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

# FORM 10-Q

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

**For the quarterly period ended** September 30, 2023

☐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 001-35272**

# MIDLAND STATES BANCORP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Illinois** | **37-1233196** |
| (State of other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1201 Network Centre Drive**<br>**Effingham, IL**<br>(Address of principal executive offices) | **62401**<br>(Zip Code) |

**(217) 342-7321**

(Registrant's telephone number, including area code)

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common stock, $0.01 par value | MSBI | The Nasdaq Stock Market LLC |
| Depositary Shares, each representing a 1/40th interest in a share of 7.75% fixed rate reset non-cumulative perpetual preferred stock, Series A | MSBIP | The Nasdaq Stock Market LLC |

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

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

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

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

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

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

As of October 20, 2023, the Registrant had 21,538,434 shares of outstanding common stock, $0.01 par value.

# MIDLAND STATES BANCORP, INC.

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# PART I – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

## MIDLAND STATES BANCORP, INC.
## CONSOLIDATED BALANCE SHEETS
*(dollars in thousands, except per share data)*

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | *(unaudited)* | |
| **Assets** | | |
| Cash and due from banks | $ 131,179 | $ 153,345 |
| Federal funds sold | 953 | 7,286 |
| Cash and cash equivalents | 132,132 | 160,631 |
| Investment securities available for sale, at fair value | 835,009 | 768,234 |
| Equity securities, at fair value | 4,335 | 8,626 |
| Loans | 6,280,883 | 6,306,467 |
| Allowance for credit losses on loans | (66,669) | (61,051) |
| Total loans, net | 6,214,214 | 6,245,416 |
| Loans held for sale | 6,089 | 1,286 |
| Premises and equipment, net | 82,741 | 78,293 |
| Other real estate owned | 480 | 6,729 |
| Nonmarketable equity securities | 45,211 | 46,201 |
| Accrued interest receivable | 24,283 | 20,313 |
| Loan servicing rights, at lower of cost or fair value | 20,933 | 1,205 |
| Commercial FHA mortgage loan servicing rights held for sale | — | 20,745 |
| Goodwill | 161,904 | 161,904 |
| Other intangible assets, net | 17,238 | 20,866 |
| Company-owned life insurance | 208,390 | 150,443 |
| Other assets | 222,966 | 164,609 |
| Total assets | $ 7,975,925 | $ 7,855,501 |
| **Liabilities and Shareholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | $ 1,154,515 | $ 1,362,158 |
| Interest-bearing deposits | 5,250,487 | 5,002,494 |
| Total deposits | 6,405,002 | 6,364,652 |
| Short-term borrowings | 17,998 | 42,311 |
| Federal Home Loan Bank advances and other borrowings | 538,000 | 460,000 |
| Subordinated debt | 93,475 | 99,772 |
| Trust preferred debentures | 50,457 | 49,975 |
| Accrued interest payable and other liabilities | 106,743 | 80,217 |
| Total liabilities | 7,211,675 | 7,096,927 |
| Shareholders' Equity: | | |
| Preferred stock, $2.00 par value; 4,000,000 shares authorized; 115,000 Series A shares, $1,000 per share liquidation preference, issued and outstanding at September 30, 2023 and December 31, 2022, respectively | 110,548 | 110,548 |
| Common stock, $0.01 par value; 40,000,000 shares authorized; 21,594,546 and 22,214,913 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively | 216 | 222 |
| Capital surplus | 437,566 | 449,196 |
| Retained earnings | 317,101 | 282,405 |
| Accumulated other comprehensive loss, net of tax | (101,181) | (83,797) |
| Total shareholders' equity | 764,250 | 758,574 |
| Total liabilities and shareholders' equity | $ 7,975,925 | $ 7,855,501 |

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

# MIDLAND STATES BANCORP, INC.
## CONSOLIDATED STATEMENTS OF INCOME — (UNAUDITED)
*(dollars in thousands, except per share data)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Interest income: | | | | |
| Loans including fees: | | | | |
| Taxable | $ 93,488 | $ 72,901 | $ 272,297 | $ 192,430 |
| Tax exempt | 497 | 527 | 1,349 | 1,589 |
| Loans held for sale | 104 | 60 | 179 | 357 |
| Investment securities: | | | | |
| Taxable | 7,475 | 3,765 | 19,744 | 11,717 |
| Tax exempt | 275 | 628 | 1,074 | 2,162 |
| Nonmarketable equity securities | 710 | 550 | 2,104 | 1,521 |
| Federal funds sold and cash investments | 1,036 | 1,125 | 2,868 | 1,764 |
| Total interest income | 103,585 | 79,556 | 299,615 | 211,540 |
| Interest expense: | | | | |
| Deposits | 37,769 | 10,249 | 97,791 | 16,220 |
| Short-term borrowings | 14 | 28 | 53 | 73 |
| Federal Home Loan Bank advances and other borrowings | 4,557 | 2,424 | 15,959 | 5,071 |
| Subordinated debt | 1,280 | 2,010 | 3,985 | 6,032 |
| Trust preferred debentures | 1,369 | 821 | 3,887 | 1,959 |
| Total interest expense | 44,989 | 15,532 | 121,675 | 29,355 |
| Net interest income | 58,596 | 64,024 | 177,940 | 182,185 |
| Provision for credit losses: | | | | |
| Provision for credit losses on loans | 5,168 | 6,974 | 14,182 | 15,847 |
| Provision for credit losses on unfunded commitments | — | — | — | 956 |
| Recapture of other credit losses | — | — | — | (221) |
| Total provision for credit losses | 5,168 | 6,974 | 14,182 | 16,582 |
| Net interest income after provision for credit losses | 53,428 | 57,050 | 163,758 | 165,603 |
| Noninterest income: | | | | |
| Wealth management revenue | 6,288 | 6,199 | 18,968 | 19,481 |
| Residential mortgage banking revenue | 507 | 210 | 1,452 | 1,193 |
| Service charges on deposit accounts | 3,149 | 2,783 | 8,744 | 7,544 |
| Interchange revenue | 3,609 | 3,531 | 10,717 | 10,401 |
| Loss on sales of investment securities, net | (4,961) | (129) | (6,478) | (230) |
| Impairment on commercial mortgage servicing rights | — | — | — | (1,263) |
| Company-owned life insurance | 7,558 | 929 | 9,325 | 2,788 |
| Other income | 2,035 | 2,303 | 9,989 | 6,138 |
| Total noninterest income | 18,185 | 15,826 | 52,717 | 46,052 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 22,307 | 22,889 | 69,407 | 67,404 |
| Occupancy and equipment | 3,730 | 3,850 | 12,052 | 11,094 |
| Data processing | 6,468 | 6,093 | 19,323 | 18,048 |
| FDIC insurance | 1,107 | 977 | 3,632 | 2,633 |
| Professional | 1,554 | 1,693 | 4,977 | 5,181 |
| Marketing | 950 | 1,026 | 2,323 | 2,447 |
| Communications | 507 | 587 | 1,514 | 1,934 |
| Loan expense | 866 | 1,137 | 3,104 | 3,379 |
| Amortization of intangible assets | 1,129 | 1,361 | 3,628 | 4,077 |
| Other expense | 3,420 | 3,883 | 9,454 | 9,522 |
| Total noninterest expense | 42,038 | 43,496 | 129,414 | 125,719 |
| Income before income taxes | 29,575 | 29,380 | 87,061 | 85,936 |
| Income taxes | 11,533 | 5,859 | 25,672 | 19,783 |
| Net income | 18,042 | 23,521 | 61,389 | 66,153 |
| Preferred dividends | 2,229 | — | 6,685 | — |
| Net income available to common shareholders | $ 15,813 | $ 23,521 | $ 54,704 | $ 66,153 |
| Per common share data: | | | | |
| Basic earnings per common share | $ 0.71 | $ 1.04 | $ 2.43 | $ 2.93 |
| Diluted earnings per common share | $ 0.71 | $ 1.04 | $ 2.43 | $ 2.92 |
| Weighted average common shares outstanding | 21,970,372 | 22,338,828 | 22,214,862 | 22,306,323 |
| Weighted average diluted common shares outstanding | 21,977,196 | 22,390,438 | 22,223,986 | 22,367,095 |

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

# MIDLAND STATES BANCORP, INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — (UNAUDITED)
***(dollars in thousands)***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| Net income | $ 18,042 | $ 23,521 | $ 61,389 | $ 66,153 |
| Other comprehensive loss: | | | | |
| Investment securities available for sale: | | | | |
| Unrealized losses that occurred during the period | (27,305) | (31,764) | (29,961) | (115,199) |
| Recapture of credit loss expense | — | — | — | (221) |
| Reclassification adjustment for realized net losses on sales of investment securities included in net income | 4,961 | 129 | 6,478 | 230 |
| Income tax effect | 6,032 | 8,134 | 6,340 | 31,111 |
| Change in investment securities available for sale, net of tax | (16,312) | (23,501) | (17,143) | (84,079) |
| Cash flow hedges: | | | | |
| Net unrealized derivative (losses) gains on cash flow hedges | (205) | (2,501) | (330) | 594 |
| Income tax effect | 55 | 716 | 89 | (135) |
| Change in cash flow hedges, net of tax | (150) | (1,785) | (241) | 459 |
| Other comprehensive loss, net of tax | (16,462) | (25,286) | (17,384) | (83,620) |
| Total comprehensive income (loss) | $ 1,580 | $ (1,765) | $ 44,005 | $ (17,467) |

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

# MIDLAND STATES BANCORP, INC.
## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY — (UNAUDITED)
*(dollars in thousands, except per share data)*

| | Preferred stock | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive (loss) income | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balances, June 30, 2023 | $ 110,548 | $ 218 | $ 442,886 | $ 307,888 | $ (84,719) | $ 776,821 |
| Net income | — | — | — | 18,042 | — | 18,042 |
| Other comprehensive loss | — | — | — | — | (16,462) | (16,462) |
| Common dividends declared ($0.30 per share) | — | — | — | (6,600) | — | (6,600) |
| Preferred dividends declared ($19.375 per share) | — | — | — | (2,229) | — | (2,229) |
| Common stock repurchased | — | (3) | (6,055) | — | — | (6,058) |
| Share-based compensation expense | — | — | 604 | — | — | 604 |
| Issuance of common stock under employee benefit plans | — | 1 | 131 | — | — | 132 |
| Balances, September 30, 2023 | $ 110,548 | $ 216 | $ 437,566 | $ 317,101 | $ (101,181) | $ 764,250 |
| | | | | | | |
| Balances, December 31, 2022 | $ 110,548 | $ 222 | $ 449,196 | $ 282,405 | $ (83,797) | $ 758,574 |
| Net income | — | — | — | 61,389 | — | 61,389 |
| Other comprehensive loss | — | — | — | — | (17,384) | (17,384) |
| Common dividends declared ($0.90 per share) | — | — | — | (20,008) | — | (20,008) |
| Preferred dividends declared ($58.125 per share) | — | — | — | (6,685) | — | (6,685) |
| Common stock repurchased | — | (7) | (15,018) | — | — | (15,025) |
| Share-based compensation expense | — | — | 1,796 | — | — | 1,796 |
| Issuance of common stock under employee benefit plans | — | 1 | 1,592 | — | — | 1,593 |
| Balances, September 30, 2023 | $ 110,548 | $ 216 | $ 437,566 | $ 317,101 | $ (101,181) | $ 764,250 |
| | | | | | | |
| Balances, June 30, 2022 | $ — | $ 221 | $ 446,894 | $ 242,170 | $ (53,097) | $ 636,188 |
| Net income | — | — | — | 23,521 | — | 23,521 |
| Other comprehensive loss | — | — | — | — | (25,286) | (25,286) |
| Issuance of preferred stock, net of offering costs | 110,548 | — | — | — | — | 110,548 |
| Common dividends declared ($0.29 per share) | — | — | — | (6,470) | — | (6,470) |
| Share-based compensation expense | — | — | 501 | — | — | 501 |
| Issuance of common stock under employee benefit plans | — | — | 277 | — | — | 277 |
| Balances, September 30, 2022 | $ 110,548 | $ 221 | $ 447,672 | $ 259,221 | $ (78,383) | $ 739,279 |
| | | | | | | |
| Balances, December 31, 2021 | $ — | $ 221 | $ 445,907 | $ 212,472 | $ 5,237 | $ 663,837 |
| Net income | — | — | — | 66,153 | — | 66,153 |
| Other comprehensive loss | — | — | — | — | (83,620) | (83,620) |
| Issuance of preferred stock, net of offering costs | 110,548 | — | — | — | — | 110,548 |
| Common dividends declared ($0.87 per share) | — | — | — | (19,404) | — | (19,404) |
| Common stock repurchased | — | (1) | (1,108) | — | — | (1,109) |
| Share-based compensation expense | — | — | 1,547 | — | — | 1,547 |
| Issuance of common stock under employee benefit plans | — | 1 | 1,326 | — | — | 1,327 |
| Balances, September 30, 2022 | $ 110,548 | $ 221 | $ 447,672 | $ 259,221 | $ (78,383) | $ 739,279 |

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

# MIDLAND STATES BANCORP, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS — (UNAUDITED)
*(dollars in thousands)*

| | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 61,389 | $ 66,153 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 14,182 | 16,582 |
| Depreciation on premises and equipment | 3,567 | 3,665 |
| Amortization of intangible assets | 3,628 | 4,077 |
| Amortization of operating lease right-of-use asset | 1,241 | 1,373 |
| Amortization of loan servicing rights | 861 | 2,202 |
| Share-based compensation expense | 1,796 | 1,547 |
| Increase in cash surrender value of life insurance | (9,325) | (2,524) |
| Gain on proceeds from company-owned life insurance | — | (264) |
| Investment securities (accretion) amortization, net | (1,424) | 1,923 |
| Loss on sales of investment securities, net | 6,478 | 230 |
| Gain on repurchase of subordinated debt | (676) | — |
| (Loss) gain on sales of other real estate owned | (819) | 131 |
| Impairment on other real estate owned | — | 743 |
| Origination of loans held for sale | (45,690) | (123,602) |
| Proceeds from sales of loans held for sale | 65,291 | 252,078 |
| Gain on sale of loans held for sale | (1,712) | (1,035) |
| Impairment on commercial mortgage servicing rights | — | 1,263 |
| Net change in operating assets and liabilities: | | |
| Accrued interest receivable | (3,970) | 1,969 |
| Other assets | (58,408) | (37,032) |
| Accrued expenses and other liabilities | 30,874 | 16,593 |
| Net cash provided by operating activities | 67,283 | 206,072 |
| Cash flows from investing activities: | | |
| Purchases of investment securities available for sale | (305,021) | (100,115) |
| Proceeds from sales of investment securities available for sale | 165,871 | 136,403 |
| Maturities and payments on investment securities available for sale | 43,838 | 71,305 |
| Purchases of equity securities | (244) | (441) |
| Proceeds from sales of equity securities | 5,148 | — |
| Net increase in loans | (6,195) | (1,065,192) |
| Purchases of premises and equipment | (7,064) | (2,088) |
| Proceeds from sale of premises and equipment | 104 | 158 |
| Purchases of nonmarketable equity securities | (157,382) | (6,360) |
| Proceeds from redemptions of nonmarketable equity securities | 158,372 | 3,005 |
| Proceeds from sales of other real estate owned | 7,346 | 561 |
| (Purchases of) proceeds from company-owned life insurance, net | (48,622) | 1,518 |
| Net cash acquired in acquisitions | — | 60,275 |
| Net cash used in investing activities | (143,849) | (900,971) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 40,350 | 204,810 |
| Net decrease in short-term borrowings | (24,313) | (18,285) |
| Proceeds from FHLB borrowings | 15,996,000 | 1,900,000 |
| Payments made on FHLB borrowings and other borrowings | (15,918,000) | (1,850,000) |
| Payments made on subordinated debt | (5,845) | — |
| Proceeds from issuance of preferred stock | — | 110,548 |
| Cash dividends paid on preferred stock | (6,685) | — |
| Cash dividends paid on common stock | (20,008) | (19,404) |
| Redemption of Series G preferred stock | — | (171) |
| Common stock repurchased | (15,025) | (1,109) |
| Proceeds from issuance of common stock under employee benefit plans | 1,593 | 1,327 |
| Net cash provided by financing activities | 48,067 | 327,716 |
| Net decrease in cash and cash equivalents | (28,499) | (367,183) |
| Cash and cash equivalents: | | |
| Beginning of period | 160,631 | 680,371 |
| End of period | $ 132,132 | $ 313,188 |
| Supplemental disclosures of cash flow information: | | |
| Cash payments for: | | |
| Interest paid on deposits and borrowed funds | $ 114,011 | $ 29,449 |
| Income tax paid (net of refunds) | 17,762 | 22,014 |
| Supplemental disclosures of noncash investing and financing activities: | | |
| Transfer of loans to loans held for sale | — | 99,505 |
| Transfer of loans to other real estate owned | 278 | 517 |
| Right of use assets obtained in exchange for lease obligations | 2,459 | 502 |
| Transfer of loan servicing rights, at lower of cost or market to loan servicing rights held for sale | — | 23,995 |
| Transfer of loan servicing rights held for sale to loan servicing rights, at lower of cost or market | 20,745 | — |

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

# MIDLAND STATES BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (UNAUDITED)



### NOTE 1 – BUSINESS DESCRIPTION

Midland States Bancorp, Inc. (the “Company,” “we,” “our,” or “us”) is a diversified financial holding company headquartered in Effingham, Illinois. Our wholly owned banking subsidiary, Midland States Bank (the “Bank”), has branches across Illinois and in Missouri, and provides a full range of commercial and consumer banking products and services, business equipment financing, merchant credit card services, trust and investment management services, and insurance and financial planning services.

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities and other entities. We have derived income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; wealth management services; commercial Federal Housing Administration ("FHA") mortgage loan servicing; residential mortgage loan originations, sales and servicing; and, from time to time, gains on sales of assets. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for credit losses and income tax expense.

### NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and conform to predominant practices within the banking industry. Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare the consolidated financial statements in conformity with GAAP. Actual results may differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the results of operations for annual periods presented herein, have been included. Certain reclassifications of 2022 amounts have been made to conform to the 2023 presentation but do not have an effect on net income or shareholders’ equity.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the parent company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Assets held for customers in a fiduciary or agency capacity, other than trust cash on deposit with the Bank, are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

***Accounting Guidance Adopted in 2023***

***FASB ASU No. 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*** – In March 2022, the FASB issued ASU No. 2022-02, which 1) eliminates the accounting guidance for troubled debt restructurings ("TDRs") by creditors while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty; and 2) requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022 and the amendments should be applied prospectively, although the entity has the option to apply a modified retrospective transition method for the recognition and measurement of TDRs, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company adopted this guidance on January 1, 2023 and elected to apply on a prospective basis. The adoption of this accounting pronouncement did not have an impact on the consolidated financial statements aside from additional and revised disclosures.

***Accounting Guidance Issued But Not Yet Adopted***

***FASB ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*** – In March 2020, the FASB issued ASU No. 2020-04, allowing for optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision based on the expectations of when LIBOR would cease being published. In 2021, the UK Financial Conduct Authority delayed the intended cessation date of certain tenors of LIBOR to June 30, 2023.

In December 2022, to ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the FASB issued ASU No. 2022-06, which defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

The Company has been monitoring its volume of commercial loans tied to LIBOR. In 2021, the Company began prioritizing SOFR as the preferred alternative reference rate with plans to cease booking LIBOR based commitments after the end of 2021. Loans with a maturity after June 2023 are being reviewed and monitored to ensure there is appropriate fallback language in place when LIBOR is no longer published. Loans with a maturity date before that time should naturally mature and be re-underwritten with the alternative index rate.

The Company believes the adoption of this guidance will not have a material impact on the consolidated financial statements.

## NOTE 3 – INVESTMENT SECURITIES

***Investment Securities Available for Sale***

Investment securities available for sale at September 30, 2023 and December 31, 2022 were as follows:

| | September 30, 2023 | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Amortized cost** | **Gross unrealized gains** | **Gross unrealized losses** | **Fair value** |
| **Investment securities available for sale** | | | | |
| U.S. Treasury securities | $ 1,582 | $ — | $ 19 | $ 1,563 |
| U.S. government sponsored entities and U.S. agency securities | 93,291 | 171 | 4,424 | 89,038 |
| Mortgage-backed securities - agency | 613,484 | 13 | 96,106 | 517,391 |
| Mortgage-backed securities - non-agency | 77,617 | 13 | 4,965 | 72,665 |
| State and municipal securities | 59,521 | 3 | 9,787 | 49,737 |
| Collateralized loan obligations | 22,662 | — | 277 | 22,385 |
| Corporate securities | 95,124 | — | 12,894 | 82,230 |
| Total available for sale securities | $ 963,281 | $ 200 | $ 128,472 | $ 835,009 |

| (dollars in thousands) | December 31, 2022 Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| **Investment securities available for sale** | | | | |
| U.S. Treasury securities | $ 86,313 | $ 113 | $ 5,196 | $ 81,230 |
| U.S. government sponsored entities and U.S. agency securities | 41,775 | 71 | 4,337 | 37,509 |
| Mortgage-backed securities - agency | 522,028 | 268 | 74,146 | 448,150 |
| Mortgage-backed securities - non-agency | 24,922 | — | 4,168 | 20,754 |
| State and municipal securities | 102,719 | 149 | 8,232 | 94,636 |
| Corporate securities | 95,266 | — | 9,311 | 85,955 |
| Total available for sale securities | $ 873,023 | $ 601 | $ 105,390 | $ 768,234 |

The following is a summary of the amortized cost and fair value of the investment securities available for sale, by maturity, at September 30, 2023. Expected maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid without penalties. The maturities of all other investment securities available for sale are based on final contractual maturity.

| (dollars in thousands) | Amortized cost | Fair value |
|---|---|---|
| **Investment securities available for sale** | | |
| Within one year | $ 23,769 | $ 23,543 |
| After one year through five years | 108,735 | 103,973 |
| After five years through ten years | 118,486 | 99,614 |
| After ten years | 21,190 | 17,823 |
| Mortgage-backed securities | 691,101 | 590,056 |
| Total available for sale securities | $ 963,281 | $ 835,009 |

Proceeds and gross realized gains and losses on sales of investment securities available for sale for the three and nine months ended September 30, 2023 and 2022 are summarized as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2023 | 2022 | 2023 | 2022 |
| **Investment securities available for sale** | | | | |
| Proceeds from sales | $ 65,911 | $ 28,663 | $ 165,871 | $ 136,403 |
| Gross realized gains on sales | — | 113 | 338 | 829 |
| Gross realized losses on sales | (4,961) | (242) | (6,816) | (1,059) |

Unrealized losses and fair values for investment securities available for sale as of September 30, 2023 and December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

| | September 30, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or more | | Total | |
| (dollars in thousands) | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| **Investment securities available for sale** | | | | | | |
| U.S. Treasury securities | $ 828 | $ 9 | $ 735 | $ 10 | $ 1,563 | $ 19 |
| U.S. government sponsored entities and U.S. agency securities | 56,835 | 251 | 23,787 | 4,173 | 80,622 | 4,424 |
| Mortgage-backed securities - agency | 175,194 | 10,090 | 337,263 | 86,016 | 512,457 | 96,106 |
| Mortgage-backed securities - non-agency | 49,181 | 359 | 18,736 | 4,606 | 67,917 | 4,965 |
| State and municipal securities | 48,303 | 9,787 | — | — | 48,303 | 9,787 |
| Collateralized loan obligations | 22,385 | 277 | — | — | 22,385 | 277 |
| Corporate securities | — | — | 82,230 | 12,894 | 82,230 | 12,894 |
| Total available for sale securities | $ 352,726 | $ 20,773 | $ 462,751 | $ 107,699 | $ 815,477 | $ 128,472 |

| | December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or more | | Total | |
| (dollars in thousands) | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| **Investment securities available for sale** | | | | | | |
| U.S. Treasury securities | $ 1,839 | $ 24 | $ 59,865 | $ 5,172 | $ 61,704 | $ 5,196 |
| U.S. government sponsored entities and U.S. agency securities | 10,288 | 40 | 23,453 | 4,297 | 33,741 | 4,337 |
| Mortgage-backed securities - agency | 152,657 | 9,736 | 273,353 | 64,410 | 426,010 | 74,146 |
| Mortgage-backed securities - non-agency | 1,924 | 270 | 18,830 | 3,898 | 20,754 | 4,168 |
| State and municipal securities | 35,603 | 1,662 | 41,538 | 6,570 | 77,141 | 8,232 |
| Corporate securities | 39,595 | 3,400 | 46,360 | 5,911 | 85,955 | 9,311 |
| Total available for sale securities | $ 241,906 | $ 15,132 | $ 463,399 | $ 90,258 | $ 705,305 | $ 105,390 |

At September 30, 2023, 321 investment securities available for sale had unrealized losses with aggregate depreciation of 13.50% from their amortized cost basis. For all of the above investment securities, the unrealized losses were generally due to changes in interest rates, and unrealized losses were considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates. The issuers are of high credit quality and all principal amounts are expected to be paid when securities mature. The Company does not intend to sell and it is likely that the Company will not be required to sell the securities prior to their anticipated recovery.

## NOTE 4 – LOANS

The following table presents total loans outstanding by portfolio class, as of September 30, 2023 and December 31, 2022:

| (dollars in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Commercial: | | |
| Commercial | $ 874,004 | $ 786,877 |
| Commercial other | 697,235 | 727,697 |
| Commercial real estate: | | |
| Commercial real estate non-owner occupied | 1,636,168 | 1,591,399 |
| Commercial real estate owner occupied | 439,642 | 496,786 |
| Multi-family | 269,708 | 277,889 |
| Farmland | 66,646 | 67,085 |
| Construction and land development | 416,801 | 320,882 |
| Total commercial loans | 4,400,204 | 4,268,615 |
| Residential real estate: | | |
| Residential first lien | 313,638 | 304,243 |
| Other residential | 61,573 | 61,851 |
| Consumer: | | |
| Consumer | 111,432 | 105,880 |
| Consumer other | 908,576 | 1,074,134 |
| Lease financing | 485,460 | 491,744 |
| Total loans | $ 6,280,883 | $ 6,306,467 |

Total loans include net deferred loan costs of $5.1 million and $4.4 million at September 30, 2023 and December 31, 2022, respectively, and unearned discounts of $67.1 million and $62.6 million within the lease financing portfolio at September 30, 2023 and December 31, 2022, respectively.

At September 30, 2023, the Company had residential real estate loans held for sale totaling $6.1 million, compared to $1.3 million at December 31, 2022. The Company sold loans and leases with proceeds totaling $28.0 million and $65.3 million during the three and nine months ended September 30, 2023, respectively, and $48.5 million and $252.1 million during the three and nine months ended September 30, 2022, respectively.

***Classifications of Loan Portfolio***

The Company monitors and assesses the credit risk of its loan portfolio using the classes set forth below. These classes also represent the segments by which the Company monitors the performance of its loan portfolio and estimates its allowance for credit losses on loans.

*Commercial*—Loans to varying types of businesses, including municipalities, school districts and nonprofit organizations, for the purpose of supporting working capital, operational needs and term financing of equipment. Repayment of such loans is generally provided through operating cash flows of the business. Commercial loans are predominately secured by equipment, inventory, accounts receivable, and other sources of repayment. Commercial FHA warehouse lines of $48.5 million and $25.0 million as of September 30, 2023 and December 31, 2022, respectively, were included in this classification.

*Commercial real estate*—Loans secured by real estate occupied by the borrower for ongoing operations, including loans to borrowers engaged in agricultural production, and non-owner occupied real estate leased to one or more tenants, including commercial office, industrial, special purpose, retail and multi-family residential real estate loans.

*Construction and land development*—Secured loans for the construction of business and residential properties. Real estate construction loans often convert to a real estate commercial loan at the completion of the construction period. Secured development loans are made to borrowers for the purpose of infrastructure improvements to vacant land to create finished marketable residential and commercial lots/land. Most land development loans are originated with the intention that the loans will be paid through the sale of developed lots/land by the developers within twelve months of the completion date. Interest reserves may be established on real estate construction loans.

*Residential real estate*—Loans secured by residential properties that generally do not qualify for secondary market sale; however, the risk to return and/or overall relationship are considered acceptable to the Company. This category also includes loans whereby consumers utilize equity in their personal residence, generally through a second mortgage, as collateral to secure the loan.

*Consumer*—Loans to consumers primarily for the purpose of home improvements or acquiring automobiles, recreational vehicles and boats. Consumer loans consist of relatively small amounts that are spread across many individual borrowers.

*Lease financing*—Our equipment leasing business provides financing leases to varying types of businesses, nationwide, for purchases of business equipment and software. The financing is secured by a first priority interest in the financed assets and generally requires monthly payments.

Commercial, commercial real estate, and construction and land development loans are collectively referred to as the Company's commercial loan portfolio, while residential real estate, consumer loans and lease financing receivables are collectively referred to as the Company's other loan portfolio.

We have extended loans to certain of our directors, executive officers, principal shareholders and their affiliates. These loans were made in the ordinary course of business upon substantially the same terms, including collateralization and interest rates prevailing at the time. The aggregate loans outstanding to the Company's directors, executive officers, principal shareholders and their affiliates totaled $21.3 million and $19.8 million at September 30, 2023 and December 31, 2022, respectively. The new loans, other additions, repayments and other reductions for the three and nine months ended September 30, 2023 and 2022, are summarized as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2023** | **2022** | **2023** | **2022** |
| Beginning balance | $ 21,569 | $ 23,097 | $ 19,776 | $ 13,869 |
| New loans and other additions | — | — | 2,368 | 9,804 |
| Repayments and other reductions | (287) | (3,081) | (862) | (3,657) |
| Ending balance | $ 21,282 | $ 20,016 | $ 21,282 | $ 20,016 |

The following table represents, by loan portfolio segment, a summary of changes in the allowance for credit losses on loans for the three and nine months ended September 30, 2023 and 2022:

| | Commercial Loan Portfolio | | | Other Loan Portfolio | | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Commercial | Commercial real estate | Construction and land development | Residential real estate | Consumer | Lease financing | Total |
| **Changes in allowance for credit losses on loans for the three months ended September 30, 2023:** | | | | | | | |
| Balance, beginning of period | $ 15,290 | $ 29,425 | $ 3,189 | $ 5,551 | $ 3,953 | $ 7,542 | $ 64,950 |
| Provision for credit losses on loans | 7,289 | (6,176) | 385 | 209 | 228 | 3,233 | 5,168 |
| Charge-offs | (3,249) | (2,316) | (44) | (95) | (250) | (1,394) | (7,348) |
| Recoveries | 80 | 3,678 | — | 33 | 53 | 55 | 3,899 |
| Balance, end of period | $ 19,410 | $ 24,611 | $ 3,530 | $ 5,698 | $ 3,984 | $ 9,436 | $ 66,669 |
| **Changes in allowance for credit losses on loans for the nine months ended September 30, 2023:** | | | | | | | |
| Balance, beginning of period | $ 14,639 | $ 29,290 | $ 2,435 | $ 4,301 | $ 3,599 | $ 6,787 | $ 61,051 |
| Provision for credit losses on loans | 9,483 | (4,079) | 1,441 | 1,479 | 932 | 4,926 | 14,182 |
| Charge-offs | (5,289) | (4,606) | (378) | (180) | (773) | (2,555) | (13,781) |
| Recoveries | 577 | 4,006 | 32 | 98 | 226 | 278 | 5,217 |
| Balance, end of period | $ 19,410 | $ 24,611 | $ 3,530 | $ 5,698 | $ 3,984 | $ 9,436 | $ 66,669 |
| **Changes in allowance for credit losses on loans for the three months ended September 30, 2022:** | | | | | | | |
| Balance, beginning of period | $ 12,748 | $ 27,874 | $ 1,101 | $ 3,416 | $ 2,994 | $ 6,765 | $ 54,898 |
| Provision for credit losses on loans | 3,226 | 1,787 | 472 | 852 | 606 | 31 | 6,974 |
| Charge-offs | (1,655) | (1,232) | — | (166) | (316) | (485) | (3,854) |
| Recoveries | 45 | 1 | 18 | 69 | 121 | 367 | 621 |
| Balance, end of period | $ 14,364 | $ 28,430 | $ 1,591 | $ 4,171 | $ 3,405 | $ 6,678 | $ 58,639 |
| **Changes in allowance for credit losses on loans for the nine months ended September 30, 2022:** | | | | | | | |
| Balance, beginning of period | $ 14,375 | $ 22,993 | $ 972 | $ 2,695 | $ 2,558 | $ 7,469 | $ 51,062 |
| Provision for credit losses on loans | 3,504 | 9,515 | 595 | 1,569 | 1,278 | (614) | 15,847 |
| Charge-offs | (3,869) | (4,084) | (6) | (315) | (812) | (1,190) | (10,276) |
| Recoveries | 354 | 6 | 30 | 222 | 381 | 1,013 | 2,006 |
| Balance, end of period | $ 14,364 | $ 28,430 | $ 1,591 | $ 4,171 | $ 3,405 | $ 6,678 | $ 58,639 |

The Company utilizes a combination of models which measure probability of default and loss given default methodology in determining expected future credit losses.

The probability of default is the risk that the borrower will be unable or unwilling to repay its debt in full or on time. The risk of default is derived by analyzing the obligor's capacity to repay the debt in accordance with contractual terms. Probability of default is generally associated with financial characteristics such as inadequate cash flow to service debt, declining revenues or operating margins, high leverage, declining or marginal liquidity, and the inability to successfully implement a business plan. In addition to these quantifiable factors, the borrower's willingness to repay also must be evaluated.

The probability of default is forecasted, for most commercial and retail loans, using a regression model that determines the likelihood of default within the twelve month time horizon. The regression model uses forward-looking economic forecasts including variables such as gross domestic product, housing price index, and real disposable income to predict default rates. The forecasting method for the equipment financing portfolio assumes a rolling twelve-month average of the through-the-cycle default rate, to predict default rates for the twelve month time horizon.

The loss given default component is the percentage of defaulted loan balance that is ultimately charged off. As a method for estimating the allowance, a form of migration analysis is used that combines the estimated probability of loans experiencing default events and the losses ultimately associated with the loans experiencing those defaults. Multiplying one by the other gives the Company its loss rate, which is then applied to the loan portfolio balance to determine expected future losses.

Within the model, the loss given default approach produces segmented loss given default estimates using a loss curve methodology, which is based on historical net losses from charge-off and recovery information. The main principle of a loss curve model is that the loss follows a steady timing schedule based on how long the defaulted loan has been on the books.

The Company's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company's historical look-back period includes January 2012 through the current period on a monthly basis. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external models or data.

Historical data is evaluated in multiple components of the expected credit loss, including the reasonable and supportable forecast and the post-reversion period of each loan segment. The historical experience is used to infer probability of default and loss given default in the reasonable and supportable forecast period. In the post-reversion period, long-term average loss rates are segmented by loan pool.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible.

The Company segments the loan portfolio into pools based on the following risk characteristics: financial asset type, collateral type, loan characteristics, credit characteristics, outstanding loan balances, contractual terms and prepayment assumptions, industry of borrower and concentrations, historical or expected credit loss patterns, and reasonable and supportable forecast periods.

Within the probability of default segmentation, credit metrics are identified to further segment the financial assets. The Company utilizes risk ratings for the commercial portfolios and days past due for the consumer and the lease financing portfolios.

The Company has defined five transitioning risk states for each asset pool within the expected credit loss model. The below table illustrates the transition matrix:

| Risk state | Commercial loans risk rating | Consumer loans and equipment finance loans and leases days past due |
|---|---|---|
| 1 | 0-5 | 0-14 |
| 2 | 6 | 15-29 |
| 3 | 7 | 30-59 |
| 4 | 8 | 60-89 |
| Default | 9+ and nonaccrual | 90+ and nonaccrual |

***Expected Credit Losses***

In calculating expected credit losses, the Company individually evaluates loans on nonaccrual status with a balance greater than $500,000, loans past due 90 days or more and still accruing interest, and loans that do not share risk characteristics with other loans in the pool. The following table presents amortized cost basis of individually evaluated loans on nonaccrual status as of September 30, 2023 and December 31, 2022:

| | September 30, 2023 | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Nonaccrual with allowance** | **Nonaccrual with no allowance** | **Total nonaccrual** | **Nonaccrual with allowance** | **Nonaccrual with no allowance** | **Total nonaccrual** |
| Commercial: | | | | | | |
| Commercial | $ 2,877 | $ 979 | $ 3,856 | $ 1,910 | $ 1,111 | $ 3,021 |
| Commercial other | 4,180 | — | 4,180 | 3,169 | — | 3,169 |
| Commercial real estate: | | | | | | |
| Commercial real estate non-owner occupied | 1,427 | 17,658 | 19,085 | 1,345 | 11,899 | 13,244 |
| Commercial real estate owner occupied | 2,168 | 9,285 | 11,453 | 7,118 | — | 7,118 |
| Multi-family | 252 | 2,641 | 2,893 | 154 | 8,949 | 9,103 |
| Farmland | 172 | — | 172 | 25 | — | 25 |
| Construction and land development | 2,025 | — | 2,025 | 202 | — | 202 |
| Total commercial loans | 13,101 | 30,563 | 43,664 | 13,923 | 21,959 | 35,882 |
| Residential real estate: | | | | | | |
| Residential first lien | 2,659 | 495 | 3,154 | 2,925 | 572 | 3,497 |
| Other residential | 702 | — | 702 | 871 | — | 871 |
| Consumer: | | | | | | |
| Consumer | 103 | — | 103 | 120 | — | 120 |
| Lease financing | 7,558 | — | 7,558 | 1,606 | — | 1,606 |
| Total loans | $ 24,123 | $ 31,058 | $ 55,181 | $ 19,445 | $ 22,531 | $ 41,976 |

There was no interest income recognized on nonaccrual loans during the three and nine months ended September 30, 2023 and 2022 while the loans were in nonaccrual status. Additional interest income that would have been recorded on nonaccrual loans had they been current in accordance with their original terms was $0.8 million and $2.5 million for the three and nine months ended September 30, 2023, respectively, and $0.8 million and $1.9 million for the three and nine months ended September 30, 2022, respectively.

### *Collateral Dependent Financial Assets*

A collateral dependent financial loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with a loan, the Company considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases and the loan may become collateral dependent.

The table below presents the value of individually evaluated, collateral dependent loans by loan class, for borrowers experiencing financial difficulty, as of September 30, 2023 and December 31, 2022:

| | Type of Collateral | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Real Estate** | **Blanket Lien** | **Equipment** | **Total** |
| **September 30, 2023** | | | | |
| Commercial: | | | | |
| Commercial | $ — | $ — | $ 1,973 | $ 1,973 |
| Commercial other | — | — | 344 | 344 |
| Commercial real estate: | | | | |
| Non-owner occupied | 17,515 | — | — | 17,515 |
| Owner occupied | 9,275 | — | — | 9,275 |
| Multi-family | 2,642 | — | — | 2,642 |
| Construction and land development | 2,021 | — | — | 2,021 |
| Total collateral dependent loans | $ 31,453 | $ — | $ 2,317 | $ 33,770 |
| | | | | |
| **December 31, 2022** | | | | |
| Commercial: | | | | |
| Commercial | $ — | $ 1,604 | $ — | $ 1,604 |
| Commercial real estate: | | | | |
| Non-owner occupied | 13,033 | — | — | 13,033 |
| Owner occupied | 3,874 | — | — | 3,874 |
| Multi-family | 8,950 | — | — | 8,950 |
| Residential real estate | | | | |
| Residential first lien | 220 | — | — | 220 |
| Total collateral dependent loans | $ 26,077 | $ 1,604 | $ — | $ 27,681 |

The aging status of the recorded investment in loans by portfolio as of September 30, 2023 was as follows:

| | Accruing loans | | | | | | |
|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **30-59 days past due** | **60-89 days past due** | **Past due 90 days or more** | **Total past due** | **Nonaccrual** | **Current** | **Total** |
| Commercial: | | | | | | | |
| Commercial | $ 188 | $ — | $ — | $ 188 | $ 3,856 | $ 869,960 | $ 874,004 |
| Commercial other | 11,615 | 5,630 | 800 | 18,045 | 4,180 | 675,010 | 697,235 |
| Commercial real estate: | | | | | | | |
| Commercial real estate non-owner occupied | 263 | 5,715 | — | 5,978 | 19,085 | 1,611,105 | 1,636,168 |
| Commercial real estate owner occupied | 373 | — | — | 373 | 11,453 | 427,816 | 439,642 |
| Multi-family | — | — | — | — | 2,893 | 266,815 | 269,708 |
| Farmland | 86 | 122 | — | 208 | 172 | 66,266 | 66,646 |
| Construction and land development | — | — | — | — | 2,025 | 414,776 | 416,801 |
| Total commercial loans | 12,525 | 11,467 | 800 | 24,792 | 43,664 | 4,331,748 | 4,400,204 |
| Residential real estate: | | | | | | | |
| Residential first lien | 314 | — | — | 314 | 3,154 | 310,170 | 313,638 |
| Other residential | 120 | — | — | 120 | 702 | 60,751 | 61,573 |
| Consumer: | | | | | | | |
| Consumer | 272 | 84 | — | 356 | 103 | 110,973 | 111,432 |
| Consumer other | 7,264 | 4,128 | — | 11,392 | — | 897,184 | 908,576 |
| Lease financing | 7,065 | 3,369 | — | 10,434 | 7,558 | 467,468 | 485,460 |
| Total loans | $ 27,560 | $ 19,048 | $ 800 | $ 47,408 | $ 55,181 | $ 6,178,294 | $ 6,280,883 |

The aging status of the recorded investment in loans by portfolio as of December 31, 2022 was as follows:

| | Accruing loans | | | | | | |
|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **30-59 days past due** | **60-89 days past due** | **Past due 90 days or more** | **Total past due** | **Nonaccrual** | **Current** | **Total** |
| Commercial: | | | | | | | |
| Commercial | $ 7 | $ 112 | $ — | $ 119 | $ 3,021 | $ 783,737 | $ 786,877 |
| Commercial other | 6,035 | 2,365 | — | 8,400 | 3,169 | 716,128 | 727,697 |
| Commercial real estate: | | | | | | | |
| Commercial real estate non-owner occupied | 1,008 | 999 | — | 2,007 | 13,244 | 1,576,148 | 1,591,399 |
| Commercial real estate owner occupied | 73 | — | — | 73 | 7,118 | 489,595 | 496,786 |
| Multi-family | — | — | — | — | 9,103 | 268,786 | 277,889 |
| Farmland | — | — | — | — | 25 | 67,060 | 67,085 |
| Construction and land development | — | 6,000 | — | 6,000 | 202 | 314,680 | 320,882 |
| Total commercial loans | 7,123 | 9,476 | — | 16,599 | 35,882 | 4,216,134 | 4,268,615 |
| Residential real estate: | | | | | | | |
| Residential first lien | 82 | 456 | 428 | 966 | 3,497 | 299,780 | 304,243 |
| Other residential | 188 | 13 | — | 201 | 871 | 60,779 | 61,851 |
| Consumer: | | | | | | | |
| Consumer | 139 | 18 | 12 | 169 | 120 | 105,591 | 105,880 |
| Consumer other | 5,381 | 3,559 | 733 | 9,673 | — | 1,064,461 | 1,074,134 |
| Lease financing | 4,415 | 1,522 | — | 5,937 | 1,606 | 484,201 | 491,744 |
| Total loans | $ 17,328 | $ 15,044 | $ 1,173 | $ 33,545 | $ 41,976 | $ 6,230,946 | $ 6,306,467 |

***Loan Restructurings***

The Company adopted the accounting guidance in ASU No. 2022-02, effective as of January 1, 2023, which eliminated the recognition and measurement of a troubled debt restructuring ("TDR"). Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulties that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are for modifications which have a direct impact on cash flows.

The Company may offer various types of concessions when modifying a loan. Commercial and industrial loans modified in a loan restructuring often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested.

Loans modified in a loan restructuring for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for loans that have been modified in a loan restructuring is measured based on the probability of default and loss given default model, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

Commercial and consumer loans modified in a loan restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a loan restructuring subsequently default, the Company evaluates the loan for possible further loss. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

In some cases, the Company will modify a loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession such as an interest rate reduction or principal forgiveness, may be granted. During the three months ended September 30, 2023 the Company restructured two loans and one lease for borrowers experiencing financial difficulties with principal balances totaling $0.5 million. The restructured loans were provided term extensions and the restructured lease was provided a term extension with an increased interest rate. During the nine months ended September 30, 2023 the Company restructured seven loans and one lease for borrowers experiencing financial difficulties with principal balances totaling $1.2 million. Five of the restructured loans were provided a term extension with the other two receiving an interest rate reduction and a term extension. The lease was provided a term extension with an increased interest rate.

***Credit Quality Monitoring***

The Company maintains loan policies and credit underwriting standards as part of the process of managing credit risk. These standards include making loans generally within the Company’s four main regions, which include eastern, northern and southern Illinois and the St. Louis metropolitan area. In addition, our specialty finance division does nationwide bridge lending for FHA and HUD developments and originates loans for multifamily, assisted and senior living and multi-use properties. Our equipment leasing business provides financing to business customers across the country.

The Company has a loan approval process involving underwriting and individual and group loan approval authorities to consider credit quality and loss exposure at loan origination. The loans in the Company’s commercial loan portfolio are risk rated at origination based on the grading system set forth below. All loan authority is based on the aggregate credit to a borrower and its related entities.

The Company’s consumer loan portfolio is primarily comprised of both secured and unsecured loans that are relatively small and are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer loan portfolio is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Company’s Consumer Collections Group for resolution. Credit quality for the entire consumer loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Loans in the commercial loan portfolio tend to be larger and more complex than those in the other loan portfolio, and therefore, are subject to more intensive monitoring. All loans in the commercial loan portfolio have an assigned relationship manager, and most borrowers provide periodic financial and operating information that allows the relationship managers to stay abreast of credit quality during the life of the loans. The risk ratings of loans in the commercial loan portfolio are reassessed at least annually, with loans below an acceptable risk rating reassessed more frequently and reviewed by various individuals within the Company at least quarterly.

The Company maintains a centralized independent loan review function that monitors the approval process and ongoing asset quality of the loan portfolio, including the accuracy of loan grades. The Company also maintains an independent appraisal review function that participates in the review of all appraisals obtained by the Company.

***Credit Quality Indicators***

The Company uses a ten grade risk rating system to monitor the ongoing credit quality of its commercial loan portfolio. These loan grades rank the credit quality of a borrower by measuring liquidity, debt capacity, and coverage and payment behavior as shown in the borrower’s financial statements. The risk grades also measure the quality of the borrower’s management and the repayment support offered by any guarantors.

The Company considers all loans with Risk Grades 1 - 6 as acceptable credit risks and structures and manages such relationships accordingly. Periodic financial and operating data combined with regular loan officer interactions are deemed adequate to monitor borrower performance. Loans with Risk Grades of 7 are considered "watch credits" categorized as special mention and the frequency of loan officer contact and receipt of financial data is increased to stay abreast of borrower performance. Loans with Risk Grades of 8 - 10 are considered problematic and require special care. Risk Grade 8 is categorized as substandard, 9 as substandard - nonaccrual and 10 as doubtful. Further, loans with Risk Grades of 7 - 10 are managed regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive and senior management of the Company, which includes highly structured reporting of financial and operating data, intensive loan officer intervention and strategies to exit, as well as potential management by the Company's Special Assets Group. Loans not graded in the commercial loan portfolio are monitored by aging status and payment activity.

The following tables present the recorded investment of the commercial loan portfolio by risk category as of September 30, 2023 and December 31, 2022:

| | | | September 30, 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Term Loans Amortized Cost Basis by Origination Year | | | | | | | |
| (dollars in thousands) | | | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving loans | Total |
| Commercial | Commercial | Acceptable credit quality | $ 143,718 | $ 103,740 | $ 87,777 | $ 45,059 | $ 15,507 | $ 44,549 | $ 391,270 | $ 831,620 |
| | | Special mention | — | 450 | 8,022 | — | 193 | 46 | 325 | 9,036 |
| | | Substandard | 4,056 | 13,131 | 970 | — | 258 | 5,028 | 6,049 | 29,492 |
| | | Substandard – nonaccrual | 1,238 | — | 1,331 | 4 | 80 | 526 | 677 | 3,856 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 149,012 | 117,321 | 98,100 | 45,063 | 16,038 | 50,149 | 398,321 | 874,004 |
| | Commercial other | Acceptable credit quality | 139,732 | 212,686 | 113,154 | 70,132 | 39,647 | 33,582 | 80,837 | 689,770 |
| | | Special mention | 440 | — | 121 | 122 | 118 | 10 | 1,183 | 1,994 |
| | | Substandard | 39 | 370 | — | — | — | — | 808 | 1,217 |
| | | Substandard – nonaccrual | 928 | 865 | 1,159 | 633 | 492 | 103 | — | 4,180 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 74 | — | — | — | — | — | — | 74 |
| | | Subtotal | 141,213 | 213,921 | 114,434 | 70,887 | 40,257 | 33,695 | 82,828 | 697,235 |
| Commercial real estate | Non-owner occupied | Acceptable credit quality | 165,208 | 661,014 | 347,744 | 128,655 | 83,459 | 138,837 | 6,830 | 1,531,747 |
| | | Special mention | 10,284 | — | 183 | 462 | 159 | 229 | — | 11,317 |
| | | Substandard | 30,358 | 1,874 | — | — | 22,764 | 19,023 | — | 74,019 |
| | | Substandard – nonaccrual | — | — | 359 | 999 | 7,599 | 10,128 | — | 19,085 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 205,850 | 662,888 | 348,286 | 130,116 | 113,981 | 168,217 | 6,830 | 1,636,168 |
| | Owner occupied | Acceptable credit quality | 33,707 | 99,078 | 115,574 | 51,245 | 24,094 | 80,766 | 2,313 | 406,777 |
| | | Special mention | — | — | 130 | — | 76 | 181 | 11 | 398 |
| | | Substandard | — | 7,729 | 267 | 43 | 723 | 12,252 | — | 21,014 |
| | | Substandard – nonaccrual | 142 | 9,443 | 338 | 183 | 142 | 901 | 304 | 11,453 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 33,849 | 116,250 | 116,309 | 51,471 | 25,035 | 94,100 | 2,628 | 439,642 |
| | Multi-family | Acceptable credit quality | 3,705 | 159,152 | 26,037 | 28,296 | 10,251 | 12,828 | 334 | 240,603 |
| | | Special mention | — | — | — | — | — | 14,552 | — | 14,552 |
| | | Substandard | 8,187 | — | — | — | — | 3,473 | — | 11,660 |
| | | Substandard – nonaccrual | — | — | 899 | — | 104 | 1,890 | — | 2,893 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 11,892 | 159,152 | 26,936 | 28,296 | 10,355 | 32,743 | 334 | 269,708 |
| | Farmland | Acceptable credit quality | 9,256 | 4,780 | 13,878 | 12,449 | 3,758 | 18,932 | 1,483 | 64,536 |
| | | Special mention | — | — | 1,451 | — | — | 96 | — | 1,547 |
| | | Substandard | — | — | 14 | — | 22 | 355 | — | 391 |
| | | Substandard – nonaccrual | — | — | — | — | — | 124 | 48 | 172 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 9,256 | 4,780 | 15,343 | 12,449 | 3,780 | 19,507 | 1,531 | 66,646 |
| Construction and land development | | Acceptable credit quality | 59,680 | 201,253 | 109,569 | — | 678 | 1,145 | 33,660 | 405,985 |
| | | Special mention | — | — | — | — | — | 40 | — | 40 |
| | | Substandard | — | — | 6,000 | — | — | — | — | 6,000 |
| | | Substandard – nonaccrual | — | — | — | — | — | 2,025 | — | 2,025 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 1,012 | 1,350 | 357 | 6 | — | 26 | — | 2,751 |
| | | Subtotal | 60,692 | 202,603 | 115,926 | 6 | 678 | 3,236 | 33,660 | 416,801 |
| Total | | Acceptable credit quality | 555,006 | 1,441,703 | 813,733 | 335,836 | 177,394 | 330,639 | 516,727 | 4,171,038 |
| | | Special mention | 10,724 | 450 | 9,907 | 584 | 546 | 15,154 | 1,519 | 38,884 |
| | | Substandard | 42,640 | 23,104 | 7,251 | 43 | 23,767 | 40,131 | 6,857 | 143,793 |
| | | Substandard – nonaccrual | 2,308 | 10,308 | 4,086 | 1,819 | 8,417 | 15,697 | 1,029 | 43,664 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 1,086 | 1,350 | 357 | 6 | — | 26 | — | 2,825 |
| Total commercial loans | | | $ 611,764 | $ 1,476,915 | $ 835,334 | $ 338,288 | $ 210,124 | $ 401,647 | $ 526,132 | $ 4,400,204 |

| (dollars in thousands) | | | December 31, 2022 Term Loans Amortized Cost Basis by Origination Year 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving loans | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial | Commercial | Acceptable credit quality | $ 111,087 | $ 102,966 | $ 61,751 | $ 28,063 | $ 12,547 | $ 45,168 | $ 404,100 | $ 765,682 |
| | | Special mention | 3,559 | 2,106 | — | 227 | 551 | 3,154 | 159 | 9,756 |
| | | Substandard | — | — | — | 206 | 1,722 | 3,915 | 2,575 | 8,418 |
| | | Substandard – nonaccrual | — | 340 | — | 132 | 83 | 246 | 2,220 | 3,021 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 114,646 | 105,412 | 61,751 | 28,628 | 14,903 | 52,483 | 409,054 | 786,877 |
| | Commercial other | Acceptable credit quality | 283,465 | 153,788 | 105,980 | 64,218 | 15,459 | 163 | 96,509 | 719,582 |
| | | Special mention | — | — | 754 | 2,331 | 455 | — | 55 | 3,595 |
| | | Substandard | 250 | — | — | 12 | 80 | — | 848 | 1,190 |
| | | Substandard – nonaccrual | 524 | 1,247 | 444 | 463 | 491 | — | — | 3,169 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 161 | — | — | — | — | — | — | 161 |
| | | Subtotal | 284,400 | 155,035 | 107,178 | 67,024 | 16,485 | 163 | 97,412 | 727,697 |
| Commercial real estate | Non-owner occupied | Acceptable credit quality | 679,040 | 403,952 | 145,235 | 72,504 | 18,249 | 160,992 | 4,833 | 1,484,805 |
| | | Special mention | 1,407 | 186 | 477 | 10,633 | 195 | 8,452 | — | 21,350 |
| | | Substandard | 569 | — | 7,458 | 32,731 | 1,587 | 29,655 | — | 72,000 |
| | | Substandard – nonaccrual | — | 701 | — | 48 | 10,246 | 2,249 | — | 13,244 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 681,016 | 404,839 | 153,170 | 115,916 | 30,277 | 201,348 | 4,833 | 1,591,399 |
| | Owner occupied | Acceptable credit quality | 120,141 | 122,321 | 64,720 | 31,916 | 29,454 | 88,928 | 4,305 | 461,785 |
| | | Special mention | — | 1,161 | — | 7,917 | — | 12,161 | 22 | 21,261 |
| | | Substandard | 141 | 272 | 79 | 1,984 | — | 3,771 | 375 | 6,622 |
| | | Substandard – nonaccrual | 155 | 4,165 | 225 | 146 | 333 | 1,790 | 304 | 7,118 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 120,437 | 127,919 | 65,024 | 41,963 | 29,787 | 106,650 | 5,006 | 496,786 |
| | Multi-family | Acceptable credit quality | 163,647 | 31,605 | 29,458 | 208 | 24,490 | 14,574 | 1,101 | 265,083 |
| | | Special mention | — | — | — | — | — | — | — | — |
| | | Substandard | — | — | — | — | — | 3,703 | — | 3,703 |
| | | Substandard – nonaccrual | — | 927 | — | 113 | — | 8,063 | — | 9,103 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 163,647 | 32,532 | 29,458 | 321 | 24,490 | 26,340 | 1,101 | 277,889 |
| | Farmland | Acceptable credit quality | 8,659 | 16,138 | 13,467 | 4,117 | 3,129 | 19,102 | 1,593 | 66,205 |
| | | Special mention | — | — | — | — | — | 159 | — | 159 |
| | | Substandard | — | 14 | — | 23 | 113 | 347 | 199 | 696 |
| | | Substandard – nonaccrual | — | — | — | — | — | 25 | — | 25 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | — | — | — | — | — | — | — | — |
| | | Subtotal | 8,659 | 16,152 | 13,467 | 4,140 | 3,242 | 19,633 | 1,792 | 67,085 |
| Construction and land development | | Acceptable credit quality | 171,243 | 79,747 | 10,676 | 8,388 | 98 | 1,420 | 37,997 | 309,569 |
| | | Special mention | — | — | — | — | — | 210 | — | 210 |
| | | Substandard | — | 6,000 | — | — | 2,415 | — | — | 8,415 |
| | | Substandard – nonaccrual | — | — | — | 202 | — | — | — | 202 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 2,112 | 337 | 8 | — | — | 29 | — | 2,486 |
| | | Subtotal | 173,355 | 86,084 | 10,684 | 8,590 | 2,513 | 1,659 | 37,997 | 320,882 |
| Total | | Acceptable credit quality | 1,537,282 | 910,517 | 431,287 | 209,414 | 103,426 | 330,347 | 550,438 | 4,072,711 |
| | | Special mention | 4,966 | 3,453 | 1,231 | 21,108 | 1,201 | 24,136 | 236 | 56,331 |
| | | Substandard | 960 | 6,286 | 7,537 | 34,956 | 5,917 | 41,391 | 3,997 | 101,044 |
| | | Substandard – nonaccrual | 679 | 7,380 | 669 | 1,104 | 11,153 | 12,373 | 2,524 | 35,882 |
| | | Doubtful | — | — | — | — | — | — | — | — |
| | | Not graded | 2,273 | 337 | 8 | — | — | 29 | — | 2,647 |
| Total commercial loans | | | $ 1,546,160 | $ 927,973 | $ 440,732 | $ 266,582 | $ 121,697 | $ 408,276 | $ 557,195 | $ 4,268,615 |

The following table presents the gross charge-offs by class of loan and year of origination on the commercial loan portfolio for the three and nine months ended September 30, 2023:

| | | Term Loans by Origination Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Total |
| **For the three months ended September 30, 2023** | | | | | | | | | |
| Commercial | Commercial | $ — | $ — | $ — | $ 28 | $ 49 | $ — | $ 2,122 | $ 2,199 |
| | Commercial Other | 1 | 728 | 106 | 75 | 121 | 19 | — | 1,050 |
| Commercial Real Estate | Non-owner occupied | — | — | — | — | — | 2,292 | — | 2,292 |
| | Owner occupied | — | — | — | — | — | 21 | — | 21 |
| | Multi-family | — | — | — | — | — | 3 | — | 3 |
| | Farmland | — | — | — | — | — | — | — | — |
| Construction and land development | | — | — | — | — | 42 | 2 | — | 44 |
| Total gross commercial charge-offs | | $ 1 | $ 728 | $ 106 | $ 103 | $ 212 | $ 2,337 | $ 2,122 | $ 5,609 |
| **For the nine months ended September 30, 2023** | | | | | | | | | |
| Commercial | Commercial | $ — | $ — | $ — | $ 49 | $ 78 | $ 21 | $ 2,122 | $ 2,270 |
| | Commercial Other | 47 | 1,936 | 272 | 180 | 190 | 394 | — | 3,019 |
| Commercial Real Estate | Non-owner occupied | — | — | — | — | — | 2,292 | — | 2,292 |
| | Owner occupied | — | — | — | — | — | 1,502 | — | 1,502 |
| | Multi-family | — | — | — | — | — | 812 | — | 812 |
| | Farmland | — | — | — | — | — | — | — | — |
| Construction and land development | | — | — | — | — | 42 | 336 | — | 378 |
| Total gross commercial charge-offs | | $ 47 | $ 1,936 | $ 272 | $ 229 | $ 310 | $ 5,357 | $ 2,122 | $ 10,273 |

The Company evaluates the credit quality of its other loan portfolios, which includes residential real estate, consumer and lease financing loans, based primarily on the aging status of the loan and payment activity. Accordingly, loans on nonaccrual status and loans past due 90 days or more and still accruing interest are considered to be nonperforming for purposes of credit quality evaluation. The following tables present the recorded investment of our other loan portfolio based on the credit risk profile of loans that are performing and loans that are nonperforming as of September 30, 2023 and December 31, 2022:

| | | | September 30, 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Term Loans Amortized Cost Basis by Origination Year | | | | | | | |
| (dollars in thousands) | | | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Total |
| Residential real estate | Residential first lien | Performing | $ 33,360 | $ 74,199 | $ 37,744 | $ 30,017 | $ 19,931 | $ 115,228 | $ 5 | $ 310,484 |
| | | Nonperforming | 185 | 50 | — | — | 140 | 2,779 | — | 3,154 |
| | | Subtotal | 33,545 | 74,249 | 37,744 | 30,017 | 20,071 | 118,007 | 5 | 313,638 |
| | Other residential | Performing | 1,992 | 1,212 | 428 | 441 | 897 | 2,182 | 53,719 | 60,871 |
| | | Nonperforming | — | — | — | — | — | 181 | 521 | 702 |
| | | Subtotal | 1,992 | 1,212 | 428 | 441 | 897 | 2,363 | 54,240 | 61,573 |
| Consumer | Consumer | Performing | 29,362 | 25,959 | 33,375 | 6,950 | 2,523 | 11,714 | 1,446 | 111,329 |
| | | Nonperforming | — | 18 | 13 | — | 3 | 67 | 2 | 103 |
| | | Subtotal | 29,362 | 25,977 | 33,388 | 6,950 | 2,526 | 11,781 | 1,448 | 111,432 |
| | Consumer other | Performing | 241,712 | 407,370 | 162,400 | 62,840 | 23,906 | 8,284 | 2,064 | 908,576 |
| | | Nonperforming | — | — | — | — | — | — | — | — |
| | | Subtotal | 241,712 | 407,370 | 162,400 | 62,840 | 23,906 | 8,284 | 2,064 | 908,576 |
| Leases financing | | Performing | 119,863 | 170,289 | 82,538 | 58,436 | 35,734 | 11,042 | — | 477,902 |
| | | Nonperforming | 311 | 3,757 | 1,969 | 454 | 864 | 203 | — | 7,558 |
| | | Subtotal | 120,174 | 174,046 | 84,507 | 58,890 | 36,598 | 11,245 | — | 485,460 |
| Total | | Performing | 426,289 | 679,029 | 316,485 | 158,684 | 82,991 | 148,450 | 57,234 | 1,869,162 |
| | | Nonperforming | 496 | 3,825 | 1,982 | 454 | 1,007 | 3,230 | 523 | 11,517 |
| Total other loans | | | $ 426,785 | $ 682,854 | $ 318,467 | $ 159,138 | $ 83,998 | $ 151,680 | $ 57,757 | $ 1,880,679 |

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| (dollars in thousands) | | | December 31, 2022 Term Loans Amortized Cost Basis by Origination Year 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving loans | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential real estate | Residential first lien | Performing | $ 75,449 | $ 38,774 | $ 31,566 | $ 20,780 | $ 21,691 | $ 109,067 | $ 336 | $ 297,663 |
| | | Nonperforming | 101 | — | 104 | 414 | 987 | 4,974 | — | 6,580 |
| | | Subtotal | 75,550 | 38,774 | 31,670 | 21,194 | 22,678 | 114,041 | 336 | 304,243 |
| | Other residential | Performing | 1,722 | 496 | 534 | 1,060 | 1,496 | 1,515 | 53,159 | 59,982 |
| | | Nonperforming | 17 | — | — | 7 | 18 | 208 | 1,619 | 1,869 |
| | | Subtotal | 1,739 | 496 | 534 | 1,067 | 1,514 | 1,723 | 54,778 | 61,851 |
| Consumer | Consumer | Performing | 32,561 | 40,374 | 9,411 | 3,476 | 2,768 | 14,756 | 2,346 | 105,692 |
| | | Nonperforming | 33 | 50 | 7 | 1 | 13 | 79 | 5 | 188 |
| | | Subtotal | 32,594 | 40,424 | 9,418 | 3,477 | 2,781 | 14,835 | 2,351 | 105,880 |
| | Consumer other | Performing | 669,015 | 260,360 | 92,148 | 34,501 | 6,637 | 5,430 | 5,310 | 1,073,401 |
| | | Nonperforming | 733 | — | — | — | — | — | — | 733 |
| | | Subtotal | 669,748 | 260,360 | 92,148 | 34,501 | 6,637 | 5,430 | 5,310 | 1,074,134 |
| Leases financing | | Performing | 215,084 | 110,294 | 84,458 | 54,684 | 21,767 | 3,088 | — | 489,375 |
| | | Nonperforming | — | 522 | 736 | 818 | 254 | 39 | — | 2,369 |
| | | Subtotal | 215,084 | 110,816 | 85,194 | 55,502 | 22,021 | 3,127 | — | 491,744 |
| Total | | | | | | | | | | |
| | | Performing | 993,831 | 450,298 | 218,117 | 114,501 | 54,359 | 133,856 | 61,151 | 2,026,113 |
| | | Nonperforming | 884 | 572 | 847 | 1,240 | 1,272 | 5,300 | 1,624 | 11,739 |
| Total other loans | | | $ 994,715 | $ 450,870 | $ 218,964 | $ 115,741 | $ 55,631 | $ 139,156 | $ 62,775 | $ 2,037,852 |

The following table presents the gross charge-offs by class of loan and year of origination on the other loan portfolio for the three and nine months ended September 30, 2023:

| (dollars in thousands) | | Term Loans by Origination Year 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| **For the three months ended September 30, 2023** | | | | | | | | | |
| Residential real estate | Residential first lien | $ — | $ — | $ — | $ 33 | $ 10 | $ 52 | $ — | $ 95 |
| | Other residential | — | — | — | — | — | — | — | — |
| Consumer | Consumer | — | 25 | 8 | 7 | — | 1 | — | 41 |
| | Consumer other | 14 | 13 | 2 | 3 | 3 | 174 | — | 209 |
| Lease financing | | 228 | 708 | 14 | 5 | 324 | 115 | — | 1,394 |
| Total gross other charge-offs | | $ 242 | $ 746 | $ 24 | $ 48 | $ 337 | $ 342 | $ — | $ 1,739 |
| **For the nine months ended September 30, 2023** | | | | | | | | | |
| Residential real estate | Residential first lien | $ — | $ — | $ 9 | $ 36 | $ 17 | $ 52 | $ — | $ 114 |
| | Other residential | — | — | — | — | — | 9 | 57 | 66 |
| Consumer | Consumer | — | 27 | 17 | 18 | 31 | 34 | — | 127 |
| | Consumer other | 32 | 96 | 41 | 18 | 35 | 424 | — | 646 |
| Lease financing | | 228 | 1,101 | 549 | 140 | 346 | 191 | — | 2,555 |
| Total gross other charge-offs | | $ 260 | $ 1,224 | $ 616 | $ 212 | $ 429 | $ 710 | $ 57 | $ 3,508 |

## NOTE 5 – PREMISES, EQUIPMENT AND LEASES

A summary of premises and equipment at September 30, 2023 and December 31, 2022 is as follows:

| (dollars in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Land | $ 15,968 | $ 16,004 |
| Buildings and improvements | 77,270 | 71,837 |
| Furniture and equipment | 34,967 | 34,081 |
| Lease right-of-use assets | 8,057 | 7,001 |
| Total | 136,262 | 128,923 |
| Accumulated depreciation | (53,521) | (50,630) |
| Premises and equipment, net | $ 82,741 | $ 78,293 |

Depreciation expense for the three and nine months ended September 30, 2023 was $1.1 million and $3.6 million, respectively, and $1.2 million and $3.7 million for the three and nine months ended September 30, 2022, respectively.

The Company has entered into operating leases, primarily for banking offices and operating facilities, which have remaining lease terms of 5 months to 14 years, some of which may include options to extend the lease terms for up to an additional 10 years. The options to extend are included if they are reasonably certain to be exercised. The Company had operating lease right-of-use assets of $8.1 million and $7.0 million as of September 30, 2023 and December 31, 2022, respectively, included in premises and equipment on our consolidated balance sheets. The operating lease liabilities of the Company were $9.8 million and $8.9 million as of September 30, 2023 and December 31, 2022, respectively, and are included in accrued interest payable and other liabilities on our consolidated balance sheets.

Information related to operating leases for the three and nine months ended September 30, 2023 and 2022 was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2023 | 2022 | 2023 | 2022 |
| Operating lease cost | $ 472 | $ 533 | $ 1,449 | $ 1,576 |
| Operating cash flows from leases | 529 | 638 | 1,709 | 1,874 |
| Right-of-use assets obtained in exchange for lease obligations | 1,112 | 80 | 2,459 | 502 |
| Weighted average remaining lease term | 7.8 years | 7.3 years | 7.8 years | 7.3 years |
| Weighted average discount rate | 3.39 % | 2.88 % | 3.39 % | 2.88 % |

The projected minimum rental payments under the terms of the leases as of September 30, 2023 were as follows:

| (dollars in thousands) | Amount |
|---|---|
| Year ending December 31: | |
| 2023 remaining | $ 365 |
| 2024 | 2,175 |
| 2025 | 1,322 |
| 2026 | 1,197 |
| 2027 | 1,101 |
| Thereafter | 5,051 |
| Total future minimum lease payments | 11,211 |
| Less imputed interest | (1,436) |
| Total operating lease liabilities | $ 9,775 |

## NOTE 6 – LOAN SERVICING RIGHTS

A summary of loan servicing rights at September 30, 2023 and December 31, 2022 is as follows:

| | September 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| (dollars in thousands) | Serviced Loans | Carrying Value | Serviced Loans | Carrying Value |
| Commercial FHA | $ 2,131,126 | $ 19,873 | $ — | $ — |
| SBA | $ 45,192 | $ 600 | $ 46,081 | $ 656 |
| Residential | 232,064 | 460 | 255,298 | 549 |
| Commercial FHA held for sale | — | — | 2,255,617 | 20,745 |
| Total | $ 2,408,382 | $ 20,933 | $ 2,556,996 | $ 21,950 |

### *Commercial FHA Mortgage Loan Servicing*

During the third quarter of 2022, the Company committed to a plan to sell our commercial FHA servicing portfolio and, therefore, transferred $24.0 million to commercial FHA servicing rights held for sale. At June 30, 2023, the Company abandoned its plans to sell this servicing asset and removed this asset from held for sale at lower of cost or fair value with no gain or loss recognized.

## NOTE 7 – DERIVATIVE INSTRUMENTS

As part of the Company's overall interest rate risk management, the Company utilizes derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility, including interest rate lock commitments, forward commitments to sell mortgage-backed securities, cash flow hedges and interest rate swap contracts. The notional amount does not represent amounts exchanged by the parties, rather the amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements.

### *Interest Rate Lock Commitments / Forward Commitments to Sell Mortgage-Backed Securities*

The Company issues interest rate lock commitments on originated fixed-rate commercial and residential real estate loans to be sold. The interest rate lock commitments and loans held for sale are hedged with forward contracts to sell mortgage-backed securities. The fair value of the interest rate lock commitments and forward contracts to sell mortgage-backed securities are included in other assets or other liabilities in the consolidated balance sheets. Changes in the fair value of derivative financial instruments are recognized in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

The following table summarizes the interest rate lock commitments and forward commitments to sell mortgage-backed securities held by the Company, their notional amount and estimated fair values at September 30, 2023 and December 31, 2022:

| | Notional amount | | Fair value gain | |
|---|---|---|---|---|
| (dollars in thousands) | September 30, 2023 | December 31, 2022 | September 30, 2023 | December 31, 2022 |
| **Derivative instruments (included in other assets):** | | | | |
| Interest rate lock commitments | $ 3,712 | $ 2,078 | $ 60 | $ 49 |
| Forward commitments to sell mortgage-backed securities | 8,299 | — | 91 | — |
| Total | $ 12,011 | $ 2,078 | $ 151 | $ 49 |

| | Notional amount | | Fair value loss | |
|---|---|---|---|---|
| (dollars in thousands) | September 30, 2023 | December 31, 2022 | September 30, 2023 | December 31, 2022 |
| **Derivative instruments (included in other liabilities):** | | | | |
| Interest rate lock commitments | $ — | $ 4,419 | $ — | $ 15 |
| Forward commitments to sell mortgage-backed securities | — | 6,669 | — | — |
| Total | $ — | $ 11,088 | $ — | $ 15 |

During the nine months ended September 30, 2023, the Company recognized net gains of $0.1 million on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

During the three and nine months ended September 30, 2022, the Company recognized net losses of $0.2 million and $0.6 million, respectively, on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

### *Cash Flow Hedges*

The Company periodically enters into interest rate swap agreements, which qualify as cash flow hedges, to manage the risk of changes in future cash flows due to interest rate fluctuations. The following table summarizes the Company's receive-fixed, pay-variable interest rate swaps on certain pools of loans indexed to prime at September 30, 2023 and December 31, 2022:

| (dollars in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Notional Amount | $ 225,000 | $ 200,000 |
| Fair value loss included in other liabilities | (10,330) | (9,999) |
| Tax effected amount included in accumulated other comprehensive (loss) income | (7,541) | (7,300) |
| Average remaining life | 2.84 | 3.37 |
| Weighted average pay rate | 7.93 % | 7.23 % |
| Weighted average receive rate | 5.46 % | 5.48 % |

### *Interest Rate Swap Contracts Not Designated as Hedges*

The Company entered into interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. These swaps are offset by contracts simultaneously purchased by the Company from other financial dealer institutions with mirror-image terms. Because of the mirror-image terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in the fair value subsequent to initial recognition have a minimal effect on earnings. These derivative contracts do not qualify for hedge accounting.

The notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $7.0 million and $7.4 million at September 30, 2023 and December 31, 2022, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $0.5 million at both September 30, 2023 and December 31, 2022, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

## NOTE 8 – DEPOSITS

The following table summarizes the classification of deposits as of September 30, 2023 and December 31, 2022:

| (dollars in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Noninterest-bearing demand | $ 1,154,515 | $ 1,362,158 |
| Interest-bearing: | | |
| Checking | 2,572,224 | 2,494,073 |
| Money market | 1,090,962 | 1,184,101 |
| Savings | 582,359 | 661,932 |
| Time | 1,004,942 | 662,388 |
| Total deposits | $ 6,405,002 | $ 6,364,652 |

## NOTE 9 – SHORT-TERM BORROWINGS

The following table presents the distribution of short-term borrowings and related weighted average interest rates as of September 30, 2023 and December 31, 2022:

| | Repurchase agreements | |
|---|---|---|
| (dollars in thousands) | As of and for the nine months ended September 30, 2023 | As of and for the year ended December 31,2022 |
| Outstanding at period-end | $ 17,998 | $ 42,311 |
| Average amount outstanding | 26,865 | 58,688 |
| Maximum amount outstanding at any month end | 43,718 | 76,807 |
| Weighted average interest rate: | | |
| During period | 0.26 % | 0.18 % |
| End of period | 0.26 % | 0.26 % |

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction, which represents the amount of the Bank's obligation. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Investment securities with a carrying amount of $27.8 million and $46.1 million at September 30, 2023 and December 31, 2022, respectively, were pledged for securities sold under agreements to repurchase.

The Company had available lines of credit of $759.8 million and $12.2 million at September 30, 2023 and December 31, 2022, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial loans and investment securities totaling $914.5 million and $14.3 million at September 30, 2023 and December 31, 2022, respectively. There were no outstanding borrowings under these lines at September 30, 2023 and December 31, 2022.

At September 30, 2023, the Company had available federal funds lines of credit totaling $364.0 million. These lines of credit were unused at September 30, 2023.

## NOTE 10 – FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings as of September 30, 2023 and December 31, 2022:

| (dollars in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| FHLB advances – fixed rate, fixed term at rates averaging 4.18% at September 30, 2023 - maturing through February 2028 | $ 55,000 | $ — |
| FHLB advances – putable fixed rate at rates averaging 2.76% and 2.35% at September 30, 2023 and December 31, 2022, respectively – maturing through August 2028 with call provisions through February 2024 | 160,000 | 110,000 |
| FHLB advances –SOFR floater at rates averaging 6.94% and 5.92% at September 30, 2023 and December 31, 2022, respectively – maturing in October 2023 | 100,000 | 100,000 |
| FHLB advances – Short term fixed rate at rates averaging 5.46% and 4.31% at September 30, 2023 and December 31, 2022, respectively– maturing in October 2023 | 223,000 | 250,000 |
| Total FHLB advances and other borrowings | $ 538,000 | $ 460,000 |

The Company's advances from the FHLB are collateralized by a blanket collateral agreement of qualifying mortgage and home equity line of credit loans and certain commercial real estate loans totaling approximately $2.97 billion and $2.90 billion at September 30, 2023 and December 31, 2022, respectively.

## NOTE 11 – SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt at September 30, 2023 and December 31, 2022:

| | Subordinated debt | | | |
|---|---|---|---|---|
| | Fixed to Float | | Fixed | |
| **(dollars in thousands)** | **Issued September 2019** | **Issued September 2019** | **Issued June 2015** | **Total** |
| **At September 30, 2023** | | | | |
| Outstanding amount | $ 66,750 | $ 27,250 | $ — | $ 94,000 |
| Carrying amount | 66,514 | 26,961 | — | 93,475 |
| Current rate | 5.00 % | 5.50 % | N/A | |
| **At December 31, 2022** | | | | |
| Outstanding amount | $ 72,750 | $ 27,250 | $ 550 | $ 100,550 |
| Carrying amount | 72,300 | 26,925 | 547 | 99,772 |
| Current rate | 5.00 % | 5.50 % | 6.50 % | |
| Maturity date | 9/30/2029 | 9/30/2034 | 6/18/2025 | |
| Optional redemption date | 9/30/2024 | 9/30/2029 | N/A | |
| Fixed to variable conversion date | 9/30/2024 | 9/30/2029 | N/A | |
| Variable rate | 3-month SOFR plus 3.61% | 3-month SOFR plus 4.05% | N/A | |
| Interest payment terms | Semiannually | Semiannually | Semiannually | |

During the second quarter of 2023, the Company repurchased $6.0 million of the outstanding Fixed to Float Subordinated Notes due September 30, 2029. The Company recognized a gain of $0.7 million, which included the discount realized on the repurchase, offset by the remaining unamortized debt issuance costs on the repurchase.

The Company also repurchased the outstanding Fixed Rate Subordinated Notes due June 18, 2025, having an aggregate principal amount of $0.6 million, during the second quarter of 2023. The aggregate repurchase price was 100% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest.

The value of subordinated debentures have been reduced by the debt issuance costs, which are being amortized on a straight line basis through the earlier of the redemption option or maturity date. All of the subordinated debentures above may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

## NOTE 12 – EARNINGS PER COMMON SHARE

Earnings per common share is calculated utilizing the two-class method. Basic earnings per common share is calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards. Presented below are the calculations for basic and diluted earnings per common share for the three and nine months ended September 30, 2023 and 2022:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(dollars in thousands, except per share data)** | **2023** | **2022** | **2023** | **2022** |
| Net income | $ 18,042 | $ 23,521 | $ 61,389 | $ 66,153 |
| Preferred dividends declared | (2,229) | — | (6,685) | — |
| Net income available to common shareholders | 15,813 | 23,521 | 54,704 | 66,153 |
| Common shareholder dividends | (6,524) | (6,400) | (19,772) | (19,186) |
| Unvested restricted stock award dividends | (76) | (70) | (236) | (218) |
| Undistributed earnings to unvested restricted stock awards | (105) | (185) | (405) | (519) |
| Undistributed earnings to common shareholders | $ 9,108 | $ 16,866 | $ 34,291 | $ 46,230 |
| **Basic** | | | | |
| Distributed earnings to common shareholders | $ 6,524 | $ 6,400 | $ 19,772 | $ 19,186 |
| Undistributed earnings to common shareholders | 9,108 | 16,866 | 34,291 | 46,230 |
| Total common shareholders earnings, basic | $ 15,632 | $ 23,266 | $ 54,063 | $ 65,416 |
| **Diluted** | | | | |
| Distributed earnings to common shareholders | $ 6,524 | $ 6,400 | $ 19,772 | $ 19,186 |
| Undistributed earnings to common shareholders | 9,108 | 16,866 | 34,291 | 46,230 |
| Total common shareholders earnings | 15,632 | 23,266 | 54,063 | 65,416 |
| Add back: | | | | |
| Undistributed earnings reallocated from unvested restricted stock awards | — | — | — | 1 |
| Total common shareholders earnings, diluted | $ 15,632 | $ 23,266 | $ 54,063 | $ 65,417 |
| Weighted average common shares outstanding, basic | 21,970,372 | 22,338,828 | 22,214,862 | 22,306,323 |
| Options | 6,824 | 51,610 | 9,124 | 60,772 |
| Weighted average common shares outstanding, diluted | 21,977,196 | 22,390,438 | 22,223,986 | 22,367,095 |
| Basic earnings per common share | $ 0.71 | $ 1.04 | $ 2.43 | $ 2.93 |
| Diluted earnings per common share | 0.71 | 1.04 | 2.43 | 2.92 |
| | | | | |
| Antidilutive stock options[(1)] | 305,051 | 45,698 | 305,051 | 45,698 |

(1) The diluted earnings per common share computation excludes antidilutive stock options because the exercise prices of these stock options exceeded the average market prices of the Company's common shares for those respective periods.

## NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2: Significant other observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

***Investment securities.*** The fair value of investment securities available for sale are determined by quoted market prices, if available (Level 1). For investment securities available for sale where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For investment securities available for sale where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Securities classified as Level 3 are not actively traded, and as a result, fair value is determined utilizing third-party valuation services through consensus pricing. There were no transfers between Levels 1, 2 or 3 during the period presented for assets measured at fair value on a recurring basis. The fair value of equity securities is determined using quoted prices or market prices for similar securities (Level 2).

***Loans held for sale.*** The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

***Derivative instruments.*** The fair value of derivative instruments are determined based on derivative valuation models using observable market data as of the measurement date (Level 2).

***Loan servicing rights.*** In accordance with GAAP, the Company records impairment charges on loan servicing rights on a non-recurring basis when the carrying value exceeds the estimated fair value. The fair value of our servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs, replacement reserves and other economic factors which are estimated based on current market conditions (Level 3).

***Mortgage servicing rights held for sale.*** Mortgage servicing rights held for sale consist of commercial FHA mortgage servicing rights that management has committed to a plan to sell and has the ability to sell them to a buyer in their present condition. Mortgage servicing rights held for sale are carried at the lower of their carrying value or fair value less estimated costs to sell (Level 2).

***Nonperforming loans.*** Nonperforming loans are measured and recorded at fair value on a non-recurring basis. All of our nonaccrual loans and restructured loans are considered nonperforming and are reviewed individually for the amount of impairment, if any. Most of our loans are collateral dependent and, accordingly, we measure nonperforming loans based on the estimated fair value of such collateral. In cases where the Company has an agreed upon selling price for the collateral, the fair value is set at the selling price (Level 1). The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral (Level 2). When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable (Level 3). The nonperforming loans categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, cash flows discounted at the effective loan rate, and management's judgment.

***Other Real Estate Owned.*** OREO is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, OREO is held for sale and is carried at the lower of cost or fair value less estimated costs of disposal. Fair value for OREO is based on an appraisal performed upon foreclosure. Property is evaluated regularly to ensure the recorded amount is supported by its fair value less estimated costs to dispose. After the initial foreclosure appraisal, fair value is generally determined by an annual appraisal unless known events warrant adjustments to the recorded value.

***Assets held for sale.*** Assets held for sale represent the fair value of the banking facilities that are expected to be sold. The fair value of the assets held for sale was based on estimated market prices from independently prepared current appraisals (Level 2).

Assets and liabilities measured and recorded at fair value, including financial assets for which the Company has elected the fair value option, on a recurring and nonrecurring basis at September 30, 2023 and December 31, 2022, are summarized below:

| | September 30, 2023 | | | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Carrying amount** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Assets and liabilities measured at fair value on a recurring basis: | | | | |
| **Assets** | | | | |
| Investment securities available for sale: | | | | |
| U.S. Treasury securities | $ 1,563 | $ 1,563 | $ — | $ — |
| U.S. government sponsored entities and U.S. agency securities | 89,038 | — | 89,038 | — |
| Mortgage-backed securities - agency | 517,391 | — | 517,391 | — |
| Mortgage-backed securities - non-agency | 72,665 | — | 72,665 | — |
| State and municipal securities | 49,737 | — | 49,737 | — |
| Collateralized loan obligations | 22,385 | — | 22,385 | — |
| Corporate securities | 82,230 | — | 82,230 | — |
| Equity securities | 4,335 | 4,335 | — | — |
| Loans held for sale | 6,089 | — | 6,089 | — |
| Derivative assets | 646 | — | 646 | — |
| Total | $ 846,079 | $ 5,898 | $ 840,181 | $ — |
| **Liabilities** | | | | |
| Derivative liabilities | $ 10,825 | $ — | $ 10,825 | $ — |
| Total | $ 10,825 | $ — | $ 10,825 | $ — |
| | | | | |
| Assets measured at fair value on a non-recurring basis: | | | | |
| Loan servicing rights | $ 20,933 | $ — | $ — | $ 20,933 |
| Nonperforming loans | 55,981 | — | 39,485 | 16,496 |
| Other real estate owned | 480 | 201 | 279 | — |
| Assets held for sale | 182 | — | 182 | — |

| (dollars in thousands) | December 31, 2022<br>Carrying amount | | Quoted prices in active markets for identical assets (Level 1) | | Significant other observable inputs (Level 2) | | Significant unobservable inputs (Level 3) | |
|---|---|---|---|---|---|---|---|---|
| Assets and liabilities measured at fair value on a recurring basis: | | | | | | | | |
| **Assets** | | | | | | | | |
| Investment securities available for sale: | | | | | | | | |
| U.S. Treasury securities | $ | 81,230 | $ | 81,230 | $ | — | $ | — |
| U.S. government sponsored entities and U.S. agency securities | | 37,509 | | — | | 37,509 | | — |
| Mortgage-backed securities - agency | | 448,150 | | — | | 448,150 | | — |
| Mortgage-backed securities - non-agency | | 20,754 | | — | | 20,754 | | — |
| State and municipal securities | | 94,636 | | — | | 94,636 | | — |
| Corporate securities | | 85,955 | | — | | 85,955 | | — |
| Equity securities | | 8,626 | | 8,626 | | — | | — |
| Loans held for sale | | 1,286 | | — | | 1,286 | | — |
| Derivative assets | | 481 | | — | | 481 | | — |
| Total | $ | 778,627 | $ | 89,856 | $ | 688,771 | $ | — |
| **Liabilities** | | | | | | | | |
| Derivative liabilities | $ | 10,446 | $ | — | $ | 10,446 | $ | — |
| Total | $ | 10,446 | $ | — | $ | 10,446 | $ | — |
| Assets measured at fair value on a non-recurring basis: | | | | | | | | |
| Loan servicing rights | $ | 1,205 | $ | — | $ | — | $ | 1,205 |
| Mortgage servicing rights held for sale | | 20,745 | | — | | 20,745 | | — |
| Nonperforming loans | | 49,423 | | 5,478 | | 34,406 | | 9,539 |
| Other real estate owned | | 6,729 | | — | | 6,729 | | — |
| Assets held for sale | | 356 | | — | | 356 | | — |

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2023 and 2022.

The following table presents losses recognized on assets measured on a nonrecurring basis for the three and nine months ended September 30, 2023 and 2022:

| (dollars in thousands) | Three Months Ended September 30,<br>2023 | | 2022 | | Nine Months Ended September 30,<br>2023 | | 2022 | |
|---|---|---|---|---|---|---|---|---|
| Commercial mortgage servicing rights | $ | — | $ | — | $ | — | $ | 1,263 |
| Nonperforming loans | | 10,085 | | 1,423 | | 14,761 | | 6,381 |
| Other real estate owned | | — | | 339 | | — | | 743 |
| Total losses on assets measured on a nonrecurring basis | $ | 10,085 | $ | 1,762 | $ | 14,761 | $ | 8,387 |

The following tables present quantitative information about significant unobservable inputs used in fair value measurements of Level 3 assets measured on a nonrecurring basis at September 30, 2023 and December 31, 2022:

| (dollars in thousands) | Fair value | Valuation technique | Unobservable input / assumptions | Range (weighted average)[1] |
|---|---|---|---|---|
| **September 30, 2023** | | | | |
| *Loan servicing rights:* | | | | |
| Commercial FHA servicing rights | 30,914 | Discounted cash flow | Prepayment speed | 4.00% - 100.00% (8.26%) |
| | | | Discount rate | 8.00% - 15.00% (8.19%) |
| | | | | |
| SBA servicing rights | $ 818 | Discounted cash flow | Prepayment speed | 15.62% - 16.02% (15.87%) |
| | | | Discount rate | No range (14.25%) |
| | | | | |
| Residential servicing rights | 2,488 | Discounted cash flow | Prepayment speed | 7.20% -26.28% (7.50%) |
| | | | Discount rate | 9.25% - 11.75% (10.38%) |
| | | | | |
| **December 31, 2022** | | | | |
| *Loan servicing rights:* | | | | |
| SBA servicing rights | 876 | Discounted cash flow | Prepayment speed | 14.49% - 15.44% (15.00%) |
| | | | Discount rate | No range (13.00%) |
| | | | | |
| Residential servicing rights | 2,770 | Discounted cash flow | Prepayment speed | 7.56% - 26.28% (7.92%) |
| | | | Discount rate | 9.00% - 11.50% (10.13%) |

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

ASC Topic 825, *Financial Instruments*, requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements.

The Company has elected the fair value option for newly originated residential loans held for sale. These loans are intended for sale and are hedged with derivative instruments. We have elected the fair value option
to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification.

The following table presents the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of September 30, 2023 and December 31, 2022:

| | September 30, 2023 | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Aggregate fair value | Difference | Contractual principal | Aggregate fair value | Difference | Contractual principal |
| Residential loans held for sale | $ 6,089 | $ 142 | $ 5,947 | $ 1,286 | $ 42 | $ 1,244 |

The following table presents the amount of gains (losses) from fair value changes included in income before income taxes for financial assets carried at fair value for the three and nine months ended September 30, 2023 and 2022:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2023 | 2022 | 2023 | 2022 |
| Residential loans held for sale | (37) | (280) | 112 | (557) |
| Total loans held for sale | $ (37) | $ (280) | $ 112 | $ (557) |

The carrying values and estimated fair value of certain financial instruments not carried at fair value at September 30, 2023 and December 31, 2022 were as follows:

| (dollars in thousands) | September 30, 2023 Carrying amount | Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and due from banks | $ 131,179 | $ 131,179 | $ 131,179 | $ — | $ — |
| Federal funds sold | 953 | 953 | 953 | — | — |
| Loans | 6,280,883 | 6,176,092 | — | — | 6,176,092 |
| Accrued interest receivable | 24,283 | 24,283 | — | 24,283 | — |
| **Liabilities** | | | | | |
| Deposits | $ 6,405,002 | $ 6,392,040 | $ — | $ 6,392,040 | $ — |
| Short-term borrowings | 17,998 | 17,998 | — | 17,998 | — |
| FHLB and other borrowings | 538,000 | 533,614 | — | 533,614 | — |
| Subordinated debt | 93,475 | 87,263 | — | 87,263 | — |
| Trust preferred debentures | 50,457 | 50,717 | — | 50,717 | — |

| (dollars in thousands) | December 31, 2022 Carrying amount | Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and due from banks | $ 143,035 | $ 143,035 | $ 143,035 | $ — | $ — |
| Federal funds sold | 7,286 | 7,286 | 7,286 | — | — |
| Loans | 6,306,467 | 6,121,026 | — | — | 6,121,026 |
| Accrued interest receivable | 20,313 | 20,313 | — | 20,313 | — |
| **Liabilities** | | | | | |
| Deposits | $ 6,364,652 | $ 6,344,534 | $ — | $ 6,344,534 | $ — |
| Short-term borrowings | 42,311 | 42,311 | — | 42,311 | — |
| FHLB and other borrowings | 460,000 | 457,998 | — | 457,998 | — |
| Subordinated debt | 99,772 | 95,301 | — | 95,301 | — |
| Trust preferred debentures | 49,975 | 54,668 | — | 54,668 | — |

The methods utilized to measure fair value of financial instruments at September 30, 2023 and December 31, 2022 represent an approximation of exit price; however, an actual exit price may differ.

## NOTE 14 – COMMITMENTS, CONTINGENCIES AND CREDIT RISK

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal actions, which are not reflected in the consolidated financial statements. No material losses are anticipated as a result of these actions or claims.

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank used the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The commitments are principally tied to variable rates. Loan commitments as of September 30, 2023 and December 31, 2022 were as follows:

| **(dollars in thousands)** | **September 30, 2023** | **December 31, 2022** |
|---|---|---|
| Commitments to extend credit | $ 1,001,228 | $ 1,276,263 |
| Financial guarantees – standby letters of credit | 27,302 | 23,748 |

The Company establishes a mortgage repurchase liability to reflect management's estimate of losses on loans for which the Company could have a repurchase obligation based on the volume of loans sold in 2023 and years prior, borrower default expectations, historical investor repurchase demand and appeals success rates, and estimated loss severity. Loans repurchased from investors are initially recorded at fair value, which becomes the Company's new accounting basis. Any difference between the loan's fair value and the outstanding principal amount is charged or credited to the mortgage repurchase liability, as appropriate. Subsequent to repurchase, such loans are carried in loans receivable. There were no losses as a result of make-whole requests and loan repurchases for the three and nine months ended September 30, 2023 and 2022. The liability for unresolved repurchase demands totaled $0.2 million at September 30, 2023 and December 31, 2022.

## NOTE 15 – SEGMENT INFORMATION

Our business segments are defined as Banking, Wealth Management, and Other. The reportable business segments are consistent with the internal reporting and evaluation of the principle lines of business of the Company. The Banking segment provides a wide range of financial products and services to consumers and businesses, including commercial, commercial real estate, mortgage and other consumer loan products; commercial equipment financing; mortgage loan sales and servicing; letters of credit; various types of deposit products, including checking, savings and time deposit accounts; merchant services; and corporate treasury management services. The Wealth Management segment consists of trust and fiduciary services, brokerage and retirement planning services. The Other segment includes the operating results of the parent company, our captive insurance business unit, and the elimination of intercompany transactions.

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Selected business segment financial information for the three and nine months ended September 30, 2023 and 2022 were as follows:

| (dollars in thousands) | Banking | Wealth Management | Other | Total |
|---|---|---|---|---|
| **Three Months Ended September 30, 2023** | | | | |
| Net interest income (expense) | $ 60,817 | $ (3) | $ (2,218) | $ 58,596 |
| Provision for credit losses | 5,168 | — | — | 5,168 |
| Noninterest income | 12,007 | 6,288 | (110) | 18,185 |
| Noninterest expense | 37,272 | 5,023 | (257) | 42,038 |
| Income (loss) before income taxes (benefit) | 30,384 | 1,262 | (2,071) | 29,575 |
| Income taxes (benefit) | 11,475 | 913 | (855) | 11,533 |
| Net income (loss) | $ 18,909 | $ 349 | $ (1,216) | $ 18,042 |
| Total assets | $ 7,964,147 | $ 30,860 | $ (19,082) | $ 7,975,925 |
| **Nine Months Ended September 30, 2023** | | | | |
| Net interest income (expense) | $ 184,460 | $ (3) | $ (6,517) | $ 177,940 |
| Provision for credit losses | 14,182 | — | — | 14,182 |
| Noninterest income | 33,502 | 18,968 | 247 | 52,717 |
| Noninterest expense | 115,669 | 14,539 | (794) | 129,414 |
| Income (loss) before income taxes (benefit) | 88,111 | 4,426 | (5,476) | 87,061 |
| Income taxes (benefit) | 26,007 | 1,797 | (2,132) | 25,672 |
| Net income (loss) | $ 62,104 | $ 2,629 | $ (3,344) | $ 61,389 |
| Total assets | $ 7,964,147 | $ 30,860 | $ (19,082) | $ 7,975,925 |
| **Three Months Ended September 30, 2022** | | | | |
| Net interest income (expense) | $ 66,846 | $ — | $ (2,822) | $ 64,024 |
| Provision for credit losses | 6,974 | — | — | 6,974 |
| Noninterest income | 9,646 | 6,199 | (19) | 15,826 |
| Noninterest expense | 39,338 | 4,364 | (206) | 43,496 |
| Income (loss) before income taxes (benefit) | 30,180 | 1,835 | (2,635) | 29,380 |
| Income taxes (benefit) | 9,238 | 498 | (3,877) | 5,859 |
| Net income (loss) | $ 20,942 | $ 1,337 | $ 1,242 | $ 23,521 |
| Total assets | $ 7,809,280 | $ 29,166 | $ (16,569) | $ 7,821,877 |
| **Nine Months Ended September 30, 2022** | | | | |
| Net interest income (expense) | $ 190,162 | $ — | $ (7,977) | $ 182,185 |
| Provision for credit losses | 16,582 | — | — | 16,582 |
| Noninterest income | 26,547 | 19,481 | 24 | 46,052 |
| Noninterest expense | 112,947 | 13,130 | (358) | 125,719 |
| Income (loss) before income taxes (benefit) | 87,180 | 6,351 | (7,595) | 85,936 |
| Income taxes (benefit) | 23,498 | 1,761 | (5,476) | 19,783 |
| Net income (loss) | $ 63,682 | $ 4,590 | $ (2,119) | $ 66,153 |
| Total assets | $ 7,809,280 | $ 29,166 | $ (16,569) | $ 7,821,877 |

## NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income in the consolidated statements of income. The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended September 30, 2023 and 2022.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2023** | **2022** | **2023** | **2022** |
| **Noninterest income - in-scope of Topic 606** | | | | |
| *Wealth management revenue:* | | | | |
| Trust management/administration fees | $ 5,470 | $ 5,241 | $ 16,462 | $ 16,362 |
| Investment brokerage fees | 420 | 482 | 1,281 | 1,623 |
| Other | 398 | 476 | 1,225 | 1,496 |
| *Service charges on deposit accounts:* | | | | |
| Nonsufficient fund fees | 1,950 | 1,775 | 5,389 | 4,631 |
| Other | 1,199 | 1,008 | 3,355 | 2,913 |
| *Interchange revenues* | 3,609 | 3,531 | 10,717 | 10,401 |
| *Other income:* | | | | |
| Merchant services revenue | 409 | 448 | 1,165 | 1,203 |
| Other | (66) | 661 | 1,618 | 1,711 |
| **Noninterest income - out-of-scope of Topic 606** | 4,796 | 2,204 | 11,505 | 5,712 |
| Total noninterest income | $ 18,185 | $ 15,826 | $ 52,717 | $ 46,052 |

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and investment securities. In addition, certain noninterest income streams such as commercial FHA revenue, residential mortgage banking revenue and gain on sales of investment securities, net, are also not in scope of Topic 606. Topic 606 is applicable to noninterest income streams such as wealth management revenue, service charges on deposit accounts, interchange revenue, gain on sales of other real estate owned, and certain other noninterest income streams. The noninterest income streams considered in-scope by Topic 606 are discussed below.

### *Wealth Management Revenue*

Wealth management revenue is primarily comprised of fees earned from the management and administration of trusts and other customer assets. Previously, the Company also earned investment advisory fees through its SEC registered investment advisory subsidiary. The Company's performance obligation in both of these instances is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and contractually determined fee schedules. Payment is generally received a few days after month end through a direct charge to each customer's account. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered. Fees generated from transactions executed by the Company's third party broker dealer are remitted to the Company on a monthly basis for that month's transactional activity.

### *Service Charges on Deposit Accounts*

Service charges on deposit accounts consist of fees received under depository agreements with customers to provide access to deposited funds, serve as custodian of deposited funds, and when applicable, pay interest on deposits. These service charges primarily include non-sufficient fund fees and other account related service charges. Non-sufficient fund fees are earned when a depositor presents an item for payment in excess of available funds, and the Company, at its discretion, provides the necessary funds to complete the transaction. The Company generates other account related service charge revenue by providing depositors proper safeguard and remittance of funds as well as by delivering optional services for depositors, such as check imaging or treasury management, that are performed upon the depositor's request. The Company's performance obligation for the proper safeguard and remittance of funds, monthly account analysis and any other monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is typically received immediately or in the following month through a direct charge to a customer's account.

***Interchange Revenue***

Interchange revenue includes debit / credit card income and ATM user fees. Card income is primarily comprised of interchange fees earned for standing ready to authorize and providing settlement on card transactions processed through the MasterCard interchange network. The levels and structure of interchange rates are set by MasterCard and can vary based on cardholder purchase volumes. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with completion of the Company’s performance obligation, the transaction processing services provided to the cardholder. Payment is typically received immediately or in the following month. ATM fees are primarily generated when a Company cardholder withdraws funds from a non-Company ATM or a non-Company cardholder withdraws funds from a Company ATM. The Company satisfies its performance obligation for each transaction at the point in time when the ATM withdrawal is processed.

***Other Noninterest Income***

The other noninterest income revenue streams within the scope of Topic 606 consist of merchant services revenue, safe deposit box rentals, wire transfer fees, paper statement fees, check printing commissions, gain on sales of other real estate owned, and other noninterest related fees. Revenue from the Company’s merchant services business consists principally of transaction and account management fees charged to merchants for the electronic processing of transactions. These fees are net of interchange fees paid to the credit card issuing bank, card company assessments, and revenue sharing amounts. Account management fees are considered earned at the time the merchant’s transactions are processed or other services are performed. Fees related to the other components of other noninterest income within the scope of Topic 606 are largely transactional based, and therefore, the Company’s performance obligation is satisfied and related revenue recognized, at the point in time the customer uses the selected service to execute a transaction.

## ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations of the Company as reflected in the unaudited consolidated balance sheet as of September 30, 2023, as compared to December 31, 2022, and operating results for the three and nine months ended September 30, 2023 and 2022. These comments should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes appearing elsewhere herein and our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 24, 2023.

In addition to the historical information contained herein, this Form 10-Q includes “forward-looking statements” within the meaning of such term under the Private Securities Litigation Reform Act of 1995. These statements are subject to many risks and uncertainties, including changes in interest rates and other general economic, business and political conditions, including prevailing interest rates and the rate of inflation; the continuing effects of the recent failures of Silicon Valley Bank and Signature Bank, including increased deposit volatility and potential regulatory developments; changes in the financial markets; changes in business plans as circumstances warrant; risks related to mergers and acquisitions and the integration of acquired businesses; changes to U.S. tax laws, regulations and guidance; and other risks detailed from time to time in filings made by the Company with the SEC. Readers should note that the forward-looking statements included herein are not a guarantee of future events, and that actual events may differ materially from those made in or suggested by the forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “will,” “propose,” “may,” “plan,” “seek,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” or “continue,” or similar terminology. Any forward-looking statements presented herein are made only as of the date of this document, and we do not undertake any obligation to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, or otherwise.

### Critical Accounting Policies

The preparation of our consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under current circumstances. These estimates form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes have the most effect on the Company’s reported financial position and results of operations are set forth in “Note 2 – Basis of Presentation and Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements, included in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2022.

### Significant Developments and Transactions

Each item listed below affects the comparability of our results of operations for the three and nine months ended September 30, 2023 and 2022, and our financial condition as of September 30, 2023 and December 31, 2022, and may affect the comparability of financial information we report in future fiscal periods.

***Balance sheet repositioning.*** In the third quarter of 2023, the Company recognized a one-time enhancement fee of $6.6 million from surrender and replacement of certain company-owned life insurance policies, which was intended to offset an increase in tax expense related to the surrender. The tax expense associated with the surrender of the policies totaled $4.5 million. In addition, the Company sold $65.9 million of investment securities, recognizing a loss of $4.9 million, and repaid $17.0 million of FHLB advances.

***Redemption of Subordinated Notes.*** In the second quarter of 2023, the Company redeemed $6.6 million of outstanding subordinated notes. The weighted average redemption price was 89.2% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest. The Company recorded gains totaling $0.7 million on these redemptions.

On October 15, 2022, the Company redeemed the outstanding Fixed-to-Floating Rate Subordinated Notes due October 15, 2027, having an aggregate principal amount of $40.0 million, in accordance with the terms of the notes. The aggregate redemption price was 100% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest.

***Preferred Stock Issuance.*** On August 24, 2022, the Company issued and sold 4,600,000 depositary shares, each representing a 1/40th ownership interest in a share of the Company’s 7.75% fixed rate reset non-cumulative, non-convertible, perpetual preferred stock, Series A. The net proceeds were $110.5 million.

***Commercial FHA Mortgage Loan Servicing Rights.*** During the third quarter of 2022, we committed to a plan to sell the commercial servicing rights asset and transferred $24.0 million of commercial FHA loan servicing rights to held for sale. At June 30, 2023, the Company abandoned its plans to sell this servicing asset and removed this asset from held for sale at lower of cost or fair value with no gain or loss recognized.

***Recent Acquisitions.*** On June 17, 2022, the Company completed its acquisition of the deposits and certain loans and other assets associated with FNBC's branches in Mokena and Yorkville, Illinois. The Company acquired $79.8 million in assets, including $60.3 million in cash and $16.6 million in loans, and assumed $79.8 million in deposits.

**Results of Operations**

***Overview.*** The following table sets forth condensed income statement information of the Company for the three and nine months ended September 30, 2023 and 2022:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(dollars in thousands, except per share data)** | **2023** | **2022** | **2023** | **2022** |
| **Income Statement Data:** | | | | |
| Interest income | $ 103,585 | $ 79,556 | $ 299,615 | $ 211,540 |
| Interest expense | 44,989 | 15,532 | 121,675 | 29,355 |
| Net interest income | 58,596 | 64,024 | 177,940 | 182,185 |
| Provision for credit losses | 5,168 | 6,974 | 14,182 | 16,582 |
| Noninterest income | 18,185 | 15,826 | 52,717 | 46,052 |
| Noninterest expense | 42,038 | 43,496 | 129,414 | 125,719 |
| Income before income taxes | 29,575 | 29,380 | 87,061 | 85,936 |
| Income taxes | 11,533 | 5,859 | 25,672 | 19,783 |
| Net income | 18,042 | 23,521 | 61,389 | 66,153 |
| Preferred dividends | 2,229 | — | 6,685 | — |
| Net income available to common shareholders | $ 15,813 | $ 23,521 | $ 54,704 | $ 66,153 |
| **Per Share Data:** | | | | |
| Basic earnings per common share | $ 0.71 | $ 1.04 | $ 2.43 | $ 2.93 |
| Diluted earnings per common share | $ 0.71 | $ 1.04 | 2.43 | 2.92 |
| **Performance Metrics:** | | | | |
| Return on average assets | 0.91 % | 1.22 % | 1.04 % | 1.19 % |
| Return on average shareholders' equity | 9.28 % | 13.31 % | 10.63 % | 13.26 % |

During the three months ended September 30, 2023, we generated net income of $18.0 million, or diluted earnings per common share of $0.71, compared to net income of $23.5 million, or diluted earnings per common share of $1.04, in the three months ended September 30, 2022. Earnings for the third quarter of 2023 compared to the third quarter of 2022 decreased primarily due to a $5.4 million decrease in net interest income and a $5.7 million increase in income tax expense. These results were partially offset by a $1.8 million decrease in provision for credit losses, a $2.4 million increase in noninterest income and a $1.5 million decrease in noninterest expense.

During the nine months ended September 30, 2023, we generated net income of $61.4 million, or diluted earnings per common share of $2.43, compared to net income of $66.2 million, or diluted earnings per common share of $2.92, in the nine months ended September 30, 2022. Earnings for the nine months ended September 30, 2023 compared to nine months ended September 30, 2022 decreased primarily due to a $4.2 million decrease in net interest income, a $3.7 million increase in noninterest expense and a $5.9 million increase in income tax expense. These results were partially offset by a $2.4 million decrease in provision for credit losses and a $6.7 million increase in noninterest income.

***Net Interest Income and Margin.*** Our primary source of revenue is net interest income, which is the difference between interest income from interest-earning assets (primarily loans and securities) and interest expense of funding sources (primarily interest-bearing deposits and borrowings). Net interest income is influenced by many factors, primarily the volume and mix of interest-earning assets, funding sources, and interest rate fluctuations. Noninterest-bearing sources of funds, such as demand deposits and shareholders’ equity, also support earning assets. Net interest margin is calculated as net interest income divided by average interest-earning assets. Net interest margin is presented on a tax-equivalent basis, which means that tax-free interest income has been adjusted to a pretax-equivalent income, assuming a federal income tax rate of 21% for three and nine months ended September 30, 2023 and 2022.

On July 26, 2023, the Federal Reserve approved its 11th interest rate increase in just over a year. The increase moved the federal funds rate to a target range of 5.25%-5.50%, the highest since August 2007. At its September meeting, the Federal Reserve decided to leave interest rates unchanged. Minutes from that meeting indicated that the Federal Reserve officials believed that rates would need to stay elevated until they are convinced inflation is heading back to 2%. The benchmark federal funds rate remains at a target range between 5.25%-5.50%, compared to a target rate of 0.00%-0.25% at the beginning of 2022.

During the three months ended September 30, 2023, net interest income, on a tax-equivalent basis, decreased to $58.8 million compared to $64.3 million for the three months ended September 30, 2022. The tax-equivalent net interest margin decreased to 3.20% for the third quarter of 2023 compared to 3.63% in the third quarter of 2022.

During the nine months ended September 30, 2023, net interest income, on a tax-equivalent basis, decreased to $178.6 million with a tax-equivalent net interest margin of 3.27% compared to net interest income, on a tax-equivalent basis, of $183.2 million and a tax-equivalent net interest margin of 3.60% for the nine months ended September 30, 2022.

*Average Balance Sheet, Interest and Yield/Rate Analysis.* The following tables present the average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three and nine months ended September 30, 2023 and 2022. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

| (tax-equivalent basis, dollars in thousands) | Three Months Ended September 30, 2023 Average balance | 2023 Interest & fees | 2023 Yield/ Rate | 2022 Average balance | 2022 Interest & fees | 2022 Yield/ Rate |
|---|---|---|---|---|---|---|
| **Interest-earning assets:** | | | | | | |
| Federal funds sold and cash investments | $ 78,391 | $ 1,036 | 5.24 % | $ 195,657 | $ 1,125 | 2.28 % |
| *Investment securities*: | | | | | | |
| Taxable investment securities | 813,582 | 7,475 | 3.65 | 653,277 | 3,765 | 2.31 |
| Investment securities exempt from federal income tax (1) | 49,416 | 347 | 2.79 | 95,745 | 795 | 3.32 |
| Total securities | 862,998 | 7,822 | 3.60 | 749,022 | 4,560 | 2.44 |
| *Loans*: | | | | | | |
| Loans (2) | 6,245,179 | 93,488 | 5.94 | 5,973,378 | 72,901 | 4.84 |
| Loans exempt from federal income tax (1) | 52,389 | 630 | 4.77 | 66,980 | 667 | 3.95 |
| Total loans | 6,297,568 | 94,118 | 5.93 | 6,040,358 | 73,568 | 4.83 |
| Loans held for sale | 6,078 | 104 | 6.80 | 6,044 | 60 | 3.87 |
| Nonmarketable equity securities | 39,347 | 710 | 7.16 | 37,765 | 550 | 5.78 |
| Total interest-earning assets | 7,284,382 | 103,790 | 5.65 | 7,028,846 | 79,863 | 4.51 |
| **Noninterest-earning assets** | 622,969 | | | 618,138 | | |
| Total assets | $ 7,907,351 | | | $ 7,646,984 | | |
| **Interest-bearing liabilities:** | | | | | | |
| *Deposits:* | | | | | | |
| Checking and money market deposits | $ 3,770,735 | $ 29,401 | 3.09 % | $ 3,558,696 | $ 9,032 | 1.01 % |
| Savings deposits | 604,475 | 506 | 0.33 | 718,970 | 149 | 0.08 |
| Time deposits | 865,263 | 6,441 | 2.95 | 630,201 | 1,018 | 0.64 |
| Brokered time deposits | 113,883 | 1,421 | 4.95 | 14,478 | 50 | 1.35 |
| Total interest-bearing deposits | 5,354,356 | 37,769 | 2.80 | 4,922,345 | 10,249 | 0.83 |
| Short-term borrowings | 20,127 | 14 | 0.28 | 58,271 | 28 | 0.19 |
| FHLB advances and other borrowings | 402,500 | 4,557 | 4.49 | 340,163 | 2,424 | 2.83 |
| Subordinated debt | 93,441 | 1,280 | 5.43 | 139,324 | 2,010 | 5.77 |
| Trust preferred debentures | 50,379 | 1,369 | 10.78 | 49,751 | 821 | 6.54 |
| Total interest-bearing liabilities | 5,920,803 | 44,989 | 3.01 | 5,509,854 | 15,532 | 1.12 |
| **Noninterest-bearing liabilities:** | | | | | | |
| Noninterest-bearing deposits | 1,116,988 | | | 1,372,626 | | |
| Other noninterest-bearing liabilities | 97,935 | | | 63,638 | | |
| Total noninterest-bearing liabilities | 1,214,923 | | | 1,436,264 | | |
| **Shareholders' equity** | 771,625 | | | 700,866 | | |
| Total liabilities and shareholders' equity | $ 7,907,351 | | | $ 7,646,984 | | |
| Net interest income / net interest margin (3) | | $ 58,801 | 3.20 % | | $ 64,331 | 3.63 % |

(1) Interest income and average rates for tax-exempt loans and securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 21%. Tax-equivalent adjustments totaled $0.2 million and $0.3 million for the three months ended September 30, 2023 and 2022, respectively.
(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest margin during the periods presented represents: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

| (tax-equivalent basis, dollars in thousands) | Nine Months Ended September 30, 2023 Average balance | 2023 Interest & fees | 2023 Yield/ Rate | 2022 Average balance | 2022 Interest & fees | 2022 Yield/ Rate |
|---|---|---|---|---|---|---|
| **Interest-earning assets:** | | | | | | |
| Federal funds sold and cash investments | $ 76,939 | $ 2,868 | 4.98 % | $ 268,111 | $ 1,764 | 0.88 % |
| *Investment securities*: | | | | | | |
| Taxable investment securities | 784,954 | 19,744 | 3.35 | 709,163 | 11,717 | 2.20 |
| Investment securities exempt from federal income tax (1) | 59,992 | 1,359 | 3.02 | 111,165 | 2,736 | 3.28 |
| Total securities | 844,946 | 21,103 | 3.33 | 820,328 | 14,453 | 2.35 |
| *Loans*: | | | | | | |
| Loans (2) | 6,270,427 | 272,297 | 5.81 | 5,597,514 | 192,430 | 4.60 |
| Loans exempt from federal income tax (1) | 54,151 | 1,708 | 4.22 | 69,360 | 2,012 | 3.88 |
| Total loans | 6,324,578 | 274,005 | 5.79 | 5,666,874 | 194,442 | 4.59 |
| Loans held for sale | 3,900 | 179 | 6.14 | 15,629 | 357 | 3.05 |
| Nonmarketable equity securities | 44,034 | 2,104 | 6.39 | 36,832 | 1,521 | 5.52 |
| Total interest-earning assets | 7,294,397 | 300,259 | 5.50 | 6,807,774 | 212,537 | 4.17 |
| **Noninterest-earning assets** | 615,383 | | | 621,510 | | |
| Total assets | $ 7,909,780 | | | $ 7,429,284 | | |
| **Interest-bearing liabilities:** | | | | | | |
| *Deposits:* | | | | | | |
| Checking and money market deposits | $ 3,743,483 | $ 79,858 | 2.85 % | $ 3,364,552 | $ 13,188 | 0.52 % |
| Savings deposits | 626,976 | 1,145 | 0.24 | 711,108 | 287 | 0.05 |
| Time deposits | 791,555 | 14,694 | 2.48 | 624,282 | 2,588 | 0.55 |
| Brokered time deposits | 61,838 | 2,094 | 4.53 | 17,668 | 157 | 1.19 |
| Total interest-bearing deposits | 5,223,852 | 97,791 | 2.50 | 4,717,610 | 16,220 | 0.46 |
| Short-term borrowings | 26,865 | 53 | 0.26 | 62,495 | 73 | 0.16 |
| FHLB advances and other borrowings | 471,084 | 15,959 | 4.53 | 319,791 | 5,071 | 2.12 |
| Subordinated debt | 96,820 | 3,985 | 5.49 | 139,233 | 6,032 | 5.78 |
| Trust preferred debentures | 50,216 | 3,887 | 10.35 | 49,603 | 1,959 | 5.28 |
| Total interest-bearing liabilities | 5,868,837 | 121,675 | 2.77 | 5,288,732 | 29,355 | 0.74 |
| **Noninterest-bearing liabilities:** | | | | | | |
| Noninterest-bearing deposits | 1,184,410 | | | 1,402,900 | | |
| Other noninterest-bearing liabilities | 84,650 | | | 70,427 | | |
| Total noninterest-bearing liabilities | 1,269,060 | | | 1,473,327 | | |
| **Shareholders' equity** | 771,883 | | | 667,225 | | |
| Total liabilities and shareholders' equity | $ 7,909,780 | | | $ 7,429,284 | | |
| Net interest income / net interest margin (3) | | $ 178,584 | 3.27 % | | $ 183,182 | 3.60 % |

(1) Interest income and average rates for tax-exempt loans and securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 21%. Tax-equivalent adjustments totaled $0.6 million and $1.0 million for the nine months ended September 30, 2023 and 2022, respectively.
(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
(3) Net interest margin during the periods presented represents: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

*Interest Rates and Operating Interest Differential.* Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. Changes which are not due solely to volume or rate have been allocated proportionally to the change due to volume and the change due to rate.

| | Three Months Ended September 30, 2023 compared with Three Months Ended September 30, 2022 | | | Nine Months Ended September 30, 2023 compared with Nine Months Ended September 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Change due to: | | | Change due to: | | |
| **(tax-equivalent basis, dollars in thousands)** | **Volume** | **Rate** | **Interest Variance** | **Volume** | **Rate** | **Interest Variance** |
| EARNING ASSETS: | | | | | | |
| Federal funds sold and cash investments | $ (1,112) | $ 1,023 | $ (89) | $ (4,189) | $ 5,293 | $ 1,104 |
| Investment securities: | | | | | | |
| Taxable investment securities | 1,204 | 2,506 | 3,710 | 1,579 | 6,448 | 8,027 |
| Investment securities exempt from federal income tax | (355) | (93) | (448) | (1,210) | (167) | (1,377) |
| Total securities | 849 | 2,413 | 3,262 | 369 | 6,281 | 6,650 |
| Loans: | | | | | | |
| Loans | 3,693 | 16,894 | 20,587 | 26,178 | 53,689 | 79,867 |
| Loans exempt from federal income tax | (160) | 123 | (37) | (460) | 156 | (304) |
| Total loans | 3,533 | 17,017 | 20,550 | 25,718 | 53,845 | 79,563 |
| Loans held for sale | — | 44 | 44 | (403) | 225 | (178) |
| Nonmarketable equity securities | 26 | 134 | 160 | 321 | 262 | 583 |
| Total earning assets | $ 3,296 | $ 20,631 | $ 23,927 | $ 21,816 | $ 65,906 | $ 87,722 |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| Checking and money market deposits | $ 1,090 | $ 19,279 | $ 20,369 | $ 4,780 | $ 61,890 | $ 66,670 |
| Savings deposits | (60) | 417 | 357 | (94) | 952 | 858 |
| Time deposits | 1,065 | 4,358 | 5,423 | 1,899 | 10,207 | 12,106 |
| Brokered deposits | 789 | 582 | 1,371 | 945 | 992 | 1,937 |
| Total interest-bearing deposits | 2,884 | 24,636 | 27,520 | 7,530 | 74,041 | 81,571 |
| Short-term borrowings | (22) | 8 | (14) | (55) | 35 | (20) |
| FHLB advances and other borrowings | 575 | 1,558 | 2,133 | 3,762 | 7,126 | 10,888 |
| Subordinated debt | (637) | (93) | (730) | (1,789) | (258) | (2,047) |
| Trust preferred debentures | 13 | 535 | 548 | 36 | 1,892 | 1,928 |
| Total interest-bearing liabilities | $ 2,813 | $ 26,644 | $ 29,457 | $ 9,484 | $ 82,836 | $ 92,320 |
| Net interest income | $ 483 | $ (6,013) | $ (5,530) | $ 12,332 | $ (16,930) | $ (4,598) |

*Interest Income.* Interest income, on a tax-equivalent basis, increased $23.9 million to $103.8 million in the three months ended September 30, 2023 as compared to the same quarter in 2022, primarily due to improved yields on earning assets. The yield on earning assets increased 114 basis points to 5.65% from 4.51% primarily due to the impact of increasing market interest rates.

Average earning assets increased to $7.28 billion in the third quarter of 2023 from $7.03 billion in the same quarter in 2022. Increases in average loans and investment securities of $257.2 million and $114.0 million, respectively, were partially offset by a decrease in federal funds sold and cash investments of $117.3 million.

Average loans increased $257.2 million in the third quarter of 2023 compared to the same quarter of 2022 across all loan categories, except for commercial FHA warehouse lines and consumer loans. Average commercial loans increased $38.5 million. Included in this category are commercial FHA warehouse lines. Average commercial FHA warehouse lines decreased $37.2 million to $20.4 million in the third quarter of 2023. Excluding the changes in the commercial FHA warehouse line portfolio, average commercial loans increased $75.7 million in the third quarter of 2023 compared to the same period one year prior.

Average construction loans increased this quarter by $164.7 million, compared to the prior year's third quarter, primarily due to funding draws on existing multifamily project lines. Average balances in our consumer loan portfolio decreased this quarter by $42.2 million compared to the prior year third quarter due a decrease in loans originated through the program with GreenSky.

For the nine months ended September 30, 2023, interest income, on a tax-equivalent basis, increased $87.7 million to $300.3 million as compared to the same period in 2022, primarily due to improved yields on earning assets. The yield on earning assets increased 133 points to 5.50% from 4.17%, primarily due to the impact of increasing market interest rates.

Average earning assets increased to $7.29 billion in the first nine months of 2023 from $6.81 billion in the same period in 2022. An increase in average loans of $657.7 million was partially offset by a $191.2 million decrease in federal funds sold and cash investments.

Average commercial loans increased $99.1 million for the nine months ended September 30, 2023 compared to the same period of 2022. Commercial FHA warehouse lines decreased $54.6 million to $15.7 million during this period. Excluding the changes in the commercial FHA warehouse line portfolio, average commercial loans increased $153.7 million for the nine months ended September 30, 2023 compared to the same period one year prior.

Average balances in all of our other loan classifications increased for the nine months ended September 30, 2023 compared to the same period of 2022. Average commercial real estate loans, construction loans, and lease portfolios also increased $253.2 million, $149.5 million and $64.6 million, respectively, for the nine months ended September 30, 2023 compared to the same period of 2022.

*Interest Expense.* Interest expense increased $29.5 million to $45.0 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The cost of interest-bearing liabilities increased to 3.01% for the third quarter of 2023 compared to 1.12% for the third quarter of 2022 due to the increase in deposit costs as a result of the rate increases announced by the Federal Reserve.

Interest expense on deposits increased $27.5 million to $37.8 million for the three months ended September 30, 2023 from the comparable period in 2022. The increase was primarily due to an increase in rates paid on deposits. Average balances of interest-bearing deposit accounts increased $432.0 million, or 8.78%, to $5.35 billion for the three months ended September 30, 2023 compared to the same period one year earlier. The increase in volume was attributable to increases of retail deposits and brokered deposits of $60.2 million and $127.6 million, respectively. In addition, our Insured Cash Sweep product average balances increased $538.0 million.

For the nine month period ended September 30, 2023, interest expense increased $92.3 million to $121.7 million compared to the nine months ended September 30, 2022. The cost of interest-bearing liabilities increased to 2.77% for the first nine months of 2023 compared to 0.74% for the same period of 2022. Interest expense on deposits increased to $97.8 million from $16.2 million for the comparable period in 2022, primarily due to increases in interest rates on deposits.

Interest expense on FHLB advances and other borrowings increased $2.1 million and $10.9 million for the three and nine months ended September 30, 2023, respectively, from the comparable periods in 2022, due to increases in both average balances and the cost of funds. Average balances increased $62.3 million and $151.3 million for the three and nine months ended September 30, 2023, respectively, from the comparable periods in 2022. Average costs of funds increased 166 basis points and 241 basis points, respectively, for the three and nine months ended September 30, 2023, from the comparable periods in 2022.

Interest expense on subordinated debt decreased $0.7 million and $2.0 million for the three and nine months ended September 30, 2023, respectively, from the comparable periods in 2022. The Company redeemed $6.6 million of subordinated debt in the second quarter of 2023 and $40.0 million of subordinated debt on October 15, 2022.

Interest expense on trust preferred debentures increased $0.5 million and $1.9 million for the three and nine months ended September 30, 2023, respectively, from the comparable periods in 2022, due to interest rate increases, as these debt instruments reprice quarterly.

***Provision for Credit Losses.*** The Company's provision for credit losses on loans totaled $5.2 million for the three months ended September 30, 2023, compared to $7.0 million for the three months ended September 30, 2022. For the nine months ended September 30, 2023 and 2022, the Company recorded provision expense of $14.2 million and $16.6 million, respectively.

The provision for credit losses on loans recognized during the three and nine months ended September 30, 2023 was made at a level deemed necessary by management to absorb estimated losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for credit losses is completed quarterly by management, the results of which are used to determine provision for credit losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and reasonable and supportable forecasts along with other qualitative and quantitative factors.

***Noninterest Income.*** Noninterest income increased 14.91% for the three months ended September 30, 2023, compared to the same period one year prior, and increased 14.47% for the nine months ended September 30, 2023, compared to the same period one year prior. The following table sets forth the major components of our noninterest income for the three and nine months ended September 30, 2023 and 2022:

| (dollars in thousands) | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Increase (decrease) | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 | Increase (decrease) |
|---|---|---|---|---|---|---|
| *Noninterest income:* | | | | | | |
| Wealth management revenue | $ 6,288 | $ 6,199 | $ 89 | $ 18,968 | $ 19,481 | $ (513) |
| Residential mortgage banking revenue | 507 | 210 | 297 | 1,452 | 1,193 | 259 |
| Service charges on deposit accounts | 3,149 | 2,783 | 366 | 8,744 | 7,544 | 1,200 |
| Interchange revenue | 3,609 | 3,531 | 78 | 10,717 | 10,401 | 316 |
| Loss on sales of investment securities, net | (4,961) | (129) | (4,832) | (6,478) | (230) | (6,248) |
| Impairment on commercial mortgage servicing rights | — | — | — | — | (1,263) | 1,263 |
| Company-owned life insurance | 7,558 | 929 | 6,629 | 9,325 | 2,788 | 6,537 |
| Other income | 2,035 | 2,303 | (268) | 9,989 | 6,138 | 3,851 |
| Total noninterest income | $ 18,185 | $ 15,826 | $ 2,359 | $ 52,717 | $ 46,052 | $ 6,665 |

*Loss on sale of investment securities*. The Company took advantage of certain market conditions during the three and nine months ended September 30, 2023 to reposition out of lower yielding securities into other structures, which are expected to result in improved overall margin, liquidity and capital allocations. These transactions resulted in losses of $5.0 million and $6.5 million in the three and nine months ended September 30, 2023, with expected paybacks to occur within a one year period.

*Company-owned life insurance income.* Company-owned life insurance income increased $6.6 million for each the three and nine months ended September 30, 2023, as compared to the same periods in 2022. As previously discussed, the Company recognized a one-time enhancement fee of $6.6 million from the surrender and replacement of certain life insurance policies.

*Other noninterest income.* Other income increased $3.9 million for the nine months ended September 30, 2023, as compared to the same period in 2022. As mentioned previously, the Company recognized a gain of $0.7 million on the redemption of subordinated debt in the second quarter of 2023. Also in the second quarter of 2023, we recognized a gain of $0.8 million on the sale of OREO. Net unrealized gains on our equity securities increased $1.4 million for the nine months ended September 30, 2023, compared to the same period in 2022. As a result of designating our commercial FHA loan servicing rights as held for sale, we did not amortize the servicing asset nor record impairment during the first half of 2023. In the nine months ended September 30, 2023 and 2022, amortization expense totaled $0.6 million and $1.9 million, respectively.

***Noninterest Expense.*** The following table sets forth the major components of noninterest expense for the three and nine months ended September 30, 2023 and 2022:

| (dollars in thousands) | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Increase (decrease) | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 | Increase (decrease) |
|---|---|---|---|---|---|---|
| *Noninterest expense:* | | | | | | |
| Salaries and employee benefits | $ 22,307 | $ 22,889 | $ (582) | $ 69,407 | $ 67,404 | $ 2,003 |
| Occupancy and equipment | 3,730 | 3,850 | (120) | 12,052 | 11,094 | 958 |
| Data processing | 6,468 | 6,093 | 375 | 19,323 | 18,048 | 1,275 |
| FDIC insurance | 1,107 | 977 | 130 | 3,632 | 2,633 | 999 |
| Professional | 1,554 | 1,693 | (139) | 4,977 | 5,181 | (204) |
| Marketing | 950 | 1,026 | (76) | 2,323 | 2,447 | (124) |
| Communications | 507 | 587 | (80) | 1,514 | 1,934 | (420) |
| Loan expense | 866 | 1,137 | (271) | 3,104 | 3,379 | (275) |
| Amortization of intangible assets | 1,129 | 1,361 | (232) | 3,628 | 4,077 | (449) |
| Other expense | 3,420 | 3,883 | (463) | 9,454 | 9,522 | (68) |
| Total noninterest expense | $ 42,038 | $ 43,496 | $ (1,458) | $ 129,414 | $ 125,719 | $ 3,695 |

*Salaries and employee benefits.* For the nine months ended September 30, 2023, salaries and employee benefits expense increased $2.0 million as compared to the same period in 2022, primarily due to annual salary increases and increased medical insurance expense. The Company employed 911 employees at September 30, 2023 compared to 930 employees at September 30, 2022.

*Occupancy and Equipment Expense.* For the nine months ended September 30, 2023, occupancy and equipment expense increased $1.0 million as compared to the same period in 2022 primarily as a result of the non-controllable seasonal expenses in the first quarter of 2023, including snow removal. In addition, the Company transitioned to an outsourced facilities management program and incurred increased repair expenses as a result of deferred maintenance.

*Data processing fees.* The $0.4 million and $1.3 million increases in data processing fees for the three and nine months ended September 30, 2023, respectively, as compared to the same periods in 2022, were primarily the result of our continuing investments in technology to better serve our growing customer base and increased transaction volumes.

*FDIC Insurance Expense.* For the nine months ended September 30, 2023, FDIC insurance expense increased $1.0 million, as compared to the same period in 2022, primarily as a result of the FDIC increasing the base assessment rate by 2 basis points, effective January 1, 2023.

***Income Tax Expense.*** The Company's effective tax rate was 39.0% and 19.9% for the three months ended September 30, 2023 and 2022, respectively. For the nine months ended September 30, 2023 and 2022, the Company's effective tax rate was 29.5% and 23.0%, respectively. The increase in the effective tax rate from the three and nine months ended September 30, 2022 is due primarily to tax expense of $4.5 million associated with a surrender of company-owned life insurance policies, as previously discussed, and a $1.4 million return to provision adjustment recognized in the third quarter of 2023.

## Financial Condition

***Assets.*** Total assets increased to $7.98 billion at September 30, 2023, as compared to $7.86 billion at December 31, 2022.

***Loans.*** The loan portfolio is the largest category of our assets. At September 30, 2023, total loans were $6.28 billion as compared to $6.31 billion at December 31, 2022. The following table shows loans by category as of September 30, 2023 and December 31, 2022:

| | September 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Balance** | **Percent** | **Balance** | **Percent** |
| Loans: | | | | |
| Commercial: | | | | |
| Equipment finance loans | $ 578,931 | 9.2 % | $ 616,751 | 9.8 % |
| Equipment finance leases | 485,460 | 7.8 | 491,744 | 7.8 |
| Commercial FHA lines | 48,547 | 0.8 | 25,029 | 0.4 |
| Other commercial loans | 943,761 | 15.0 | 872,794 | 13.8 |
| Total commercial loans and leases | 2,056,699 | 32.8 | 2,006,318 | 31.8 |
| Commercial real estate | 2,412,164 | 38.4 | 2,433,159 | 38.6 |
| Construction and land development | 416,801 | 6.6 | 320,882 | 5.1 |
| Residential real estate | 375,211 | 6.0 | 366,094 | 5.8 |
| Consumer | 1,020,008 | 16.2 | 1,180,014 | 18.7 |
| Total loans, gross | 6,280,883 | 100.0 % | 6,306,467 | 100.0 % |
| Allowance for credit losses on loans | (66,669) | | (61,051) | |
| Total loans, net | $ 6,214,214 | | $ 6,245,416 | |

Total loans decreased $25.6 million to $6.28 billion at September 30, 2023, as compared to December 31, 2022, as the Company continued to originate loans in a more selective and deliberate approach to balance liquidity and funding costs. The increase in our construction and land development portfolio of $95.9 million was primarily driven by draws on existing lines. In addition, our commercial loans and leases increased $50.4 million.

Consumer loans decreased $160.0 million at September 30, 2023 primarily due to a decrease in loans originated through the program with GreenSky, as expected. On January 24, 2023, the Company notified GreenSky that, effective October 21, 2023, the Company would terminate its participation in GreenSky’s loan origination program. Following the termination, GreenSky is expected to continue servicing all loans originated through the program.

The principal segments of our loan portfolio are discussed below:

*Commercial loans.* We provide a mix of variable and fixed rate commercial loans. The loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs, business expansions and farm operations. Commercial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with business operations as the primary source of repayment, but may also include collateralization by inventory, accounts receivable and equipment, and generally include personal guarantees. The commercial loan category also includes loans originated by the equipment financing business that are secured by the underlying equipment.

*Commercial real estate loans.* Our commercial real estate loans consist of both real estate occupied by the borrower for ongoing operations and non-owner occupied real estate properties. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner occupied offices, warehouses and production facilities, office buildings, hotels, mixed-use residential and commercial facilities, retail centers, multifamily properties and assisted living facilities. Our commercial real estate loan portfolio also includes farmland loans. Farmland loans are generally made to a borrower actively involved in farming rather than to passive investors.

*Construction and land development loans.* Our construction and land development loans are comprised of residential construction, commercial construction and land acquisition and development loans. Interest reserves are generally established on real estate construction loans.

*Residential real estate loans.* Our residential real estate loans consist of residential properties that generally do not qualify for secondary market sale.

*Consumer loans.* Our consumer loans include direct personal loans, indirect automobile loans, lines of credit and installment loans originated through home improvement specialty retailers and contractors. Personal loans are generally secured by automobiles, boats and other types of personal property and are made on an installment basis.

*Lease financing.* Our equipment leasing business provides financing leases to varying types of businesses nationwide for purchases of business equipment and software. The financing is secured by a first priority interest in the financed asset and generally requires monthly payments.

The following table shows the contractual maturities of our loan portfolio and the distribution between fixed and adjustable interest rate loans at September 30, 2023:

| | September 30, 2023 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Within One Year | | One Year to Five Years | | Five Years to 15 Years | | After 15 Years | | |
| **(dollars in thousands)** | **Fixed Rate** | **Adjustable Rate** | **Fixed Rate** | **Adjustable Rate** | **Fixed Rate** | **Adjustable Rate** | **Fixed Rate** | **Adjustable Rate** | **Total** |
| Commercial | $ 92,106 | $ 476,928 | $ 654,184 | $ 43,224 | $ 160,891 | $ 95,857 | $ — | $ 48,049 | $ 1,571,239 |
| Commercial real estate | 157,723 | 295,113 | 987,952 | 382,396 | 380,537 | 183,848 | 5,496 | 19,099 | 2,412,164 |
| Construction and land development | 13,662 | 67,570 | 107,525 | 167,375 | 15,344 | 42,529 | 1,013 | 1,783 | 416,801 |
| Total commercial loans | 263,491 | 839,611 | 1,749,661 | 592,995 | 556,772 | 322,234 | 6,509 | 68,931 | 4,400,204 |
| Residential real estate | 969 | 3,368 | 8,530 | 19,238 | 26,218 | 39,106 | 162,533 | 115,249 | 375,211 |
| Consumer | 3,314 | 533 | 979,100 | 534 | 36,526 | — | 1 | — | 1,020,008 |
| Lease financing | 13,930 | — | 365,602 | — | 105,928 | — | — | — | 485,460 |
| Total loans | $ 281,704 | $ 843,512 | $ 3,102,893 | $ 612,767 | $ 725,444 | $ 361,340 | $ 169,043 | $ 184,180 | $ 6,280,883 |

### *Loan Quality*

We use what we believe is a comprehensive methodology to monitor credit quality and prudently manage credit concentration within our loan portfolio. Our underwriting policies and practices govern the risk profile, credit and geographic concentration for our loan portfolio. We also have what we believe to be a comprehensive methodology to monitor these credit quality standards, including a risk classification system that identifies potential problem loans based on risk characteristics by loan type as well as the early identification of deterioration at the individual loan level.

*Analysis of the Allowance for Credit Losses on Loans.* The allowance for credit losses on loans was $66.7 million, or 1.06% of total loans, at September 30, 2023 compared to $61.1 million, or 0.97% of total loans, at December 31, 2022. The following table allocates the allowance for credit losses on loans by loan category:

| | September 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Allowance** | **Percent [(1)]** | **Allowance** | **Percent [(1)]** |
| Commercial | $ 19,410 | 1.24 % | $ 14,639 | 0.97 % |
| Commercial real estate | 24,611 | 1.02 | 29,290 | 1.20 |
| Construction and land development | 3,530 | 0.85 | 2,435 | 0.76 |
| Total commercial loans | 47,551 | 1.08 | 46,364 | 1.09 |
| Residential real estate | 5,698 | 1.52 | 4,301 | 1.17 |
| Consumer | 3,984 | 0.39 | 3,599 | 0.30 |
| Lease financing | 9,436 | 1.94 | 6,787 | 1.38 |
| Total allowance for credit losses on loans | $ 66,669 | 1.06 % | $ 61,051 | 0.97 % |

(1) Represents the percentage of the allowance to total loans in the respective category.

We measure expected credit losses over the life of each loan utilizing a combination of models which measure probability of default and loss given default, among other things. The measurement of expected credit losses is impacted by loan and borrower attributes and certain macroeconomic variables. Models are adjusted to reflect the impact of certain current macroeconomic variables as well as their expected changes over a reasonable and supportable forecast period.

The allowance allocated to commercial loans totaled $19.4 million, or 1.24% of total commercial loans, at September 30, 2023, compared to $14.6 million, or 0.97%, at December 31, 2022. Modeled expected credit losses increased

$2.5 million and qualitative factor adjustments related to commercial loans increased $0.9 million. Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis increased $1.3 million. There were no specific allocation reserves for commercial loans in prior period.

The allowance allocated to commercial real estate loans totaled $24.6 million, or 1.02% to total commercial real estate loans, at September 30, 2023, decreasing $4.7 million, from $29.3 million, or 1.20% of total commercial real estate loans, at December 31, 2022. Modeled expected credit losses decreased $2.6 million and qualitative factor adjustments related to commercial real estate loans decreased $0.6 million. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis decreased from $1.5 million at December 31, 2022 to $0.0 million at September 30, 2023.

The allowance allocated to the lease portfolio totaled $9.4 million, or 1.94% of total commercial leases, at September 30, 2023, increasing $2.6 million from $6.8 million, or 1.38% of total commercial leases at December 31, 2022. Modeled expected credit losses increased $2.1 million and qualitative factor adjustments increased $0.6 million. There were no specific allocation reserves for commercial leases in either period.

In estimating expected credit losses as of September 30, 2023, we utilized certain forecasted macroeconomic variables from Oxford Economics in our models. The forecasted projections included, among other things, (i) U.S. gross domestic product growth of 1.5% for 2023 and 0.3% for 2024; (ii) Federal Reserve holding the policy rate through year end with a gradual decrease in 2024; and (iii) unemployment rate averaging 5.6% through the second quarter of 2024.

We qualitatively adjust the model results based on this scenario for various risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These "Q-Factor" adjustments are based upon management judgment and current assessment as to the impact of risks related to changes in lending policies and procedures; economic and business conditions; loan portfolio attributes and credit concentrations; and external factors, among other things, that are not already fully captured within the modeling inputs, assumptions and other processes. Management assesses the potential impact of such items within a range of severely negative impact to positive impact and adjusts the modeled expected credit loss by an aggregate adjustment percentage based upon the assessment. As a result of this assessment as of September 30, 2023, modeled expected credit losses were adjusted upwards with a qualitative factor adjustment of approximately 54 basis points of total loans, increasing from 50 basis points at December 31, 2022. The Q-Factor adjustment at September 30, 2023 was based primarily on declining credit quality conditions within the equipment financing segment, economic conditions, including persistent inflation fears, an increasing risk of recession and the impact of rising fuel prices on businesses and consumers.

The following table provides an analysis of the allowance for credit losses on loans, provision for credit losses on loans and net charge-offs for the three and nine months ended September 30, 2023 and 2022:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(dollars in thousands)** | **2023** | **2022** | **2023** | **2022** |
| Balance, beginning of period | $ 64,950 | $ 54,898 | $ 61,051 | $ 51,062 |
| Charge-offs: | | | | |
| Commercial | 3,249 | 1,655 | 5,289 | 3,869 |
| Commercial real estate | 2,316 | 1,232 | 4,606 | 4,084 |
| Construction and land development | 44 | — | 378 | 6 |
| Residential real estate | 95 | 166 | 180 | 315 |
| Consumer | 250 | 316 | 773 | 812 |
| Lease financing | 1,394 | 485 | 2,555 | 1,190 |
| Total charge-offs | 7,348 | 3,854 | 13,781 | 10,276 |
| Recoveries: | | | | |
| Commercial | 80 | 45 | 577 | 354 |
| Commercial real estate | 3,678 | 1 | 4,006 | 6 |
| Construction and land development | — | 18 | 32 | 30 |
| Residential real estate | 33 | 69 | 98 | 222 |
| Consumer | 53 | 121 | 226 | 381 |
| Lease financing | 55 | 367 | 278 | 1,013 |
| Total recoveries | 3,899 | 621 | 5,217 | 2,006 |
| Net charge-offs | 3,449 | 3,233 | 8,564 | 8,270 |
| Provision for credit losses on loans | 5,168 | 6,974 | 14,182 | 15,847 |
| Balance, end of period | $ 66,669 | $ 58,639 | $ 66,669 | $ 58,639 |
| Gross loans, end of period | $ 6,280,883 | $ 6,198,451 | $ 6,280,883 | $ 6,198,451 |
| Average total loans | $ 6,297,568 | $ 6,040,358 | $ 6,324,577 | $ 5,666,874 |
| Net charge-offs to average loans | 0.22 % | 0.21 % | 0.18 % | 0.20 % |
| Allowance for credit losses to total loans | 1.06 % | 0.95 % | 1.06 % | 0.95 % |

Individual loans considered to be uncollectible are charged off against the allowance. Factors used in determining the amount and timing of charge-offs on loans include consideration of the loan type, length of delinquency, sufficiency of collateral value, lien priority and the overall financial condition of the borrower. Collateral value is determined using updated appraisals and/or other market comparable information. Charge-offs are generally taken on loans once the impairment is determined to be other-than-temporary. Recoveries on loans previously charged off are added to the allowance.

Charge-offs for the three months ended September 30, 2023 included $2.2 million on a commercial loan and $2.3 million on equipment financing loans and leases. In addition, a commercial real estate loan of $2.3 million was also charged-off in the third quarter. The Company specially reserved for this loss in the second quarter of 2023. The Company recognized a $3.4 million recovery on a commercial real estate loan, which was charged-off in 2017.

Net charge-offs for the three months ended September 30, 2023 totaled $3.4 million, compared to $3.2 million for the same period one year ago. For the nine months ended September 30, 2023, net charge-offs totaled $8.6 million, compared to $8.2 million for the same period one year ago.

*Nonperforming Loans*. The following table sets forth our nonperforming assets by asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans and loans past due 90 days or more and still accruing interest. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

| (dollars in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Nonperforming loans: | | |
| Commercial | $ 8,836 | $ 7,853 |
| Commercial real estate | 33,603 | 29,602 |
| Construction and land development | 2,025 | 229 |
| Residential real estate | 3,856 | 8,449 |
| Consumer | 103 | 921 |
| Lease financing | 7,558 | 2,369 |
| Total nonperforming loans | 55,981 | 49,423 |
| Other real estate owned and other repossessed assets | 2,696 | 8,401 |
| Nonperforming assets | $ 58,677 | $ 57,824 |
| Nonperforming loans to total loans | 0.89 % | 0.78 % |
| Nonperforming assets to total assets | 0.74 % | 0.74 % |
| Allowance for credit losses to nonperforming loans | 119.09 % | 123.53 % |

We did not recognize interest income on nonaccrual loans during the three months ended September 30, 2023 or 2022 while the loans were in nonaccrual status. Additional interest income that would have been recorded on nonaccrual loans had they been current in accordance with their original terms was $0.8 million and $2.5 million for the three and nine months ended September 30, 2023, respectively, and $0.8 million and $1.9 million for the three and nine months ended September 30, 2022, respectively.

The following table presents the change in our non-performing loans for the nine months ended September 30, 2023:

| (dollars in thousands) | Nine Months Ended September 30, 2023 |
|---|---|
| Balance, beginning of period | $ 49,424 |
| New nonperforming loans | 35,071 |
| Return to performing status | (1,097) |
| Payments received | (20,795) |
| Transfer to OREO and other repossessed assets | (332) |
| Charge-offs | (6,290) |
| Balance, end of period | $ 55,981 |

***Investment Securities.*** Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on our current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the book value and percentage of each category of investment securities at September 30, 2023 and December 31, 2022. The book value for investment securities classified as available for sale is equal to fair market value.

| | September 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Balance** | **Percent** | **Balance** | **Percent** |
| **Investment securities available for sale:** | | | | |
| U.S. Treasury securities | $ 1,563 | 0.2 % | $ 81,230 | 10.6 % |
| U.S. government sponsored entities and U.S. agency securities | 89,038 | 10.6 | 37,509 | 4.9 |
| Mortgage-backed securities - agency | 517,391 | 62.0 | 448,150 | 58.3 |
| Mortgage-backed securities - non-agency | 72,665 | 8.7 | 20,754 | 2.7 |
| State and municipal securities | 49,737 | 6.0 | 94,636 | 12.3 |
| Collateralized loan obligations | 22,385 | 2.7 | — | — |
| Corporate securities | 82,230 | 9.8 | 85,955 | 11.2 |
| Total investment securities, available for sale, at fair value | $ 835,009 | 100.0 % | $ 768,234 | 100.0 % |

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at September 30, 2023. The book value for investment securities classified as available for sale is equal to fair market value.

| (dollars in thousands) | Balance | Percent | Weighted average yield |
|---|---|---|---|
| **Investment securities available for sale:** | | | |
| *U.S. Treasury securities:* | | | |
| Maturing within one year | $ 1,274 | 0.2 % | 3.26 % |
| Maturing in one to five years | 289 | — | 4.21 |
| Maturing in five to ten years | — | — | — |
| Maturing after ten years | — | — | — |
| Total U.S. Treasury securities | $ 1,563 | 0.2 % | 3.43 % |
| *U.S. government sponsored entities and U.S. agency securities:* | | | |
| Maturing within one year | $ 9,981 | 1.2 % | 4.89 % |
| Maturing in one to five years | 65,037 | 7.8 | 4.42 |
| Maturing in five to ten years | 10,963 | 1.3 | 2.08 |
| Maturing after ten years | 3,057 | 0.3 | 5.77 |
| Total U.S. government sponsored entities and U.S. agency securities | $ 89,038 | 10.6 % | 4.19 % |
| *Mortgage-backed securities - agency:* | | | |
| Maturing within one year | $ 5,594 | 0.7 % | 2.47 % |
| Maturing in one to five years | 244,137 | 29.2 | 3.74 |
| Maturing in five to ten years | 154,292 | 18.5 | 2.74 |
| Maturing after ten years | 113,368 | 13.6 | 2.25 |
| Total mortgage-backed securities - agency | $ 517,391 | 62.0 % | 3.07 % |
| *Mortgage-backed securities - non-agency:* | | | |
| Maturing within one year | $ — | — % | — % |
| Maturing in one to five years | 56,346 | 6.8 | 4.56 |
| Maturing in five to ten years | 9,239 | 1.1 | 2.25 |
| Maturing after ten years | 7,080 | 0.8 | 2.58 |
| Total mortgage-backed securities - non-agency | $ 72,665 | 8.7 % | 3.99 % |
| *State and municipal securities* [(1)]*:* | | | |
| Maturing within one year | $ 1,320 | 0.2 % | 3.21 % |
| Maturing in one to five years | 7,485 | 0.9 | 3.07 |
| Maturing in five to ten years | 26,166 | 3.1 | 2.20 |
| Maturing after ten years | 14,766 | 1.8 | 2.81 |
| Total state and municipal securities | $ 49,737 | 6.0 % | 2.53 % |
| *Collateralized loan obligations:* | | | |
| Maturing within one year | $ 10,967 | 1.3 % | 8.36 % |
| Maturing in one to five years | 11,418 | 1.4 | 6.79 |
| Maturing in five to ten years | — | — | — |
| Maturing after ten years | — | — | — |
| Total collateralized loan obligations | $ 22,385 | 2.7 % | 7.56 % |
| *Corporate securities:* | | | |
| Maturing within one year | $ — | — % | — % |
| Maturing in one to five years | 19,745 | 2.4 | 3.59 |
| Maturing in five to ten years | 62,485 | 7.4 | 3.61 |
| Maturing after ten years | — | — | — |
| Total corporate securities | $ 82,230 | 9.8 % | 3.60 % |
| Total investment securities, available for sale | $ 835,009 | 100.0 % | 3.37 % |

(1) Weighted average yield for tax-exempt securities are presented on a tax-equivalent basis assuming a federal income tax rate of 21%.

The table below presents the credit ratings for our investment securities classified as available for sale, at fair value, at September 30, 2023.

| (dollars in thousands) | Amortized cost | Fair Value | Average credit rating AAA | AA+/- | A+/- | BBB+/- | <BBB- | Not Rated |
|---|---|---|---|---|---|---|---|---|
| **Investment securities available for sale:** | | | | | | | | |
| U.S. Treasury securities | $ 1,582 | $ 1,563 | $ — | $ 1,563 | $ — | $ — | $ — | $ — |
| U.S. government sponsored entities and U.S. agency securities | 93,291 | 89,038 | 71,119 | 17,919 | — | — | — | — |
| Mortgage-backed securities - agency | 613,484 | 517,391 | 6 | 517,385 | — | — | — | — |
| Mortgage-backed securities - non-agency | 77,617 | 72,665 | 13,604 | 59,061 | — | — | — | — |
| State and municipal securities | 59,521 | 49,737 | 636 | 48,847 | — | 254 | — | — |
| Collateralized loan obligations | 22,662 | 22,385 | 14,155 | 8,230 | — | — | — | — |
| Corporate securities | 95,124 | 82,230 | — | 44,593 | 16,584 | 14,572 | 6,481 | — |
| Total investment securities, available for sale | $ 963,281 | $ 835,009 | $ 99,520 | $ 697,598 | $ 16,584 | $ 14,826 | $ 6,481 | $ — |

***Liabilities.*** At September 30, 2023, liabilities totaled $7.21 billion compared to $7.10 billion at December 31, 2022.

***Deposits.*** We emphasize developing total client relationships with our customers in order to increase our retail and commercial core deposit bases, which are our primary funding sources. Our deposits consist of noninterest-bearing and interest-bearing demand, savings and time deposit accounts.

Total deposits increased $40.4 million to $6.41 billion at September 30, 2023, as compared to December 31, 2022. Brokered time deposits increased to $119.1 million at September 30, 2023 from $12.8 million at December 31, 2022. In addition, interest rate promotions offered in 2023 on time deposit products resulted in an increases in balances of non-brokered time deposits of $236.3 million over the same period. These increases were partially offset by a decrease in noninterest-bearing demand account balances of $207.6 million, as a result of increasing deposit rates in response to the rate increases announced by the Federal Reserve. Our noninterest-bearing deposits decreased to 18.0% of total deposits at September 30, 2023 compared to 21.4% at December 31, 2022.

| (dollars in thousands) | September 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | Balance | Percent | Balance | Percent |
| Noninterest-bearing demand | $ 1,154,515 | 18.0 % | $ 1,362,158 | 21.4 % |
| Interest-bearing: | | | | |
| Checking | 2,572,224 | 40.2 | 2,494,073 | 39.2 |
| Money market | 1,090,962 | 17.0 | 1,184,101 | 18.6 |
| Savings | 582,359 | 9.1 | 661,932 | 10.4 |
| Time | 1,004,942 | 15.7 | 662,388 | 10.4 |
| Total deposits | $ 6,405,002 | 100.0 % | $ 6,364,652 | 100.0 % |

The Company estimates that uninsured deposits[1] totaled $1.28 billion, or 20% of total deposits, at September 30, 2023 compared to $1.55 billion, or 24%, at December 31, 2022. The following table sets forth the maturity of uninsured time deposits as of September 30, 2023:

| (dollars in thousands) | Amount |
|---|---|
| Three months or less | $ 48,203 |
| Three to six months | 32,134 |
| Six to 12 months | 20,001 |
| After 12 months | 5,504 |
| Total | $ 105,842 |

(1) Uninsured deposits include the Call Report estimate of uninsured deposits less affiliate deposits, estimated insured portion of servicing deposits, additional structured FDIC coverage and collateralized deposits.

## Capital Resources and Liquidity Management

***Capital Resources.*** Shareholders' equity is influenced primarily by earnings, dividends, issuances and redemptions of common and preferred stock and changes in accumulated other comprehensive income caused primarily by fluctuations in unrealized holding gains or losses, net of taxes, on available-for-sale investment securities and cash flow hedges.

Shareholders' equity increased $5.7 million to $764.3 million at September 30, 2023 as compared to December 31, 2022. The Company generated net income of $61.4 million during 2023. Offsetting this increase to shareholders' equity were dividends to common shareholders of $20.0 million, dividends to preferred shareholders of $6.7 million, repurchases of common stock of $15.0 million and an increase in accumulated other comprehensive losses of $17.4 million.

The Company has a share repurchase program, whereby the Board of Directors authorized the Company to repurchase up to $25.0 million of its common stock. This program terminates December 31, 2023. As of September 30, 2023, $14.9 million, or 703,868 shares of the Company's common stock, had been repurchased under the program, with approximately $10.1 million of remaining repurchase authority.

***Liquidity Management.*** Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Integral to our liquidity management is the administration of short-term borrowings. To the extent we are unable to obtain sufficient liquidity through core deposits, we seek to meet our liquidity needs through wholesale funding or other borrowings on either a short- or long-term basis.

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction, which represents the amount of the Bank's obligation. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Investment securities with a carrying amount of $27.8 million and $46.1 million at September 30, 2023 and December 31, 2022, respectively, were pledged for securities sold under agreements to repurchase.

The table below presents our sources of liquidity as of September 30, 2023 and December 31, 2022:

| **(dollars in thousands)** | **September 30, 2023** | **December 31, 2022** |
|---|---|---|
| Cash and cash equivalents | $ 132,132 | $ 160,631 |
| Unpledged securities | 258,104 | 209,184 |
| FHLB committed liquidity | 883,855 | 997,388 |
| FRB discount window availability | 759,763 | 12,201 |
| Total Estimated Liquidity | $ 2,033,854 | $ 1,379,404 |
| | | |
| Conditional Funding Based on Market Conditions | | |
| Additional credit facility | $ 364,000 | $ 250,000 |
| Brokered CDs (additional capacity) | $ 500,000 | $ 500,000 |

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity. The Company's main source of funding is dividends declared and paid to it by the Bank. There are statutory, regulatory and debt covenant limitations that affect the ability of the Bank to pay dividends to the Company. Management believed at September 30, 2023, that these limitations will not impact our ability to meet our ongoing short-term cash obligations.

## Regulatory Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for “prompt corrective action”, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies.

In December 2018, the Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations’ implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the CECL accounting standard. In March 2020, the Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC published an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL’s effect on regulatory capital, relative to the incurred loss methodology’s effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company is adopting the capital transition relief over the permissible five-year period.

At September 30, 2023, the Company and the Bank exceeded the regulatory minimums and met the regulatory definition of well-capitalized.

The following table presents the Company's and the Bank’s capital ratios and the minimum requirements at September 30, 2023:

| Ratio | Actual | Minimum Regulatory Requirements (1) | Well Capitalized |
|---|---|---|---|
| Total risk-based capital ratio | | | |
| Midland States Bancorp, Inc. | 12.84 % | 10.50 % | N/A |
| Midland States Bank | 12.13 | 10.50 | 10.00 % |
| Tier 1 risk-based capital ratio | | | |
| Midland States Bancorp, Inc. | 10.62 | 8.50 | N/A |
| Midland States Bank | 11.21 | 8.50 | 8.00 |
| Common equity tier 1 risk-based capital ratio | | | |
| Midland States Bancorp, Inc. | 8.16 | 7.00 | N/A |
| Midland States Bank | 11.21 | 7.00 | 6.50 |
| Tier 1 leverage ratio | | | |
| Midland States Bancorp, Inc. | 9.67 | 4.00 | N/A |
| Midland States Bank | 10.21 | 4.00 | 5.00 |

(1) Total risk-based capital ratio, Tier 1 risk-based capital ratio and Common equity tier 1 risk-based capital ratio include the capital conservation buffer of 2.5%.

## Quantitative and Qualitative Disclosures About Market Risk

***Market Risk.*** Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We are primarily exposed to interest rate risk as a result of offering a wide array of financial products to our customers and secondarily to price risk from investments in securities backed by mortgage loans.

***Interest Rate Risk.*** Interest rate risk is the risk to earnings arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers’ ability to prepay residential mortgage loans at any time and depositors’ ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

We actively manage interest rate risk, as changes in market interest rates may have a significant impact on reported earnings. Changes in market interest rates may result in changes in the fair market value of our financial instruments, cash flows, and net interest income. We seek to achieve consistent growth in net interest income while managing volatility arising from shifts in market interest rates. Our Board of Directors’ Risk Policy and Compliance Committee oversees interest rate risk, as well as the establishment of risk measures, limits, and policy guidelines for managing the amount of interest rate risk and its effect on net interest income. The Committee meets quarterly to monitor the level of interest rate risk sensitivity to ensure compliance with the board of directors' approved risk limits.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Interest rate risk measurement is calculated and reported to the Risk Policy and Compliance Committee at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

We use Net Interest Income at Risk ("NII at Risk") to model interest rate risk utilizing various assumptions for assets, liabilities, and derivatives. NII at Risk uses net interest income simulation analysis which involves forecasting net interest earnings under a variety of scenarios including changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates. The sensitivity of net interest income to changes in interest rates is measured using numerous interest rate scenarios including shocks, gradual ramps, curve flattening, curve steepening as well as forecasts of likely interest rates scenarios. Modeling the sensitivity of net interest earnings to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. To the extent that actual performance is different than what was assumed, actual net interest earnings sensitivity may be different than projected. We use a data warehouse to study interest rate risk at a transactional level and use various ad-hoc reports to continuously refine assumptions. Assumptions and methodologies regarding administered rate liabilities (e.g., savings accounts, money market accounts and interest-bearing checking accounts), balance trends, and repricing relationships reflect our best estimate of expected behavior and these assumptions are reviewed periodically.

The following table shows NII at Risk at the dates indicated:

| | Net interest income sensitivity (Shocks) | | | |
|---|---|---|---|---|
| | Immediate change in rates | | | |
| **(dollars in thousands)** | **-200** | **-100** | **+100** | **+200** |
| September 30, 2023: | | | | |
| Dollar change | $ 13,564 | $ 4,761 | $ (7,540) | $ (15,513) |
| Percent change | 5.9 % | 2.1 % | (3.3)% | (6.7)% |
| December 31, 2022: | | | | |
| Dollar change | $ — | $ (12,560) | $ 10,814 | $ 21,357 |
| Percent change | — % | (4.2)% | 3.6 % | 7.2 % |

We report NII at Risk to isolate the change in income related solely to interest-earning assets and interest-bearing liabilities. The NII at Risk results included in the table above reflect the analysis used quarterly by management. It models -200, −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months. We added a -200 basis point scenario as the Federal Reserve has indicated the rate increases may have run their course. We were within board policy limits for the -200, -100, +100 and +200 basis point scenarios at September 30, 2023.

Tolerance levels for risk management require the continuing development of remedial plans to maintain residual risk within approved levels as we adjust the balance sheet. NII at Risk reported at September 30, 2023 projects that our earnings exhibit increasing profitability in a declining rate environment, compared to December 31, 2022.

***Price Risk.*** Price risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and are subject to fair value accounting. We have price risk from mortgage-backed securities, derivative instruments, and equity investments.

## ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are included under "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures about Market Risk".

## ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's management, including our President and Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective as of that date to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# PART II – OTHER INFORMATION

## ITEM 1 – LEGAL PROCEEDINGS

In the normal course of business, we are named or threatened to be named as a defendant in various lawsuits, none of which we expect to have a material effect on the Company. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business (including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security, anti-money laundering and anti-terrorism), we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk. There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

## ITEM 1A– RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the "Risk Factors" section included in our Annual Report on Form 10-K for the year ended December 31, 2022.

## ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Unregistered Sales of Equity Securities

None.

### Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company's repurchase of shares of its outstanding common stock during the third quarter of 2023.

| Period | Total number of shares purchased[1] | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs [2] |
|---|---|---|---|---|
| July 1 - 31, 2023 | 114,603 | $ 22.15 | 114,500 | $ 13,559,785 |
| August 1 - 31, 2023 | 97,496 | 22.24 | 97,317 | 11,395,800 |
| September 1 - 30, 2023 | 59,282 | 21.94 | 59,242 | 10,096,015 |
| Total | 271,381 | $ 22.14 | 271,059 | $ 10,096,015 |

(1) Represents shares of the Company's common stock repurchased under the employee stock purchase program and shares withheld to satisfy tax withholding obligations upon the vesting of awards of restricted stock.

(2) As previously disclosed, the board of directors of the Company approved a stock repurchase program on December 6, 2022, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2023. Stock repurchases under this programs may be made from time to time on the open market, in privately negotiated transactions, or in any manner that complies with applicable securities laws, at the discretion of the Company. The timing of purchases and the number of shares repurchased under the programs are dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements and market condition. The repurchase program may be suspended or discontinued at any time without notice. As of September 30, 2023, 703,868 shares of the Company's common stock have been repurchased under the program for an aggregate purchase price of $14.9 million.

## ITEM 5 – OTHER INFORMATION

During the three months ended September 30, 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

## ITEM 6 – EXHIBITS

| Exhibit No. | Description |
|---|---|
| 31.1 | Chief Executive Officer's Certification required by Rule 13(a)-14(a) – filed herewith. |
| 31.2 | Chief Financial Officer's Certification required by Rule 13(a)-14(a) – filed herewith. |
| 32.1 | Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith. |
| 32.2 | Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – filed herewith. |
| 101 | Financial information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements – filed herewith. |
| 104 | The cover page from Midland States Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended September 30, 2023 formatted in 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.

**Midland States Bancorp, Inc.**

| | | |
|---|---|---|
| Date: November 2, 2023 | By: | /s/ Jeffrey G. Ludwig<br>Jeffrey G. Ludwig<br>*President and Chief Executive Officer*<br>(Principal Executive Officer) |
| Date: November 2, 2023 | By: | /s/ Eric T. Lemke<br>Eric T. Lemke<br>*Chief Financial Officer*<br>(Principal Financial Officer) |

**Exhibit 31.1**

**CERTIFICATIONS REQUIRED BY**
**RULE 13a-14(a) OR RULE 15d-14(a)**
**UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Jeffrey G. Ludwig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Midland States Bancorp, Inc. (the "Registrant");

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.

**Midland States Bancorp, Inc.**

Dated as of: November 2, 2023

By: /s/ Jeffrey G. Ludwig
Jeffrey G. Ludwig
*President and Chief Executive Officer*
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATIONS REQUIRED BY**
**RULE 13a-14(a) OR RULE 15d-14(a)**
**UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Eric T. Lemke, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Midland States Bancorp, Inc. (the "Registrant");

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.

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| | **Midland States Bancorp, Inc.** |
| Dated as of: November 2, 2023 | By: /s/ Eric T. Lemke |
| | Eric T. Lemke |
| | *Chief Financial Officer* |
| | (Principal Financial Officer) |

**Exhibit 32.1**

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

I, Jeffrey G. Ludwig, President and Chief Executive Officer of Midland States Bancorp, Inc. (the “Company”) certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2023 (the “Report”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

**Midland States Bancorp, Inc.**

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| Dated as of: November 2, 2023 | By: | /s/ Jeffrey G. Ludwig |
| | | Jeffrey G. Ludwig |
| | | *President and Chief Executive Officer* |
| | | (Principal Executive Officer) |

**Exhibit 32.2**

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

I, Eric T. Lemke, Chief Financial Officer of Midland States Bancorp, Inc. (the “Company”) certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2023 (the “Report”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

**Midland States Bancorp, Inc.**

Dated as of: November 2, 2023

By: /s/ Eric T. Lemke
Eric T. Lemke
*Chief Financial Officer*
(Principal Financial Officer)