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, 2020.

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 of Incorporation)	(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 class	Trading Symbol(s)	Name of 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 (Section 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. (Check One):

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 30, 2020, there were 43,625,286 shares outstanding of the Registrant’s Common Stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q-Quarter Ended September 30, 2020

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	
Item 1	Financial Statements	
	Consolidated Balance Sheets at September 30, 2020 and December 31, 2019	3
	Consolidated Statements of Income for the three and nine month periods ended September 30, 2020 and 2019	4
	Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2020 and 2019	5
	Consolidated Statements of Stockholders' Equity for the three and nine month periods ended September 30, 2020 and 2019	6
	Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2020 and 2019	7
	Notes to Unaudited Interim Consolidated Financial Statements	9
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3	Quantitative and Qualitative Disclosures about Market Risk	56
Item 4	Controls and Procedures	56
PART II	**OTHER INFORMATION**	
Item 1	Legal Proceedings	57
Item 1A	Risk Factors	57
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3	Defaults Upon Senior Securities	58
Item 4	Mine Safety Disclosures	58
Item 5	Other Information	58
Item 6	Exhibits	59
SIGNATURES		60

Item 1 – FINANCIAL STATEMENTS

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

	September 30, 2020	December 31, 2019
(In thousands, except share and per share data)		
Assets		
Cash and due from banks	**$ 167,169**	$ 170,595
Short-term interest-bearing accounts	**450,291**	46,248
Equity securities, at fair value	**30,758**	27,771
Securities available for sale, at fair value	**1,197,925**	975,340
Securities held to maturity (fair value $684,862 and $641,262, respectively)	**663,088**	630,074
Federal Reserve and Federal Home Loan Bank stock	**28,484**	44,620
Loans held for sale	**1,823**	11,731
Loans	**7,560,643**	7,136,098
Less allowance for loan losses (1)	**114,500**	72,965
Net loans	**$ 7,446,143**	$ 7,063,133
Premises and equipment, net	**73,055**	75,631
Goodwill	**280,541**	274,769
Intangible assets, net	**12,557**	12,020
Bank owned life insurance	**185,227**	181,748
Other assets	**313,151**	202,245
Total assets	**$ 10,850,212**	$ 9,715,925
Liabilities		
Demand (noninterest bearing)	**$ 3,163,717**	$ 2,414,383
Savings, NOW and money market	**5,134,495**	4,312,244
Time	**659,971**	861,193
Total deposits	**$ 8,958,183**	$ 7,587,820
Short-term borrowings	**183,472**	655,275
Long-term debt	**64,126**	64,211
Subordinated debt, net	**97,943**	-
Junior subordinated debt	**101,196**	101,196
Other liabilities	**279,181**	187,026
Total liabilities	**$ 9,684,101**	$ 8,595,528
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at September 30, 2020 and December 31, 2019	**$ -**	$ -
Common stock, $0.01 par value. Authorized 100,000,000 shares at September 30, 2020 and December 31, 2019; issued 49,651,493 at September 30, 2020 and December 31, 2019	**497**	497
Additional paid-in-capital	**577,737**	576,708
Retained earnings	**726,650**	696,214
Accumulated other comprehensive income (loss)	**2,021**	(19,026)
Common stock in treasury, at cost, 6,040,113 and 5,854,882 shares at September 30, 2020 and December 31, 2019, respectively	**(140,794)**	(133,996)
Total stockholders' equity	**$ 1,166,111**	$ 1,120,397
Total liabilities and stockholders' equity	**$ 10,850,212**	$ 9,715,925

(1) Beginning January 1, 2020, calculation is based on current expected loss methodology. Prior to January 1, 2020, calculation was based on incurred loss methodology.

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
(In thousands, except per share data)				
Interest, fee and dividend income				
Interest and fees on loans	**$ 74,998**	$ 81,082	**$ 230,996**	$ 241,674
Securities available for sale	**5,603**	5,711	**16,956**	17,664
Securities held to maturity	**3,734**	4,586	**11,751**	14,892
Other	**659**	1,002	**2,138**	2,728
Total interest, fee and dividend income	**$ 84,994**	$ 92,381	**$ 261,841**	$ 276,958
Interest expense				
Deposits	**$ 4,267**	$ 10,745	**$ 18,183**	$ 29,805
Short-term borrowings	**446**	1,989	**3,215**	7,986
Long-term debt	**398**	498	**1,184**	1,391
Subordinated debt	**1,375**	-	**1,503**	-
Junior subordinated debt	**565**	1,095	**2,186**	3,404
Total interest expense	**$ 7,051**	$ 14,327	**$ 26,271**	$ 42,586
Net interest income	**$ 77,943**	$ 78,054	**$ 235,570**	$ 234,372
Provision for loan losses (1)	**3,261**	6,324	**51,741**	19,408
Net interest income after provision for loan losses	**$ 74,682**	$ 71,730	**$ 183,829**	$ 214,964
Noninterest income				
Service charges on deposit accounts	**$ 3,087**	$ 4,330	**$ 9,613**	$ 12,790
ATM and debit card fees	**7,194**	6,277	**19,184**	17,958
Retirement plan administration fees	**9,685**	7,600	**26,840**	23,170
Wealth management	**7,695**	7,630	**21,791**	21,315
Insurance	**3,742**	4,000	**11,303**	12,291
Bank owned life insurance income	**1,255**	1,556	**4,010**	4,119
Net securities gains (losses)	**84**	4,036	**(548)**	4,024
Other	**4,985**	4,291	**15,968**	12,115
Total noninterest income	**$ 37,727**	$ 39,720	**$ 108,161**	$ 107,782
Noninterest expense				
Salaries and employee benefits	**$ 40,451**	$ 39,352	**$ 120,918**	$ 117,275
Occupancy	**5,294**	5,335	**16,354**	17,053
Data processing and communications	**4,058**	4,492	**12,370**	13,599
Professional fees and outside services	**3,394**	3,535	**10,694**	10,562
Equipment	**5,073**	4,487	**14,494**	13,762
Office supplies and postage	**1,530**	1,667	**4,621**	4,835
FDIC expense (credit)	**645**	(20)	**1,949**	1,946
Advertising	**530**	677	**1,461**	1,821
Amortization of intangible assets	**856**	874	**2,573**	2,735
Loan collection and other real estate owned, net	**620**	976	**2,365**	2,722
Other	**3,857**	8,374	**14,730**	18,130
Total noninterest expense	**$ 66,308**	$ 69,749	**$ 202,529**	$ 204,440
Income before income tax expense	**$ 46,101**	$ 41,701	**$ 89,461**	$ 118,306
Income tax expense	**10,988**	9,322	**19,267**	26,245
Net income	**$ 35,113**	$ 32,379	**$ 70,194**	$ 92,061
Earnings per share				
Basic	**$ 0.80**	$ 0.74	**$ 1.61**	$ 2.10
Diluted	**$ 0.80**	$ 0.73	**$ 1.60**	$ 2.09

(1) Beginning January 1, 2020, calculation is based on current expected loss methodology. Prior to January 1, 2020, calculation was based on incurred loss methodology.

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
(In thousands)				
Net income	**$ 35,113**	$ 32,379	**$ 70,194**	$ 92,061
Other comprehensive income (loss), net of tax:				
Securities available for sale:				
Unrealized net holding (losses) gains arising during the period, gross	**$ (1,263)**	$ 2,360	**$ 26,509**	$ 26,787
Tax effect	**316**	(590)	**(6,627)**	(6,697)
Unrealized net holding (losses) gains arising during the period, net	**$ (947)**	$ 1,770	**$ 19,882**	$ 20,090
Reclassification adjustment for net (gains) losses in net income, gross	**$ -**	$ (20)	**$ (3)**	$ 79
Tax effect	**-**	5	**1**	(20)
Reclassification adjustment for net (gains) losses in net income, net	**$ -**	$ (15)	**$ (2)**	$ 59
Amortization of unrealized net gains for the reclassification of available for sale securities to held to maturity, gross	**$ 157**	$ 190	**$ 495**	$ 556
Tax effect	**(39)**	(47)	**(124)**	(139)
Amortization of unrealized net gains for the reclassification of available for sale securities to held to maturity, net	**$ 118**	$ 143	**$ 371**	$ 417
Total securities available for sale, net	**$ (829)**	$ 1,898	**$ 20,251**	$ 20,566
Cash flow hedges:				
Unrealized gains (losses) on derivatives (cash flow hedges), gross	**$ -**	$ 9	**$ (274)**	$ (475)
Tax effect	**-**	(2)	**69**	119
Unrealized gains (losses) on derivatives (cash flow hedges), net	**$ -**	$ 7	**$ (205)**	$ (356)
Reclassification of net unrealized losses (gains) on cash flow hedges to interest (income), gross	**$ 101**	$ (395)	**$ 192**	$ (1,932)
Tax effect	**(25)**	98	**(48)**	483
Reclassification of net unrealized losses (gains) on cash flow hedges to interest (income), net	**$ 76**	$ (297)	**$ 144**	$ (1,449)
Total cash flow hedges, net	**$ 76**	$ (290)	**$ (61)**	$ (1,805)
Pension and other benefits:				
Amortization of prior service cost and actuarial losses, gross	**$ 381**	$ 672	**$ 1,143**	$ 1,985
Tax effect	**(95)**	(168)	**(286)**	(496)
Amortization of prior service cost and actuarial losses, net	**$ 286**	$ 504	**$ 857**	$ 1,489
Total pension and other benefits, net	**$ 286**	$ 504	**$ 857**	$ 1,489
Total other comprehensive income	**$ (467)**	$ 2,112	**$ 21,047**	$ 20,250
Comprehensive income	**$ 34,646**	$ 34,491	**$ 91,241**	$ 112,311

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Consolidated Statements of 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, 2020	**$ 497**	**$ 577,197**	**$ 703,322**	**$ 2,488**	**$ (140,852)**	**$ 1,142,652**
Net income	-	-	35,113	-	-	35,113
Cash dividends - $0.27 per share	-	-	(11,785)	-	-	(11,785)
Net issuance of 3,030 shares to employee and other stock plans	-	(108)	-	-	58	(50)
Stock-based compensation	-	648	-	-	-	648
Other comprehensive (loss)	-	-	-	(467)	-	(467)
Balance at September 30, 2020	**$ 497**	**$ 577,737**	**$ 726,650**	**$ 2,021**	**$ (140,794)**	**$ 1,166,111**
Balance at June 30, 2019	**$ 497**	**$ 575,794**	**$ 658,107**	**$ (25,036)**	**$ (134,539)**	**$ 1,074,823**
Net income	-	-	32,379	-	-	32,379
Cash dividends - $0.26 per share	-	-	(11,396)	-	-	(11,396)
Net issuance of 17,234 shares to employee and other stock plans	-	(104)	-	-	331	227
Stock-based compensation	-	456	-	-	-	456
Other comprehensive income	-	-	-	2,112	-	2,112
Balance at September 30, 2019	**$ 497**	**$ 576,146**	**$ 679,090**	**$ (22,924)**	**$ (134,208)**	**$ 1,098,601**

(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, 2019	**$ 497**	**$ 576,708**	**$ 696,214**	**$ (19,026)**	**$ (133,996)**	**$ 1,120,397**
Net income	-	-	70,194	-	-	70,194
Cumulative effect adjustment for ASU 2016-13 implementation	-	-	(4,339)	-	-	(4,339)
Cash dividends - $0.81 per share	-	-	(35,419)	-	-	(35,419)
Purchase of 263,507 treasury shares	-	-	-	-	(7,980)	(7,980)
Net issuance of 78,276 shares to employee and other stock plans	-	(2,928)	-	-	1,182	(1,746)
Stock-based compensation	-	3,957	-	-	-	3,957
Other comprehensive income	-	-	-	21,047	-	21,047
Balance at September 30, 2020	**$ 497**	**$ 577,737**	**$ 726,650**	**$ 2,021**	**$ (140,794)**	**$ 1,166,111**
Balance at December 31, 2018	**$ 497**	**$ 575,466**	**$ 621,203**	**$ (43,174)**	**$ (136,083)**	**$ 1,017,909**
Net income	-	-	92,061	-	-	92,061
Cash dividends - $0.78 per share	-	-	(34,174)	-	-	(34,174)
Net issuance of 113,679 shares to employee and other stock plans	-	(2,916)	-	-	1,875	(1,041)
Stock-based compensation	-	3,596	-	-	-	3,596
Other comprehensive income	-	-	-	20,250	-	20,250
Balance at September 30, 2019	**$ 497**	**$ 576,146**	**$ 679,090**	**$ (22,924)**	**$ (134,208)**	**$ 1,098,601**

See accompanying notes to unaudited interim consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
(In thousands)		
Operating activities		
Net income	$ **70,194**	$ 92,061
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	**51,741**	19,408
Depreciation and amortization of premises and equipment	**7,378**	7,106
Net amortization on securities	**2,812**	2,495
Amortization of intangible assets	**2,573**	2,735
Amortization of operating lease right-of-use assets	**5,549**	5,396
Excess tax benefit on stock-based compensation	**(188)**	(371)
Stock-based compensation expense	**3,957**	3,596
Bank owned life insurance income	**(4,010)**	(4,119)
Amortization of subordinated debt issuance costs	**121**	-
Proceeds from sale of loans held for sale	**153,732**	109,661
Originations of loans held for sale	**(144,105)**	(119,753)
Net gains on sale of loans held for sale	**(1,892)**	(475)
Net security losses (gains)	**548**	(4,024)
Net gains on sale of other real estate owned	**(243)**	(178)
Net change in other assets and other liabilities	**(40,760)**	(9,579)
Net cash provided by operating activities	$ **107,407**	$ 103,959
Investing activities		
Net cash used in acquisitions	$ **(3,899)**	$ -
Securities available for sale:		
Proceeds from maturities, calls and principal paydowns	**239,622**	226,070
Proceeds from sales	**-**	26,203
Purchases	**(437,827)**	(160,781)
Securities held to maturity:		
Proceeds from maturities, calls and principal paydowns	**181,143**	165,997
Proceeds from sales	**996**	-
Purchases	**(215,327)**	(61,150)
Equity securities:		
Proceeds from sales	**-**	3,966
Purchases	**-**	(93)
Other:		
Net increase in loans	**(436,630)**	(146,778)
Proceeds from Federal Home Loan Bank stock redemption	**58,799**	147,200
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	**(42,663)**	(131,461)
Proceeds from settlement of bank owned life insurance	**531**	1,085
Purchases of premises and equipment, net	**(4,512)**	(4,018)
Proceeds from sales of other real estate owned	**1,113**	1,129
Net cash (used in) provided by investing activities	$ **(658,654)**	$ 67,369
Financing activities		
Net increase in deposits	$ **1,370,363**	$ 374,955
Net decrease in short-term borrowings	**(471,803)**	(428,430)
Proceeds from issuance of subordinated debt	**100,000**	-
Payment of subordinated debt issuance costs	**(2,178)**	-
Proceeds from issuance of long-term debt	**-**	10,598
Repayments of long-term debt	**(85)**	(83)
Proceeds from the issuance of shares to employee and other stock plans	**184**	543
Cash paid by employer for tax-withholdings on stock issuance	**(1,218)**	(1,596)
Purchase of treasury stock	**(7,980)**	-
Cash dividends	**(35,419)**	(34,174)
Net cash provided by (used in) financing activities	$ **951,864**	$ (78,187)
Net increase in cash and cash equivalents	$ **400,617**	$ 93,141
Cash and cash equivalents at beginning of period	**216,843**	180,955
Cash and cash equivalents at end of period	$ **617,460**	$ 274,096

	Nine Months Ended September 30,			
	2020		2019	
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest expense	**$**	**26,373**	$	42,709
Income taxes paid, net of refund		**38,137**		19,945
Noncash investing activities:				
Loans transferred to other real estate owned	**$**	**1,017**	$	654
Acquisitions:				
Fair value of assets acquired	**$**	**3,328**	$	-

See accompanying notes to unaudited interim consolidated financial statements.

NBT Bancorp Inc. and Subsidiaries
Notes to Unaudited Interim Consolidated Financial Statements
September 30, 2020

1. Description of Business

NBT Bancorp Inc. (the “Company”) 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 the Company 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 Company’s principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial and NBT Holdings.

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 central and upstate New York, northeastern Pennsylvania, southern New Hampshire, western Massachusetts, Vermont, the southern coastal Maine area and now entering 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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of NBT Bancorp and its wholly-owned subsidiaries, the Bank, NBT Financial and NBT Holdings. Collectively, NBT Bancorp and its subsidiaries are referred to herein as (“the Company”). The interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods in accordance with generally accepted accounting principles in the United States of America (“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 2019 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 current period presentation. The Company has evaluated subsequent events for potential recognition and/or disclosure and there were none 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.

Allowance for Credit Losses – Loans

Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“CECL”) approach requires an estimate of the credit losses expected over the life of a loan (or pool of loans). It replaces the incurred loss approach’s threshold that required the recognition of a credit loss when it was probable a loss event was incurred. 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.

Management estimates the allowance balance 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. Peer selection was based on a review of institutions with comparable loss experience as well as loan yield, bank size, portfolio concentration and geography. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level or term as well as changes in environmental conditions, such as changes in unemployment rates, production metrics, property values, or other relevant factors. Significant management judgment is required at each point in the measurement process.

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 sub-segmented as needed to ensure loans of similar risk profiles are appropriately pooled.

The following table illustrates the portfolio and class segments for the Company's loan portfolio in 2020:

Portfolio Segment	Class
Commercial Loans	Commercial & Industrial Paycheck Protection Program Commercial Real Estate
Consumer Loans	Auto Other Consumer
Residential Loans	

Commercial Loans

The Company offers a variety of commercial loan products. The Company's underwriting analysis for commercial loans typically includes credit verification, independent appraisals, a review of the borrower's financial condition and a detailed analysis of the borrower's underlying cash flows.

Commercial and Industrial ("C&I") – The Company offers a variety of loan options to meet the specific needs of our C&I customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs and are typically collateralized by business assets such as equipment, accounts receivable and perishable agricultural products, which are exposed to industry price volatility. To reduce these risks, management also attempts to obtain personal guarantees of the owners or to obtain government loan guarantees to provide further support.

Paycheck Protection Program ("PPP") – Section 1102 of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") created the Paycheck Protection Program, a program administered by the Small Business Administration (the "SBA") to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. The Company has participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for six months of the loan. The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020, or as long as the appropriated funding was available. No collateral or personal guarantees are required. Neither the government nor lenders are permitted to charge the recipients any fees. The Company began accepting applications from qualified borrowers on April 3, 2020 and as of September 30, 2020 processed approximately 3,000 loans totaling over $548 million in relief.

Commercial Real Estate ("CRE") – The Company offers CRE loans to finance real estate purchases, refinancing's, expansions and improvements to commercial and agricultural properties. CRE loans are loans that are secured by liens on the real estate, which may include both owner-occupied and nonowner-occupied properties, such as apartments, commercial structures, health care facilities and other facilities. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition and a detailed analysis of the borrower's underlying cash flows. These loans are typically originated in amounts of no more than 80% of the appraised value of the property. Government loan guarantees may be obtained to provide further support for agricultural property.

Consumer Loans

The Company offers a variety of Consumer loan products including Auto and Other Consumer loans.

Auto – The Company provides both direct and indirect financing of automobiles ("Auto"). The Company maintains relationships with many dealers primarily in the communities that we serve. Through these relationships, the Company primarily finances the purchases of automobiles indirectly through dealer relationships. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to six years, based upon the nature of the collateral and the size of the loan.

Other Consumer – The Other Consumer loan segment consists primarily of specialty lending loans and direct consumer loans. The Company offers unsecured specialty lending consumer loans across a national footprint originated through our relationships with national technology-driven consumer lending companies to finance such things as dental and medical procedures, K-12 tuition, solar energy installations and other consumer purpose loans. Advances of credit through this specialty lending business line are subject to the Company's underwriting standards including criteria such as FICO score and debt to income thresholds. The Company offers a variety of direct consumer installment loans to finance various personal expenditures. In addition to installment loans, the Company also offers personal lines of credit, overdraft protection, debt consolidation, education and other uses. Consumer installment loans carry a fixed rate of interest with principal repayment terms typically ranging from one to fifteen years, based upon the nature of the collateral and the size of the loan. Consumer installment loans are often secured with collateral consisting of a perfected lien on the asset being purchased or a perfected lien on a consumer's deposit account. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Residential

Residential loans consist primarily of loans secured by a first or second mortgage on primary residences, home equity loans and lines of credit in first and second lien positions and residential construction loans. We originate adjustable-rate and fixed rate, one-to-four-family residential loans for the construction or purchase of a residential property or the refinancing of a mortgage. These loans are collateralized by properties located in the Company's market area. Loans on one-to-four-family residential are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower) or have private mortgage insurance. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period. For home equity loans, consumers are able to borrow up to 85% of the equity in their homes and are generally tied to Prime with a ten-year draw followed by a fifteen-year amortization. These loans carry a higher risk than first mortgage residential loans as they are often in a second position with respect to collateral.

For the 2019 disclosures for the allowance for credit losses, the loan portfolio was segmented into the Commercial, Consumer and Residential Real Estate portfolio segments. The Commercial segment was further pooled into three classes: Commercial and Industrial, Commercial Real Estate and Business Banking. The Consumer segment was further pooled into three classes: Indirect Auto, Specialty Lending and Direct. For a description of these portfolio segments' and classes' risk characteristics, see Note 5 Allowance for Loan Losses and Credit Quality of Loans to the consolidated financial statements presented in our 2019 Annual Report on Form 10-K.

Historical credit loss experience for both the Company and segment-specific peers provides the basis for the estimation of expected credit losses, where observed credit losses are converted to probability of default rate ("PD") curves through the use of segment-specific loss given default ("LGD") risk factors that convert default rates to loss severity based on industry-level, observed relationships between the two variables for each asset class, primarily due to the nature of the underlying collateral. These risk factors were assessed for reasonableness against the Company's own loss experience and adjusted in certain cases when the relationship between the Company's historical default and loss severity deviate from that of the wider industry. The historical PDR curves, together with corresponding economic conditions, establish a quantitative relationship between economic conditions and loan performance through an economic cycle.

Using the historical relationship between economic conditions and loan performance, management's expectation of future loan performance is incorporated using externally developed economic forecasts which are probabilistically weighted to reflect potential forecast inaccuracy and model limitations. These forecasts are applied over a period that management has determined to be reasonable and supportable. Beyond the period over which management can develop or source a reasonable and supportable forecast, the model will revert to long-term average economic conditions using a straight-line, time-based methodology.

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 PD/LGD 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. Contractual cash flows over the contractual life of the loans are the basis for modeled cash flows, adjusted for modeled defaults and expected prepayments and discounted at the loan-level stated interest rate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring ("TDR") will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

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. Qualitative considerations include limitations inherent in the quantitative model; trends experienced in nonperforming and delinquent loans; changes in value of underlying collateral; changes in lending policies and procedures; nature and composition of loans; portfolio concentrations that may affect loss experience across one or more components of the portfolio; the experience, ability and depth of lending management and staff; the Company's credit review system; and the effect of external factors; such as competition, legal and regulatory requirements.

Loans that do not share risk characteristics and meet materiality criteria are evaluated on an individual basis and are excluded from the pooled evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. If the loan is not collateral dependent, the allowance for credit losses related to individually assessed loans is based on discounted expected cash flows using the loan's initial effective interest rate. Generally, individually assessed loans are collateral dependent.

A loan for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties is considered to be a TDR. The allowance for credit losses on a TDR is measured using the same method as all other loans held for investment, except that the original interest rate is used to discount the expected cash flows, not the rate specified within the restructuring.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company has exposure to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as an expense in other noninterest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated lives. Estimating credit losses on unfunded commitments requires the Bank to consider the following categories of off-balance sheet credit exposure: unfunded commitments to extend credit, unfunded lines of credit, and standby letters of credit. Each of these unfunded commitments is then analyzed for a probability of funding to calculate a probable funding amount. The life of loan loss factor by related portfolio segment from the loan allowance for credit loss calculation is then applied to the probable funding amount to calculate a reserve on unfunded commitments.

Allowance for Credit Losses – Held-to-Maturity ("HTM") Debt Securities

The Company's HTM debt securities are also required to utilize the CECL approach to estimate expected credit losses. Management measures expected credit losses on HTM debt securities on a collective basis by major security types that share similar risk characteristics, such as (as applicable): internal or external (third-party) credit score or credit ratings, risk ratings or classification, financial asset type, collateral type, size, effective interest rate, term, geographical location, industry of the borrower, vintage, historical or expected credit loss patterns, and reasonable and supportable forecast periods. Management classifies the HTM portfolio into the following major security types: U.S. government agency or U.S. government sponsored mortgage-backed and collateralized mortgage obligations securities, and state and municipal debt securities.

The mortgage-backed and collateralized mortgage obligations HTM securities are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government as to timely repayment of principal and interest, are highly rated by major rating agencies, and have a long history of no credit losses. Therefore, the Company did not record a credit loss for these securities.

State and municipal bonds carry a Moody's rating of A to AAA. In addition, the Company has a limited amount of New York state local municipal bonds that are not rated. The estimate of expected credit losses on the HTM portfolio is based on the expected cash flows of each individual CUSIP over its contractual life and considers historical credit loss information, current conditions and reasonable and supportable forecasts. Given the rarity of municipal defaults and losses, the Company utilized Moody's Municipal Loss Forecast Model as the sole source of municipal default and loss rates which provides decades of data across all municipal sectors and geographies. As with the loan portfolio, cash flows are forecast over a 6-quarter period under various, weighted economic conditions, with a reversion to long-term average economic conditions over a 4-quarter period on a straight-line basis. Management may exercise discretion to make adjustments based on environmental factors. As of March 31, 2020, June 30, 2020 and September 30, 2020, the Company determined that the expected credit loss on its municipal bond portfolio was de minimis, and therefore, an allowance for credit losses was not recorded.

Allowance for Credit Losses – Available-for Sales ("AFS") Debt Securities

The impairment model for AFS debt securities differs from the CECL approach utilized by HTM debt securities because AFS debt securities are measured at fair value rather than amortized cost. For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, in making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, adverse conditions specifically related to the security, failure of the issuer of the debt security to make scheduled interest or principal payments, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. The cash flows should be estimated using information relevant to the collectability of the security, including information about past events, current conditions and reasonable and supportable forecasts. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the AFS debt security is uncollectible or when either of the criteria regarding intent or requirement to sell is met. As of March 31, 2020, June 30, 2020 and September 30, 2020, the Company determined that the unrealized loss positions in the AFS debt securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded.

Accrued Interest Receivable

Upon adoption of CECL on January 1, 2020, the Company made the following elections regarding accrued interest receivable: (1) presented accrued interest receivable balances separately within other assets balance sheet line item; (2) excluded interest receivable that is included in amortized cost of financing receivables from related disclosures requirements and (3) continued our policy to write off accrued interest receivable by reversing interest income. For loans, write off typically occurs upon becoming over 90 to 120 days past due and therefore the amount of such write offs are immaterial. For loans given short-term loan modifications to assist borrowers during the COVID-19 national emergency, this accounting policy would not apply as the length of time between interest recognition and the write-off of uncollectible interest could exceed 120 days. Therefore, the Company estimated an allowance for credit losses for accrued interest receivable related to loans with short-term modifications due to the pandemic. Historically, the Company has not experienced uncollectible accrued interest receivable on investment securities.

3. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and all related subsequent amendments thereto. ASU 2016-13 introduces new guidance that make substantive changes to the accounting for credit losses. ASU 2016-13 introduces the CECL model, which applies to financial assets subject to credit losses and measured at amortized cost, as well as certain off-balance sheet credit exposures. This includes loans, loan commitments, standby letters of credit, net investments in leases recognized by a lessor and HTM debt securities. The CECL model requires an entity to estimate credit losses expected over the life of an exposure, considering information about historical events, current conditions and reasonable and supportable forecasts and is generally expected to result in earlier recognition of credit losses. ASU 2016-13 also modifies certain provisions of the current other-than-temporary impairment model for AFS debt securities. Credit losses on AFS debt securities will be limited to the difference between the security's amortized cost basis and its fair value and will be recognized through an allowance for credit losses rather than as a direct reduction in amortized cost basis. ASU 2016-13 also provides for a simplified accounting model for purchased financial assets with more than insignificant credit deterioration since their origination. ASU 2016-13 requires expanded disclosures including, but not limited to, (1) information about the methods and assumptions used to estimate expected credit losses, including changes in the factors that influenced management's estimate and the reasons for those changes, (2) financing receivables and net investment in leases measured at amortized cost, further disaggregation of information about the credit quality of those assets and (3) a rollforward of the allowance for credit losses for HTM and AFS securities. The standard also changes the accounting for purchased credit-impaired debt securities and loans. ASU 2016-13 was effective for the Company on January 1, 2020. Management expects that the CECL model may create more volatility in the level of our allowance for loan losses from quarter to quarter as changes in the level of allowance for loan losses will be dependent upon, among other things, macroeconomic forecasts and conditions, loan portfolio volumes and credit quality.

The Company adopted CECL on January 1, 2020 ("Day 1") using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $4.3 million as of January 1, 2020 for the cumulative effect of adopting ASC 326. The transition adjustment includes a $3.0 million impact due to the allowance for credit losses on loans, $2.8 million impact due to the allowance for credit losses on off-balance sheet credit exposure, and $1.5 million impact to the deferred tax asset. The Company did not record an allowance for HTM debt securities on January 1, 2020 as the amount of credit risk was deemed immaterial. The Company did not record an allowance for credit losses on its AFS debt securities under the newly codified AFS debt security impairment model, as the majority of these securities are government agency-backed securities for which the risk of loss is minimal. Refer to Note 4 Securities and Note 5 Allowance for Credit Losses and Credit Quality of Loans to the Company's unaudited interim consolidated financial statements included in this Form 10-Q for more information.

In December 2018, the Office of Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation ("FDIC") approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. 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. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company adopted the capital transition relief over the permissible five-year period.

On March 22, 2020, a statement was issued by the Company's banking regulators and titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of the recent coronavirus ("COVID-19") pandemic. Additionally, Section 4013 of the CARES Act, which was enacted on March 27, 2020, further provides that a qualified loan modification is exempt by law from classification as a troubled debt restructuring as defined by GAAP. To be eligible, each loan modification must be (1) related to the COVID-19 event; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (a) 60 days after the date of termination of the National Emergency or (b) December 31, 2020. On August 3, 2020, the Federal Financial Institutions Examination Council ("FFIEC") issued a joint statement on additional loan accommodations related to COVID-19. The joint statement clarifies that for loan modifications in which Section 4013 is being applied, subsequent modifications could also be eligible under Section 4013. Accordingly, the Company is offering modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment. Accordingly, the Company does not account for such loan modifications as TDRs. As of September 30, 2020, there were $233 million in loans in modification programs related to COVID-19.

In August 2018, the FASB issued ASU 2018-13, *Fair value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair value Measurement*. The provisions of ASU 2018-13 modify the disclosure requirements on fair value measurements in ASC 820. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 is effective January 1, 2020. The adoption did not have a material impact on the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 amends existing guidance and requires a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize and which costs to expense. ASU 2018-15 is effective for the Company on January 1, 2020. The adoption did not have a material impact on the consolidated financial statements and related disclosures.

Accounting Standards Issued Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides temporary optional expedients and exceptions to the existing guidance for applying GAAP to affected contract modifications and hedge accounting relationships in the transition away from LIBOR or other interbank offered rate on financial reporting. The guidance also allows a one-time election to sell and/or reclassify to AFS or trading HTM debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective March 12, 2020 through December 31, 2022. The Company is evaluating the impact of adopting the new guidance on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: (1) exception to the incremental approach for intraperiod tax allocation; (2) exceptions to accounting for basis differences when there are ownership changes in foreign investments; and (3) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: (1) franchise taxes that are partially based on income; (2) transactions with a government that result in a step up in the tax basis of goodwill; (3) separate financial statements of legal entities that are not subject to tax; and (4) enacted changes in tax laws in interim periods. The amendments in this ASU are effective for the Company on January 1, 2021, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans - General (Subtopic 715-20)*, provides changes to the disclosure requirements for defined benefit plans. The amended guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments are a result of the disclosure framework project that focuses on improvements to the effectiveness of disclosures in the notes to financial statements. The amendments remove and add certain disclosure requirements. The disclosure requirements being removed relating to public companies are: (1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, (2) the amount and timing of plan assets expected to be returned to the employer, (3) the 2001 disclosure requirement relating to Japanese Welfare Pension Insurance Law, (4) related party disclosures about the amount of future annual benefits covered by insurance, and (5) the effects of a one-percentage-point change in assumed health care cost trends on the benefit cost and obligation. The disclosure requirements being added relating to public companies are (1) the weighted-average interest crediting rates for cash balance plans, and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. ASU 2018-14 is effective for the Company on January 1, 2021 and early adoption is permitted. The amendments should be applied retrospectively and the Company does not expect the guidance to have a material impact on its disclosures to the consolidated financial statements.

4. 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, 2020				
Federal agency	**$ 195,588**	**$ 97**	**$ 541**	**$ 195,144**
State & municipal	**10,712**	**173**	**2**	**10,883**
Mortgage-backed:				
Government-sponsored enterprises	**406,495**	**18,216**	**-**	**424,711**
U.S. government agency securities	**55,259**	**2,358**	**9**	**57,608**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**350,114**	**8,539**	**2**	**358,651**
U.S. government agency securities	**128,965**	**4,136**	**-**	**133,101**
Corporate	**17,500**	**331**	**4**	**17,827**
Total AFS securities	**$ 1,164,633**	**$ 33,850**	**$ 558**	**$ 1,197,925**
As of December 31, 2019				
Federal agency	$ 34,998	$ 3	$ 243	$ 34,758
State & municipal	2,533	-	20	2,513
Mortgage-backed:				
Government-sponsored enterprises	453,614	4,982	239	458,357
U.S. government agency securities	44,758	667	156	45,269
Collateralized mortgage obligations:				
Government-sponsored enterprises	328,499	1,949	467	329,981
U.S. government agency securities	104,152	718	408	104,462
Total AFS securities	$ 968,554	$ 8,319	$ 1,533	$ 975,340

There was no allowance for credit losses on AFS securities as of the quarter ending September 30, 2020.

The components of net realized gains (losses) on AFS securities are as follows. These amounts were reclassified out of accumulated other comprehensive income (loss) ("AOCI") and into earnings.

	Three Months Ended September 30,	
(In thousands)	2020	2019
Gross realized gains	**$ -**	$ 20
Gross realized (losses)	**-**	-
Net AFS realized gains (losses)	**$ -**	$ 20

	Nine Months Ended September 30,	
(In thousands)	2020	2019
Gross realized gains	**$ 3**	$ 73
Gross realized (losses)	**-**	(152)
Net AFS realized gains (losses)	**$ 3**	$ (79)

Included in net realized gains (losses) on AFS securities, the Company recorded gains from calls of approximately $3 thousand for the nine months ended September 30, 2020. There were no gains from calls for the three months ended September 30, 2020. The Company recorded gains from calls of approximately $20 thousand for the three months ended September 30, 2019 and $25 thousand for the nine months ended September 30, 2019.

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

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
As of September 30, 2020				
Federal agency	**$ 100,000**	**$ 47**	**$ 772**	**$ 99,275**
Mortgage-backed:				
Government-sponsored enterprises	**126,446**	**4,847**	**-**	**131,293**
U.S. government agency securities	**11,544**	**865**	**-**	**12,409**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**119,402**	**5,087**	**-**	**124,489**
U.S. government agency securities	**92,654**	**4,680**	**-**	**97,334**
State & municipal	**213,042**	**7,096**	**76**	**220,062**
Total HTM securities	**$ 663,088**	**$ 22,622**	**$ 848**	**$ 684,862**
As of December 31, 2019				
Mortgage-backed:				
Government-sponsored enterprises	$ 149,448	$ 3,184	$ 155	$ 152,477
U.S. government agency securities	13,667	584	-	14,251
Collateralized mortgage obligations:				
Government-sponsored enterprises	189,402	2,165	368	191,199
U.S. government agency securities	110,498	3,256	100	113,654
State & municipal	167,059	2,628	6	169,681
Total HTM securities	$ 630,074	$ 11,817	$ 629	$ 641,262

At September 30, 2020 and December 31, 2019, all of the mortgaged-backed HTM securities were comprised of U.S. government agency and Government-sponsored enterprises securities. There was no allowance for credit losses on HTM securities as of September 30, 2020.

Included in net realized gains (losses), the Company recorded gains from calls on HTM securities of approximately $11 thousand for the three months ended September 30, 2020 and $15 thousand for the nine months ended September 30, 2020. Included in net realized gains (losses), the Company recorded gains from calls on HTM securities of approximately $4 thousand for the three and nine month period ended September 30, 2019.

During the nine months ended September 30, 2020, the Company sold HTM securities with an amortized cost of $1.0 million and resulted in a realized loss of $1 thousand. Due to significant deterioration in the creditworthiness of the issuer of the HTM securities, the circumstances caused the Company to change its intent to hold the HTM securities sold to maturity, which did not affect the Company's intent to hold the remainder of the HTM portfolio to maturity. There were no sales of HTM securities during the three and nine month periods ended September 30, 2019.

AFS and HTM securities with amortized costs totaling $1.4 billion at September 30, 2020 and $1.3 billion at December 31, 2019 were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at September 30, 2020 and December 31, 2019, AFS and HTM securities with an amortized cost of $227.4 million and $189.8 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:

(In thousands)	Three Months Ended September 30,	
	2020	**2019**
Net gains and (losses) recognized on equity securities	**$ 73**	$ 4,012
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	**-**	3,966
Unrealized gains and (losses) recognized on equity securities still held	**$ 73**	$ 46

(In thousands)	Nine Months Ended September 30,	
	2020	**2019**
Net gains and (losses) recognized on equity securities	**$ (565)**	$ 4,099
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	**-**	3,966
Unrealized gains and (losses) recognized on equity securities still held	**$ (565)**	$ 133

Included in the net realized gains and (losses) recognized on equity securities during the three and nine months ended September 30, 2019, the Company recorded a $4.0 million gain from the sale of Visa Class B common stock, which had no readily determinable fair value at the time of the sale. As of September 30, 2020 and December 31, 2019, the carrying value of equity securities without readily determinable fair values was $4.0 million. The Company performed a qualitative assessment to determine whether the investments were impaired and identified no areas of concern as of September 30, 2020 and 2019. There were no impairments, downward or upward adjustments recognized for equity securities without readily determinable fair values during the three and nine months ended September 30, 2020 and 2019.

The following tables set forth information with regard to contractual maturities of debt securities at September 30, 2020:

(In thousands)	**Amortized Cost**	**Estimated Fair Value**
AFS debt securities:		
Within one year	**$ 706**	**$ 731**
From one to five years	**20,281**	**21,010**
From five to ten years	**356,717**	**362,435**
After ten years	**786,929**	**813,749**
Total AFS debt securities	**$ 1,164,633**	**$ 1,197,925**
HTM debt securities:		
Within one year	**$ 17,239**	**$ 17,257**
From one to five years	**60,391**	**61,713**
From five to ten years	**241,783**	**248,329**
After ten years	**343,675**	**357,563**
Total HTM debt securities	**$ 663,088**	**$ 684,862**

Maturities of mortgage-backed, collateralized mortgage obligations and asset-backed securities are stated 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, 2020 and December 31, 2019.

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 at September 30, 2020, segregated according to the length of time the securities had been 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, 2020									
AFS securities:									
Federal agency	**$ 154,448**	**$ (541)**	**10**	**$ -**	**$ -**	**-**	**$ 154,448**	**$ (541)**	**10**
State & municipal	**1,448**	**(2)**	**1**	**-**	**-**	**-**	**1,448**	**(2)**	**1**
Mortgage-backed	**-**	**-**	**-**	**786**	**(9)**	**3**	**786**	**(9)**	**3**
Collateralized mortgage obligations	**553**	**(2)**	**1**	**-**	**-**	**-**	**553**	**(2)**	**1**
Corporate	**4,996**	**(4)**	**1**	**-**	**-**	**-**	**4,996**	**(4)**	**1**
Total securities with unrealized losses	**$ 161,445**	**$ (549)**	**13**	**$ 786**	**$ (9)**	**3**	**$ 162,231**	**$ (558)**	**16**
HTM securities:									
Federal agency	**$ 74,228**	**$ (772)**	**3**	**$ -**	**$ -**	**-**	**$ 74,228**	**$ (772)**	**3**
State & municipal	**10,594**	**(76)**	**10**	**-**	**-**	**-**	**10,594**	**(76)**	**10**
Total securities with unrealized losses	**$ 84,822**	**$ (848)**	**13**	**$ -**	**$ -**	**-**	**$ 84,822**	**$ (848)**	**13**
As of December 31, 2019									
AFS securities:									
Federal agency	$ 14,891	$ (109)	2	$ 9,866	$ (134)	1	$ 24,757	$ (243)	3
State & municipal	2,503	(20)	1	-	-	-	2,503	(20)	1
Mortgage-backed	67,986	(273)	21	37,745	(122)	16	105,731	(395)	37
Collateralized mortgage obligations	113,121	(316)	24	49,632	(559)	17	162,753	(875)	41
Total securities with unrealized losses	$ 198,501	$ (718)	48	$ 97,243	$ (815)	34	$ 295,744	$ (1,533)	82
HTM securities:									
Mortgage-backed	$ -	$ -	-	$ 25,370	$ (155)	2	$ 25,370	$ (155)	2
Collateralized mortgage obligations	18,040	(181)	3	22,389	(287)	5	40,429	(468)	8
State & municipal	2,257	(6)	4	-	-	-	2,257	(6)	4
Total securities with unrealized losses	$ 20,297	$ (187)	7	$ 47,759	$ (442)	7	$ 68,056	$ (629)	14

The Company does not believe the AFS securities that were in an unrealized loss position as of September 30, 2020, which consisted of 16 individual securities, 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, 2020, 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 sell, nor is it more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, which may be at maturity. The Company elected to exclude accrued interest receivable ("AIR") from the amortized cost basis of debt securities disclosed throughout this footnote. AIR on AFS debt securities totaled $2.6 million at September 30, 2020 and is excluded from the estimate of credit losses and reported in the financial statement line for other assets.

None of the bank's HTM debt securities were past due or on non-accrual status as of the quarter ending September 30, 2020. There was no accrued interest reversed against interest income for the quarter ended September 30, 2020 as all securities remained on accrual status. In addition, there were no collateral dependent HTM debt securities as of September 30, 2020. 53% of the Company's HTM debt securities are 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, are widely recognized as "risk free," and have a long history of zero credit loss. Therefore, the Company did not record an allowance for credit losses for these securities as of September 30, 2020. The remaining HTM debt securities at September 30, 2020 were comprised of state and municipal obligations with bond ratings of A to AAA. Utilizing the CECL approach, the Company determined that the expected credit loss on its HTM municipal bond portfolio was immaterial and therefore no allowance for credit loss was recorded as of September 30, 2020. AIR on HTM debt securities totaled $2.7 million at September 30, 2020 and is excluded from the estimate of credit losses and reported in the financial statement line for other assets.

5. Allowance for Credit Losses and Credit Quality of Loans

As previously mentioned in Note 2 Summary of Significant Accounting Policies, the Company's January 1, 2020 adoption of CECL resulted in a significant change to our methodology for estimating the allowance for credit losses since December 31, 2019. Portfolio segmentation has been redefined under CECL and therefore prior year tables are presented separately.

The Day 1 increase in the allowance for credit loss on loans relating to adoption of ASU 2016-13 was $3.0 million, which decreased retained earnings by $2.3 million and increased the deferred tax asset by $0.7 million.

There were no new loans purchased with credit deterioration during the nine months ended September 30, 2020. During the third quarter of 2020, the Company purchased $46.4 million of consumer loans at a 1% discount. The allowance for credit losses recorded for these loans on the purchase date was $3.2 million. The Company made a policy election to report AIR in the other assets line item on the balance sheet. AIR on loans totaled $25.5 million at September 30, 2020 and was included in the allowance for loan credit losses to estimate the impact of accrued interest receivable related to loans with short-term modifications due to the pandemic as the length of time between interest recognition and the write-off of uncollectible interest could exceed 120 days which exempts these loans from our policy election for accrued interest receivable. The estimated allowance for credit losses related to AIR at September 30, 2020 was $0.5 million.

The Day 1 and September 30, 2020 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 reverted to long-term economic conditions over a 4-quarter reversion period on a straight-line basis.

The quantitative model as of June 30, 2020 incorporated a baseline economic outlook sourced from a reputable third-party that reflected continued economic deterioration from the March 31, 2020 forecasts, with unemployment peaking in the quarter of measurement but sharply improving in the third quarter 2020, while remaining elevated well above the pre-COVID-19 pandemic levels for the entire forecast period and into 2023. National GDP is forecast to rebound strongly in the third quarter 2020 followed by moderately negative growth in the fourth quarter 2020 with increasing growth through 2022 and stabilization in 2023. The June 30, 2020 allowance for credit losses calculation incorporated a 6-quarter forecast period with a 4-quarter reversion period to long-term economic conditions on a straight-line basis. A short-term reduction in prepayment and curtailment speeds was also applied to more reasonably model payment behavior during the COVID-19 national emergency. Additionally, downside and upside scenarios were incorporated and weighted, along with the baseline outlook, to accommodate other potential economic conditions in the quantitative model. These scenarios and their respective weightings are evaluated at each measurement date and reflect management's expectations as of June 30, 2020. Additional adjustments were made for COVID-19 related factors were not incorporated in the forecasts, such as the mitigating impact of unprecedented stimulus, including direct payments to individuals, increased unemployment benefits, deferral/modification initiatives and various government-sponsored loan programs. The commercial & industrial and consumer segment models were based upon percent change in unemployment, with forecast values as of June 30, 2020, well outside the observed historical experience. Therefore, adjustment was required to produce outputs more aligned with default expectations given the forecast economic environment. These factors were considered through a separate quantitative process and incorporated into the estimate for allowance for credit losses at June 30, 2020.

The quantitative model as of September 30, 2020 incorporated a baseline economic outlook sourced from a reputable third-party which reflected an unemployment rate environment well above pre-COVID-19 levels for the entire forecast period and a gradual return to low single digits by the end of 2023. Northeast U.S. GDP was expected to grow moderately over the forecast period after a strong rebound in the third quarter of 2020 with stabilization by the end of 2023. Key assumptions in the baseline economic outlook included a large and effective stimulus package by September 30, 2020 with no secondary surge in COVID-19 cases or pandemic-related business closures. A downside scenario was incorporated and equally weighted, along with the baseline outlook in the quantitative model, which assumed deteriorated economic conditions from the base model as a stimulus package was not in place by the end of the third quarter and the related impact on credit losses is not yet known. These scenarios and their respective weightings are evaluated at each measurement date and reflect management's expectations as of September 30, 2020. Additional adjustments were made for COVID-19 related factors not incorporated in the forecasts, such as the mitigating impact of unprecedented stimulus in 2020, including direct payments to individuals, increased unemployment benefits, deferral/modification initiatives and various government-sponsored loan programs. The commercial & industrial and consumer segment models were based upon percent change in unemployment, with forecast values as of September 30, 2020, well outside the observed historical experience. Therefore, adjustments were required to produce outputs more aligned with default expectations given the forecast economic environment. These factors were considered through a separate quantitative process and incorporated into the estimate for allowance for credit losses at September 30, 2020.

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

(In thousands)	Commercial Loans	Consumer Loans	Residential	Total
Balance as of June 30, 2020	$ 50,386	$ 40,094	$ 23,020	$ 113,500
Charge-offs	(624)	(4,097)	(58)	(4,779)
Recoveries	333	2,123	62	2,518
Provision	1,651	442	1,168	3,261
Ending Balance as of September 30, 2020	$ 51,746	$ 38,562	$ 24,192	$ 114,500

(In thousands)	Commercial Loans	Consumer Loans	Residential	Total
Balance as of January 1, 2020 (after adoption of ASC 326)	$ 27,156	$ 32,122	$ 16,721	$ 75,999
Charge-offs	(2,353)	(17,166)	(863)	(20,382)
Recoveries	674	6,168	300	7,142
Provision	26,269	17,438	8,034	51,741
Ending Balance as of September 30, 2020	$ 51,746	$ 38,562	$ 24,192	$ 114,500

The increase in the allowance for credit losses from June 30, 2020 to September 30, 2020 was primarily due to the specific allowance for credit losses on individually analyzed credits and a change in loan portfolio mix shift within the consumer portfolio as indirect auto balances declined and other consumer balances increased. The increase in the allowance for credit losses from Day 1 to September 30, 2020 was primarily due to the deterioration of macroeconomic factors surrounding the COVID-19 pandemic.

Individually Evaluated Loans

As of September 30, 2020, there were two relationships identified to be evaluated for loss on an individual basis which had an amortized cost basis of $10.9 million. The allowance for credit loss was $3.0 million and was determined by an estimate of the fair value of the collateral which consisted of business assets (accounts receivable, inventory and machinery, real estate and equipment). As of June 30, 2020, there were no relationships identified to be evaluated for loss on an individual basis. As of Day 1, there were no relationships identified to be evaluated for loss on an individual basis.

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, 2020							
Commercial Loans:							
C&I	$ 703	$ 79	$ 12	$ 794	$ 4,172	$ 1,116,189	$ 1,121,155
CRE	367	51	-	418	17,242	2,324,815	2,342,475
PPP	-	-	-	-	-	514,558	514,558
Total Commercial Loans	$ 1,070	$ 130	$ 12	$ 1,212	$ 21,414	$ 3,955,562	$ 3,978,188
Consumer Loans:							
Auto	$ 7,639	$ 1,534	$ 826	$ 9,999	$ 2,901	$ 938,433	$ 951,333
Other Consumer	3,373	1,447	1,121	5,941	370	634,011	640,322
Total Consumer Loans	$ 11,012	$ 2,981	$ 1,947	$ 15,940	$ 3,271	$ 1,572,444	$ 1,591,655
Residential	$ 1,505	$ 256	$ 620	$ 2,381	$ 11,211	$ 1,977,208	$ 1,990,800
Total Loans	$ 13,587	$ 3,367	$ 2,579	$ 19,533	$ 35,896	$ 7,505,214	$ 7,560,643

As of September 30, 2020, there were no loans in non-accrual without an allowance for credit losses.

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. The system focuses on, among other things, financial strength of borrowers, experience and depth of borrower's management, primary and secondary sources of repayment, payment history, nature of the business and outlook on particular industries. 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, enabling recognition and response to problem loans and potential problem loans.

Commercial Grading System

For C&I, PPP 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. The increase in non-pass credits from December 31, 2019 was primarily due to the Company's proactive approach to downgrade loans that were both in payment deferral due to the COVID-19 pandemic and in higher risk industries such as entertainment, restaurants, retail, healthcare and accommodations.

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, 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 PPP 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

(In thousands)	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
C&I									
By Internally Assigned Grade:									
Pass	$ 249,835	$ 204,978	$ 100,664	$ 51,944	$ 41,297	$ 36,030	$ 335,169	$ 273	$ 1,020,190
Special Mention	14,004	10,680	6,410	5,684	3,547	3,634	20,136	50	64,145
Substandard	635	5,614	9,437	3,574	920	5,510	9,586	9	35,285
Doubtful	-	1,351	-	184	-	-	-	-	1,535
Total C&I	$ 264,474	$ 222,623	$ 116,511	$ 61,386	$ 45,764	$ 45,174	$ 364,891	$ 332	$ 1,121,155
CRE									
By Internally Assigned Grade:									
Pass	$ 313,029	$ 376,023	$ 250,936	$ 309,705	$ 216,756	$ 417,746	$ 88,356	$ 14,816	$ 1,987,367
Special Mention	3,215	41,533	36,718	56,202	40,432	67,110	10,004	-	255,214
Substandard	282	2,937	8,942	8,573	5,709	57,484	6,455	-	90,382
Doubtful	-	1,897	-	-	-	7,615	-	-	9,512
Total CRE	$ 316,526	$ 422,390	$ 296,596	$ 374,480	$ 262,897	$ 549,955	$ 104,815	$ 14,816	$ 2,342,475
PPP									
By Internally Assigned Grade:									
Pass	$ 514,558	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 514,558
Total PPP	$ 514,558	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 514,558
Auto									
By Payment Activity:									
Performing	$ 153,299	$ 347,290	$ 229,833	$ 138,721	$ 58,144	$ 20,296	$ 23	$ -	$ 947,606
Nonperforming	208	1,135	1,353	655	376	-	-	-	3,727
Total Auto	$ 153,507	$ 348,425	$ 231,186	$ 139,376	$ 58,520	$ 20,296	$ 23	$ -	$ 951,333
Other Consumer									
By Payment Activity:									
Performing	$ 181,867	$ 195,369	$ 141,910	$ 63,712	$ 17,729	$ 19,465	$ 18,498	$ 281	$ 638,831
Nonperforming	169	509	305	220	99	179	10	-	1,491
Total Other Consumer	$ 182,036	$ 195,878	$ 142,215	$ 63,932	$ 17,828	$ 19,644	$ 18,508	$ 281	$ 640,322
Residential									
By Payment Activity:									
Performing	$ 158,672	$ 222,947	$ 225,715	$ 191,436	$ 171,022	$ 724,257	$ 271,304	$ 13,616	$ 1,978,969
Nonperforming	548	137	718	1,138	364	8,788	11	127	11,831
Total Residential	$ 159,220	$ 223,084	$ 226,433	$ 192,574	$ 171,386	$ 733,045	$ 271,315	$ 13,743	$ 1,990,800
Total Loans	$1,590,321	$ 1,412,400	$ 1,012,941	$ 831,748	$ 556,395	$ 1,368,114	$ 759,552	$ 29,172	$ 7,560,643

Troubled Debt Restructuring

When the Company modifies a loan in a troubled debt restructuring, 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; temporary reduction in the interest rate; or change in scheduled payment amount. Residential and Consumer TDRs occurring during 2020 were due to the reduction in the interest rate or extension of the term.

An allowance for impaired commercial and consumer loans that have been modified in a TDR is measured based on the present value of the expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs. If management determines that the value of the modified loan is less than the recorded investment in the loan an impairment charge would be recorded.

The Company began offering loan modifications to assist borrowers during the COVID-19 national emergency. The CARES Act, along with a joint agency statement issued by banking regulatory agencies, provides that modifications made in response to COVID-19 do not need to be accounted for as a TDR. The Company evaluated the modification programs provided to its borrowers and has concluded the modifications were generally made in accordance with the CARES Act guidance to borrowers who were in good standing prior to the COVID-19 pandemic and are not required to be designated as TDRs. See Note 3 Recent Accounting Pronouncements for more information.

The following tables illustrate the recorded investment and number of modifications designated as TDRs, including the recorded investment in the loans prior to a modification and the recorded investment in the loans after restructuring:

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer Loans:						
Auto	-	$ -	$ -	1	$ 44	$ 44
Total Consumer Loans	-	$ -	$ -	1	$ 44	$ 44
Residential	**10**	**$ 659**	**$ 715**	**24**	**$ 1,619**	**$ 1,745**
Total Troubled Debt Restructurings	**10**	**$ 659**	**$ 715**	**25**	**$ 1,663**	**$ 1,789**

The following table illustrates the recorded investment and number of modifications for TDRs where a concession has been made and subsequently defaulted during the period:

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
(Dollars in thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial Loans:				
C&I	-	$ -	1	$ 387
CRE	-	-	1	168
Total Commercial Loans	-	$ -	2	$ 555
Residential	**9**	**$ 299**	**45**	**$ 2,280**
Total Troubled Debt Restructurings	**9**	**$ 299**	**47**	**$ 2,835**

Allowance for Loan Losses

Prior to the adoption of ASU 2016-13 on January 1, 2020, the Company's calculated allowance for loan losses used the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

The following table illustrates the changes in the allowance for loan losses by our portfolio segments:

(In thousands)	Commercial Loans	Consumer Loans	Residential Real Estate	Total
Balance as of June 30, 2019	$ 33,152	$ 36,534	$ 2,479	$ 72,165
Charge-offs	(865)	(6,976)	(174)	(8,015)
Recoveries	132	1,746	13	1,891
Provision	1,021	5,031	272	6,324
Ending Balance as of September 30, 2019	$ 33,440	$ 36,335	$ 2,590	$ 72,365

(In thousands)	Commercial Loans	Consumer Loans	Residential Real Estate	Total
Balance as of December 31, 2018	$ 32,759	$ 37,178	$ 2,568	$ 72,505
Charge-offs	(2,783)	(21,336)	(782)	(24,901)
Recoveries	344	4,887	122	5,353
Provision	3,120	15,606	682	19,408
Ending Balance as of September 30, 2019	$ 33,440	$ 36,335	$ 2,590	$ 72,365

The following table illustrates the allowance for loan losses and the recorded investment by portfolio segments:

(In thousands)	Commercial Loans	Consumer Loans	Residential Real Estate	Total
As of December 31, 2019				
Allowance for loan losses	$ 34,525	$ 35,647	$ 2,793	$ 72,965
Allowance for loans individually evaluated for impairment	-	-	-	-
Allowance for loans collectively evaluated for impairment	$ 34,525	$ 35,647	$ 2,793	$ 72,965
Ending balance of loans	$ 3,444,266	$ 2,246,676	$ 1,445,156	$ 7,136,098
Ending balance of originated loans individually evaluated for impairment	3,488	7,044	7,721	18,253
Ending balance of acquired loans collectively evaluated for impairment	115,266	23,733	125,879	264,878
Ending balance of originated loans collectively evaluated for impairment	$ 3,325,512	$ 2,215,899	$ 1,311,556	$ 6,852,967

The following tables set forth information with regard to past due and nonperforming loans by loan class:

(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, 2019							
Originated							
Commercial Loans:							
C&I	$ 1,227	$ -	$ -	$ 1,227	$ 1,177	$ 838,502	$ 840,906
CRE	3,576	-	-	3,576	4,847	1,941,143	1,949,566
Business Banking	794	162	-	956	7,035	530,537	538,528
Total Commercial Loans	$ 5,597	$ 162	$ -	$ 5,759	$ 13,059	$ 3,310,182	$ 3,329,000
Consumer Loans:							
Indirect Auto	$ 11,860	$ 2,108	$ 1,005	$ 14,973	$ 2,175	$ 1,176,487	$ 1,193,635
Specialty Lending	3,153	2,087	1,307	6,547	-	535,516	542,063
Direct	2,564	564	478	3,606	2,475	481,164	487,245
Total Consumer Loans	$ 17,577	$ 4,759	$ 2,790	$ 25,126	$ 4,650	$ 2,193,167	$ 2,222,943
Residential Real Estate	$ 1,179	$ 190	$ 663	$ 2,032	$ 5,872	$ 1,311,373	$ 1,319,277
Total Originated Loans	$ 24,353	$ 5,111	$ 3,453	$ 32,917	$ 23,581	$ 6,814,722	$ 6,871,220
Acquired							
Commercial Loans:							
C&I	$ 149	$ -	$ -	$ 149	$ -	$ 19,215	$ 19,364
CRE	-	-	-	-	-	60,937	60,937
Business Banking	397	287	-	684	382	33,899	34,965
Total Commercial Loans	$ 546	$ 287	$ -	$ 833	$ 382	$ 114,051	$ 115,266
Consumer Loans:							
Direct	$ 136	$ 58	$ -	$ 194	$ 105	$ 23,434	$ 23,733
Total Consumer Loans	$ 136	$ 58	$ -	$ 194	$ 105	$ 23,434	$ 23,733
Residential Real Estate	$ 575	$ 20	$ 264	$ 859	$ 1,106	$ 123,914	$ 125,879
Total Acquired Loans	$ 1,257	$ 365	$ 264	$ 1,886	$ 1,593	$ 261,399	$ 264,878
Total Loans	$ 25,610	$ 5,476	$ 3,717	$ 34,803	$ 25,174	$ 7,076,121	$ 7,136,098

The following table provides information on impaired loans specifically evaluated for impairment:

	December 31, 2019		
(In thousands)	Recorded Investment Balance (Book)	Unpaid Principal Balance (Legal)	Related Allowance
Originated			
With no related allowance recorded:			
Commercial Loans:			
C&I	$ 76	$ 302	
CRE	2,410	2,437	
Business Banking	1,002	1,443	
Total Commercial Loans	$ 3,488	$ 4,182	
Consumer Loans:			
Indirect Auto	$ 154	$ 242	
Direct	6,862	8,335	
Specialty Lending	28	28	
Total Consumer Loans	$ 7,044	$ 8,605	
Residential Real Estate	$ 7,721	$ 9,754	
Total	$ 18,253	$ 22,541	
Total Loans	$ 18,253	$ 22,541	$ -

The following table summarizes the average recorded investments on loans specifically evaluated for impairment and the interest income recognized:

	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
(In thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Originated				
Commercial Loans:				
C&I	$ 115	$ -	$ 291	$ 1
CRE	2,554	30	3,577	91
Business Banking	1,002	7	1,111	18
Total Commercial Loans	$ 3,671	$ 37	$ 4,979	$ 110
Consumer Loans:				
Indirect Auto	$ 213	$ 3	$ 201	$ 9
Direct	7,293	95	7,518	291
Total Consumer Loans	$ 7,506	$ 98	$ 7,719	$ 300
Residential Real Estate	$ 7,629	$ 93	$ 7,428	$ 252
Total Originated	$ 18,806	$ 228	$ 20,126	$ 662
Total Loans	$ 18,806	$ 228	$ 20,126	$ 662

The following tables illustrate the Company's credit quality by loan class:

(In thousands) **As of December 31, 2019**

Originated

Commercial Credit Exposure By Internally Assigned Grade:	**C&I**	**CRE**	**Total**
Pass	$ 782,763	$ 1,868,678	$ 2,651,441
Special Mention	28,380	30,519	58,899
Substandard	29,257	50,369	79,626
Doubtful	506	-	506
Total	$ 840,906	$ 1,949,566	$ 2,790,472

Business Banking Credit Exposure By Internally Assigned Grade:	**Business Banking**	**Total**
Non-classified	$ 524,725	$ 524,725
Classified	13,803	13,803
Total	$ 538,528	$ 538,528

Consumer Credit Exposure By Payment Activity:	**Indirect Auto**	**Specialty Lending**	**Direct**	**Total**
Performing	$ 1,190,455	$ 540,756	$ 484,292	$ 2,215,503
Nonperforming	3,180	1,307	2,953	7,440
Total	$ 1,193,635	$ 542,063	$ 487,245	$ 2,222,943

Residential Real Estate Credit Exposure By Payment Activity:	**Residential Real Estate**	**Total**
Performing	$ 1,312,742	$ 1,312,742
Nonperforming	6,535	6,535
Total	$ 1,319,277	$ 1,319,277

Acquired

Commercial Credit Exposure By Internally Assigned Grade:	**C&I**	**CRE**	**Total**
Pass	$ 17,801	$ 60,545	$ 78,346
Special Mention	1,269	-	1,269
Substandard	294	392	686
Total	$ 19,364	$ 60,937	$ 80,301

Business Banking Credit Exposure By Internally Assigned Grade:	**Business Banking**	**Total**
Non-classified	$ 32,030	$ 32,030
Classified	2,935	2,935
Total	$ 34,965	$ 34,965

Consumer Credit Exposure By Payment Activity:	**Direct**	**Total**
Performing	$ 23,628	$ 23,628
Nonperforming	105	105
Total	$ 23,733	$ 23,733

Residential Real Estate Credit Exposure By Payment Activity:	**Residential Real Estate**	**Total**
Performing	$ 124,509	$ 124,509
Nonperforming	1,370	1,370
Total	$ 125,879	$ 125,879

The following table illustrates the recorded investment and number of modifications for modified loans, including the recorded investment in the loans prior to a modification and the recorded investment in the loans after restructuring:

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
(Dollars in thousands)	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial Loans:						
C&I	-	$ -	$ -	1	$ 65	$ 65
Business Banking	-	-	-	2	388	388
Total Commercial Loans	-	$ -	$ -	3	$ 453	$ 453
Consumer Loans:						
Indirect Auto	-	$ -	$ -	9	$ 134	$ 134
Direct	1	30	37	9	418	434
Total Consumer Loans	1	$ 30	$ 37	18	$ 552	$ 568
Residential Real Estate	2	$ 186	$ 203	10	$ 942	$ 990
Total Troubled Debt Restructurings	3	$ 216	$ 240	31	$ 1,947	$ 2,011

The following table illustrates the recorded investment and number of modifications for TDRs where a concession has been made and subsequently defaulted during the period:

	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
(Dollars in thousands)	**Number of Contracts**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**
Consumer Loans:				
Indirect Auto	1	$ 10	2	$ 17
Direct	9	332	24	1,109
Total Consumer Loans	10	$ 342	26	$ 1,126
Residential Real Estate	9	$ 572	19	$ 1,087
Total Troubled Debt Restructurings	19	$ 914	45	$ 2,213

6. Subordinated Debt

On June 23, 2020, the Company issued $100.0 million aggregate principal amount of 5.00% fixed-to-floating rate subordinated notes due 2030. The subordinated notes, which qualifies 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 Secured Overnight Financing Rate ("SOFR") plus a spread of 4.85%, payable quarterly in arrears commencing on October 1, 2025. The subordinated notes issuance costs of $2.2 million are being amortized on a straight line basis into interest expense over five years.

The Company may redeem the subordinated notes (1) in whole or in part beginning with the interest payment date of July 1, 2025, and on any interest payment date thereafter or (2) in whole but not in part upon the occurrence of a "Tax Event", a "Tier 2 Capital Event" or in the event the Company is required to register as an investment company pursuant to the Investment Company Act of 1940, as amended. The redemption price for any redemption is 100% of the principal amount of the subordinated notes being redeemed, plus accrued and unpaid interest thereon to, but excluding, the date of redemption. Any redemption of the subordinated notes will be subject to the receipt of the approval of the Board of Governors of the Federal Reserve System to the extent then required under applicable laws or regulations, including capital regulations.

The following table summarizes the Company's subordinated debt:

(Dollars in thousands)		**September 30, 2020**
Subordinated notes issued June 2020 – fixed interest rate of 5.00% through June 2025 and a variable interest rate equivalent to three-month SOFR plus 4.85% thereafter, maturing July 1, 2030	**$**	**100,000**
Unamortized debt issuance costs		**(2,057)**
Total subordinated debt, net	**$**	**97,943**

7. 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, 2020. 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 and mutual funds.

In addition to the Plan, the Company provides supplemental employee retirement plans to certain current and former executives. The Company also assumed supplemental retirement plans for former executives of Alliance Financial Corporation ("Alliance") when the Company acquired Alliance.

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. In addition, the Company assumed post-retirement medical life insurance benefits for certain Alliance employees, retirees and their spouses, if applicable, in the Alliance acquisition. These post-retirement benefits are referred to herein as "Other Benefits".

The Company made no voluntary contributions to the pension and other benefits plans during the three and nine months ended September 30, 2020 and 2019.

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)	**2020**	**2019**	**2020**	**2019**
Components of net periodic (benefit) cost:				
Service cost	**$ 446**	$ 431	**$ 2**	$ 1
Interest cost	**809**	986	**55**	67
Expected return on plan assets	**(2,105)**	(1,869)	**-**	-
Net amortization	**368**	658	**13**	14
Total net periodic (benefit) cost	**$ (482)**	$ 206	**$ 70**	$ 82

	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Components of net periodic (benefit) cost:				
Service cost	**$ 1,338**	$ 1,301	**$ 6**	$ 5
Interest cost	**2,427**	2,948	**165**	229
Expected return on plan assets	**(6,315)**	(5,615)	**-**	-
Net amortization	**1,104**	1,936	**39**	49
Total net periodic (benefit) cost	**$ (1,446)**	$ 570	**$ 210**	$ 283

The service cost component of the net periodic (benefit) 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.

8. Earnings Per Share

Basic earnings per share ("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 the 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)	**2020**	**2019**
Basic EPS:		
Weighted average common shares outstanding	**43,643**	43,825
Net income available to common stockholders	**$ 35,113**	$ 32,379
Basic EPS	**$ 0.80**	$ 0.74
Diluted EPS:		
Weighted average common shares outstanding	**43,643**	43,825
Dilutive effect of common stock options and restricted stock	**299**	313
Weighted average common shares and common share equivalents	**43,942**	44,138
Net income available to common stockholders	**$ 35,113**	$ 32,379
Diluted EPS	**$ 0.80**	$ 0.73

	Nine Months Ended September 30,	
(In thousands, except per share data)	**2020**	**2019**
Basic EPS:		
Weighted average common shares outstanding	**43,704**	43,806
Net income available to common stockholders	**$ 70,194**	$ 92,061
Basic EPS	**$ 1.61**	$ 2.10
Diluted EPS:		
Weighted average common shares outstanding	**43,704**	43,806
Dilutive effect of common stock options and restricted stock	**293**	302
Weighted average common shares and common share equivalents	**43,997**	44,108
Net income available to common stockholders	**$ 70,194**	$ 92,061
Diluted EPS	**$ 1.60**	$ 2.09

There were 3,250 stock options for the three and nine months ended September 30, 2020, that were not considered in the calculation of diluted EPS since the stock options' exercise price was greater than the average market price during these periods.

There were 1,500 stock options for the three and nine months ended September 30, 2019, that were not considered in the calculation of diluted EPS since the stock options' exercise price was greater than the average market price during these periods.

Table of Contents

9. 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 Statement of Comprehensive Income (Loss)
	Three Months Ended		
(In thousands)	September 30, 2020	September 30, 2019	
AFS securities:			
(Gains) on AFS securities	$ -	$ (20)	Net securities (gains)
Amortization of unrealized gains related to securities transfer	$ 157	$ 190	Interest income
Tax effect	$ (39)	$ (42)	Income tax (benefit)
Net of tax	$ 118	$ 128	
Cash flow hedges:			
Net unrealized losses (gains) on cash flow hedges reclassified to interest expense	$ 101	$ (395)	Interest expense
Tax effect	$ (25)	$ 98	Income tax (benefit) expense
Net of tax	$ 76	$ (297)	
Pension and other benefits:			
Amortization of net losses	$ 359	$ 649	Other noninterest expense
Amortization of prior service costs	22	23	Other noninterest expense
Tax effect	$ (95)	$ (168)	Income tax (benefit)
Net of tax	$ 286	$ 504	
Total reclassifications, net of tax	$ 480	$ 335	

Detail About AOCI Components	Amount Reclassified From AOCI		Affected Line item in the Consolidated Statement of Comprehensive Income (Loss)
	Nine Months Ended		
(In thousands)	September 30, 2020	September 30, 2019	
AFS securities:			
(Gains) losses on AFS securities	$ (3)	$ 79	Net securities (gains) losses
Amortization of unrealized gains related to securities transfer	495	556	Interest income
Tax effect	$ (123)	$ (159)	Income tax (benefit)
Net of tax	$ 369	$ 476	
Cash flow hedges:			
Net unrealized losses (gains) on cash flow hedges reclassified to interest expense	$ 192	$ (1,932)	Interest expense
Tax effect	$ (48)	$ 483	Income tax (benefit) expense
Net of tax	$ 144	$ (1,449)	
Pension and other benefits:			
Amortization of net losses	$ 1,075	$ 1,916	Other noninterest expense
Amortization of prior service costs	68	69	Other noninterest expense
Tax effect	$ (286)	$ (496)	Income tax (benefit)
Net of tax	$ 857	$ 1,489	
Total reclassifications, net of tax	$ 1,370	$ 516	

10. 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, primarily by managing the amount, sources and duration of its assets and liabilities and through the use of derivative instruments. Specifically, the Company enters 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 are determined by interest rates. The Company's derivative financial instruments are used 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 principally related to certain fixed rate borrowings. The Company also has interest rate derivatives that result 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 in 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 in hedging relationships. Interest rate swaps are recorded within other assets or other liabilities on the consolidated balance sheet 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 statement of income.

As of September 30, 2020, the Company had sixteen risk participation agreements with financial institution counterparties for interest rate swaps related to participated loans. The fair values included in other assets and other liabilities on the unaudited interim consolidated balance sheet applicable to these agreements amounted to $350 thousand and $152 thousand, respectively as of September 30, 2020. As of December 31, 2019, the Company had fifteen risk participation agreements with financial institution counterparties for interest rate swaps related to participated loans. The fair values included in other assets and other liabilities on the unaudited interim consolidated balance sheet applicable to these agreements amounted to $112 thousand and $82 thousand, respectively. 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.

Derivatives Designated as Hedging Instruments

The Company has entered into interest rate swaps to modify the interest rate characteristics of certain short-term Federal Home Loan Bank ("FHLB") advances from variable rate to fixed rate in order to reduce the impact of changes in future cash flows due to market interest rate changes. These agreements are designated as cash flow hedges.

The following table depicts the fair value adjustment recorded related to the notional amount of derivatives outstanding as well as the notional amount of risk participation agreements:

(In thousands)	**September 30, 2020**	December 31, 2019
Derivatives Not Designated as Hedging Instruments:		
Fair value adjustment included in other assets and other liabilities		
Interest rate derivatives	**$ 122,546**	$ 41,650
Notional amount:		
Interest rate derivatives	**2,265,651**	963,209
Risk participation agreements	**109,311**	97,614
Derivatives Designated as Hedging Instruments:		
Fair value adjustment included in other assets		
Interest rate derivatives	**-**	4
Fair value adjustment included in other liabilities		
Interest rate derivatives	**136**	45
Notional amount:		
Interest rate derivatives	**25,000**	50,000

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's short-term rate borrowings. During the next twelve months, the Company estimates that an additional $124 thousand will be reclassified from AOCI as a reduction to interest expense.

The following table indicates the effect of cash flow hedge accounting on AOCI and on the unaudited interim consolidated statement of income:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Derivatives Designated as Hedging Instruments:				
Interest rate derivatives - included component				
Amount of gain (loss) recognized in other comprehensive income	**$ -**	$ 9	**$ (274)**	$ (475)
Amount of loss (gain) reclassified from AOCI into interest expense	**101**	(395)	**192**	(1,932)

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)	**2020**	**2019**	**2020**	**2019**
Derivatives Not Designated as Hedging Instruments:				
(Decrease) increase in other income	**$ (20)**	$ (10)	**$ 127**	$ 96

11. 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;

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 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 in pricing the securities by its third-party providers.

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, 2020
Assets:				
AFS securities				
Federal agency	$ -	$ 195,144	$ -	$ 195,144
State & municipal	-	10,883	-	10,883
Mortgage-backed	-	482,319	-	482,319
Collateralized mortgage obligations	-	491,752	-	491,752
Corporate	-	17,827	-	17,827
Total AFS securities	$ -	$ 1,197,925	$ -	$ 1,197,925
Equity securities	26,758	4,000	-	30,758
Derivatives	-	122,896	-	122,896
Total	$ 26,758	$ 1,324,821	$ -	$ 1,351,579
Liabilities:				
Derivatives	$ -	$ 122,834	$ -	$ 122,834
Total	$ -	$ 122,834	$ -	$ 122,834

(In thousands)	Level 1	Level 2	Level 3	December 31, 2019
Assets:				
AFS securities				
Federal agency	$ -	$ 34,758	$ -	$ 34,758
State & municipal	-	2,513	-	2,513
Mortgage-backed	-	503,626	-	503,626
Collateralized mortgage obligations	-	434,443	-	434,443
Total AFS securities	$ -	$ 975,340	$ -	$ 975,340
Equity securities	23,771	4,000	-	27,771
Derivatives	-	41,766	-	41,766
Total	$ 23,771	$ 1,021,106	$ -	$ 1,044,877
Liabilities:				
Derivatives	$ -	$ 41,777	$ -	$ 41,777
Total	$ -	$ 41,777	$ -	$ 41,777

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 impaired loans, mortgage servicing rights and HTM securities. The non-recurring fair value measurements recorded during the three and nine month periods ended September 30, 2020 and the year ended December 31, 2019 were related to impaired loans, write-downs of other real estate owned and write-down of branch assets to fair value. 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.

As of September 30, 2020 the Company had collateral dependent individually evaluated loans with a carrying value of $10.9 million, which had an estimated allowance for credit loss of $3.0 million. As of December 31, 2019 the Company had no collateral dependent loans.

During the nine months ended September 30, 2020, the Company recorded a $0.5 million write-off of branch locations due to a pending disposition of the locations. During the three and nine months ended September 30, 2019, the Company recorded a $1.0 million write-down of a branch location to fair value of $0.2 million due to a pending disposition of the location.

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, 2020		December 31, 2019	
(In thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
HTM securities	2	**$ 663,088**	**$ 684,862**	$ 630,074	$ 641,262
Net loans	3	**7,447,966**	**7,535,955**	7,074,864	6,999,690
Financial liabilities:					
Time deposits	2	**$ 659,971**	**$ 666,646**	$ 861,193	$ 858,085
Long-term debt	2	**64,126**	**65,086**	64,211	64,373
Subordinated debt	1	**100,000**	**102,781**	-	-
Junior subordinated debt	2	**101,196**	**104,447**	101,196	105,694

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 which 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.

12. 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 investments. 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 credit worthiness. Commitments to extend credit and unused lines of credit totaled $2.1 billion at September 30, 2020 and $1.9 billion at December 31, 2019.

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 frequently 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 $52.3 million at September 30, 2020 and $34.5 million at December 31, 2019. As of September 30, 2020 and December 31, 2019, 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, 2019 for an understanding of the following discussion and analysis. Operating results for the three and nine month periods ending September 30, 2020 are not necessarily indicative of the results of the full year ending December 31, 2020 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. 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 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 Federal Reserve Board ("FRB"); (5) inflation, interest rate, securities market and monetary fluctuations; (6) political instability; (7) acts of war or terrorism; (8) the timely development and acceptance of new products and services and perceived overall value of these products and services by users; (9) changes in consumer spending, borrowings and savings habits; (10) changes in the financial performance and/or condition of the Company's borrowers; (11) technological changes; (12) acquisitions and integration of acquired businesses; (13) the ability to increase market share and control expenses; (14) changes in the competitive environment among financial holding companies; (15) 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, Economic Growth, Regulatory Relief, Consumer Protection Act of 2018, Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), and regulatory pronouncements around CARES Act; (16) 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 Financial Accounting Standards Board ("FASB") and other accounting standard setters; (17) changes in the Company's organization, compensation and benefit plans; (18) 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; (19) greater than expected costs or difficulties related to the integration of new products and lines of business; (20) the adverse impact on the U.S. economy, including the markets in which we operate, of the novel coronavirus, which causes the Coronavirus disease 2019 ("COVID-19"), global pandemic; (21) the impact of a slowing U.S. economy and increased unemployment on the performance of our loan portfolio, the market value of our investment securities, the availability of sources of funding and the demand for our products; and (22) the Company's success at managing the risks involved in the foregoing items.

Currently, one of the most significant factors that could cause actual outcomes to differ materially from the Company's forward-looking statements is the potential adverse effect of the current COVID-19 pandemic on the financial condition, results of operations, cash flows and performance of the Company, its customers and the global economy and financial markets. The extent to which the COVID-19 pandemic impacts the Company will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic and its impact on the Company's customers and demand for financial services, the actions governments, businesses and individuals take in response to the pandemic, the impact of the COVID-19 pandemic and actions taken in response to the pandemic on global and regional economies, national and local economic activity, and the pace of recovery when the COVID-19 pandemic subsides, among others. Moreover, investors are cautioned to interpret many of the risks identified under the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2019 as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

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 Securities and Exchange Commission, 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 accounting principles generally accepted in the United States of America ("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.

Critical Accounting Policies

The Company has identified policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for credit losses, pension accounting and provision for income taxes.

The allowance for credit losses consists of the allowance for credit losses and the reserve for unfunded commitments. As a result of the Company's January 1, 2020, adoption of Accounting Standards Updates ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL") and its related amendments, our methodology for estimating the reserve for credit losses changed significantly from December 31, 2019. The standard replaced the "incurred loss" approach with an "expected loss" approach known as current expected credit loss. The CECL approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It removes the incurred loss approach's threshold that delayed the recognition of a credit loss until it was "probable" a loss event was "incurred." The estimate of expected credit losses under the CECL approach 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 reserve for 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 reserve for 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 policy 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. Going forward, the impact of utilizing the CECL approach 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.

Management is required to make various assumptions in valuing the Company's pension assets and liabilities. These assumptions include the expected rate of return on plan assets, the discount rate and the rate of increase in future compensation levels. Changes to these assumptions could impact earnings in future periods. The Company takes into account the plan asset mix, funding obligations and expert opinions in determining the various rates used to estimate pension expense. The Company also considers the Citigroup Pension Liability Index, market interest rates and discounted cash flows in setting the appropriate discount rate. In addition, the Company reviews expected inflationary and merit increases to compensation in determining the rate of increase in future compensation levels.

The Company is subject to examinations from various taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Company to specific transactions. Management believes that the assumptions and judgments used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the taxing authorities determine that management's assumptions were inappropriate, an adjustment may be required which could have a material effect on the Company's results of operations.

The Company's policies on the incurred method for the allowance for loan losses, pension accounting and provision for income taxes are disclosed in Note 1 to the consolidated financial statements presented in our 2019 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 2019 Annual Report on Form 10-K to obtain a better understanding of how the Company's financial performance is reported. The Company's policies on the CECL method for allowance for credit losses is presented in Note 2 to the unaudited interim consolidated finance statements in this Quarterly Report on Form 10-Q. Refer to Note 3 to the unaudited interim consolidated finance statements in this Quarterly Report on Form 10-Q for recently adopted accounting standards.

Overview

Significant factors management reviews to evaluate the Company's operating results and financial condition include, but are not limited to: net income and earnings per share, return on assets and equity, net interest margin, 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. The Company's results in the first nine months of 2020 have been impacted by the COVID-19 pandemic and the CECL accounting methodology, including the estimated impact of the COVID-19 pandemic on expected credit losses. The following information should be considered in connection with the Company's results for the three and nine months ended September 30, 2020:

- Net income up $10.4 million from the second quarter of 2020 and up $2.7 million from the third quarter of 2019.
- Diluted earnings per share up $0.24 from the second quarter of 2020 and up $0.07 from the third quarter of 2019.
- Provision expense for the three months ended September 30, 2020 was $3.3 million, with an increase from the second quarter of 2020 in allowance to total loans due to $3.0 million in specific reserves for two nonperforming commercial relationships and a change in loan mix while net charge-offs of $2.3 million were down compared with the prior quarter.
- The net interest margin on a fully table equivalent ("FTE") basis for the third quarter of 2020 was 3.17%, down 21 basis points ("bps") from the second quarter of 2020 and down 40 bps from the third quarter of 2019.
- Pre-provision net revenue ("PPNR")(1) for the third quarter of 2020 was $49.6 million compared to $50.7 million in the previous quarter and $48.2 million in the third quarter of 2019. The 2% decline in PPNR from the previous quarter reflected lower net interest income, slightly higher operating expenses, partly offset by higher noninterest income.
- Book value per share of $26.74 at September 30, 2020; tangible book value per share grew 3% for the quarter and 8% from prior year to $20.02(2) at September 30, 2020.

(1) PPNR is a Non-GAAP financial measure that management believes is useful in evaluating the underlying operating results of the Company excluding the volatility in loan loss provision due to CECL adoption and the impact of the COVID-19 pandemic, net securities gains (losses) and non-recurring income and/or expense.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Net income before income tax expense	**$ 46,101**	$ 41,701	**$ 89,461**	$ 118,306
FTE adjustment	**325**	374	**983**	1,318
Provision for loan losses	**3,261**	6,324	**51,741**	19,408
Net securities (gains) losses	**(84)**	(4,036)	**548**	(4,024)
Nonrecurring expense	**-**	3,800	**650**	3,800
Unfunded loan commitments reserve	**-**	-	**1,800**	-
PPNR	**$ 49,603**	$ 48,163	**$ 145,183**	$ 138,808

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

COVID-19 Pandemic and Company Response

The year 2020 began with overall stable U.S. economic conditions that were significantly impacted by the COVID-19 pandemic and subsequent shut-down of non-essential business throughout the Company's footprint. A prolonged global pandemic like COVID-19 could adversely affect our operations. The results of operations and the ultimate effect of pandemic will depend on numerous factors that are highly uncertain including how long restrictions for business and individuals will last, further information around the severity of the virus itself, additional actions taken by federal, state and local governments to contain and treat COVID-19 and what, if any, additional government relief will be provided.

In response, the Company immediately formed an Executive Task Force and engaged its established Incident Response Team under its Business Continuity Plan to execute a comprehensive pandemic response plan. The Company has taken significant steps to address the needs of its customers impacted by COVID-19. The Company provided payment relief for all its customers for 180 days or less, waiving associated late fees while not reporting these payment deferrals as late payments to the credit bureaus for all its consumer customers who were current prior to this event. The Company continues to responsibly lend to qualified consumer and commercial customers and designed special lending programs as well as participating in government sponsored relief programs to respond to customers' needs during the pandemic.

The Company has been a participant in the Small Business Administration's Paycheck Protection Program ("PPP"), a new loan guarantee program created under the CARES Act targeted to provide small businesses with support to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration ("SBA"), whose guarantee is backed by the full faith and credit of the United States. PPP covered loans also afford borrowers forgiveness up to the principal amount of the PPP covered loan, plus accrued interest, if the loan proceeds are used to retain workers and maintain payroll or to make certain mortgage interest, lease and utility payments, and certain other criteria are satisfied. The SBA will reimburse PPP lenders for any amount of a PPP covered loan that is forgiven, and PPP lenders will not be held liable for any representations made by PPP borrowers in connection with their requests for loan forgiveness. Lenders receive pre-determined fees for processing and servicing PPP loans. In addition, PPP loans are risk-weighted at zero percent under the generally-applicable Standardized Approach used to calculate risk-weighted assets for regulatory capital purposes. The Company processed approximately 3,000 loans totaling over $548 million in relief. An online solution for the PPP loan forgiveness process launched with a successful pilot completed in the third quarter. The Company also is participating in the Main Street Lending Program as defined in the CARES Act.

The Company established a committee to ensure employee and customer safety through staged reopening and monitoring. The five focus areas for the Company's reopening are employee well-being, alternate work plans, physical workspace, working with customers and vendors, and policies, training and communication. The Committee monitored state and local responses and adapted physical locations across its footprint in its re-opening plans and will continue to monitor and adapt its response as the impact of COVID-19 continues to develop. The Company has taken significant actions to address the needs of employees and customers:

- Employees
  - 90% of non-branch employees moved to remote work by April 1; 45% have since returned to a worksite; remaining 55% are either hybrid or full-time remote.
  - Adopted health and safety precautions in our branches.
  - Offered additional benefits for health, childcare/eldercare needs and well-being including paid-time-off flexibility and childcare assistance program.
  - Cross-training and redeployment programs directing staff resources to areas of greatest need.
- Customers
  - All branch lobbies are open.
  - Leveraged technology tools such as robotic process automation for payment extension requests and onboarding loans; increased use of electronic signatures.
  - Digital communication channels significantly enhanced with dedicated webpages, emails and social media content.
  - Offered payment deferrals and forbearance.

Results of Operations

Net income for the three months ended September 30, 2020 was $35.1 million, up $10.4 million from $24.7 million for the second quarter of 2020 and up $2.7 million from $32.4 million for the third quarter of 2019. Diluted earnings per share for the three months ended September 30, 2020 was $0.80, as compared with $0.56 for the prior quarter, and $0.73 for the third quarter of 2019. Return on average assets (annualized) was 1.29% for the three months ended September 30, 2020 as compared to 0.94% for the prior quarter and 1.34% for the same period last year. Return on average equity (annualized) was 12.09% for the three months ended September 30, 2020 as compared to 8.76% for the prior quarter and 11.83% for the three months ended September 30, 2019. Return on average tangible common equity (annualized) was 16.51% for the three months ended September 30, 2020 as compared to 12.14% for the prior quarter and 16.43% for the three months ended September 30, 2019.

Net income for the nine months ended September 30, 2020 was $70.2 million, down $21.9 from $92.1 million for the same period last year. Diluted earnings per share for the nine months ended September 30, 2020 was $1.60 as compared with $2.09 for the same period in 2019. Return on average assets (annualized) was 0.90% for the nine months ended September 30, 2020 as compared to 1.29% for the same period last year. Return on average equity (annualized) was 8.23% for the nine months ended September 30, 2020 as compared to 11.66% for the nine months ended September 30, 2019. Return on average tangible common equity (annualized) was 11.36% for the nine months ended September 30, 2020 as compared to 16.42% for the nine months ended September 30, 2019.

Return on average tangible common equity is a non-GAAP measure and excludes amortization of intangible assets (net of tax) from net income and average tangible equity calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Net income	**$ 35,113**	$ 32,379	**$ 70,194**	$ 92,061
Amortization of intangible assets (net of tax)	**642**	656	**1,930**	2,051
Net income, excluding intangible amortization	**$ 35,755**	$ 33,035	**$ 72,124**	$ 94,112
Average stockholders' equity	**$ 1,155,056**	$ 1,085,961	**$ 1,139,871**	$ 1,055,375
Less: average goodwill and other intangibles	**293,572**	288,077	**291,472**	288,967
Average tangible common equity	**$ 861,484**	$ 797,884	**$ 848,399**	$ 766,408

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 $77.9 million for the third quarter of 2020, down $2.5 million, or 3.1%, from the previous quarter. The FTE net interest margin was 3.17% for the three months ended September 30, 2020, down 21 bps from the previous quarter. Interest income decreased $2.5 million, or 2.8%, as the yield on average interest-earning assets decreased 23 bps from the prior quarter to 3.45%, while average interest-earning assets of $9.8 billion increased $220.9 million from the prior quarter, primarily due to an increase in short-term interest-bearing accounts due to excess liquidity and an increase in average investment securities. Interest expense was comparable to the prior quarter, as the cost of interest-bearing liabilities remained flat at 0.45% for the quarter ended September 30, 2020, driven by interest-bearing deposit costs decreasing 4 bps along with average interest-bearing liability decreasing $28.6 million.

Net interest income was $77.9 million for the third quarter of 2020, flat from the third quarter of 2019. The FTE net interest margin was 3.17% for the three months ended September 30, 2020, down 40 bps from the third quarter of 2019. Interest income decreased $7.4 million, or 8.0%, as the yield on average interest-earning assets decreased 77 bps from the same period in 2019 to 3.45%, while average interest-earning assets increased $1.1 billion, primarily due to excess liquidity and an increase in average loans due to PPP loan originations. Interest expense decreased $7.3 million, or 50.8%, as the cost of interest-bearing liabilities decreased 51 bps, driven by interest-bearing deposit costs decreasing 51 bps along with a 97 bps decrease in short-term borrowings cost. The Federal Reserve lowered its target fed funds rate by 150 basis points in the first quarter of 2020.

Net interest income for the first nine months of 2020 was $235.6 million, up $1.2 million, or 0.5%, from the same period in 2019. FTE net interest margin of 3.35% for the nine months ended September 30, 2020, was down from 3.61% for the same period in 2019. Interest income decreased $15.1 million, or 5.5%, as the yield on average interest-earning assets decreased 54 bps from the same period in 2019 to 3.72%, while average interest-earning assets increased $693.3 million primarily due to excess liquidity and an increase in average loans due to PPP loan originations. Interest expense was down $16.3 million, or 38.3%, for the nine months ended September 30, 2020 as compared to the same period in 2019 as the cost of interest-bearing liabilities decreased 38 bps to 0.57%, driven by interest-bearing deposit costs decreasing 32 bps along with the 72 bps decrease in short-term borrowings cost. The Federal Reserve lowered its target fed funds rate by 150 basis points in the first quarter of 2020.

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, 2020			September 30, 2019		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rates	Average Balance	Interest	Yield/ Rates
Assets:						
Short-term interest-bearing accounts	**$ 477,946**	**$ 130**	**0.11%**	$ 57,530	$ 283	1.95%
Securities available for sale [(1)] [(3)]	**1,137,604**	**5,603**	**1.96%**	940,256	5,711	2.41%
Securities held to maturity [(1)] [(3)]	**621,812**	**4,008**	**2.56%**	698,617	4,879	2.77%
Federal Reserve Bank and FHLB stock	**29,720**	**529**	**7.08%**	40,525	719	7.04%
Loans [(2)] [(3)]	**7,559,218**	**75,049**	**3.95%**	6,987,476	81,163	4.61%
Total interest-earning assets	**$ 9,826,300**	**$ 85,319**	**3.45%**	$ 8,724,404	$ 92,755	4.22%
Other assets	**967,194**			852,616		
Total assets	**$ 10,793,494**			$ 9,577,020		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 2,364,606**	**$ 1,680**	**0.28%**	$ 2,015,297	$ 6,281	1.24%
NOW deposit accounts	**1,207,064**	**144**	**0.05%**	1,056,001	340	0.13%
Savings deposits	**1,447,021**	**192**	**0.05%**	1,274,793	188	0.06%
Time deposits	**684,708**	**2,251**	**1.31%**	893,837	3,936	1.75%
Total interest-bearing deposits	**$ 5,703,399**	**$ 4,267**	**0.30%**	$ 5,239,928	$ 10,745	0.81%
Short-term borrowings	**277,890**	**446**	**0.64%**	490,694	1,989	1.61%
Long-term debt	**64,137**	**398**	**2.47%**	84,250	498	2.35%
Subordinated debt	**97,934**	**1,375**	**5.59%**	-	-	-
Junior subordinated debt	**101,196**	**565**	**2.22%**	101,196	1,095	4.29%
Total interest-bearing liabilities	**$ 6,244,556**	**$ 7,051**	**0.45%**	$ 5,916,068	$ 14,327	0.96%
Demand deposits	**$ 3,111,617**			$ 2,389,617		
Other liabilities	**282,265**			185,374		
Stockholders' equity	**1,155,056**			1,085,961		
Total liabilities and stockholders' equity	**$ 10,793,494**			$ 9,577,020		
Net interest income (FTE)		**$ 78,268**			$ 78,428	
Interest rate spread			**3.00%**			3.26%
Net interest margin (FTE)			**3.17%**			3.57%
Taxable equivalent adjustment		**$ 325**			$ 374	
Net interest income		**$ 77,943**			$ 78,054	

(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 a FTE basis using the statutory Federal income tax rate of 21%.

Nine Months Ended	**September 30, 2020**			**September 30, 2019**		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**
Assets:						
Short-term interest-bearing accounts	**$ 311,577**	**$ 464**	**0.20%**	$ 30,970	$ 457	1.97%
Securities available for sale [1] [3]	**1,028,962**	**16,956**	**2.20%**	968,517	17,695	2.44%
Securities held to maturity [1] [3]	**619,379**	**12,562**	**2.71%**	750,305	15,921	2.84%
Federal Reserve Bank and FHLB stock	**35,349**	**1,674**	**6.33%**	45,254	2,271	6.71%
Loans [2] [3]	**7,437,566**	**231,168**	**4.15%**	6,944,518	241,932	4.66%
Total interest-earning assets	**$ 9,432,833**	**$ 262,824**	**3.72%**	$ 8,739,564	$ 278,276	4.26%
Other assets	**938,296**			821,859		
Total assets	**$ 10,371,129**			$ 9,561,423		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 2,275,765**	**$ 8,646**	**0.51%**	$ 1,912,572	$ 16,255	1.14%
NOW deposit accounts	**1,153,780**	**548**	**0.06%**	1,105,919	1,157	0.14%
Savings deposits	**1,369,219**	**553**	**0.05%**	1,269,723	550	0.06%
Time deposits	**762,548**	**8,436**	**1.48%**	929,819	11,843	1.70%
Total interest-bearing deposits	**$ 5,561,312**	**$ 18,183**	**0.44%**	$ 5,218,033	$ 29,805	0.76%
Short-term borrowings	**412,312**	**3,215**	**1.04%**	607,155	7,986	1.76%
Long-term debt	**64,165**	**1,184**	**2.46%**	80,162	1,391	2.32%
Subordinated debt	**35,750**	**1,503**	**5.62%**	-	-	-
Junior subordinated debt	**101,196**	**2,186**	**2.89%**	101,196	3,404	4.50%
Total interest-bearing liabilities	**$ 6,174,735**	**$ 26,271**	**0.57%**	$ 6,006,546	$ 42,586	0.95%
Demand deposits	**$ 2,800,297**			$ 2,332,965		
Other liabilities	**256,226**			166,537		
Stockholders' equity	**1,139,871**			1,055,375		
Total liabilities and stockholders' equity	**$ 10,371,129**			$ 9,561,423		
Net interest income (FTE)		**$ 236,553**			$ 235,690	
Interest rate spread			**3.15%**			3.31%
Net interest margin (FTE)			**3.35%**			3.61%
Taxable equivalent adjustment		**$ 983**			$ 1,318	
Net interest income		**$ 235,570**			$ 234,372	

(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 a 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) 2020 over 2019**		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest-bearing accounts	**$ 337**	**$ (490)**	**$ (153)**
Securities available for sale	**1,069**	**(1,177)**	**(108)**
Securities held to maturity	**(519)**	**(352)**	**(871)**
Federal Reserve Bank and FHLB stock	**(194)**	**4**	**(190)**
Loans	**6,198**	**(12,312)**	**(6,114)**
Total FTE interest income	**$ 6,891**	**$ (14,327)**	**$ (7,436)**
Money market deposit accounts	**$ 929**	**$ (5,530)**	**$ (4,601)**
NOW deposit accounts	**43**	**(239)**	**(196)**
Savings deposits	**24**	**(20)**	**4**
Time deposits	**(812)**	**(873)**	**(1,685)**
Short-term borrowings	**(646)**	**(897)**	**(1,543)**
Long-term debt	**(125)**	**25**	**(100)**
Subordinated debt	**1,375**	**-**	**1,375**
Junior subordinated debt	**-**	**(530)**	**(530)**
Total FTE interest expense	**$ 788**	**$ (8,064)**	**$ (7,276)**
Change in FTE net interest income	**$ 6,103**	**$ (6,263)**	**$ (160)**

Nine Months Ended September 30,	**Increase (Decrease) 2020 over 2019**		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest-bearing accounts	**$ 755**	**$ (748)**	**$ 7**
Securities available for sale	**1,069**	**(1,808)**	**(739)**
Securities held to maturity	**(2,669)**	**(690)**	**(3,359)**
Federal Reserve Bank and FHLB stock	**(473)**	**(124)**	**(597)**
Loans	**16,542**	**(27,306)**	**(10,764)**
Total FTE interest income	**$ 15,224**	**$ (30,676)**	**$ (15,452)**
Money market deposit accounts	**$ 2,657**	**$ (10,266)**	**$ (7,609)**
NOW deposit accounts	**48**	**(657)**	**(609)**
Savings deposits	**42**	**(39)**	**3**
Time deposits	**(1,964)**	**(1,443)**	**(3,407)**
Short-term borrowings	**(2,101)**	**(2,670)**	**(4,771)**
Long-term debt	**(290)**	**83**	**(207)**
Subordinated debt	**1,503**	**-**	**1,503**
Junior subordinated debt	**-**	**(1,218)**	**(1,218)**
Total FTE interest expense	**$ (105)**	**$ (16,210)**	**$ (16,315)**
Change in net FTE interest income	**$ 15,329**	**$ (14,466)**	**$ 863**

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)	2020	2019	2020	2019
Service charges on deposit accounts	**$ 3,087**	$ 4,330	**$ 9,613**	$ 12,790
ATM and debit card fees	**7,194**	6,277	**19,184**	17,958
Retirement plan administration fees	**9,685**	7,600	**26,840**	23,170
Wealth management	**7,695**	7,630	**21,791**	21,315
Insurance	**3,742**	4,000	**11,303**	12,291
Bank owned life insurance	**1,255**	1,556	**4,010**	4,119
Net securities gains (losses)	**84**	4,036	**(548)**	4,024
Other	**4,985**	4,291	**15,968**	12,115
Total noninterest income	**$ 37,727**	$ 39,720	**$ 108,161**	$ 107,782

Noninterest income for the three months ended September 30, 2020 was $37.7 million, up $2.7 million, or 7.8%, from the prior quarter and down $2.0 million, or 5.0%, from the third quarter of 2019. Excluding net securities gains (losses), noninterest income for the three months ended September 30, 2020 would have been $37.6 million, up $2.8 million, or 8.1%, from the prior quarter and up $2.0 million, or 5.5%, from the third quarter of 2019. The increase from the prior quarter was primarily driven by higher service charges on deposit accounts due to lower overdraft charges during the COVID-19 pandemic that recovered but continue to run lower than that prior year levels, higher ATM and debit card fees due to increased volume and higher per transaction rates, higher retirement plan administration fees due to the April 1, 2020 acquisition of Alliance Benefit Group of Illinois, Inc. ("ABG"), which contributed $1.7 million in revenues during the third quarter of 2020 and higher wealth management fees due to seasonality of tax revenue and market conditions. The increase from the third quarter of 2019 was primarily due to the increase in retirement plan administration fees due to the ABG acquisition, higher ATM and debit card fess due to increased volume and higher per transaction rates, an increase in other noninterest income due primarily to higher mortgage banking income, which was partly offset by lower service charges on deposit accounts due to lower overdraft charges during the COVID-19 pandemic.

Noninterest income for the nine months ended September 30, 2020 was $108.2 million, up $0.4 million, or 0.4%, from the same period in 2019. Excluding net securities gains (losses), noninterest income for the nine months ended September 30, 2020 would have been $108.7 million, up $5.0 million, or 4.8%, from the same period in 2019. The increase from the prior year was driven by an increase in retirement plan administration fees due to the ABG acquisition, an increase in other noninterest income due primarily to higher swap fee income and mortgage banking income, and an increase in ATM and debit card fees due to increased volume and higher per transaction rates, partly offset by lower service charges on deposit accounts due to lower overdraft charges during the COVID-19 pandemic.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2020	2019	2020	2019
Salaries and employee benefits	**$ 40,451**	$ 39,352	**$ 120,918**	$ 117,275
Occupancy	**5,294**	5,335	**16,354**	17,053
Data processing and communications	**4,058**	4,492	**12,370**	13,599
Professional fees and outside services	**3,394**	3,535	**10,694**	10,562
Equipment	**5,073**	4,487	**14,494**	13,762
Office supplies and postage	**1,530**	1,667	**4,621**	4,835
FDIC expense (credit)	**645**	(20)	**1,949**	1,946
Advertising	**530**	677	**1,461**	1,821
Amortization of intangible assets	**856**	874	**2,573**	2,735
Loan collection and other real estate owned, net	**620**	976	**2,365**	2,722
Other	**3,857**	8,374	**14,730**	18,130
Total noninterest expense	**$ 66,308**	$ 69,749	**$ 202,529**	$ 204,440

Noninterest expense for the three months ended September 30, 2020 was $66.3 million, up $1.0 million, or 1.5%, from the prior quarter and down $3.4 million, or 4.9%, from the third quarter of 2019. The increase from the prior quarter was due to higher salaries and employee benefits due to timing of medical expenses during the COVID-19 pandemic and equipment expense was higher due to higher technology costs associated with several digital upgrades. The decrease in noninterest expense from the third quarter of 2019 was due to lower travel and training expenses during the pandemic, lower pension costs and $3.1 million in reorganization expenses incurred during the third quarter of 2019 primarily related to branch optimization strategies to improve future operating efficiencies. This was partly offset by higher salaries and employee benefits due to the addition of ABG's salaries and benefits, higher FDIC expense due to the benefit of the FDIC insurance assessment small bank credit in the third quarter of 2019 and higher equipment expense due to higher technology costs associated with several digital upgrades.

Noninterest expense for the nine months ended September 30, 2020 was $202.5 million, down $1.9 million, or 0.9%, from the same period in 2019. The decrease from the prior year was driven by the previously mentioned $3.1 million in reorganization expenses in 2019, and lower data processing communication expense and lower occupancy expense driven by the COVID-19 pandemic. This was partly offset by higher salaries and employee benefits due to the ABG acquisition and higher equipment expense due to higher technology costs associated with several digital upgrades.

Income Taxes

Income tax expense for the three months ended September 30, 2020 was $11.0 million, up $4.4 million from the prior quarter and up $1.7 million from the third quarter of 2019. The effective tax rate of 23.8% for the third quarter of 2020 was higher compared to 21.0% in the prior quarter and higher compared to 22.4% for the third quarter of 2019. The higher effective tax rate compared to the second quarter of 2020 was due to higher level of taxable income relative to total income and included a true-up of tax expense to bring the full year estimated effective tax rate to 21.8%. The higher effective tax rate compared to the third quarter of 2019 was due to a higher level of taxable income relative to total income.

Income tax expense for the nine months ended September 30, 2020 was $19.3 million, down $7.0 million from the same period of 2019. The effective tax rate of 21.5% for the first nine months of 2020 was down from 22.2% for the same period in the prior year. The decrease in income tax expense from the prior year was due to a lower level of taxable income as a result of the COVID-19 pandemic and increased provision for loan losses.

ANALYSIS OF FINANCIAL CONDITION

Securities

Total securities increased $258.6 million, or 15.8%, from December 31, 2019 to September 30, 2020. The securities portfolio represents 17.4% of total assets as of September 30, 2020 as compared to 16.8% as of December 31, 2019.

The following table details the composition of securities available for sale, securities held to maturity and equity securities for the periods indicated:

	September 30, 2020	December 31, 2019
Mortgage-backed securities:		
With maturities 15 years or less	**19%**	25%
With maturities greater than 15 years	**10%**	12%
Collateralized mortgage obligations	**38%**	45%
Municipal securities	**12%**	10%
U.S. agency notes	**19%**	6%
Corporate	**1%**	-
Equity securities	**1%**	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, Federal Home Loan Bank, 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. Refer to Note 3 to the Company's unaudited interim consolidated financial statements included in this Form 10-Q for information related to credit impairment considerations.

Loans

A summary of loans, net of deferred fees and origination costs, by type[1] for the periods indicated follows:

(In thousands)	September 30, 2020	December 31, 2019
Commercial	**$ 1,297,408**	$ 1,302,209
Commercial real estate	**2,281,843**	2,142,057
Paycheck protection program	**514,558**	-
Residential real estate mortgages	**1,448,530**	1,445,156
Indirect auto	**989,369**	1,193,635
Specialty lending	**566,973**	542,063
Home equity	**404,346**	444,082
Other consumer	**57,616**	66,896
Total loans	**$ 7,560,643**	$ 7,136,098

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

Total loans increased by $424.5 million from December 31, 2019 to September 30, 2020. Excluding PPP loans, period end loans decreased $90.0 million from December 31, 2019. Commercial and industrial loans decreased $4.8 million to $1.3 billion; commercial real estate loans increased $139.8 million to $2.3 billion; and total consumer loans decreased $225.0 million to $3.5 billion, driven by managed run-off of indirect auto loans. Total loans represent approximately 69.7% of assets as of September 30, 2020, as compared to 73.4% as of December 31, 2019.

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

Management considers the accounting policy relating to the allowance for credit losses to be a critical accounting policy 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.

As a result of our January 1, 2020, adoption of CECL and its related amendments, our methodology for estimating the reserve for credit losses changed significantly from December 31, 2019. The Company recorded a net decrease to retained earnings of $4.3 million as of January 1, 2020 for the cumulative effect of adopting ASU 2016-13. The transition adjustment includes a $3.0 million impact due to the allowance for credit losses on loans, $2.8 million impact due to the allowance for unfunded commitments reserve, and $1.5 million impact to the deferred tax asset. After a thorough consideration and validation of the factors discussed in Note 2 to the Company's unaudited interim consolidated financial statements included in this Form 10-Q, 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. 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.

The allowance for credit losses totaled $114.5 million at September 30, 2020, compared to $113.5 million at June 30, 2020 and $72.4 million at September 30, 2019. The allowance for credit losses as a percentage of loans was 1.51% (1.62% excluding PPP loans) at September 30, 2020, compared to 1.49% (1.59% excluding PPP loans) at June 30, 2020 and 1.03% at September 30, 2019. The increase in the allowance for credit losses from June 30, 2020 to September 30, 2020 was primarily due to the specific allowance for credit losses on individually analyzed credits and a change in loan portfolio mix shift within the consumer portfolio as indirect auto balances declined and other consumer balances increased. The increase in the allowance for credit losses from September 30, 2019 was primarily due to the implementation of CECL and the incorporation of a deteriorated economic forecast due to the COVID-19 pandemic.

The provision for loan losses was $3.3 million for three months ended September 30, 2020, compared to $18.8 million in the prior quarter and $6.3 million for the same period in the prior year. Provision expense decreased from the prior quarter due to lower net charge-offs and a fairly stable to somewhat improved economic conditions in the CECL forecast. Provision expense decreased from the same period in the prior year due primarily to a decrease in net charge-offs. Net charge-offs totaled $2.3 million during the three months ended September 30, 2020, compared to net charge-offs of $5.3 million during the second quarter of 2020 and $6.1 million in the third quarter of 2019.

The provision for loan losses was $51.7 million for the nine months ended September 30, 2020, compared to $19.4 million for the nine months ended September 30, 2019. Net charge-offs totaled $13.2 million during the nine months ended September 30, 2020, compared to net charge-offs of $19.5 million during the nine months ended September 30, 2019. The higher provision for loan losses in the nine months ended September 30, 2020 when compared to the nine months ended September 30, 2019 was driven by both the implementation of CECL and the incorporation of a deteriorated economic forecast due to the COVID-19 pandemic. The Company expects that with the adoption of CECL beginning on January 1, 2020, provision expense may become more volatile due to changes in CECL model assumptions of credit quality, macroeconomic factors and conditions, and loan composition, which drive the allowance for credit losses balance.

As of September 30, 2020, the unfunded commitment reserve totaled $5.5 million, compared to $5.5 million as of June 30, 2020 and $0.9 million as of September 30, 2019. The increase in the unfunded commitment reserve in 2020 compared to 2019 is related to an increase in expected losses due to the adoption of CECL and the deterioration of the economic forecast due to COVID-19.

Nonperforming assets consist of nonaccrual loans, loans 90 days or more past due and still accruing, restructured loans, other real estate owned ("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. In the third quarter of 2019 the threshold for evaluating classified and nonperforming loans specifically evaluated for impairment was increased from $750 thousand to $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.

	September 30, 2020		December 31, 2019	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Nonaccrual loans:				
Commercial	**$ 20,707**	**58%**	$ 12,379	49%
Residential real estate	**7,986**	**22%**	5,233	21%
Consumer	**3,270**	**9%**	4,046	16%
Troubled debt restructured loans	**3,933**	**11%**	3,516	14%
Total nonaccrual loans	**$ 35,896**	**100%**	$ 25,174	100%
Loans 90 days or more past due and still accruing:				
Commercial	**$ 12**	**-**	$ -	-
Residential real estate	**620**	**24%**	927	25%
Consumer	**1,947**	**76%**	2,790	75%
Total loans 90 days or more past due and still accruing	**$ 2,579**	**100%**	$ 3,717	100%
Total nonperforming loans	**$ 38,475**		$ 28,891	
OREO	**1,605**		1,458	
Total nonperforming assets	**$ 40,080**		$ 30,349	
Total nonperforming loans to total loans	**0.51%**		0.40%	
Total nonperforming assets to total assets	**0.37%**		0.31%	
Allowance for loan losses to total nonperforming loans	**297.60%**		252.55%	

Excluding PPP loan originations, nonperforming loans to total loans was 0.55% at September 30, 2020, up 16 bps from 0.39% at June 30, 2020 and up 8 bps from 0.47% at September 30, 2019. The increase in nonperforming loans resulted primarily from two COVID-19 impacted commercial relationships totaling $10.9 million moving to non-accrual. Past due loans as a percentage of total loans was 0.26% at September 30, 2020 (0.28% excluding PPP loan originations), down from 0.30% at June 30, 2020 (0.32% excluding PPP loan originations) and down from 0.57% at September 30, 2019.

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The CARES Act, along with a joint agency statement issued by banking regulatory agencies, provides that short-term modifications made in response to COVID-19 do not need to be accounted for as a TDR. The Company evaluated the short-term modification programs provided to its borrowers and has concluded the modifications were generally made to borrowers who were in good standing prior to the COVID-19 pandemic and the modifications were temporary and minor in nature and therefore do not qualify for designation as TDRs. As of September 30, 2020, 3.1% of total loans outstanding were in payment deferral programs, of which 80% are commercial borrowers and 20% are consumer borrowers. As of September 30, 2020, there were $233 million in loans in modification programs related to COVID-19.

In addition to nonperforming loans discussed above, the Company has also identified approximately $134.1 million in potential problem loans at September 30, 2020 as compared to $84.1 million at December 31, 2019. The increase in potential problem loans is primarily due to the Company's proactive approach to risk ratings throughout the deferral process and relates to higher risk industries impacted by the COVID-19 pandemic. Higher risk industries include entertainment, restaurants, retail, healthcare and accommodations. As of September 30, 2020, 9.5% of the Company's outstanding loans were in higher risk industries due to the COVID-19 pandemic. 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." 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 90 days or more past due, be placed on nonaccrual, become restructured 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 $9.0 billion at September 30, 2020, up $1.4 billion, or 18.1%, from December 31, 2019. Total average deposits increased $810.6 million, or 10.7%, from the same period last year. The growth was driven primarily by an increase of $467.3 million, or 20.0%, in demand deposits, combined with an increase in interest-bearing deposits of $343.3 million, or 6.6%, due to growth in money market deposit account ("MMDA") partly offset by a decrease in time accounts. The high rate of deposit growth was primarily due to funding of PPP loans and various government support programs.

Borrowed Funds

The Company's borrowed funds consist of short-term borrowings and long-term debt. Short-term borrowings totaled $183.5 million at September 30, 2020 compared to $655.3 million at December 31, 2019. The notional value of interest rate swaps hedging cash flows related to short-term borrowings totaled $25.0 million at September 30, 2020 and $50.0 million at December 31, 2019. Long-term debt was $64.1 million at September 30, 2020 and $64.2 million at December 31, 2019.

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 Secured Overnight Financing Rate ("SOFR") plus a spread of 4.85%, payable quarterly in arrears commencing on October 1, 2025. The subordinated debt issuance cost, which is being amortized on a straight-line basis, was $2.2 million. As of September 30, 2020 the subordinated debt net of unamortized issuance costs was $97.9 million.

Capital Resources

Stockholders' equity of $1.2 billion represented 10.75% of total assets at September 30, 2020 compared with $1.1 billion, or 11.53% as of December 31, 2019. Stockholders' equity was consistent with December 31, 2019 as net income of $70.2 million for the nine months ending September 30, 2020 and an increase in accumulated other comprehensive income of $21.0 million was offset by dividends declared of $35.4 million during the period, repurchase of common stock of $8.0 million and a $4.3 million negative adjustment due to the adoption of CECL.

The Company repurchased 263,507 shares of common stock during the first quarter of 2020 at a weighted average price of $30.25 excluding commissions under a previous announced plan. As of September 30, 2020, there were 736,493 shares available for repurchase under this plan authorized on October 28, 2019 and set to expire on December 31, 2021. The Company suspended repurchases during the first quarter and does not expect to repurchase additional shares at this time.

The Board of Directors considers the Company's earnings position and earnings potential when making dividend decisions. The Board of Directors approved a fourth-quarter 2020 cash dividend of $0.27 per share at a meeting held on October 26, 2020. The dividend will be paid on December 15, 2020 to stockholders of record as of December 1, 2020.

As the capital ratios in the following table indicate, the Company remained "well capitalized" at September 30, 2020 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, 2020**	**December 31, 2019**
Tier 1 leverage ratio	**9.48%**	10.33%
Common equity tier 1 capital ratio	**11.63%**	11.29%
Tier 1 capital ratio	**12.88%**	12.56%
Total risk-based capital ratio	**15.43%**	13.52%
Cash dividends as a percentage of net income	**50.46%**	38.02%
Per common share:		
Book value	**$ 26.74**	$ 25.58
Tangible book value(1)	**$ 20.02**	$ 19.03
Tangible equity ratio(2)	**8.27%**	8.84%

(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 Office of Comptroller of the Currency ("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 is 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. 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 adjusting 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 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, 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. Three additional models are run in which a gradual increase of 200 bps, a gradual increase of 100 bps and a gradual decrease of 50 bps take 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 risks.

In the declining rate scenario, net interest income is projected to 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 rolling over at lower yields while interest-bearing liabilities remain at or near their floors. In the rising rate scenarios, net interest income is projected to experience a modest increase from the flat rate scenario; however, the potential impact on earnings may be affected by the ability to lag deposit repricing on NOW, savings, MMDA and time accounts. Net interest income for the next twelve months in the + 200/+100/-50 bp scenarios, as described above, is within the internal policy risk limits of not more than a 7.5% change 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, 2020 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates (in bps points)	Percent change in net interest income
+200	0.89%
+100	1.37%
-50	(0.26%)

The Company anticipates that the trajectory of net interest income will depend significantly on the depth and duration of the current economic downturn. In response to the economic impact of the pandemic, the federal funds rate was reduced by 150 bps in March 2020, and term interest rates fell sharply across the yield curve. The Company has reduced deposit rates, but future reductions are likely to be smaller and more selective. With deposit rates near their lower bound, the Company will focus on managing asset yields in order to maintain the net interest margin. Competitive pressure may limit the Company's ability to maintain asset yields in the current environment, however.

Liquidity Risk

Liquidity involves the ability to 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, 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.

The primary liquidity measurement the Company utilizes is called the “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, 2020, the Company’s Basic Surplus measurement was 25.5% of total assets or approximately $2.8 billion as compared to the December 31, 2019 Basic Surplus of 15.8% or $1.5 billion and was above the Company’s minimum of 5% (calculated at $542.5 million and $485.8 million, of period end total assets as September 30, 2020 and December 31, 2019, respectively) set forth in its liquidity policies.

At September 30, 2020 and December 31, 2019, Federal Home Loan Bank (“FHLB”) advances outstanding totaled $159.2 million and $585.8 million, respectively. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $1.5 billion at September 30, 2020 and $1.2 billion at December 31, 2019. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $720.8 million and $627.6 million at September 30, 2020 and December 31, 2019, respectively, or used to collateralize other borrowings, such as repurchase agreements. The Company also has the ability to purchase brokered time deposits and borrow against established borrowing facilities with other banks (federal funds), which could provide additional liquidity of $1.8 billion at September 30, 2020 and $1.4 billion at December 31, 2019. In addition, the Bank has a “Borrower-in-Custody” program with the FRB with the ability to pledge automobile loans as collateral. At September 30, 2020 and December 31, 2019, the Bank had the capacity to borrow $713.6 million and $837.3 million, respectively, from this program. The Company’s internal policies authorize borrowing up to 25% of assets. Under this policy, remaining available borrowing capacity totaled $2.6 billion at September 30, 2020 and $1.8 billion at December 31, 2019.

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 considered its Basic Surplus position to be very strong. However, certain events may adversely impact the Company’s liquidity position in 2020. The large inflow of deposits experienced in the second quarter of 2020 could reverse itself and flow out. 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%. Significant monetary and fiscal policy actions taken by the federal government have helped to mitigate these risks. Enhanced liquidity monitoring was put in place to quickly respond to the changing environment during the COVID-19 pandemic including increasing the frequency of monitoring and adding additional sources of liquidity.

At September 30, 2020, a portion of the Company’s loans and securities were pledged as collateral on borrowings. Therefore, once on-balance-sheet liquidity is depleted, 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 the Bank. Certain restrictions exist regarding the ability of the subsidiary 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, 2020, approximately $173.5 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, 2020, the Company's disclosure controls and procedures were effective.

Effective January 1, 2020, the Company adopted the CECL accounting standard. The Company designed new controls and modified existing controls as part of its adoption. These additional controls over financial reporting included controls over model creation and design, model governance, assumptions, and expanded controls over loan level data. There were no other changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, except as described in the Company’s 2019 Annual Report on Form 10-K.

Item 1A – RISK FACTORS

There are no material changes to the risk factors as previously discussed in Part I, Item 1A of our 2019 Annual Report on Form 10-K, for the year ended December 31, 2019 and updated in Part II, Item 1A of our Quarterly Report on Form 10-Q for the periods ended March 31, 2020 and June 30, 2020.

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

None

Item 6 – EXHIBITS

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 6th day of November 2020.

NBT BANCORP INC.

By: /s/ John V. Moran

John V. Moran
Executive Vice President
Chief Financial Officer

EXHIBIT 31.1

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

I, John H. Watt, Jr., 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 6, 2020

By: /s/ John H. Watt, Jr.
John H. Watt, Jr.
Chief Executive Officer

EXHIBIT 31.2

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

I, John V. Moran, 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 6, 2020

By: /s/ John V. Moran

John V. Moran
Executive Vice President and
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, 2020, 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/ John H. Watt, Jr.
John H. Watt, Jr.
Chief Executive Officer
November 6, 2020

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 his knowledge on the date hereof:

(a) the Form 10-Q of the Company for the Quarterly Period Ended September 30, 2020, 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/ John V. Moran

John V. Moran
Executive Vice President and
Chief Financial Officer
November 6, 2020

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.