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, 2021.

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 29, 2021, there were 43,349,877 shares outstanding of the Registrant's Common Stock, $0.01 par value per share.

NBT BANCORP INC.
FORM 10-Q - Quarter Ended September 30, 2021

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Item 1 – FINANCIAL STATEMENTS

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

(In thousands, except share and per share data)	September 30, 2021	December 31, 2020
Assets		
Cash and due from banks	**$ 215,032**	$ 159,995
Short-term interest-bearing accounts	**1,131,074**	512,686
Equity securities, at fair value	**33,013**	30,737
Securities available for sale, at fair value	**1,576,030**	1,348,698
Securities held to maturity (fair value $689,129 and $636,827, respectively)	**683,103**	616,560
Federal Reserve and Federal Home Loan Bank stock	**25,161**	27,353
Loans held for sale	**1,024**	1,119
Loans	**7,566,442**	7,498,885
Less allowance for loan losses	**93,000**	110,000
Net loans	**$ 7,473,442**	$ 7,388,885
Premises and equipment, net	**71,928**	74,206
Goodwill	**280,541**	280,541
Intangible assets, net	**9,578**	11,735
Bank owned life insurance	**227,451**	186,434
Other assets	**267,034**	293,957
Total assets	**$ 11,994,411**	$ 10,932,906
Liabilities		
Demand (noninterest bearing)	**$ 3,748,162**	$ 3,241,123
Savings, NOW and money market	**5,894,743**	5,207,090
Time	**552,273**	633,479
Total deposits	**$ 10,195,178**	$ 9,081,692
Short-term borrowings	**99,715**	168,386
Long-term debt	**14,020**	39,097
Subordinated debt, net	**98,380**	98,052
Junior subordinated debt	**101,196**	101,196
Other liabilities	**244,465**	256,865
Total liabilities	**$ 10,752,954**	$ 9,745,288
Stockholders' equity		
Preferred stock, $0.01 par value. Authorized 2,500,000 shares at September 30, 2021 and December 31, 2020	**$ -**	$ -
Common stock, $0.01 par value. Authorized 100,000,000 shares at September 30, 2021 and December 31, 2020; issued 49,651,493 at September 30, 2021 and December 31, 2020	**497**	497
Additional paid-in-capital	**577,222**	578,082
Retained earnings	**831,017**	749,056
Accumulated other comprehensive (loss) income	**(14,492)**	417
Common stock in treasury, at cost, 6,313,800 and 6,022,399 shares at September 30, 2021 and December 31, 2020, respectively	**(152,787)**	(140,434)
Total stockholders' equity	**$ 1,241,457**	$ 1,187,618
Total liabilities and stockholders' equity	**$ 11,994,411**	$ 10,932,906

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,	
	2021	**2020**	**2021**	**2020**
(In thousands, except per share data)				
Interest, fee and dividend income				
Interest and fees on loans	**$ 72,817**	$ 74,998	**$ 222,705**	$ 230,996
Securities available for sale	**5,898**	5,603	**17,204**	16,956
Securities held to maturity	**2,976**	3,734	**9,454**	11,751
Other	**524**	659	**1,206**	2,138
Total interest, fee and dividend income	**$ 82,215**	$ 84,994	**$ 250,569**	$ 261,841
Interest expense				
Deposits	**$ 2,548**	$ 4,267	**$ 8,582**	$ 18,183
Short-term borrowings	**28**	446	**130**	3,215
Long-term debt	**89**	398	**301**	1,184
Subordinated debt	**1,359**	1,375	**4,077**	1,503
Junior subordinated debt	**517**	565	**1,572**	2,186
Total interest expense	**$ 4,541**	$ 7,051	**$ 14,662**	$ 26,271
Net interest income	**$ 77,674**	$ 77,943	**$ 235,907**	$ 235,570
Provision for loan losses	**(3,342)**	3,261	**(11,354)**	51,741
Net interest income after provision for loan losses	**$ 81,016**	$ 74,682	**$ 247,261**	$ 183,829
Noninterest income				
Service charges on deposit accounts	**$ 3,489**	$ 3,087	**$ 9,544**	$ 9,613
ATM and debit card fees	**8,172**	7,194	**23,343**	19,184
Retirement plan administration fees	**10,495**	9,685	**30,372**	26,840
Wealth management fees	**8,783**	7,695	**25,099**	21,791
Insurance services	**3,720**	3,742	**10,689**	11,303
Bank owned life insurance income	**1,548**	1,255	**4,588**	4,010
Net securities (losses) gains	**(100)**	84	**568**	(548)
Other	**4,222**	4,985	**12,480**	15,968
Total noninterest income	**$ 40,329**	$ 37,727	**$ 116,683**	$ 108,161
Noninterest expense				
Salaries and employee benefits	**$ 44,190**	$ 40,451	**$ 128,462**	$ 120,918
Occupancy	**5,117**	5,294	**16,281**	16,354
Data processing and communications	**3,881**	4,058	**13,039**	12,370
Professional fees and outside services	**3,784**	3,394	**11,403**	10,694
Equipment	**5,577**	5,073	**16,247**	14,494
Office supplies and postage	**1,364**	1,530	**4,478**	4,621
FDIC expense	**772**	645	**2,243**	1,949
Advertising	**583**	530	**1,502**	1,461
Amortization of intangible assets	**663**	856	**2,157**	2,573
Loan collection and other real estate owned, net	**706**	620	**1,959**	2,365
Other	**6,232**	3,857	**14,405**	14,730
Total noninterest expense	**$ 72,869**	$ 66,308	**$ 212,176**	$ 202,529
Income before income tax expense	**$ 48,476**	$ 46,101	**$ 151,768**	$ 89,461
Income tax expense	**11,043**	10,988	**34,193**	19,267
Net income	**$ 37,433**	$ 35,113	**$ 117,575**	$ 70,194
Earnings per share				
Basic	**$ 0.86**	$ 0.80	**$ 2.71**	$ 1.61
Diluted	**$ 0.86**	$ 0.80	**$ 2.69**	$ 1.60

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,	
	2021	2020	**2021**	2020
(In thousands)				
Net income	**$ 37,433**	$ 35,113	**$ 117,575**	$ 70,194
Other comprehensive income (loss), net of tax:				
Securities available for sale:				
Unrealized net holding (losses) gains arising during the period, gross	**$ (7,426)**	$ (1,263)	**$ (21,329)**	$ 26,509
Tax effect	**1,857**	316	**5,332**	(6,627)
Unrealized net holding (losses) gains arising during the period, net	**$ (5,569)**	$ (947)	**$ (15,997)**	$ 19,882
Reclassification adjustment for net gains in net income, gross	**$ -**	$ -	**$ -**	$ (3)
Tax effect	**-**	-	**-**	1
Reclassification adjustment for net gains in net income, net	**$ -**	$ -	**$ -**	$ (2)
Amortization of unrealized net gains for the reclassification of available for sale securities to held to maturity, gross	**$ 149**	$ 157	**$ 434**	$ 495
Tax effect	**(38)**	(39)	**(109)**	(124)
Amortization of unrealized net gains for the reclassification of available for sale securities to held to maturity, net	**$ 111**	$ 118	**$ 325**	$ 371
Total securities available for sale, net	**$ (5,458)**	$ (829)	**$ (15,672)**	$ 20,251
Cash flow hedges:				
Unrealized losses on derivatives (cash flow hedges), gross	**$ -**	$ -	**$ -**	$ (274)
Tax effect	**-**	-	**-**	69
Unrealized losses on derivatives (cash flow hedges), net	**$ -**	$ -	**$ -**	$ (205)
Reclassification of net unrealized losses on cash flow hedges to interest (income), gross	**$ -**	$ 101	**$ 21**	$ 192
Tax effect	**-**	(25)	**(5)**	(48)
Reclassification of net unrealized losses on cash flow hedges to interest (income), net	**$ -**	$ 76	**$ 16**	$ 144
Total cash flow hedges, net	**$ -**	$ 76	**$ 16**	$ (61)
Pension and other benefits:				
Amortization of prior service cost and actuarial losses, gross	**$ 344**	$ 381	**$ 996**	$ 1,143
Tax effect	**(86)**	(95)	**(249)**	(286)
Amortization of prior service cost and actuarial losses, net	**$ 258**	$ 286	**$ 747**	$ 857
Total pension and other benefits, net	**$ 258**	$ 286	**$ 747**	$ 857
Total other comprehensive (loss) income	**$ (5,200)**	$ (467)	**$ (14,909)**	$ 21,047
Comprehensive income	**$ 32,233**	$ 34,646	**$ 102,666**	$ 91,241

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, 2021	**$ 497**	**$ 576,732**	**$ 805,722**	**$ (9,292)**	**$ (148,603)**	**$ 1,225,056**
Net income	-	-	37,433	-	-	37,433
Cash dividends - $0.28 per share	-	-	(12,138)	-	-	(12,138)
Purchase of 119,342 treasury shares	-	-	-	-	(4,212)	(4,212)
Net issuance of 1,672 shares to employee and other stock plans	-	(73)	-	-	28	(45)
Stock-based compensation	-	563	-	-	-	563
Other comprehensive (loss)	-	-	-	(5,200)	-	(5,200)
Balance at September 30, 2021	**$ 497**	**$ 577,222**	**$ 831,017**	**$ (14,492)**	**$ (152,787)**	**$ 1,241,457**
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**

(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, 2020	**$ 497**	**$ 578,082**	**$ 749,056**	**$ 417**	**$ (140,434)**	**$ 1,187,618**
Net income	-	-	117,575	-	-	117,575
Cash dividends - $0.82 per share	-	-	(35,614)	-	-	(35,614)
Purchase of 400,000 treasury shares	-	-	-	-	(14,083)	(14,083)
Net issuance of 108,599 shares to employee and other stock plans	-	(4,679)	-	-	1,730	(2,949)
Stock-based compensation	-	3,819	-	-	-	3,819
Other comprehensive (loss)	-	-	-	(14,909)	-	(14,909)
Balance at September 30, 2021	**$ 497**	**$ 577,222**	**$ 831,017**	**$ (14,492)**	**$ (152,787)**	**$ 1,241,457**
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**

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,	
	2021	**2020**
(In thousands)		
Operating activities		
Net income	$ **117,575**	$ 70,194
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	**(11,354)**	51,741
Depreciation and amortization of premises and equipment	**7,339**	7,378
Net amortization on securities	**4,460**	2,812
Amortization of intangible assets	**2,157**	2,573
Amortization of operating lease right-of-use assets	**5,401**	5,549
Excess tax benefit on stock-based compensation	**(321)**	(188)
Stock-based compensation expense	**3,819**	3,957
Bank owned life insurance income	**(4,588)**	(4,010)
Amortization of subordinated debt issuance costs	**328**	121
Proceeds from sale of loans held for sale	**48,371**	153,732
Originations of loans held for sale	**(47,996)**	(144,105)
Net gains on sale of loans held for sale	**(280)**	(1,892)
Net security (gains) losses	**(568)**	548
Net gains on sale of other real estate owned	**(44)**	(243)
Net change in other assets and other liabilities	**10,951**	(40,760)
Net cash provided by operating activities	$ **135,250**	$ 107,407
Investing activities		
Net cash used in acquisitions	$ **-**	$ (3,899)
Securities available for sale:		
Proceeds from maturities, calls and principal paydowns	**308,688**	239,622
Purchases	**(560,884)**	(437,827)
Securities held to maturity:		
Proceeds from maturities, calls and principal paydowns	**149,200**	181,143
Proceeds from sales	-	996
Purchases	**(216,205)**	(215,327)
Equity securities:		
Proceeds from calls	**1,000**	-
Other:		
Net increase in loans	**(73,344)**	(436,630)
Proceeds from Federal Home Loan Bank stock redemption	**2,355**	58,799
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	**(163)**	(42,663)
Proceeds from settlement of bank owned life insurance	**3,571**	531
Purchases of bank owned life insurance	**(40,000)**	-
Purchases of premises and equipment, net	**(5,007)**	(4,512)
Proceeds from sales of other real estate owned	**784**	1,113
Net cash used in investing activities	$ **(430,005)**	$ (658,654)
Financing activities		
Net increase in deposits	$ **1,113,486**	$ 1,370,363
Net decrease in short-term borrowings	**(68,671)**	(471,803)
Proceeds from issuance of subordinated debt	-	100,000
Payment of subordinated debt issuance costs	-	(2,178)
Repayments of long-term debt	**(25,077)**	(85)
Proceeds from the issuance of shares to employee and other stock plans	**112**	184
Cash paid by employer for tax-withholdings on stock issuance	**(1,973)**	(1,218)
Purchase of treasury stock	**(14,083)**	(7,980)
Cash dividends	**(35,614)**	(35,419)
Net cash provided by financing activities	$ **968,180**	$ 951,864
Net increase in cash and cash equivalents	$ **673,425**	$ 400,617
Cash and cash equivalents at beginning of period	**672,681**	216,843
Cash and cash equivalents at end of period	$ **1,346,106**	$ 617,460

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

	Nine Months Ended September 30,	
	2021	**2020**
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest expense	**$ 17,161**	$ 26,373
Income taxes paid, net of refund	**39,025**	38,137
Noncash investing activities:		
Loans transferred to other real estate owned	**$ 141**	$ 1,017
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, 2021

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 central 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 Inc. and its wholly-owned subsidiaries, the Bank, NBT Financial and NBT Holdings. Collectively, NBT Bancorp Inc. 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 2020 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.

3. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("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 were effective for the Company on January 1, 2021, and interim periods within those fiscal years. 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*. On January 7, 2021, the FASB issued ASU 2021-01, which refines the scope of Accounting Standards Codification 848 ("ASC 848") and clarifies some of its guidance. ASU 2020-04 and related amendments provide 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 the London Interbank Offered Rate ("LIBOR") or other interbank offered rate on financial reporting. The guidance also allows a one-time election to sell and/or reclassify to available for sale ("AFS") or trading held to maturity ("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 and permits relief solely for reference rate reform actions and permits different elections over the effective date for legacy and new activity. The Company is evaluating the impact of adopting the new guidance on the consolidated financial statements and does not expect it will have a material impact on 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, 2021				
Federal agency	**$ 248,462**	**$ -**	**$ 5,496**	**$ 242,966**
State & municipal	**84,636**	**138**	**753**	**84,021**
Mortgage-backed:				
Government-sponsored enterprises	**575,884**	**10,907**	**3,959**	**582,832**
U.S. government agency securities	**65,762**	**1,710**	**109**	**67,363**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**438,255**	**5,002**	**2,004**	**441,253**
U.S. government agency securities	**115,873**	**1,774**	**189**	**117,458**
Corporate	**38,500**	**1,637**	**-**	**40,137**
Total AFS securities	**$ 1,567,372**	**$ 21,168**	**$ 12,510**	**$ 1,576,030**
As of December 31, 2020				
Federal agency	$ 245,590	$ 59	$ 2,052	$ 243,597
State & municipal	42,550	630	-	43,180
Mortgage-backed:				
Government-sponsored enterprises	521,448	17,079	22	538,505
U.S. government agency securities	55,049	2,332	47	57,334
Collateralized mortgage obligations:				
Government-sponsored enterprises	311,710	7,549	58	319,201
U.S. government agency securities	114,864	3,739	-	118,603
Corporate	27,500	778	-	28,278
Total AFS securities	$ 1,318,711	$ 32,166	$ 2,179	$ 1,348,698

There was no allowance for credit losses on AFS securities as of September 30, 2021 and December 31, 2020.

During the three and nine months ended September 30, 2021 there were no gains or losses reclassified out of accumulated other comprehensive income (loss) (“AOCI”) and into earnings. During the three months ended September 30, 2020 there were no gains or losses reclassified out of AOCI and into earnings. During the nine months ended September 30, 2020, there were $3 thousand of gross realized gains reclassified out of AOCI and into earnings. 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.

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

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
As of September 30, 2021				
Federal agency	**$ 100,000**	**$ -**	**$ 3,821**	**$ 96,179**
Mortgage-backed:				
Government-sponsored enterprises	**121,040**	**2,851**	**568**	**123,323**
U.S. government agency securities	**9,121**	**659**	**-**	**9,780**
Collateralized mortgage obligations:				
Government-sponsored enterprises	**75,852**	**3,050**	**-**	**78,902**
U.S. government agency securities	**54,587**	**679**	**341**	**54,925**
State & municipal	**322,503**	**5,021**	**1,504**	**326,020**
Total HTM securities	**$ 683,103**	**$ 12,260**	**$ 6,234**	**$ 689,129**
As of December 31, 2020				
Federal agency	$ 100,000	$ -	$ 1,658	$ 98,342
Mortgage-backed:				
Government-sponsored enterprises	107,914	4,583	-	112,497
U.S. government agency securities	11,533	979	-	12,512
Collateralized mortgage obligations:				
Government-sponsored enterprises	103,105	4,477	-	107,582
U.S. government agency securities	79,145	3,950	-	83,095
State & municipal	214,863	7,953	17	222,799
Total HTM securities	$ 616,560	$ 21,942	$ 1,675	$ 636,827

At September 30, 2021 and December 31, 2020, 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, 2021 and December 31, 2020.

Included in net realized gains (losses), the Company recorded gains from calls on HTM securities of approximately $14 thousand for the three months ended September 30, 2021 and approximately $29 thousand for the nine months ended September 30, 2021. 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 approximately $15 thousand for the nine months ended September 30, 2020.

There were no sales of HTM securities during the three and nine months ended September 30, 2021. 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.

AFS and HTM securities with amortized costs totaling $1.6 billion at September 30, 2021 and $1.4 billion at December 31, 2020 were pledged to secure public deposits and for other purposes required or permitted by law. Additionally, at September 30, 2021 and December 31, 2020, AFS and HTM securities with an amortized cost of $149.2 million and $305.2 million, respectively, were pledged as collateral for securities sold under repurchase agreements.

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

	Three Months Ended September 30,	
(In thousands)	**2021**	**2020**
Net (losses) and gains recognized on equity securities	**$ (114)**	$ 73
Less: Net (losses) and gains recognized on equity securities sold during the period	**-**	-
Unrealized (losses) and gains recognized on equity securities still held	**$ (114)**	$ 73

	Nine Months Ended September 30,	
(In thousands)	**2021**	**2020**
Net gains and (losses) recognized on equity securities	**$ 539**	$ (565)
Less: Net gains and (losses) recognized on equity securities sold during the period	**-**	-
Unrealized gains and (losses) recognized on equity securities still held	**$ 539**	$ (565)

As of September 30, 2021 and December 31, 2020, the carrying value of equity securities without readily determinable fair values was $1.0 million and $2.0 million, respectively. The Company performed a qualitative assessment to determine whether the investments were impaired and identified no areas of concern as of September 30, 2021 and 2020. 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, 2021 and 2020.

The following table sets forth information with regard to contractual maturities of debt securities at September 30, 2021:

(In thousands)	**Amortized Cost**	**Estimated Fair Value**
AFS debt securities:		
Within one year	**$ 1,258**	**$ 1,262**
From one to five years	**56,017**	**56,596**
From five to ten years	**642,112**	**639,238**
After ten years	**867,985**	**878,934**
Total AFS debt securities	**$ 1,567,372**	**$ 1,576,030**
HTM debt securities:		
Within one year	**$ 97,203**	**$ 97,239**
From one to five years	**56,120**	**57,485**
From five to ten years	**226,478**	**227,026**
After ten years	**303,302**	**307,379**
Total HTM debt securities	**$ 683,103**	**$ 689,129**

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, 2021 and December 31, 2020.

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, 2021, 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, 2021									
AFS securities:									
Federal agency	**$ 101,674**	**$ (1,799)**	**7**	**$ 141,292**	**$ (3,697)**	**9**	**$ 242,966**	**$ (5,496)**	**16**
State & municipal	**68,492**	**(753)**	**45**	**-**	**-**	**-**	**68,492**	**(753)**	**45**
Mortgage-backed	**239,779**	**(4,060)**	**18**	**761**	**(8)**	**4**	**240,540**	**(4,068)**	**22**
Collateralized mortgage obligations	**247,618**	**(1,793)**	**24**	**12,816**	**(400)**	**2**	**260,434**	**(2,193)**	**26**
Total securities with unrealized losses	**$ 657,563**	**$ (8,405)**	**94**	**$ 154,869**	**$ (4,105)**	**15**	**$ 812,432**	**$ (12,510)**	**109**
HTM securities:									
Federal agency	**$ -**	**$ -**	**-**	**$ 96,179**	**$ (3,821)**	**4**	**$ 96,179**	**$ (3,821)**	**4**
Mortgage-backed	**56,996**	**(568)**	**5**	**-**	**-**	**-**	**56,996**	**(568)**	**5**
Collateralized mortgage obligation	**31,809**	**(341)**	**5**	**-**	**-**	**-**	**31,809**	**(341)**	**5**
State & municipal	**67,806**	**(1,381)**	**50**	**3,453**	**(123)**	**4**	**71,259**	**(1,504)**	**54**
Total securities with unrealized losses	**$ 156,611**	**$ (2,290)**	**60**	**$ 99,632**	**$ (3,944)**	**8**	**$ 256,243**	**$ (6,234)**	**68**
As of December 31, 2020									
AFS securities:									
Federal agency	$ 148,537	$ (2,052)	10	$ -	$ -	-	$ 148,537	$ (2,052)	10
Mortgage-backed	47,269	(60)	3	800	(9)	4	48,069	(69)	7
Collateralized mortgage obligations	17,837	(58)	6	-	-	-	17,837	(58)	6
Total securities with unrealized losses	$ 213,643	$ (2,170)	19	$ 800	$ (9)	4	$ 214,443	$ (2,179)	23
HTM securities:									
Federal agency	$ 98,342	$ (1,658)	4	$ -	$ -	-	$ 98,342	$ (1,658)	4
State & municipal	4,805	(17)	5	-	-	-	4,805	(17)	5
Total securities with unrealized losses	$ 103,147	$ (1,675)	9	$ -	$ -	-	$ 103,147	$ (1,675)	9

The Company does not believe the AFS securities that were in an unrealized loss position as of September 30, 2021 and December 31, 2020, which consisted of 109 and 23 individual securities, respectively, represented a credit loss impairment. AFS debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. As of September 30, 2021 and December 31, 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. AIR on AFS debt securities totaled $3.3 million at September 30, 2021 and December 31, 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 September 30, 2021 and December 31, 2020. There was no accrued interest reversed against interest income for the three and nine months ended September 30, 2021 or the year-ended December 31, 2020 as all securities remained on accrual status. In addition, there were no collateral-dependent HTM debt securities as of September 30, 2021 and December 31, 2020. As of September 30, 2021 and December 31, 2020, 53% and 65%, respectively, of the Company's HTM debt securities were issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, 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, 2021 and December 31, 2020. The remaining HTM debt securities at September 30, 2021 and December 31, 2020 were comprised of state and municipal obligations with bond ratings of A to AAA. Utilizing the Current Expected Credit Losses ("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, 2021 and December 31, 2020. AIR on HTM debt securities totaled $2.6 million and $2.7 million at September 30, 2021 and December 31, 2020, respectively, and is excluded from the estimate of credit losses and reported in the other assets financial statement line.

5. Allowance for Credit Losses and Credit Quality of Loans

The allowance for credit losses totaled $93.0 million at September 30, 2021, compared to $110.0 million at December 31, 2020. The allowance for credit losses as a percentage of loans was 1.23% at September 30, 2021, compared to 1.47% at December 31, 2020.

The Day 1 increase in the allowance for credit loss on loans relating to adoption of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* was $3.0 million, which decreased retained earnings by $2.3 million and increased the deferred tax asset by $0.7 million.

The September 30, 2021, June 30, 2021, December 31, 2020, September 30, 2020 and Day 1 allowance for credit losses calculation incorporated a 6-quarter forecast period to account for forecast economic conditions under each scenario utilized in the measurement. For periods beyond the 6-quarter forecast, the model reverts to long-term economic conditions over a 4-quarter reversion period on a straight-line basis. The Company considers a baseline, upside and downside economic forecast in measuring the allowance.

The quantitative model as of September 30, 2021 incorporated a baseline economic outlook along with alternative upside and downside scenarios sourced from a reputable third-party to accommodate other potential economic conditions in the model. The baseline outlook reflected an unemployment rate environment initially above pre-COVID-19 levels although steadily improving to below 4% mid-way through the forecast period. Northeast GDP's annualized growth (on a quarterly basis) was expected to start the fourth quarter of 2021 at approximately 10% and steadily fall back down to normalized levels by the end of 2022. Other utilized economic variables showed mixed changes in their respective forecasts, with retail sales and business output declining from the prior quarter and housing starts increasing from the prior quarter's forecast. Key assumptions in the baseline economic outlook included abatement of the coronavirus ("COVID-19") pandemic in November, additional legislation focused on infrastructure and social benefits programs enacted by the end of 2021 totaling $2.5 trillion, and full employment reached by the end of 2022. The alternative downside scenario assumed deteriorated economic and epidemiological conditions from the baseline outlook. Under this scenario, northeast unemployment rises from 6.2% in the third quarter of 2021 to a peak of 8.2% in the fourth quarter of 2022, remaining above 7% for the entire forecast period. The alternative upside scenario incorporated a more optimistic outlook than the baseline scenario, with a swift return to full employment by the first quarter of 2022 and with northeast unemployment moving down to 3.1% by the end of the forecast period. These scenarios and their respective weightings are evaluated at each measurement date and reflect management's expectations as of September 30, 2021. Additional adjustments were made for COVID-19 related factors not incorporated in the forecasts, such as the mitigating impact of unprecedented stimulus in the second and third quarters of 2020, including direct payments to individuals, increased unemployment benefits, the Company's loan deferral and modification initiatives and various government sponsored loan programs. The Company also continued to monitor the level of criticized and classified loans in the third quarter of 2021 compared to the level contemplated by the model during similar, historical economic conditions, and an adjustment was made to estimate potential additional losses above modeled losses. Additionally, a qualitative adjustment was made for isolated model limitations related to modeled outputs given abnormally high retail sales and business output growth rates. These factors were considered through separate quantitative processes and incorporated into the estimate of current expected credit losses at September 30, 2021.

The quantitative model as of June 30, 2021 incorporated a baseline economic outlook along with alternative upside and downside scenarios sourced from a reputable third-party to accommodate other potential economic conditions in the model. The baseline outlook reflected an unemployment rate environment above pre-COVID-19 levels for the entire forecast period, though steadily improving to below 4% by the end of 2022. Northeast GDP’s annualized growth (on a quarterly basis) was expected to start in the second half of 2021 in the high single digits (9.86%) and steadily fall back down to normalized levels by the end of 2022. Other utilized economic variables showed mixed changes in their respective forecasts, with retail sales and business output being relatively unchanged and housing starts lowered from the prior quarter forecast. Key assumptions in the baseline economic outlook included herd “resiliency” expected by summer-2021, additional legislation focused on infrastructure and social benefits enacted in the second half of 2021 and high, near-term GDP growth expectations. The alternative downside scenario assumed deteriorated economic and epidemiological conditions from the baseline outlook. Under this scenario, northeast unemployment rose from 8.1% in the third quarter of 2021 to a peak of 8.7% in the second quarter of 2022, remaining above 8% for the entire forecast period. The alternative upside scenario incorporated a more optimistic outlook than the baseline scenario, with a swift return to full employment by the first quarter of 2022 and down to a low of 3.5% by the end of the forecast period. These scenarios and their respective weightings are evaluated at each measurement date and reflect management’s expectations as of June 30, 2021. Additional adjustments were made for COVID-19 related factors not incorporated in the forecasts, such as the mitigating impact of unprecedented stimulus in the second and third quarters of 2020, including direct payments to individuals, increased unemployment benefits, the Company’s loan deferral and modification initiatives and various government sponsored loan programs. The Company also continued to identify a slightly higher level of criticized and classified loans in the second quarter of 2021 than those contemplated by the model during similar, historical economic conditions for which an adjustment was made to estimate potential additional losses above modeled losses. Additionally, a qualitative adjustment was made for isolated model limitations related to modeled outputs given abnormally high retail sales and business output growth rates. These factors were considered through separate quantitative processes and incorporated into the estimate of current expected credit losses at June 30, 2021.

The quantitative model as of December 31, 2020 incorporated a baseline economic outlook, along with alternative upside and downside scenarios sourced from a reputable third-party to accommodate other potential economic conditions in the model. The baseline outlook reflected an unemployment rate environment above pre-COVID-19 levels for the entire forecast period, though steadily improving, before returning to low single digits by the end of 2023. Northeast GDP’s annual growth was expected to start 2021 in the low to mid-single digits, with a peak growth rate of 8% in the fourth quarter of 2021 and steadily falling back down to normalized levels through 2023 and 2024. Other utilized economic variables show improvement in their respective forecasts, namely business output. Key assumptions in the baseline economic outlook included an additional stimulus package passed at the same timing and a comparable level to that of the actual $900 billion COVID-19 relief package passed in December 2020 along with no significant secondary surge in COVID-19 cases or pandemic-related business closures. The alternative downside scenario assumed deteriorated economic and epidemiological conditions from the baseline outlook. In the same way, the alternative upside scenario assumed a faster economic recovery and more effective management of the COVID-19 virus from the baseline outlook. These scenarios and their respective weightings are evaluated at each measurement date and reflect management’s expectations as of December 31, 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, the Company’s loan deferral and modification initiatives and various government-sponsored loan programs. The commercial & industrial and consumer segment models were based upon percent change in unemployment with modeled values as of December 31, 2020 well outside the observed historical experience. Therefore, adjustments were required to produce outputs more aligned with default expectations given the forecast economic environment. Additionally, the Company identified a slightly higher level of criticized and classified loans during 2020 than those contemplated by the model during similar economic conditions in the past for which an adjustment was made for estimated expected additional losses above modeled output. These factors were considered through a separate quantitative process and incorporated into the estimate for allowance for credit losses at 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 (“Section 4013”) of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). Accordingly, the Company is offering modifications made in response to COVID-19 to borrowers who were current and otherwise not past due in accordance with the criteria stated in Section 4013. 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 did not account for such loan modifications as TDRs. As of September 30, 2021, there were $2.0 million in loans in modification programs related to COVID-19. On December 27, 2020, the Consolidated Appropriations Act amended section 2014 of the CARES Act extending the exemption of qualified loan modifications from classification as a troubled debt restructuring as defined by GAAP to the earlier of January 1, 2022, or 60 days after the National Emergency concerning COVID-19 ends.

There were no loans purchased with credit deterioration during the nine months ended September 30, 2021 or the year ended December 31, 2020. During 2021, the Company purchased $52.4 million of residential loans at a 2% premium and $60.3 million in consumer loans at par. The allowance for credit losses recorded for these loans on the purchase date was $4.6 million. During 2020, the Company purchased $51.9 million of consumer loans at a 1% discount. The allowance for credit losses recorded for these loans on the purchase date was $3.6 million. The Company made a policy election to report AIR in the other assets line item on the balance sheet. AIR on loans totaled $20.4 million at September 30, 2021 and $23.7 million at December 31, 2020 and was included in the allowance for loan credit losses to estimate the impact of accrued interest receivable related to loans with modifications due to the pandemic as the length of time between interest recognition and the write-off of uncollectible interest could exceed 120 days, exempting these loans from our policy election for accrued interest receivable. There was no estimated allowance for credit losses related to AIR at September 30, 2021 and $0.6 million at December 31, 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, 2021	**$ 44,191**	**$ 34,881**	**$ 19,428**	**$ 98,500**
Charge-offs	**(1,492)**	**(3,083)**	**(312)**	**(4,887)**
Recoveries	**354**	**2,143**	**232**	**2,729**
Provision	**(9,875)**	**7,130**	**(597)**	**(3,342)**
Ending balance as of September 30, 2021	**$ 33,178**	**$ 41,071**	**$ 18,751**	**$ 93,000**
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 December 31, 2020	**$ 50,942**	**$ 37,803**	**$ 21,255**	**$ 110,000**
Charge-offs	**(2,123)**	**(10,702)**	**(731)**	**(13,556)**
Recoveries	**533**	**6,506**	**871**	**7,910**
Provision	**(16,174)**	**7,464**	**(2,644)**	**(11,354)**
Ending balance as of September 30, 2021	**$ 33,178**	**$ 41,071**	**$ 18,751**	**$ 93,000**
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 decrease in the allowance for credit losses from December 31, 2020 to June 30, 2021 and September 30, 2021 was primarily due to an improvement in the economic forecast. The increase in the allowance for credit losses from Day 1 to June 30, 2020 and September 30, 2020 was primarily due to the deterioration of macroeconomic factors surrounding the COVID-19 pandemic.

Individually Evaluated Loans

As of September 30, 2021, there were five relationships identified to be evaluated for loss on an individual basis which had an amortized cost basis of $12.5 million. These loans' allowance for credit loss was $1.3 million and was determined by an estimate of the fair value of the collateral which consisted of business assets (accounts receivable, inventory, machinery and equipment). As of December 31, 2020, these same five relationships were identified to be evaluated for loss on an individual basis with an amortized cost basis of $15.2 million and an allowance for credit loss of $3.2 million. The decrease in the allowance for credit losses evaluated on an individual basis from December 31, 2020 to September 30, 2021 was primarily due to decrease in the amortized cost basis on the loans due to a principal payments and charge-offs.

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, 2021							
Commercial loans:							
C&I	**$ 2,518**	**$ 106**	**$ -**	**$ 2,624**	**$ 4,261**	**$ 1,110,920**	**$ 1,117,805**
CRE	**11,759**	**1,754**	**441**	**13,954**	**16,084**	**2,528,193**	**2,558,231**
PPP	**-**	**-**	**-**	**-**	**-**	**276,195**	**276,195**
Total commercial loans	**$ 14,277**	**$ 1,860**	**$ 441**	**$ 16,578**	**$ 20,345**	**$ 3,915,308**	**$ 3,952,231**
Consumer loans:							
Auto	**$ 6,455**	**$ 1,110**	**$ 580**	**$ 8,145**	**$ 1,407**	**$ 829,585**	**$ 839,137**
Other consumer	**3,473**	**2,003**	**810**	**6,286**	**210**	**748,241**	**754,737**
Total consumer loans	**$ 9,928**	**$ 3,113**	**$ 1,390**	**$ 14,431**	**$ 1,617**	**$ 1,577,826**	**$ 1,593,874**
Residential	**$ 1,879**	**$ 734**	**$ 1,109**	**$ 3,722**	**$ 13,775**	**$ 2,002,840**	**$ 2,020,337**
Total loans	**$ 26,084**	**$ 5,707**	**$ 2,940**	**$ 34,731**	**$ 35,737**	**$ 7,495,974**	**$ 7,566,442**

(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, 2020														
Commercial loans:														
C&I	$	2,235	$	2,394	$	23	$	4,652	$	4,278	$	1,116,686	$	1,125,616
CRE		682		-		470		1,152		19,971		2,391,162		2,412,285
PPP		-		-		-		-		-		430,810		430,810
Total commercial loans	$	2,917	$	2,394	$	493	$	5,804	$	24,249	$	3,938,658	$	3,968,711
Consumer loans:														
Auto	$	9,125	$	1,553	$	866	$	11,544	$	2,730	$	877,831	$	892,105
Other consumer		3,711		1,929		1,272		6,912		290		640,952		648,154
Total consumer loans	$	12,836	$	3,482	$	2,138	$	18,456	$	3,020	$	1,518,783	$	1,540,259
Residential	$	2,719	$	309	$	518	$	3,546	$	17,378	$	1,968,991	$	1,989,915
Total loans	$	18,472	$	6,185	$	3,149	$	27,806	$	44,647	$	7,426,432	$	7,498,885

As of September 30, 2021 and December 31, 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 Commercial and Industrial ("C&I"), Paycheck Protection Program ("PPP") and Commercial Real Estate ("CRE") loans, the Company uses a grading system that relies on quantifiable and measurable characteristics when available. This includes comparison of financial strength to available industry averages, comparison of transaction factors (loan terms and conditions) to loan policy and comparison of credit history to stated repayment terms and industry averages. Some grading factors are necessarily more subjective such as economic and industry factors, regulatory environment and management. C&I and CRE loans are graded Doubtful, Substandard, Special Mention and Pass.

Doubtful

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

Substandard

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

Special Mention

Special Mention loans have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the Company's position at some future date. These loans pose elevated risk, but their weakness does not yet justify a Substandard classification. Borrowers may be experiencing adverse operating trends (i.e., declining revenues or margins) or may be struggling with an ill-proportioned balance sheet (i.e., increasing inventory without an increase in sales, high leverage, 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)	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of September 30, 2021									
C&I									
By internally assigned grade:									
Pass	$ 258,044	$ 256,285	$ 127,995	$ 71,024	$ 23,541	$ 40,962	$ 282,471	$ 6,724	$ 1,067,046
Special mention	163	4,277	5,157	3,339	3,063	3,381	8,477	-	27,857
Substandard	14	367	7,286	1,684	2,675	2,939	2,796	4,829	22,590
Doubtful	-	-	-	126	185	1	-	-	312
Total C&I	$ 258,221	$ 260,929	$ 140,438	$ 76,173	$ 29,464	$ 47,283	$ 293,744	$ 11,553	$ 1,117,805
CRE									
By internally assigned grade:									
Pass	$ 325,092	$ 453,138	$ 390,834	$ 249,362	$ 264,620	$ 486,685	$ 152,622	$ 16,661	$ 2,339,014
Special mention	796	933	21,467	4,747	20,344	67,530	1,140	-	116,957
Substandard	-	79	15,692	15,555	12,541	50,428	1,239	-	95,534
Doubtful	-	-	-	-	-	6,726	-	-	6,726
Total CRE	$ 325,888	$ 454,150	$ 427,993	$ 269,664	$ 297,505	$ 611,369	$ 155,001	$ 16,661	$ 2,558,231
PPP									
By internally assigned grade:									
Pass	$ 256,940	$ 19,255	$ -	$ -	$ -	$ -	$ -	$ -	$ 276,195
Total PPP	$ 256,940	$ 19,255	$ -	$ -	$ -	$ -	$ -	$ -	$ 276,195
Auto									
By payment activity:									
Performing	$ 280,805	$ 145,585	$ 211,921	$ 121,108	$ 59,047	$ 18,684	$ -	$ -	$ 837,150
Nonperforming	148	320	712	538	269	-	-	-	1,987
Total auto	$ 280,953	$ 145,905	$ 212,633	$ 121,646	$ 59,316	$ 18,684	$ -	$ -	$ 839,137
Other consumer									
By payment activity:									
Performing	$ 298,505	$ 166,111	$ 128,954	$ 88,311	$ 34,858	$ 18,447	$ 18,516	$ 15	$ 753,717
Nonperforming	96	290	235	96	191	109	3	-	1,020
Total other consumer	$ 298,601	$ 166,401	$ 129,189	$ 88,407	$ 35,049	$ 18,556	$ 18,519	$ 15	$ 754,737
Residential									
By payment activity:									
Performing	$ 263,254	$ 229,961	$ 187,776	$ 185,798	$ 155,725	$ 722,718	$ 248,727	$ 11,494	$ 2,005,453
Nonperforming	-	1,530	733	1,772	1,632	9,086	39	92	14,884
Total residential	$ 263,254	$ 231,491	$ 188,509	$ 187,570	$ 157,357	$ 731,804	$ 248,766	$ 11,586	$ 2,020,337
Total loans	$ 1,683,857	$ 1,278,131	$ 1,098,762	$ 743,460	$ 578,691	$ 1,427,696	$ 716,030	$ 39,815	$ 7,566,442

(In thousands)	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2020									
C&I									
By internally assigned grade:									
Pass	$ 331,921	$ 182,329	$ 91,230	$ 41,856	$ 32,625	$ 32,609	$ 322,674	$ 412	$ 1,035,656
Special mention	20,064	6,534	5,053	4,702	1,624	2,830	13,614	-	54,421
Substandard	338	6,364	10,219	3,388	791	4,272	9,945	14	35,331
Doubtful	-	-	-	207	-	1	-	-	208
Total C&I	$ 352,323	$ 195,227	$ 106,502	$ 50,153	$ 35,040	$ 39,712	$ 346,233	$ 426	$ 1,125,616
CRE									
By internally assigned grade:									
Pass	$ 469,919	$ 361,187	$ 256,154	$ 271,874	$ 212,197	$ 383,690	$ 113,128	$ 4,034	$ 2,072,183
Special mention	2,051	44,034	22,260	55,039	36,830	43,537	1,297	11,524	216,572
Substandard	536	5,307	18,298	15,691	6,018	62,168	1,501	4,642	114,161
Doubtful	-	1,897	-	-	-	7,472	-	-	9,369
Total CRE	$ 472,506	$ 412,425	$ 296,712	$ 342,604	$ 255,045	$ 496,867	$ 115,926	$ 20,200	$ 2,412,285
PPP									
By internally assigned grade:									
Pass	$ 430,810	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 430,810
Total PPP	$ 430,810	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 430,810
Auto									
By payment activity:									
Performing	$ 197,881	$ 314,034	$ 201,850	$ 115,977	$ 45,495	$ 13,250	$ 22	$ -	$ 888,509
Nonperforming	359	1,140	1,135	525	437	-	-	-	3,596
Total auto	$ 198,240	$ 315,174	$ 202,985	$ 116,502	$ 45,932	$ 13,250	$ 22	$ -	$ 892,105
Other consumer									
By payment activity:									
Performing	$ 234,628	$ 178,411	$ 127,549	$ 55,676	$ 14,255	$ 17,414	$ 18,588	$ 71	$ 646,592
Nonperforming	339	418	307	265	90	133	10	-	1,562
Total other consumer	$ 234,967	$ 178,829	$ 127,856	$ 55,941	$ 14,345	$ 17,547	$ 18,598	$ 71	$ 648,154
Residential									
By payment activity:									
Performing	$ 237,338	$ 210,505	$ 213,437	$ 182,993	$ 164,424	$ 684,495	$ 268,878	$ 9,991	$ 1,972,061
Nonperforming	1,245	659	2,318	2,535	902	10,195	-	-	17,854
Total residential	$ 238,583	$ 211,164	$ 215,755	$ 185,528	$ 165,326	$ 694,690	$ 268,878	$ 9,991	$ 1,989,915
Total loans	$ 1,927,429	$ 1,312,819	$ 949,810	$ 750,728	$ 515,688	$ 1,262,066	$ 749,657	$ 30,688	$ 7,498,885

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

As of September 30, 2021, the allowance for losses on unfunded commitments totaled $5.3 million, compared to $6.4 million as of December 31, 2020.

Troubled Debt Restructuring

When the Company modifies a loan in a troubled debt restructuring ("TDR"), 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 2021 and 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.

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, 2021			**Three 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**	**$ 20**	**$ 20**	-	$ -	$ -
Total consumer loans	**1**	**$ 20**	**$ 20**	-	$ -	$ -
Residential	**3**	**$ 460**	**$ 507**	10	$ 659	$ 715
Total TDRs	**4**	**$ 480**	**$ 527**	10	$ 659	$ 715

	Nine Months Ended September 30, 2021			**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	**2**	**$ 38**	**$ 38**	1	$ 44	$ 44
Total consumer loans	**2**	**$ 38**	**$ 38**	1	$ 44	$ 44
Residential	**9**	**$ 1,071**	**$ 1,183**	24	$ 1,619	$ 1,745
Total TDRs	**11**	**$ 1,109**	**$ 1,221**	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, 2021		Three Months Ended September 30, 2020	
(Dollars in thousands)	**Number of Contracts**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**
Residential	**19**	**$ 1,401**	9	$ 299
Total TDRs	**19**	**$ 1,401**	9	$ 299

	Nine Months Ended September 30, 2021		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
Consumer loans:				
Auto	**2**	**$ 18**	-	$ -
Total consumer loans	**2**	**$ 18**	-	$ -
Residential	**39**	**$ 2,356**	45	$ 2,280
Total TDRs	**41**	**$ 2,374**	47	$ 2,835

6. 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, 2021. 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, 2021 and 2020.

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)	**2021**	**2020**	**2021**	**2020**
Components of net periodic (benefit) cost:				
Service cost	**$ 517**	$ 446	**$ 2**	$ 2
Interest cost	**679**	809	**45**	55
Expected return on plan assets	**(2,197)**	(2,105)	**-**	-
Net amortization	**331**	368	**13**	13
Total net periodic (benefit) cost	**$ (670)**	$ (482)	**$ 60**	$ 70

	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Components of net periodic (benefit) cost:				
Service cost	**$ 1,486**	$ 1,338	**$ 6**	$ 6
Interest cost	**2,034**	2,427	**135**	165
Expected return on plan assets	**(6,602)**	(6,315)	**-**	-
Net amortization	**957**	1,104	**39**	39
Total net periodic (benefit) cost	**$ (2,125)**	$ (1,446)	**$ 180**	$ 210

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.

7. 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 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)	**2021**	**2020**
Basic EPS:		
Weighted average common shares outstanding	**43,360**	43,643
Net income available to common stockholders	**$ 37,433**	$ 35,113
Basic EPS	**$ 0.86**	$ 0.80
Diluted EPS:		
Weighted average common shares outstanding	**43,360**	43,643
Dilutive effect of common stock options and restricted stock	**271**	299
Weighted average common shares and common share equivalents	**43,631**	43,942
Net income available to common stockholders	**$ 37,433**	$ 35,113
Diluted EPS	**$ 0.86**	$ 0.80

	Nine Months Ended September 30,	
(In thousands, except per share data)	**2021**	**2020**
Basic EPS:		
Weighted average common shares outstanding	**43,464**	43,704
Net income available to common stockholders	**$ 117,575**	$ 70,194
Basic EPS	**$ 2.71**	$ 1.61
Diluted EPS:		
Weighted average common shares outstanding	**43,464**	43,704
Dilutive effect of common stock options and restricted stock	**305**	293
Weighted average common shares and common share equivalents	**43,769**	43,997
Net income available to common stockholders	**$ 117,575**	$ 70,194
Diluted EPS	**$ 2.69**	$ 1.60

There was a nominal number of stock options outstanding for the three and nine months ended September 30, 2021 and September 30, 2020, that were not considered in the calculation of diluted EPS since the stock options' exercise prices were greater than the average market price during these periods.

8. 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, 2021**	**September 30, 2020**	
AFS securities:			
Gains on AFS securities	**$ -**	$ -	Net securities (gains) losses
Amortization of unrealized gains related to securities transfer	**$ 149**	$ 157	Interest income
Tax effect	**$ (38)**	$ (39)	Income tax (benefit)
Net of tax	**$ 111**	$ 118	
Cash flow hedges:			
Net unrealized losses on cash flow hedges reclassified to interest expense	**$ -**	$ 101	Interest expense
Tax effect	**$ -**	$ (25)	Income tax (benefit)
Net of tax	**$ -**	$ 76	
Pension and other benefits:			
Amortization of net losses	**$ 317**	$ 359	Other noninterest expense
Amortization of prior service costs	**27**	22	Other noninterest expense
Tax effect	**$ (86)**	$ (95)	Income tax (benefit)
Net of tax	**$ 258**	$ 286	
Total reclassifications, net of tax	**$ 369**	$ 480	

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, 2021**	**September 30, 2020**	
AFS securities:			
Gains on AFS securities	**$ -**	$ (3)	Net securities (gains) losses
Amortization of unrealized gains related to securities transfer	**434**	495	Interest income
Tax effect	**$ (109)**	$ (123)	Income tax (benefit)
Net of tax	**$ 325**	$ 369	
Cash flow hedges:			
Net unrealized losses on cash flow hedges reclassified to interest expense	**$ 21**	$ 192	Interest expense
Tax effect	**$ (5)**	$ (48)	Income tax (benefit)
Net of tax	**$ 16**	$ 144	
Pension and other benefits:			
Amortization of net losses	**$ 913**	$ 1,075	Other noninterest expense
Amortization of prior service costs	**83**	68	Other noninterest expense
Tax effect	**$ (249)**	$ (286)	Income tax (benefit)
Net of tax	**$ 747**	$ 857	
Total reclassifications, net of tax	**$ 1,088**	$ 1,370	

9. 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.

The Company is subject to over-the-counter derivative clearing requirements, which require certain derivatives to be cleared through central clearing houses. Accordingly, the Company began to clear certain derivative transactions through the Chicago Mercantile Exchange Clearing House ("CME") in January 2021. The CME requires the Company to post initial and variation margin payments to mitigate the risk of non-payment, the latter of which is received or paid daily based on the net asset or liability position of the contracts. A daily settlement occurs through the CME for changes in the fair value of centrally cleared derivatives. Not all of the derivatives are required to be cleared through the daily clearing agent. As a result, the total fair values of loan level derivative assets and liabilities recognized on the Company's financial statements are not equal and offsetting.

As of September 30, 2021 and December 31, 2020, the Company had eighteen and seventeen risk participation agreements, respectively, with financial institution counterparties for interest rate swaps related to participated loans. Risk participation agreements provide credit protection to the financial institution that originated the swap transaction should the borrower fail to perform on its obligation. The Company enters into both risk participation agreements in which it purchases credit protection from other financial institutions and those in which it provides credit protection to other financial institutions.

Derivatives Designated as Hedging Instruments

The Company has previously 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 summarizes the derivatives outstanding:

(In thousands)	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
As of September 30, 2021						
Derivatives not designated as hedging instruments						
Interest rate derivatives	**$ 1,346,853**	Other assets	**$ 71,246**	**$ 1,346,853**	Other liabilities	**$ 71,246**
Risk participation agreements	**91,348**	Other assets	**235**	**37,852**	Other liabilities	**68**
Total derivatives not designated as hedging instruments			**$ 71,481**			**$ 71,314**
Netting adjustments[1]			**-**			**3,684**
Net derivatives in the balance sheet			**$ 71,481**			**$ 67,630**
Derivatives not offset on the balance sheet			**$ 4,869**			**$ 4,869**
Cash collateral[2]			**-**			**55,730**
Net derivative amounts			**$ 66,612**			**$ 7,031**
As of December 31, 2020						
Derivatives designated as hedging instruments						
Interest rate derivatives	$ -	Other assets	$ -	$ 25,000	Other liabilities	$ 34
Derivatives not designated as hedging instruments						
Interest rate derivatives	$ 1,223,584	Other assets	$ 108,487	$ 1,223,584	Other liabilities	$ 108,487
Risk participation agreements	72,528	Other assets	292	39,785	Other liabilities	125
Total derivatives not designated as hedging instruments			$ 108,779			$ 108,612
Cash collateral[2]			-			107,350
Net derivative amounts			$ 108,779			$ 1,262

(1) Netting adjustments represents the amounts recorded to convert derivatives assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance on the settle to market rules for cleared derivatives. The CME legally characterizes the variation margin posted between counterparties as settlements of the outstanding derivative contracts instead of cash collateral. Company began to clear certain derivative transactions through the CME in 2021.

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

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 hedge 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 three months ended March 31, 2021 the Company’s final cash flow hedge of interest rate risk matured and the remaining balance was reclassified from AOCI as a reduction to interest expense. There is no additional amount that 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)	2021	2020	2021	2020
Derivatives designated as hedging instruments:				
Interest rate derivatives - included component				
Amount of (loss) recognized in other comprehensive income	**$ -**	$ -	**$ -**	$ (274)
Amount of loss reclassified from AOCI into interest expense	**-**	101	**21**	192

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)	**2021**	**2020**	**2021**	**2020**
Derivatives not designated as hedging instruments:				
(Decrease) increase in other income	**$ (307)**	$ (20)	**$ (382)**	$ 127

10. 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, 2021
Assets:				
AFS securities				
Federal agency	$ -	$ 242,966	$ -	$ 242,966
State & municipal	-	84,021	-	84,021
Mortgage-backed	-	650,195	-	650,195
Collateralized mortgage obligations	-	558,711	-	558,711
Corporate	-	40,137	-	40,137
Total AFS securities	$ -	$ 1,576,030	$ -	$ 1,576,030
Equity securities	32,013	1,000	-	33,013
Derivatives	-	71,481	-	71,481
Total	$ 32,013	$ 1,648,511	$ -	$ 1,680,524
Liabilities:				
Derivatives	$ -	$ 71,314	$ -	$ 71,314
Total	$ -	$ 71,314	$ -	$ 71,314

(In thousands)	Level 1	Level 2	Level 3	December 31, 2020
Assets:				
AFS securities				
Federal agency	$ -	$ 243,597	$ -	$ 243,597
State & municipal	-	43,180	-	43,180
Mortgage-backed	-	595,839	-	595,839
Collateralized mortgage obligations	-	437,804	-	437,804
Corporate	-	28,278	-	28,278
Total AFS securities	$ -	$ 1,348,698	$ -	$ 1,348,698
Equity securities	28,737	2,000	-	30,737
Derivatives	-	108,779	-	108,779
Total	$ 28,737	$ 1,459,477	$ -	$ 1,488,214
Liabilities:				
Derivatives	$ -	$ 108,646	$ -	$ 108,646
Total	$ -	$ 108,646	$ -	$ 108,646

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, 2021 and the year ended December 31, 2020 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, 2021, the Company had collateral dependent individually evaluated loans with a carrying value of $12.5 million, which had an estimated allowance for credit loss of $1.3 million. As of December 31, 2020, the Company had collateral dependent individually evaluated loans with a carrying value of $15.2 million, which had an estimated allowance for credit loss of $3.2 million.

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, 2021		December 31, 2020	
(In thousands)	**Fair Value Hierarchy**	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:					
HTM securities	2	**$ 683,103**	**$ 689,129**	$ 616,560	$ 636,827
Net loans	3	**7,474,466**	**7,615,405**	7,390,004	7,530,033
Financial liabilities:					
Time deposits	2	**$ 552,273**	**$ 553,125**	$ 633,479	$ 638,721
Long-term debt	2	**14,020**	**14,376**	39,097	39,820
Subordinated debt	1	**100,000**	**107,684**	100,000	103,277
Junior subordinated debt	2	**101,196**	**109,001**	101,196	108,926

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.

11. 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 $2.3 billion at September 30, 2021 and $2.2 billion at December 31, 2020.

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

The Company guarantees the obligations or performance of customers by issuing standby letters of credit to third-parties. These standby letters of credit are generally issued in support of third-party debt, such as corporate debt issuances, industrial revenue bonds and municipal securities. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers and letters of credit are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. Typically, these instruments have one year expirations with an option to renew upon annual review; therefore, the total amounts do not necessarily represent future cash requirements. Standby letters of credit totaled $50.6 million at September 30, 2021 and $54.0 million at December 31, 2020. As of September 30, 2021 and December 31, 2020, the fair value of the Company's standby letters of credit was not significant.

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, 2020 for an understanding of the following discussion and analysis. Operating results for the three and nine month periods ending September 30, 2021 are not necessarily indicative of the results of the full year ending December 31, 2021 or any future period.

Forward-looking Statements

Certain statements in this filing and future filings by the NBT Bancorp Inc. (the "Company") with the Securities and Exchange Commission ("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 other legislative and regulatory responses to the coronavirus ("COVID-19") pandemic; (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 COVID-19 global pandemic; and (21) 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, the speed and effectiveness of vaccine and treatment developments and their deployment, including public adoption rates of COVID-19 vaccines, 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, 2020 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 SEC, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to differ materially from those anticipated or projected.

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

Non-GAAP Measures

This Quarterly Report on Form 10-Q contains financial information determined by methods other than in accordance with 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. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations. 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 allowance for losses on unfunded commitments. Measurement of Credit Losses on Financial Instruments ("CECL") approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses under the CECL 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 allowance for losses on unfunded commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments unconditionally cancellable by the Company. The allowance for losses on unfunded commitments is determined by estimating future draws and applying the expected loss rates on those draws.

Management of the Company considers the accounting policy relating to the allowance for credit losses to be a critical accounting 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, the rate of increase in future compensation levels and interest rate of credit for cash balance plans. 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 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 CECL method for allowance for credit losses, pension accounting and provision for income taxes are disclosed in Note 1 to the consolidated financial statements presented in our 2020 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 2020 Annual Report on Form 10-K to obtain a better understanding of how the Company's financial performance is reported. Refer to Note 3 to the unaudited interim consolidated 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 average 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 2021 and 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, 2021:

- net income for the three months ended September 30, 2021 was $37.4 million, up $2.3 million from the third quarter of 2020 and down $2.9 million from the second quarter of 2021;
- diluted earnings per share of $0.86 for the three months ended September 30, 2021, up $0.06 from the third quarter of 2020 and down $0.06 from the second quarter of 2021;
- period end loans were $7.6 billion, up 1%, annualized, from December 31, 2020 (4.2% excluding Paycheck Protection Program ("PPP") loans);
- net charge-offs to average loans of 0.11%, annualized (0.12% excluding PPP loans) and allowance for loan losses to total loans at 1.23% (1.28% excluding PPP loans and related allowance);
- book value per share of $28.65 at September 30, 2021; tangible book value per share grew 2% for the quarter and 10% from September 30, 2020 to $21.95[1].

(1) 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. The expected impact of the pandemic on the Company's business, financial condition, results of operations, and its customers has not fully manifested. The fiscal stimulus and relief programs appear to have delayed or mitigated any materially adverse financial impact to the Company. Once these stimulus programs have been exhausted, the Company's credit metrics may worsen and loan losses could ultimately materialize. Any potential loan losses will be contingent upon the resurgence of the virus, including any new strains, offset by the potency of the vaccine along with its extensive distribution, and the ability for customers and businesses to return to their prepandemic routines. However, economic uncertainty remains relatively high and volatility is expected to continue in 2021.

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 has also offered longer payment deferral options on a limited, case by case basis to address certain customers' hardships related to the pandemic where we are able to gather information on the ongoing viability of the borrower's long-term ability to return to full payment. 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 believes our historically strong underwriting practices, diverse and granular portfolios, and geographic footprint will help to mitigate any adverse impact to the Company.

The Company has been a participant in the Small Business Administration's Paycheck Protection Program, a 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 3,100 loans totaling $287 million in relief during the nine months ended September 30, 2021 as compared to 3,000 loans totaling over $548 million in 2020. The Company is supporting the PPP application and forgiveness processes with online resources, educational webinars and a partnership with a certified public accounting firm. As of September 30, 2021, the Company has received payment from the SBA on 2,622 of our loans totaling $449.8 million.

On December 27, 2020, the President signed into law the Consolidated Appropriation Act ("CAA"). The CAA, among other things, extends the life of the PPP, effectively creating a second round of PPP loans for eligible businesses. The Company is participating in the CAA's second round of PPP lending. In mid-January the Company opened its lending portal and began processing PPP loan applications from current and new customers. As of September 30, 2021, the Company has originated $287 million in PPP loans during this round with an average loan size of $93,000.

The Company established a committee to ensure employee and customer safety and a nimble response across geographic and functional areas. 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 several steps to address the safety of its employees and its customers including health and safety protocols to protect branch and onsite workers, full-time remote and hybrid work arrangement, additional benefits for health, childcare/eldercare needs and well-being and new mobile, online, business banking and mortgage platforms were launched in 2020.

Results of Operations

Net income for the three months ended September 30, 2021 was $37.4 million, down $2.9 million from $40.3 million for the second quarter of 2021 and up $2.3 million from $35.1 million for the third quarter of 2020. Diluted earnings per share for the three months ended September 30, 2021 was $0.86, as compared with $0.92 for the prior quarter, and $0.80 for the third quarter of 2020. Return on average assets (annualized) was 1.26% for the three months ended September 30, 2021 as compared to 1.39% for the prior quarter and 1.29% for the same period last year. Return on average equity (annualized) was 12.04% for the three months ended September 30, 2021 as compared to 13.42% for the prior quarter and 12.09% for the three months ended September 30, 2020. Return on average tangible common equity (annualized) was 15.97% for the three months ended September 30, 2021 as compared to 17.93% for the prior quarter and 16.51% for the three months ended September 30, 2020.

Net income for the nine months ended September 30, 2021 was $117.6 million, up $47.4 from $70.2 million for the same period last year. Diluted earnings per share for the nine months ended September 30, 2021 was $2.69 as compared with $1.60 for the same period in 2020. Return on average assets (annualized) was 1.37% for the nine months ended September 30, 2021 as compared to 0.90% for the same period last year. Return on average equity (annualized) was 13.00% for the nine months ended September 30, 2021 as compared to 8.23% for the nine months ended September 30, 2020. Return on average tangible common equity (annualized) was 17.35% for the nine months ended September 30, 2021 as compared to 11.36% for the nine months ended September 30, 2020.

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)	**2021**	**2020**	**2021**	**2020**
Net income	**$ 37,433**	$ 35,113	**$ 117,575**	$ 70,194
Amortization of intangible assets (net of tax)	**497**	642	**1,618**	1,930
Net income, excluding intangible amortization	**$ 37,930**	$ 35,755	**$ 119,193**	$ 72,124
Average stockholders' equity	**$ 1,233,045**	$ 1,155,056	**$ 1,209,586**	$ 1,139,871
Less: average goodwill and other intangibles	**290,492**	293,572	**291,177**	291,472
Average tangible common equity	**$ 942,553**	$ 861,484	**$ 918,409**	$ 848,399

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 $77.7 million for the third quarter of 2021, down $1.5 million, or 1.9%, from the previous quarter. PPP loan interest and fees recognized into interest income for the three months ended September 30, 2021 was $2.9 million compared to $4.7 million for the previous quarter. The fully taxable equivalent (“FTE”) net interest margin was 2.88% for the three months ended September 30, 2021, a decrease of 12 bps from the previous quarter. Interest income decreased $1.8 million, or 2.2%, as the yield on average interest-earning assets decreased 13 bps from the prior quarter to 3.05%, while average interest-earning assets of $10.7 billion increased $96.4 million from the prior quarter, primarily due to an increase in short-term interest-bearing accounts due to higher levels of short-term interest bearing accounts (“excess liquidity”) and an increase in average investment securities. Interest expense was down $0.3 million, or 6.7%, as the cost of interest-bearing liabilities decreased 2 bps to 0.27% for the quarter ended September 30, 2021, driven by interest-bearing deposit costs decreasing 2 bps.

Net interest income was $77.7 million for the third quarter of 2021, down $0.3 million, or 0.3%, from the third quarter of 2020. PPP loan interest and fees recognized into interest income for the three months ended September 30, 2021 was $2.9 million compared to $4.6 million for the third quarter of 2020. The FTE net interest margin was 2.88% for the three months ended September 30, 2021, a decrease of 29 bps from the third quarter of 2020. Interest income decreased $2.8 million, or 3.3%, as the yield on average interest-earning assets decreased 40 bps from the same period in 2020 to 3.05%, while average interest-earning assets of $10.7 billion increased $0.9 billion from the third quarter of 2020, primarily due to excess liquidity and an increase in average investment securities. Interest expense was down $2.5 million, or 35.6%, as the cost of interest-bearing liabilities decreased 18 bps to 0.27% for the quarter ended September 30, 2021, driven by interest-bearing deposit costs decreasing 14 bps along with a 53 bps decrease in short-term borrowings cost.

Net interest income for the first nine months of 2021 was $235.9 million, up $0.3 million, or 0.1%, from the same period in 2020. PPP loan interest and fees recognized into interest income for the nine months ended September 30, 2021 was $13.8 million compared to $8.5 million for the same period in 2020. FTE net interest margin of 3.01% for the nine months ended September 30, 2021, was down from 3.35% for the same period in 2020. Interest income decreased $11.3 million, or 4.3%, as the yield on average interest-earning assets decreased 52 bps from the same period in 2020 to 3.20%, while average interest-earning assets of $10.5 billion increased $1.1 billion primarily due to excess liquidity and an increase in average investment securities. Interest expense was down $11.6 million, or 44.2%, for the nine months ended September 30, 2021 as compared to the same period in 2020 as the cost of interest-bearing liabilities decreased 27 bps to 0.30%, driven by interest-bearing deposit costs decreasing 25 bps along with a 87 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.

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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, 2021**			**September 30, 2020**		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**
Assets:						
Short-term interest-bearing accounts	**$ 1,014,120**	**$ 403**	**0.16%**	$ 477,946	$ 130	0.11%
Securities available for sale (1) (3)	**1,513,071**	**5,898**	**1.55%**	1,137,604	5,603	1.96%
Securities held to maturity (1) (3)	**657,314**	**3,234**	**1.95%**	621,812	4,008	2.56%
Federal Reserve Bank and FHLB stock	**25,154**	**121**	**1.91%**	29,720	529	7.08%
Loans (2) (3)	**7,517,839**	**72,857**	**3.84%**	7,559,218	75,049	3.95%
Total interest-earning assets	**$ 10,727,498**	**$ 82,513**	**3.05%**	$ 9,826,300	$ 85,319	3.45%
Other assets	**1,019,797**			967,194		
Total assets	**$ 11,747,295**			$ 10,793,494		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 2,580,570**	**$ 1,266**	**0.19%**	$ 2,364,606	$ 1,680	0.28%
NOW deposit accounts	**1,442,678**	**183**	**0.05%**	1,207,064	144	0.05%
Savings deposits	**1,691,539**	**219**	**0.05%**	1,447,021	192	0.05%
Time deposits	**565,216**	**880**	**0.62%**	684,708	2,251	1.31%
Total interest-bearing deposits	**$ 6,280,003**	**$ 2,548**	**0.16%**	$ 5,703,399	$ 4,267	0.30%
Short-term borrowings	**99,703**	**28**	**0.11%**	277,890	446	0.64%
Long-term debt	**14,029**	**89**	**2.52%**	64,137	398	2.47%
Subordinated debt	**98,311**	**1,359**	**5.48%**	97,934	1,375	5.59%
Junior subordinated debt	**101,196**	**517**	**2.03%**	101,196	565	2.22%
Total interest-bearing liabilities	**$ 6,593,242**	**$ 4,541**	**0.27%**	$ 6,244,556	$ 7,051	0.45%
Demand deposits	**$ 3,676,883**			$ 3,111,617		
Other liabilities	**244,125**			282,265		
Stockholders' equity	**1,233,045**			1,155,056		
Total liabilities and stockholders' equity	**$ 11,747,295**			$ 10,793,494		
Net interest income (FTE)		**$ 77,972**			$ 78,268	
Interest rate spread			**2.78%**			3.00%
Net interest margin (FTE)			**2.88%**			3.17%
Taxable equivalent adjustment		**$ 298**			$ 325	
Net interest income		**$ 77,674**			$ 77,943	

(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, 2021			September 30, 2020		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rates**	**Average Balance**	**Interest**	**Yield/ Rates**
Assets:						
Short-term interest-bearing accounts	**$ 860,067**	**$ 763**	**0.12%**	$ 311,577	$ 464	0.20%
Securities available for sale (1) (3)	**1,438,117**	**17,204**	**1.60%**	1,028,962	16,956	2.20%
Securities held to maturity (1) (3)	**623,284**	**10,237**	**2.20%**	619,379	12,562	2.71%
Federal Reserve Bank and FHLB stock	**25,290**	**443**	**2.34%**	35,349	1,674	6.33%
Loans (2) (3)	**7,555,276**	**222,821**	**3.94%**	7,437,566	231,168	4.15%
Total interest-earning assets	**$ 10,502,034**	**$ 251,468**	**3.20%**	$ 9,432,833	$ 262,824	3.72%
Other assets	**984,372**			938,296		
Total assets	**$ 11,486,406**			$ 10,371,129		
Liabilities and stockholders' equity:						
Money market deposit accounts	**$ 2,557,172**	**$ 4,022**	**0.21%**	$ 2,275,765	$ 8,646	0.51%
NOW deposit accounts	**1,419,102**	**531**	**0.05%**	1,153,780	548	0.06%
Savings deposits	**1,633,941**	**625**	**0.05%**	1,369,219	553	0.05%
Time deposits	**590,385**	**3,404**	**0.77%**	762,548	8,436	1.48%
Total interest-bearing deposits	**$ 6,200,600**	**$ 8,582**	**0.19%**	$ 5,561,312	$ 18,183	0.44%
Short-term borrowings	**103,314**	**130**	**0.17%**	412,312	3,215	1.04%
Long-term debt	**15,976**	**301**	**2.52%**	64,165	1,184	2.46%
Subordinated debt	**98,204**	**4,077**	**5.55%**	35,750	1,503	5.62%
Junior subordinated debt	**101,196**	**1,572**	**2.08%**	101,196	2,186	2.89%
Total interest-bearing liabilities	**$ 6,519,290**	**$ 14,662**	**0.30%**	$ 6,174,735	$ 26,271	0.57%
Demand deposits	**$ 3,514,005**			$ 2,800,297		
Other liabilities	**243,525**			256,226		
Stockholders' equity	**1,209,586**			1,139,871		
Total liabilities and stockholders' equity	**$ 11,486,406**			$ 10,371,129		
Net interest income (FTE)		**$ 236,806**			$ 236,553	
Interest rate spread			**2.90%**			3.15%
Net interest margin (FTE)			**3.01%**			3.35%
Taxable equivalent adjustment		**$ 899**			$ 983	
Net interest income		**$ 235,907**			$ 235,570	

(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%.

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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) 2021 over 2020		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest-bearing accounts	$ 194	$ 79	$ 273
Securities available for sale	1,625	(1,330)	295
Securities held to maturity	221	(995)	(774)
Federal Reserve Bank and FHLB stock	(71)	(337)	(408)
Loans	(375)	(1,817)	(2,192)
Total FTE interest income	$ 1,594	$ (4,400)	$ (2,806)
Money market deposit accounts	$ 144	$ (558)	$ (414)
NOW deposit accounts	30	9	39
Savings deposits	32	(5)	27
Time deposits	(341)	(1,030)	(1,371)
Short-term borrowings	(183)	(235)	(418)
Long-term debt	(317)	8	(309)
Subordinated debt	6	(22)	(16)
Junior subordinated debt	-	(48)	(48)
Total FTE interest expense	$ (629)	$ (1,881)	$ (2,510)
Change in FTE net interest income	$ 2,223	$ (2,519)	$ (296)

Nine Months Ended September 30,	Increase (Decrease) 2021 over 2020		
(In thousands)	**Volume**	**Rate**	**Total**
Short-term interest-bearing accounts	$ 548	$ (249)	$ 299
Securities available for sale	5,636	(5,388)	248
Securities held to maturity	78	(2,403)	(2,325)
Federal Reserve Bank and FHLB stock	(383)	(848)	(1,231)
Loans	3,560	(11,907)	(8,347)
Total FTE interest income	$ 9,439	$ (20,795)	$ (11,356)
Money market deposit accounts	$ 958	$ (5,582)	$ (4,624)
NOW deposit accounts	112	(129)	(17)
Savings deposits	102	(30)	72
Time deposits	(1,613)	(3,419)	(5,032)
Short-term borrowings	(1,456)	(1,629)	(3,085)
Long-term debt	(908)	25	(883)
Subordinated debt	2,592	(18)	2,574
Junior subordinated debt	-	(614)	(614)
Total FTE interest expense	$ (213)	$ (11,396)	$ (11,609)
Change in net FTE interest income	$ 9,652	$ (9,399)	$ 253

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)	**2021**	**2020**	**2021**	**2020**
Service charges on deposit accounts	**$ 3,489**	$ 3,087	**$ 9,544**	$ 9,613
ATM and debit card fees	**8,172**	7,194	**23,343**	19,184
Retirement plan administration fees	**10,495**	9,685	**30,372**	26,840
Wealth management fees	**8,783**	7,695	**25,099**	21,791
Insurance services	**3,720**	3,742	**10,689**	11,303
Bank owned life insurance	**1,548**	1,255	**4,588**	4,010
Net securities gains (losses)	**(100)**	84	**568**	(548)
Other	**4,222**	4,985	**12,480**	15,968
Total noninterest income	**$ 40,329**	$ 37,727	**$ 116,683**	$ 108,161

Noninterest income for the three months ended September 30, 2021 was $40.3 million, up $1.0 million, or 2.6%, from the prior quarter and up $2.6 million, or 6.9%, from the third quarter of 2020. Excluding net securities gains (losses), noninterest income for the three months ended September 30, 2021 was $40.4 million, up $1.3 million, or 3.4%, from the prior quarter and up $2.8 million, or 7.4%, from the third quarter of 2020. The increase from the prior quarter was primarily driven by higher service charges on deposit accounts, higher retirement plan administration fees due to market performance and organic growth in relationships and higher wealth management fees driven by market performance and organic growth. The increase from the third quarter of 2020 was primarily due to higher ATM and debit card fees due to increased volume and higher per transaction rates, higher wealth management fees driven by market performance and organic growth, an increase in retirement plan administration fees driven by driven by market performance and organic growth, and higher service charges on deposit accounts due to lower overdraft charges during the COVID-19 pandemic, partly offset by lower swap fees and lower mortgage banking income.

Noninterest income for the nine months ended September 30, 2021 was $116.7 million, up $8.5 million, or 7.9%, from the same period in 2020. Excluding net securities gains (losses), noninterest income for the nine months ended September 30, 2021 would have been $116.1 million, up $7.4 million, or 6.8%, from the same period in 2020. The increase from the prior year was primarily due to higher ATM and debit card fess due to increased volume and higher per transaction rates, higher wealth management fees driven by market performance and organic growth and an increase in retirement plan administration fees driven by the April 1, 2020 acquisition of Alliance Benefit Group of Illinois, Inc. ("ABG"), partly offset by lower swap fees and lower mortgage banking income.

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)	**2021**	**2020**	**2021**	**2020**
Salaries and employee benefits	**$ 44,190**	$ 40,451	**$ 128,462**	$ 120,918
Occupancy	**5,117**	5,294	**16,281**	16,354
Data processing and communications	**3,881**	4,058	**13,039**	12,370
Professional fees and outside services	**3,784**	3,394	**11,403**	10,694
Equipment	**5,577**	5,073	**16,247**	14,494
Office supplies and postage	**1,364**	1,530	**4,478**	4,621
FDIC expense	**772**	645	**2,243**	1,949
Advertising	**583**	530	**1,502**	1,461
Amortization of intangible assets	**663**	856	**2,157**	2,573
Loan collection and other real estate owned, net	**706**	620	**1,959**	2,365
Other	**6,232**	3,857	**14,405**	14,730
Total noninterest expense	**$ 72,869**	$ 66,308	**$ 212,176**	$ 202,529

Noninterest expense for the three months ended September 30, 2021 was $72.9 million, up $1.5 million, or 2.0%, from the prior quarter and up $6.6 million, or 9.9%, from the third quarter of 2020. The increase from the prior quarter was due to higher salaries and employee benefits due to one additional day of payroll in the third quarter, increased medical expenses and higher incentive compensation accruals. Other expenses increased due to $2.3 million in non-recurring costs, primarily from estimated litigation settlement costs related to a pending lawsuit regarding certain of the Company's deposit products and related disclosures. The Company does not anticipate further material accruals related to this legal matter. The increase in noninterest expense from the third quarter of 2020 was due to higher salaries and employee benefits due to annual merit pay increases, increased medical expenses and higher incentive compensation accrual. Higher equipment expense due to higher technology costs associated with several digital upgrades. Other expenses increased due to $2.3 million in non-recurring costs, including the previously mentioned estimated litigation settlement costs.

Noninterest expense for the nine months ended September 30, 2021 was $212.2 million, up $9.6 million, or 4.8%, from the same period in 2020. The increase from the prior year was driven by higher salaries and employee benefits due to annual merit pay increases, the ABG acquisition and higher medical expenses, increase in data processing communication expense driven by continued investments in digital platform solutions including a PPP specific platform, an increase in professional fees and outside services as a result of projects paused during the COVID-19 pandemic, 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, 2021 was $11.0 million, down $1.0 million from the prior quarter and up $0.1 million from the third quarter of 2020. The effective tax rate was 22.8% for the third quarter of 2021, 22.9% in the prior quarter and 23.8% for the third quarter of 2020. The lower effective tax rate compared to the third quarter of 2020 was due to the change in the level of taxable income to bring the nine months ended September 30, 2020 estimated effective tax rate to 21.75%.

Income tax expense for the nine months ended September 30, 2021 was $34.2 million, up $14.9 million from the same period of 2020. The effective tax rate of 22.5% for the first nine months of 2021 was up from 21.5% for the same period in the prior year. The increase in income tax expense from the prior year was due to a higher level of taxable income as a result of the COVID-19 pandemic and decreased provision for loan losses.

ANALYSIS OF FINANCIAL CONDITION

Securities

Total securities increased $296.2 million, or 14.8%, from December 31, 2020 to September 30, 2021. The securities portfolio represented 19.1% of total assets as of September 30, 2021 as compared to 18.3% of total assets as of December 31, 2020.

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

	September 30, 2021	December 31, 2020
Mortgage-backed securities:		
With maturities 15 years or less	**20%**	21%
With maturities greater than 15 years	**8%**	8%
Collateralized mortgage obligations	**33%**	35%
Municipal securities	**18%**	13%
U.S. agency notes	**18%**	20%
Corporate	**2%**	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.

Loans

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

(In thousands)	September 30, 2021	December 31, 2020
Commercial	**$ 1,466,597**	$ 1,451,560
Commercial real estate	**2,320,341**	2,196,477
Paycheck protection program	**276,195**	430,810
Residential real estate	**1,549,684**	1,466,662
Indirect auto	**873,860**	931,286
Specialty lending	**692,919**	579,644
Home equity	**339,316**	387,974
Other consumer	**47,530**	54,472
Total loans	**$ 7,566,442**	$ 7,498,885

(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 $67.6 million from December 31, 2020 to September 30, 2021. Total PPP loans as of September 30, 2021 were $276.2 million (net of unamortized fees). The following PPP loan activity occurred during the nine months ended September 30, 2021: $286.6 million in PPP loan originations, $449.8 million of loans forgiven and $13.8 million of interest and fees recognized into interest income. Excluding PPP loans, period end loans increased $222.2 million from December 31, 2020. Commercial and industrial loans increased $15.0 million to $1.5 billion; commercial real estate loans increased $123.9 million to $2.3 billion; and total consumer loans increased $83.3 million to $3.5 billion. Total loans represent approximately 63.1% of assets as of September 30, 2021, as compared to 68.6% as of December 31, 2020.

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.

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 $93.0 million at September 30, 2021, compared to $98.5 million at June 30, 2021 and $114.5 million at September 30, 2020. The allowance for credit losses as a percentage of loans was 1.23% (1.28% excluding PPP loans) at September 30, 2021, compared to 1.31% (1.38% excluding PPP loans) at June 30, 2021 and 1.51% (1.62% excluding PPP loans) at September 30, 2020. The decrease in the allowance for credit losses from June 30, 2021 and September 30, 2020 to September 30, 2021 was primarily due to the improved economic conditions in the CECL forecast.

The provision for loan losses was a net benefit of $3.3 million for three months ended September 30, 2021, compared to a net benefit of $5.2 million in the prior quarter and a provision expense of $3.3 million for the same period in the prior year. Provision expense increased from the prior quarter due primarily to increased net charge-offs and higher reserves established due to change in loan mix, partly offset by continued improvement in economic conditions in the CECL forecast. Provision expense decreased from the same period in the prior year due primarily to the improved economic condition forecast in the current quarter as compared to deterioration of the economic forecast that took place at the end of the third quarter in 2020 due to COVID-19. Net charge-offs totaled $2.2 million during the three months ended September 30, 2021, compared to net charge-offs of $1.3 million during the second quarter of 2021 and $2.3 million in the third quarter of 2020.

The provision for loan losses was a net benefit of $11.4 million for the nine months ended September 30, 2021, compared to a provision expense of $51.7 million for the nine months ended September 30, 2020. Provision expense decreased from the same period in the prior year due primarily to the improved economic condition forecast in the current quarter as compared to significant deterioration of the economic forecast that took place at the end of the nine months ended September 30, 2020 due to COVID-19. Net charge-offs totaled $5.6 million during the nine months ended September 30, 2021, compared to net charge-offs of $13.2 million during the nine months ended September 30, 2020.

As of September 30, 2021, the unfunded commitment reserve totaled $5.3 million, compared to $5.8 million as of June 30, 2021 and $5.5 million as of September 30, 2020.

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. The threshold for evaluating classified and nonperforming loans specifically evaluated for impairment is $1.0 million. OREO represents property acquired through foreclosure and is valued at the lower of the carrying amount or fair value, less any estimated disposal costs.

	September 30, 2021		December 31, 2020	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Nonaccrual loans:				
Commercial	**$ 19,726**	**55%**	$ 23,557	53%
Residential	**10,139**	**28%**	13,082	29%
Consumer	**1,585**	**5%**	3,020	7%
Troubled debt restructured loans	**4,287**	**12%**	4,988	11%
Total nonaccrual loans	**$ 35,737**	**100%**	$ 44,647	100%
Loans 90 days or more past due and still accruing:				
Commercial	**$ 441**	**15%**	$ 493	16%
Residential	**1,109**	**38%**	518	16%
Consumer	**1,390**	**47%**	2,138	68%
Total loans 90 days or more past due and still accruing	**$ 2,940**	**100%**	$ 3,149	100%
Total nonperforming loans	**$ 38,677**		$ 47,796	
OREO	**859**		1,458	
Total nonperforming assets	**$ 39,536**		$ 49,254	
Total nonperforming loans to total loans	**0.51%**		0.64%	
Total nonperforming assets to total assets	**0.33%**		0.45%	
Allowance for loan losses to total nonperforming loans	**240.45%**		230.14%	

Total nonperforming assets were $39.5 million at September 30, 2021, compared to $49.3 million at December 31, 2020 and $40.1 million at September 30, 2020. Nonperforming loans at September 30, 2021 were $38.7 million, or 0.51%, of total loans (0.53% excluding PPP loan originations), compared with $47.8 million, or 0.64% of total loans (0.68% excluding PPP loan originations) at December 31, 2020 and $38.5 million, or 0.51% of total loans (0.55% excluding PPP loan originations) at September 30, 2020.

Nonperforming loans were consistent compared to a year ago. Past due loans as a percentage of total loans was 0.46% at September 30, 2021 (0.48% excluding PPP loan originations), up from 0.37% at December 31, 2020 (0.39% excluding PPP loan originations) and up from 0.26% at September 30, 2020 (0.28% excluding PPP loan originations).

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 pandemic. 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 troubled debt restructuring ("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, 2021, $2.0 million of total loans outstanding were in payment deferral programs, of which 71% are commercial borrowers and 29% are consumer borrowers. As of December 31, 2020, $106.0 million of total loans outstanding were in payment deferral programs, of which 80% were commercial borrowers and 20% were consumer borrowers.

In addition to nonperforming loans discussed above, the Company has also identified approximately $105.7 million in potential problem loans at September 30, 2021 as compared to $136.6 million at December 31, 2020 and $117.7 million at September 30, 2020. The increase in potential problem loans from September 30, 2020 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, 2021, 8.7% 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 $10.2 billion at September 30, 2021, up $1.1 billion, or 12.3%, from December 31, 2020. Total average deposits increased $1.4 billion, or 16.2%, from the same period last year. The growth was driven primarily by an increase of $713.7 million, or 25.5%, in demand deposits, combined with an increase in interest-bearing deposits of $639.3 million, or 11.5%, due to growth in money market deposit accounts ("MMDA"), NOW deposit accounts and savings deposit accounts, 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 $99.7 million at September 30, 2021 compared to $168.4 million at December 31, 2020. The notional value of interest rate swaps hedging cash flows related to short-term borrowings totaled $25.0 million at December 31, 2020 and matured during the nine months ended September 30, 2021. Long-term debt was $14.0 million at September 30, 2021 and $39.1 million at December 31, 2020.

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 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, 2021 and December 31, 2020 the subordinated debt net of unamortized issuance costs was $98.4 million and $98.1 million, respectively.

Capital Resources

Stockholders' equity of $1.2 billion represented 10.35% of total assets at September 30, 2021 compared with $1.2 billion, or 10.86% of total assets, as of December 31, 2020. Stockholders' equity was consistent with December 31, 2020 as net income of $117.6 million for the nine months ending September 30, 2021 was offset by a decrease in accumulated other comprehensive income of $14.9 million, dividends declared of $35.6 million during the period and repurchase of common stock of $14.1 million.

The Company repurchased 119,342 shares of common stock during the third quarter of 2021 at a weighted average price of $35.30 per share excluding commissions under a previous announced plan. As of September 30, 2021, there were 1,600,000 shares available for repurchase under this plan authorized on October 28, 2019, amended on March 23, 2020 and January 27, 2021, and set to expire on December 31, 2021.

The Board of Directors considers the Company's capital levels, earnings position and earnings potential when making dividend decisions. The Board of Directors approved a fourth-quarter 2021 cash dividend of $0.28 per share at a meeting held on October 25, 2021. The dividend will be paid on December 15, 2021 to shareholders of record as of December 1, 2021.

As the capital ratios in the following table indicate, the Company remained "well capitalized" at September 30, 2021 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, 2021**	**December 31, 2020**
Tier 1 leverage ratio	**9.47%**	9.56%
Common equity tier 1 capital ratio	**12.20%**	11.84%
Tier 1 capital ratio	**13.39%**	13.09%
Total risk-based capital ratio	**15.74%**	15.62%
Cash dividends as a percentage of net income	**30.29%**	45.22%
Per common share:		
Book value	**$ 28.65**	$ 27.22
Tangible book value(1)	**$ 21.95**	$ 20.52
Tangible equity ratio(2)	**8.13%**	8.41%

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

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, 2021 balance sheet position:

Interest Rate Sensitivity Analysis

Change in interest rates (in bps points)	Percent change in net interest income
+200	6.93%
+100	3.22%
-50	(0.84%)

The Company anticipates that the trajectory of net interest income will depend significantly on the timing and path of the recovery from the recent 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 “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, 2021, the Company’s Basic Surplus measurement was 29.4% of total assets or approximately $3.5 billion as compared to the December 31, 2020 Basic Surplus of 25.7% or $2.8 billion and was above the Company’s minimum of 5% (calculated at $599.7 million and $546.6 million, of period end total assets as September 30, 2021 and December 31, 2020, respectively) set forth in its liquidity policies.

At September 30, 2021 and December 31, 2020, Federal Home Loan Bank (“FHLB”) advances outstanding totaled $14.0 million and $64.1 million, respectively. At September 30, 2021 and December 31, 2020, the Bank had $130.0 million and $74.0 million, respectively, of collateral encumbered by municipal letters of credit. The Bank is a member of the FHLB system and had additional borrowing capacity from the FHLB of approximately $1.7 billion at September 30, 2021 and $1.6 billion at December 31, 2020. In addition, unpledged securities could have been used to increase borrowing capacity at the FHLB by an additional $901.2 million and $839.4 million at September 30, 2021 and December 31, 2020, respectively, or used to collateralize other borrowings, such as repurchase agreements. The Company also has the ability to issue brokered time deposits and to borrow against established borrowing facilities with other banks (federal funds), which could provide additional liquidity of $2.0 billion at September 30, 2021 and $1.8 billion at December 31, 2020. In addition, the Bank has a “Borrower-in-Custody” program with the FRB with the addition of the ability to pledge automobile loans as collateral. At September 30, 2021 and December 31, 2020, the Bank had the capacity to borrow $588.3 million and $658.1 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 $2.8 billion at September 30, 2021 and $2.6 billion at December 31, 2020.

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 strong. However, certain events may adversely impact the Company’s liquidity position in 2021. 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, 2021, 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, 2021, approximately $193.0 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, 2021, the Company's disclosure controls and procedures were effective.

PART II OTHER INFORMATION

Item 1 – LEGAL PROCEEDINGS

There are no material legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is subject, except as described in the Company's 2020 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 2020 Annual Report on Form 10-K.

Item 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) The table below sets forth the information with respect to purchases made by the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the quarter ended September 30, 2021:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet be Purchased Under the Plans(1)
7/1/21 - 7/31/21	119,342	$ 35.30	119,342	1,600,000
8/1/21 - 8/31/21	-	-	-	1,600,000
9/1/21 - 9/30/21	-	-	-	1,600,000
Total	119,342	$ 35.30	119,342	1,600,000

(1) The Company purchased 119,342 shares of its common stock during the third quarter of 2021 at an average price of $35.30 per share under a previously announced plan. As of September 30, 2021, there were 1,600,000 shares available for repurchase under this plan announced on October 28, 2019, amended on March 23, 2020 and January 27, 2021, and set to expire on December 31, 2021.

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).
10.1	Employment Agreement, dated August 5, 2021, by and between NBT Bancorp, Inc. and Scott A. Kingsley (filed as Exhibit 10.1 to Registrant's Form 10-Q filed on August 6, 2021 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 9th day of November 2021.

NBT BANCORP INC.

By: /s/ Scott A. Kingsley

Scott A. Kingsley
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 9, 2021

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, Scott A. Kingsley, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2021

By: /s/ Scott A. Kingsley
Scott A. Kingsley
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, 2021, 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 9, 2021

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, 2021, filed on the date hereof with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Scott A. Kingsley

Scott A. Kingsley
Executive Vice President and
Chief Financial Officer
November 9, 2021

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.