabilization of expected prepayment assumptions impacting the expected life of the loan portfolio and a specific reserve established in the prior quarter relating to a commercial relationship previously placed in nonaccrual in the fourth quarter of 2023. Net charge-offs totaled $3.9 million during the three months ended September 30, 2024, compared to net charge-offs of $3.7 million during the second quarter of 2024 and $4.2 million in the third quarter of 2023. Net charge-offs to average loans was 16 bps for the three months ended September 30, 2024, compared to 15 bps for the second quarter of 2024 and 18 bps for the three months ended September 30, 2023.

The provision for loan losses was $17.4 million for the nine months ended September 30, 2024, compared to $20.1 million for the nine months ended September 30, 2023. Provision expense decreased from the same period in the prior year due to the $8.8 million of acquisition-related provision for loan losses due to the Salisbury acquisition recorded during the nine months ended September 30, 2023, partially offset by providing for current year loan growth, the slowing of prepayment speed assumptions in the current year, changes in model assumptions including the extension of the expected duration of the portfolio and a specific reserve related to a commercial relationship previously placed in nonaccrual in the fourth quarter of 2023. Net charge-offs totaled $12.3 million during the nine months ended September 30, 2024, compared to net charge-offs of $11.5 million during the nine months ended September 30, 2023. Net charge-offs to average loans was 17 bps for the nine months ended September 30, 2024, compared to 18 bps for the nine months ended September 30, 2023.

As of September 30, 2024, the unfunded commitment reserve totaled $4.6 million, compared to $4.3 million as of June 30, 2024 and $4.8 million as of September 30, 2023.

Nonperforming assets consist of nonaccrual loans, loans over 90 days past due and still accruing, troubled loans modifications, OREO and nonperforming securities. Loans are generally placed on nonaccrual when principal or interest payments become 90 days past due, unless the loan is well secured and in the process of collection. Loans may also be placed on nonaccrual when circumstances indicate that the borrower may be unable to meet the contractual principal or interest payments. The threshold for evaluating classified commercial and commercial real estate loans risk graded substandard or doubtful, and nonperforming loans individually evaluated for credit loss is $1.0 million. OREO represents property acquired through foreclosure and is valued at the lower of the carrying amount or fair value, less any estimated disposal costs.

(Dollars in thousands)	September 30, 2024 Amount	September 30, 2024 %	December 31, 2023 Amount	December 31, 2023 %
Nonaccrual loans:				
Commercial	**$ 20,461**	**61%**	$ 21,567	63%
Residential	**9,944**	**30%**	9,632	28%
Consumer	**2,173**	**7%**	2,566	8%
Troubled loan modifications	**760**	**2%**	448	1%
Total nonaccrual loans	**$ 33,338**	**100%**	$ 34,213	100%
Loans over 90 days past due and still accruing:				
Commercial	**$ -**	**-**	$ 1	-
Residential	**1,024**	**26%**	554	15%
Consumer	**2,957**	**74%**	3,106	85%
Total loans over 90 days past due and still accruing	**$ 3,981**	**100%**	$ 3,661	100%
Total nonperforming loans	**$ 37,319**		$ 37,874	
OREO	**127**		-	
Total nonperforming assets	**$ 37,446**		$ 37,874	
Total nonaccrual loans to total loans	**0.34%**		0.35%	
Total nonperforming loans to total loans	**0.38%**		0.39%	
Total nonperforming assets to total assets	**0.27%**		0.28%	
Total allowance for loan losses to total nonperforming loans	**320.21%**		302.05%	
Total allowance for loan losses to nonaccrual loans	**358.45%**		334.38%	

Total nonperforming assets were $37.4 million at September 30, 2024, compared to $37.9 million at December 31, 2023 and $24.3 million at September 30, 2023. Nonperforming loans at September 30, 2024 were $37.3 million or 0.38% of total loans, compared with $37.9 million or 0.39% of total loans at December 31, 2023 and $24.3 million or 0.25% of total loans at September 30, 2023. The increase in nonperforming assets from the same period in the prior year was attributable to a diversified, multi-tenant commercial real estate development relationship that was placed into a nonaccrual status in the fourth quarter of 2023, in which NBT is a participant. The relationship is being actively managed, as noted above, a $1.7 million specific reserve was established during the three months ended June 30, 2024 for this relationship. Total nonaccrual loans were $33.3 million or 0.34% of total loans at September 30, 2024, compared to $34.2 million or 0.35% of total loans at December 31, 2023 and $20.7 million or 0.21% of total loans at September 30, 2023. Past due loans as a percentage of total loans was 0.36% at September 30, 2024, up from 0.32% at December 31, 2023 and down from 0.49% at September 30, 2023.

In addition to nonperforming loans discussed above, the Company has also identified approximately $119.9 million in potential problem loans at September 30, 2024 as compared to $87.7 million at December 31, 2023 and $92.4 million at September 30, 2023. Potential problem loans are loans that are currently performing, with a possibility of loss if weaknesses are not corrected. Such loans may need to be disclosed as nonperforming at some time in the future. Potential problem loans are classified by the Company’s loan rating system as “substandard.” Potential problem loans have increased to more normalized levels and the increase primarily relates to a few commercial real estate relationships reflecting changing conditions in commercial real estate markets including construction delays, rising costs and delays in leasing up spaces. The increase in potential problem loans at September 30, 2024 compared to December 31, 2023 and September 30, 2023 is primarily due to the net migration of commercial loan balances of $32.9 million and $27.2 million, respectively, to substandard, the majority of which is adequately secured by real estate collateral. Management cannot predict the extent to which economic conditions may worsen or other factors, which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become over 90 days past due, be placed on nonaccrual, become troubled loans modifications or require increased allowance coverage and provision for loan losses. To mitigate this risk the Company maintains a diversified loan portfolio, has no significant concentration in any particular industry and originates loans primarily within its footprint.

Deposits

Total deposits were $11.59 billion at September 30, 2024, up $619.3 million, or 5.6%, from December 31, 2023. As of September 30, 2024, there were $250.0 million of brokered time deposits, up from $155.2 million as of December 31, 2023. The increase in deposits was primarily due to higher consumer deposit balances and accounts and the inflow of seasonal municipal deposits. The Company continues to experience some incremental migration from noninterest bearing and low interest checking and savings accounts into higher cost money market and time deposit instruments. The Company’s composition of total deposits is diverse and granular with over 563,000 accounts with an average per account balance of $20,560 as of September 30, 2024. As of September 30, 2024 and December 31, 2023 the estimated amounts of uninsured deposits based on the methodologies and assumptions used for the bank regulatory reporting were $4.81 billion and $4.08 billion, respectively. Total average deposits increased $1.39 billion, or 14.1%, from the same period last year. The increase in average balances was primarily due to the $1.31 billion in deposits acquired from Salisbury in the third quarter of 2023.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $205.0 million at September 30, 2024 compared to $386.7 million at December 31, 2023. Long-term debt was $29.7 million at September 30, 2024 compared to $29.8 million at December 31, 2023.

For more information about the Company's borrowing capacity and liquidity position, see "Liquidity Risk" below.

Subordinated Debt

On June 23, 2020, the Company issued $100.0 million of 5.00% fixed-to-floating rate subordinated notes due 2030. The subordinated notes, which qualify as Tier 2 capital, bear interest at an annual rate of 5.00%, payable semi-annually in arrears commencing on January 1, 2021, and a floating rate of interest equivalent to the three-month SOFR plus a spread of 4.85%, payable quarterly in arrears commencing on October 1, 2025. The subordinated debt issuance cost of $2.2 million is being amortized on a straight-line basis into interest expense over five years. The Company repurchased $2.0 million of the subordinated notes in 2022 at a discount of $0.1 million.

Subordinated notes assumed in connection with the Salisbury acquisition included $25.0 million of 3.50% fixed-to-floating rate subordinated notes due 2031. The subordinated notes, which qualify as Tier 2 capital, bear interest at an annual rate of 3.50%, payable quarterly in arrears commencing on June 30, 2021, and a floating rate of interest equivalent to the three-month SOFR plus a spread of 2.80%, payable quarterly in arrears commencing on June 30, 2026. As of the acquisition date, the fair value discount was $3.0 million, which will be amortized into interest expense over the expected call or maturity date.

As of September 30, 2024 and December 31, 2023 the subordinated debt net of unamortized issuance costs and fair value discount was $120.8 million and $119.7 million, respectively.

Capital Resources

Stockholders' equity of $1.52 billion represented 11.00% of total assets at September 30, 2024 compared with $1.43 billion, or 10.71% of total assets, as of December 31, 2023. Stockholders' equity increased $96.3 million from December 31, 2023 driven by net income generation of $104.6 million for the nine months ended September 30, 2024 and a decrease of $35.2 million in accumulated other comprehensive loss due primarily to the change in the fair value of securities available for sale, partially offset by dividends declared of $46.2 million.

The Company did not purchase shares of its common stock during the three months ended September 30, 2024. The Company purchased 7,600 shares of its common stock in the first and second quarters of 2024 at an average price of $33.02 per share under its previously announced share repurchase program. The Company may repurchase shares of its common stock from time to time to mitigate the potential dilutive effects of stock-based incentive plans and other potential uses of common stock for corporate purposes. As of September 30, 2024, there were 1,992,400 shares available for repurchase under this plan authorized on December 18, 2023, which is set to expire on December 31, 2025.

As the capital ratios in the following table indicate, the Company remained "well capitalized" at September 30, 2024 under applicable bank regulatory requirements. Capital measurements are well in excess of regulatory minimum guidelines and meet the requirements to be considered well capitalized for all periods presented. To be considered well capitalized, tier 1 leverage, common equity tier 1 capital, tier 1 capital and total risk-based capital ratios must be 5%, 6.5%, 8% and 10%, respectively.

Capital Measurements	**September 30, 2024**	**December 31, 2023**
Tier 1 leverage ratio	**10.29%**	9.71%
Common equity tier 1 capital ratio	**11.86%**	11.57%
Tier 1 capital ratio	**12.77%**	12.50%
Total risk-based capital ratio	**15.02%**	14.75%
Cash dividends as a percentage of net income	**44.17%**	47.05%
Per common share:		
Book value	**$ 32.26**	$ 30.26
Tangible book value(1)	**$ 23.83**	$ 21.72
Tangible equity ratio(2)	**8.36%**	7.93%

(1) Stockholders' equity less goodwill and intangible assets divided by common shares outstanding.
(2) Non-GAAP measure - Stockholders' equity less goodwill and intangible assets divided by total assets less goodwill and intangible assets.

In March 2020, the OCC, the Board of Governors of the Federal Reserve System and the FDIC announced an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. Under the modified CECL transition provision, the regulatory capital impact of the January 1, 2020 CECL adoption date adjustment to the allowance for credit losses (after-tax) has been deferred and will phase into regulatory capital at 25% per year commencing January 1, 2022. For the ongoing impact of CECL, the Company was allowed to defer the regulatory capital impact of the allowance for credit losses in an amount equal to 25% of the change in the allowance for credit losses (pre-tax) recognized through earnings for each period between January 1, 2020 and December 31, 2021. The cumulative adjustment to the allowance for credit losses between January 1, 2020 and December 31, 2021, will also phase into regulatory capital at 25% per year commencing January 1, 2022. The Company adopted the capital transition relief over the permissible five-year period.

Liquidity and Interest Rate Sensitivity Management

Market Risk

Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company’s business activities or are immaterial to the results of operations.

Interest rate risk is defined as an exposure to a movement in interest rates that could have an adverse effect on the Company’s net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than earning assets. When interest-bearing liabilities mature or reprice more quickly than earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

To manage the Company’s exposure to changes in interest rates, management monitors the Company’s interest rate risk. Management’s Asset Liability Committee (“ALCO”) meets monthly to review the Company’s interest rate risk position and profitability and to recommend strategies for consideration by the Board of Directors (the “Board”). Management also reviews loan and deposit pricing and the Company’s securities portfolio, formulates investment and funding strategies and oversees the timing and implementation of transactions to assure attainment of the Board’s objectives in the most effective manner. Notwithstanding the Company’s interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

In managing the Company’s asset/liability position, the Board and management aim to manage the Company’s interest rate risk while minimizing net interest margin compression. At times, depending on the level of general interest rates, the relationship between long and short-term interest rates, market conditions and competitive factors, the Board and management may determine to increase the Company’s interest rate risk position somewhat in order to increase its net interest margin. The Company’s results of operations and net portfolio values remain vulnerable to changes in interest rates and fluctuations in the difference between long and short-term interest rates.

The primary tool utilized by the ALCO to manage interest rate risk is earnings at risk modeling (interest rate sensitivity analysis). Information, such as principal balance, interest rate, maturity date, cash flows, next repricing date (if needed) and current rates are uploaded into the model to create an ending balance sheet. In addition, the ALCO makes certain assumptions regarding prepayment speeds for loans and mortgage related investment securities along with any optionality within the deposits and borrowings. The model is first run under an assumption of a flat rate scenario (i.e. no change in current interest rates) with a static balance sheet. Four additional models are run in which a gradual increase of 200 bps, a gradual increase of 100 bps, a gradual decrease of 100 bps and a gradual decrease of 200 bps takes place over a 12-month period with a static balance sheet. Under these scenarios, assets subject to prepayments are adjusted to account for faster or slower prepayment assumptions. Any investment securities or borrowings that have callable options embedded in them are handled accordingly based on the interest rate scenario. The resulting changes in net interest income are then measured against the flat rate scenario. The Company also runs other interest rate scenarios to highlight potential interest rate risk.

The Company’s Interest Rate Sensitivity has remained in a near neutral position. In the declining rate scenario, net interest income is projected to modestly decrease when compared to the forecasted net interest income in the flat rate scenario through the simulation period. The decrease in net interest income is a result of earning assets repricing and rolling over at lower yields at a faster pace than interest-bearing liabilities decline and/or reach their floors. In the rising rate scenarios, net interest income is near neutral, impacted by slowing prepayments speeds and increased deposit reactivity; the magnitude of potential impact on earnings may be affected by the ability to lag deposit repricing on NOW, savings, money market deposit accounts and time accounts. Net interest income for the next twelve months in the +200/+100/-100/-200 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% reduction in net interest income. The following table summarizes the percentage change in net interest income in the rising and declining rate scenarios over a 12-month period from the forecasted net interest income in the flat rate scenario using the September 30, 2024 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates *(in bps)*	Percent change in net interest income
+200	0.05%
+100	0.35%
-100	(0.41)%
-200	(0.44%)

The Company anticipates that the trajectory of net interest income will continue to depend significantly on the timing and path of short to mid-term interest rates which are heavily driven by inflationary pressures and FOMC monetary policy. In response to the economic impact of the pandemic, the federal funds rate was reduced to near zero in March 2020, term interest rates fell sharply across the yield curve and the Company reduced deposit rates. Post-pandemic, inflationary pressures have resulted in a higher overall yield curve with Federal Funds increases of 425 bps in 2022 with an additional 100 bps of increases in 2023. However, the tightening cycle ended in September of 2024 with the Federal Reserve lowering the federal funds rate by 50 bps. While deposit rates increased meaningfully in 2023 and have continued to increase in early 2024 in conjunction with elevated short-term interest rates, the recent federal funds rate reduction has provided the catalyst for the Company to begin reducing deposit rates. The Company continues to focus on managing deposit expense in an environment of still elevated but declining short-term interest rates while allowing assets to reprice upward in relation to existing portfolio asset yields.

Liquidity Risk

Liquidity risk arises from the possibility that the Company may not be able to satisfy current or future financial commitments or may become unduly reliant on alternate funding sources. The objective of liquidity management is to ensure the Company can fund balance sheet growth, meet the cash flow requirements of depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. ALCO is responsible for liquidity management and has developed guidelines, which cover all assets and liabilities, as well as off-balance sheet items that are potential sources or uses of liquidity. Liquidity policies must also provide the flexibility to implement appropriate strategies, along with regular monitoring of liquidity and testing of the contingent liquidity plan. Requirements change as loans grow, deposits and securities mature and payments on borrowings are made. Liquidity management includes a focus on interest rate sensitivity management with a goal of avoiding widely fluctuating net interest margins through periods of changing economic conditions. Loan repayments and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, the housing market, general and local economic conditions, and competition in the marketplace. Management continually monitors marketplace trends to identify patterns that might improve the predictability of the timing of deposit flows or asset prepayments.

The primary liquidity measurement the Company utilizes is called “Basic Surplus,” which captures the adequacy of its access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short and long-term securities with the availability of dependable borrowing sources, which can be accessed when necessary. At September 30, 2024, the Company’s Basic Surplus measurement was 16.4% of total assets, or $2.26 billion, as compared to the December 31, 2023 Basic Surplus of 11.6%, or $1.54 billion, and was above the Company’s minimum of 5% (calculated at $692.0 million and $665.5 million of period end total assets as September 30, 2024 and December 31, 2023, respectively) set forth in its liquidity policies.

At September 30, 2024 and December 31, 2023, FHLB advances outstanding totaled $129.6 million and $322.7 million, respectively. At September 30, 2024 and December 31, 2023, the Bank had $194.0 million and $77.0 million, respectively, of collateral encumbered by municipal letters of credit. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $1.63 billion at September 30, 2024 and $1.11 billion at December 31, 2023. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $807.7 million and $823.3 million at September 30, 2024 and December 31, 2023, respectively, or used to collateralize other borrowings, such as repurchase agreements. The Company also has the ability to issue brokered time deposits and to borrow against established borrowing facilities with other banks (federal funds), which could provide additional liquidity of $2.06 billion at September 30, 2024 and $2.01 billion at December 31, 2023. In addition, the Bank has a "Borrower-in-Custody" program with the FRB with the addition of the ability to pledge automobile and residential solar loans as collateral. At September 30, 2024 and December 31, 2023, the Bank had the capacity to borrow $1.12 billion and $1.02 billion, respectively, from this program. The Company's internal policy authorizes borrowing up to 25% of assets. Under this policy, remaining available borrowing capacity totaled $3.41 billion at September 30, 2024 and $2.99 billion at December 31, 2023.

This Basic Surplus approach enables the Company to appropriately manage liquidity from both operational and contingency perspectives. By tempering the need for cash flow liquidity with reliable borrowing facilities, the Company is able to operate with a more fully invested and, therefore, higher interest income generating securities portfolio. The makeup and term structure of the securities portfolio is, in part, impacted by the overall interest rate sensitivity of the balance sheet. Investment decisions and deposit pricing strategies are impacted by the liquidity position. The Company considers its Basic Surplus position to be strong. However, certain events may adversely impact the Company's liquidity position in 2024. While short-term interest rates have declined, they remain elevated related to recent history, which could result in deposit declines as depositors have alternative opportunities for yield on their excess funds. In the current economic environment, draws against lines of credit could drive asset growth higher. Disruptions in wholesale funding markets could spark increased competition for deposits. These scenarios could lead to a decrease in the Company's Basic Surplus measure below the minimum policy level of 5%. Note, enhanced liquidity monitoring was put in place to quickly respond to the changing environment during the pandemic including increasing the frequency of monitoring and adding additional sources of liquidity. While the pandemic has come to an end, this enhanced monitoring continues as elevated interest rates and the recent bank failures have led to a deposit decline in the banking system and increased volatility to liquidity risk.

At September 30, 2024, a portion of the Company's loans and securities were pledged as collateral on borrowings. Therefore, once on-balance sheet liquidity is reduced, future growth of earning assets will depend upon the Company's ability to obtain additional funding, through growth of core deposits and collateral management and may require further use of brokered time deposits or other higher cost borrowing arrangements.

The Company's primary source of funds is dividends from its subsidiaries. Various laws and regulations restrict the ability of banks to pay dividends to their stockholders. Generally, the payment of dividends by the Company in the future as well as the payment of interest on the capital securities will require the generation of sufficient future earnings by its subsidiaries.

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends. The approval of the OCC is required to pay dividends when a bank fails to meet certain minimum regulatory capital standards or when such dividends are in excess of a subsidiary bank's earnings retained in the current year plus retained net profits for the preceding two years as specified in applicable OCC regulations. At September 30, 2024, approximately $95.8 million of the total stockholders' equity of the Bank was available for payment of dividends to the Company without approval by the OCC. The Bank's ability to pay dividends is also subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements. Under the State of Delaware General Corporation Law, the Company may declare and pay dividends either out of accumulated net retained earnings or capital surplus.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information called for by Item 3 is contained in the Liquidity and Interest Rate Sensitivity Management section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2024, the Company's disclosure controls and procedures were effective.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

ITEM 1A. RISK FACTORS

Except as set for below, there are no material changes to the risk factors as previously discussed in Part I, Item 1A. of our 2023 Annual Report on Form 10-K.

Risks Related to the Merger

The Merger is subject to a number of conditions, including the receipt of waivers and/or approvals from governmental authorities, that may delay the Merger or adversely impact the Company's and Evans's ability to complete the Merger.

The completion of the Merger is subject to the satisfaction or waiver of a number of conditions. Before the Merger may be completed, certain approvals, waivers or consents must be obtained from federal governmental authorities, including the Federal Reserve Bank of New York and the OCC. Satisfying the requirements of these governmental authorities may delay the date of completion of the Merger. In addition, these governmental authorities may include conditions on the completion of the Merger or require changes to the terms of the Merger. While it is currently anticipated that the Merger will be completed promptly following the receipt of all required regulatory and shareholder approvals, there can be no assurance that the conditions to closing will be satisfied in a timely manner or at all, or that an effect, event, development or change will not transpire that could delay or prevent these conditions from being satisfied or impose additional costs on or limit the revenues of the Company following the Merger, any of which might have a material adverse effect on the Company following the Merger. The parties are not obligated to complete the Merger should any regulatory approval contain a condition, restriction or requirement that our Board of Directors reasonably determines in good faith would, individually or in the aggregate, materially reduce the benefits of the Merger to such a degree that the Company would not have entered into the Merger Agreement had such condition, restriction or requirement been known at the date of the Merger Agreement.

The Company and Evans cannot provide any assurances with respect to the timing of the closing of the Merger, whether the Merger will be completed at all or when Evans shareholders would receive the consideration for the Merger, if at all.

The market price of the Company’s common stock may decline as a result of the Merger and the market price of the Company’s common stock after the consummation of the Merger may be affected by factors different from those affecting the price of the Company’s common stock before the Merger.

The market price of the Company’s common stock may decline as a result of the Merger if the Company does not achieve the perceived benefits of the Merger or the effect of the Merger on the Company’s financial results is not consistent with the expectations of financial or industry analysts.

In addition, the consummation of the Merger will result in the combination of two companies that currently operate as independent companies. The business of the Company and the business of Evans differ. As a result, while the Company expects to benefit from certain synergies following the Merger, the Company may also encounter new risks and liabilities associated with these differences. Following the Merger, shareholders of the Company and Evans will own interests in a combined company operating an expanded business and may not wish to continue to invest in the Company, or for other reasons may wish to dispose of some or all of the Company’s common stock. If, following the effective time of the Merger, large amounts of the Company’s common stock are sold, the price of the Company’s common stock could decline.

Further, the results of operations of the Company and the market price of the Company’s common stock after the Merger may be affected by factors different from those currently affecting the independent results of operations of each of the Company and Evans and the market price of the Company’s common stock. Accordingly, the Company’s historical market prices and financial results may not be indicative of these matters for the Company after the Merger.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Company and Evans can mutually agree to terminate the Merger Agreement at any time before the Merger has been completed, and either company can terminate the Merger Agreement if:

- any regulatory approval required for consummation of the Merger and the other transactions contemplated by the Merger Agreement has been denied by final, nonappealable action of any regulatory authority, or an application for regulatory approval has been permanently withdrawn at the request of a governmental authority;
- the required approval of the Merger Agreement by the Evans shareholders is not obtained;
- the other party materially breaches any of its representations, warranties, covenants or other agreements set forth in the Merger Agreement (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement), which breach is not cured within 30 days of written notice of the breach, or by its nature cannot be cured prior to the closing of the Merger, and such breach would entitle the non-breaching party not to consummate the Merger; or
- the Merger is not consummated by September 15, 2025, unless the failure to consummate the Merger by such date is due to a material breach of the Merger Agreement by the terminating party.

In addition, the Company may terminate the Merger Agreement if:

- Evans materially breaches the non-solicitation provisions in the Merger Agreement; or
- the Evans Board of Directors:
  - fails to recommend approval of the Merger Agreement, or withdraws, modifies or changes such recommendation in a manner adverse to the Company’s interests;
  - recommends, proposes or publicly announces its intention to recommend or propose to engage in an acquisition transaction with any person other than the Company or any of its subsidiaries; or
  - Evans fails to call, give notice of, convene and hold its special meeting.

Failure to complete the merger could negatively impact the stock price of the Company and its future business and financial results.

Completion of the Merger is subject to the satisfaction or waiver of a number of conditions, including approval by Evans shareholders of the Merger. The Company cannot guarantee when or if these conditions will be satisfied or that the Merger will be successfully completed. The consummation of the Merger may be delayed, the Merger may be consummated on terms different than those contemplated by the Merger Agreement, or the Merger may not be consummated at all. If the Merger is not completed, the ongoing business of the Company may be adversely affected, and the Company will be subject to several risks, including the following:

- the Company could incur substantial costs relating to the proposed Merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and

- the Company's management's and employees' attention may be diverted from their day-to-day business and operational matters as a result of efforts relating to the attempt to consummate the Merger.

In addition, if the Merger is not completed, the Company may experience negative reactions from the financial markets and from its customers and employees. The Company also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against the Company to perform its obligations under the Merger Agreement. If the Merger is not completed, the Company cannot assure its stockholders that the risks described above will not materialize and will not materially affect the Company's business and financial results or the stock price of the Company.

The integration of the Company and Evans will present significant challenges and expenses that may result in the combined business not operating as effectively as expected, or in the failure to achieve some or all of the anticipated benefits of the transaction.

The benefits and synergies expected to result from the proposed Merger will depend in part on whether the operations of Evans can be integrated in a timely and efficient manner with those of the Company. The Company will face challenges and costs in consolidating its functions with those of Evans, and integrating the organizations, procedures and operations of the two businesses. The integration of the Company and Evans will be complex and time-consuming, and the management of both companies will have to dedicate substantial time and resources to it. These efforts could divert management's focus and resources from serving existing customers or other strategic opportunities and from day-to-day operational matters during the integration process. Failure to successfully integrate the operations of the Company and Evans could result in the failure to achieve some of the anticipated benefits from the transaction, including cost savings and other operating efficiencies, and the Company may not be able to capitalize on the existing relationships of Evans to the extent anticipated, or it may take longer, or be more difficult or expensive than expected to achieve these goals. This could have an adverse effect on the business, results of operations, financial condition or prospects of the Company and/or the Bank after the transaction.

Unanticipated costs relating to the merger could reduce the Company's future earnings per share.

The Company BT has incurred substantial legal, accounting, financial advisory and other Merger-related costs, and management has devoted considerable time and effort in connection with the Merger. If the Merger is not completed, the Company will bear certain fees and expenses associated with the Merger without realizing the benefits of the Merger. If the Merger is completed, the Company expects to incur substantial expenses in connection with integrating the business, operations, network, systems, technologies, policies and procedures of the two companies. The fees and expenses may be significant and could have an adverse impact on the Company's results of operations.

The Company believes that it has reasonably estimated the likely costs of integrating the operations of the Company and Evans, and the incremental costs of operating as a combined company. However, it is possible that unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, could have a material adverse effect on the results of operations and financial condition of the combined company. If unexpected costs are incurred, the Merger could have a dilutive effect on the Company's earnings per share. In other words, if the Merger is completed, the earnings per share of the Company's common stock could be less than anticipated or even less than if the Merger had not been completed.

Estimates as to the future value of the combined company are inherently uncertain.

Any estimates as to the future value of the combined company, including estimates regarding the earnings per share of the combined company, are inherently uncertain. The future value of the combined company will depend upon, among other factors, the combined company's ability to achieve projected revenue and earnings expectations and to realize the anticipated synergies, all of which are subject to the risks and uncertainties described in these risk factors.

Following the Merger, the Company may not continue to pay dividends at or above the rate currently paid.

Following the Merger, the Company's stockholders may not receive dividends at the same rate that they did as stockholders of the Company prior to the Merger for various reasons, including the following:

- the Company may not have enough cash to pay such dividends due to changes in its cash requirements, capital spending plans, cash flow or financial position;
- decisions on whether, when and in what amounts to make any future dividends will remain at all times entirely at the discretion of the Board of Directors, which reserves the right to change the Company's dividend practices at any time and for any reason; and
- the amount of dividends that the Company's subsidiaries may distribute to the Company may be subject to restrictions imposed by state law and restrictions imposed by the terms of any current or future indebtedness that these subsidiaries may incur.

The Company's stockholders will have no contractual or other legal right to dividends that have not been declared by the Board of Directors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

During the three months ended September 30, 2024, there were no Rule 10b5-1 plans or non-Rule 10b5-1 trading arrangements adopted, modified or terminated by any director or officer of the Company.

ITEM 6. EXHIBITS

2.1	Agreement and Plan of Merger, dated as of September 9, 2024, by and among NBT Bancorp Inc., NBT Bank, National Association, Evans Bancorp, Inc. and Evans Bank, National Association (filed as Exhibit 2.1 to Registrant’s Form 8-K, filed on September 9, 2024, and incorporated herein by reference).
3.1	Restated Certificate of Incorporation of NBT Bancorp Inc. as amended through July 1, 2015 (filed as Exhibit 3.1 to Registrant’s Form 10-Q, filed on August 10, 2015 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of NBT Bancorp Inc. effective May 22, 2018 (filed as Exhibit 3.1 to Registrant’s Form 8-K, filed on May 23, 2018 and incorporated herein by reference).
3.3	Certificate of Designation of the Series A Junior Participating Preferred Stock (filed as Exhibit A to Exhibit 4.1 of the Registrant’s Form 8-K, filed on November 18, 2004 and incorporated herein by reference).
31.1	Certification by the Chief Executive Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rules 13(a)-14(a)/15(d)-14(e) of the Securities and Exchange Act of 1934.
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this 8th day of November 2024.

NBT BANCORP INC.

By: /s/ Annette L. Burns
Annette L. Burns
Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott A. Kingsley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NBT Bancorp Inc.

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(s) 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 purposes 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control 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 8, 2024

By: /s/ Scott A. Kingsley
Scott A. Kingsley
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Annette L. Burns, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NBT Bancorp Inc.

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(s) 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 purposes 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control 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 8, 2024

By: /s/ Annette L. Burns
Annette L. Burns
Chief Financial Officer

EXHIBIT 32.1

Written Statement of the Chief Executive Officer Pursuant to Section 906 of the SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer of NBT Bancorp Inc. (the “Company”), hereby certifies that to his knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended September 30, 2024, filed on the date hereof with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Scott A. Kingsley

Scott A. Kingsley
Chief Executive Officer
November 8, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NBT Bancorp Inc. and will be retained by NBT Bancorp Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Written Statement of the Chief Financial Officer Pursuant to Section 906 of the SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of NBT Bancorp Inc. (the “Company”), hereby certifies that to her knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended September 30, 2024, filed on the date hereof with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Annette L. Burns

Annette L. Burns
Chief Financial Officer
November 8, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NBT Bancorp Inc. and will be retained by NBT Bancorp Inc. and furnished to the Securities and Exchange Commission or its staff upon request.