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, 2024

☐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 **Effingham, IL** (Address of principal executive offices)	**62401** (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 25, 2024, the Registrant had 21,401,485 shares of outstanding common stock, $0.01 par value.

MIDLAND STATES BANCORP, INC.

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

As used in this report, references to the "Company," "we," "our," "us," and similar terms refer to the consolidated entity consisting of Midland States Bancorp, Inc. and its wholly owned subsidiaries. Midland States Bancorp refers solely to the parent holding company and Midland States Bank (the "Bank") refers to our wholly owned banking subsidiary.

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

2019 Incentive Plan	The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan
ACL	Allowance for credit losses on loans
ASU	Accounting Standards Update
BaaS	Banking-as-a-Service
Basel III Rule	Basel III regulatory capital reforms required by the Dodd-Frank Act
BHCA	Bank Holding Company Act of 1956, as amended
CBLR	Community Bank Leverage Ratio
CFPB	Consumer Financial Protection Bureau
CISA	Cybersecurity and Infrastructure Security Agency
COVID	Coronavirus Disease
CRA	Community Reinvestment Act
CRA Proposal	Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations
CRE	Commercial Real Estate
CRE Guidance	Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance
DFPR	Illinois Department of Financial and Professional Regulation
DIF	Deposit Insurance Fund
EAD	Exposure at default
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FinTech	Financial Technology
FOMC	Federal Open Market Committee
FRB	Federal Reserve Bank
GAAP	U.S. generally accepted accounting principles
Greensky	GreenSky, LLC
Illinois CRA	Illinois Community Reinvestment Act
LendingPoint	LendingPoint, LLC
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
Midland Trust	Midland States Preferred Securities Trust
Nasdaq	Nasdaq Global Select Market
NII at Risk	Net Interest Income at Risk
OREO	Other real estate owned
PCAOB	Public Company Accounting Oversight Board
PCD	Purchased credit deteriorated
PD	Probability of default
Q-Factor	Qualitative factor
Regulatory Relief Act	Economic Growth, Regulatory Relief and Consumer Protection Act
SBA	Small Business Administration
SEC	U.S. Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
Treasury	U.S. Department of the Treasury
TDR	Troubled debt restructuring

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

	September 30, 2024	December 31, 2023
	(unaudited)	
Assets		
Cash and due from banks	$ 121,220	$ 134,212
Federal funds sold	653	849
Cash and cash equivalents	121,873	135,061
Investment securities available for sale, at fair value	1,212,090	915,895
Equity securities, at fair value	4,705	4,501
Loans	5,748,819	6,131,079
Allowance for credit losses on loans	(85,804)	(68,502)
Total loans, net	5,663,015	6,062,577
Loans held for sale	8,001	3,811
Premises and equipment, net	84,672	82,814
Other real estate owned	8,646	9,112
Nonmarketable equity securities	41,170	43,421
Accrued interest receivable	27,099	24,934
Loan servicing rights, at lower of cost or fair value	18,400	20,253
Goodwill	161,904	161,904
Other intangible assets, net	13,052	16,108
Company-owned life insurance	209,193	203,485
Other assets	177,663	182,992
Total assets	$ 7,751,483	$ 7,866,868
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand deposits	$ 1,050,617	$ 1,145,395
Interest-bearing deposits	5,206,219	5,164,134
Total deposits	6,256,836	6,309,529
Short-term borrowings	13,849	34,865
Federal Home Loan Bank advances and other borrowings	425,000	476,000
Subordinated debt	82,744	93,546
Trust preferred debentures	51,058	50,616
Accrued interest payable and other liabilities	103,737	110,459
Total liabilities	6,933,224	7,075,015
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, 2024 and December 31, 2023, respectively	110,548	110,548
Common stock, $0.01 par value; 40,000,000 shares authorized; 21,393,905 and 21,551,402 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively	214	216
Capital surplus	433,615	435,463
Retained earnings	334,522	322,379
Accumulated other comprehensive loss, net of tax	(60,640)	(76,753)
Total shareholders' equity	818,259	791,853
Total liabilities and shareholders' equity	$ 7,751,483	$ 7,866,868

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, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Interest income:				
Loans including fees:				
Taxable	$ 88,860	$ 93,488	$ 266,107	$ 272,297
Tax exempt	382	497	1,156	1,349
Loans held for sale	124	104	263	179
Investment securities:				
Taxable	13,259	7,475	35,921	19,744
Tax exempt	390	275	1,062	1,074
Nonmarketable equity securities	788	710	2,438	2,104
Federal funds sold and cash investments	1,031	1,036	2,857	2,868
Total interest income	104,834	103,585	309,804	299,615
Interest expense:				
Deposits	41,970	37,769	120,660	97,791
Short-term borrowings	602	14	1,746	53
Federal Home Loan Bank advances and other borrowings	4,743	4,557	13,615	15,959
Subordinated debt	1,228	1,280	3,773	3,985
Trust preferred debentures	1,341	1,369	4,088	3,887
Total interest expense	49,884	44,989	143,882	121,675
Net interest income	54,950	58,596	165,922	177,940
Provision for credit losses on loans	5,000	5,168	36,000	14,182
Recapture of credit losses on unfunded commitments	—	—	(200)	—
Total provision for credit losses	5,000	5,168	35,800	14,182
Net interest income after provision for credit losses	49,950	53,428	130,122	163,758
Noninterest income:				
Wealth management revenue	7,104	6,288	21,037	18,968
Service charges on deposit accounts	3,411	3,149	9,648	8,744
Interchange revenue	3,506	3,609	10,427	10,717
Residential mortgage banking revenue	697	507	1,781	1,452
Income on company-owned life insurance	1,982	918	5,708	2,685
Loss on sales of investment securities, net	(44)	(4,961)	(196)	(6,478)
Other income	2,683	2,035	9,777	9,989
Total noninterest income	19,339	11,545	58,182	46,077
Noninterest expense:				
Salaries and employee benefits	24,382	22,307	71,356	69,407
Occupancy and equipment	4,393	3,730	12,499	12,052
Data processing	6,955	6,468	20,882	19,323
FDIC insurance	1,402	1,107	3,895	3,632
Professional services	1,744	1,554	6,242	4,977
Marketing	967	950	2,445	2,323
Communications	359	507	1,037	1,514
Loan expense	1,935	866	4,416	3,104
Amortization of intangible assets	951	1,129	3,056	3,628
Other expense	3,645	3,420	13,251	9,454
Total noninterest expense	46,733	42,038	139,079	129,414
Income before income taxes	22,556	22,935	49,225	80,421
Income taxes	4,080	11,533	10,114	25,672
Net income	18,476	11,402	39,111	54,749
Preferred dividends	2,229	2,229	6,685	6,685
Net income available to common shareholders	$ 16,247	$ 9,173	$ 32,426	$ 48,064
Per common share data:				
Basic earnings per common share	$ 0.74	$ 0.41	$ 1.47	$ 2.14
Diluted earnings per common share	$ 0.74	$ 0.41	$ 1.47	$ 2.14
Weighted average common shares outstanding	21,675,818	21,970,372	21,726,143	22,214,862
Weighted average diluted common shares outstanding	21,678,242	21,977,196	21,732,093	22,223,986

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,	
	2024	**2023**	**2024**	**2023**
Net income	$ 18,476	$ 11,402	$ 39,111	$ 54,749
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized gains (losses) that occurred during the period	30,962	(27,305)	20,969	(29,961)
Reclassification adjustment for realized net losses on sales of investment securities included in net income	44	4,961	196	6,478
Reclassification adjustment for gains on fair value hedges included in net income	(138)	—	(138)	—
Income tax effect	(8,902)	6,032	(6,245)	6,340
Change in investment securities available for sale, net of tax	21,966	(16,312)	14,782	(17,143)
Cash flow hedges:				
Net unrealized derivative losses on cash flow hedges	(1,316)	(1,614)	(1,978)	(4,131)
Reclassification adjustment for net losses realized in net income	1,349	1,409	3,869	3,801
Income tax effect	(58)	55	(560)	89
Change in cash flow hedges, net of tax	(25)	(150)	1,331	(241)
Other comprehensive income (loss), net of tax	21,941	(16,462)	16,113	(17,384)
Total comprehensive income (loss)	$ 40,417	$ (5,060)	$ 55,224	$ 37,365

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, 2024	$ 110,548	$ 214	$ 432,569	$ 325,022	$ (82,581)	$ 785,772
Net income	—	—	—	18,476	—	18,476
Other comprehensive income	—	—	—	—	21,941	21,941
Common dividends declared ($0.31 per share)	—	—	—	(6,747)	—	(6,747)
Preferred dividends declared ($19.375 per share)	—	—	—	(2,229)	—	(2,229)
Common stock repurchased	—	—	(534)	—	—	(534)
Share-based compensation expense	—	—	733	—	—	733
Issuance of common stock under employee benefit plans	—	—	847	—	—	847
Balances, September 30, 2024	$ 110,548	$ 214	$ 433,615	$ 334,522	$ (60,640)	$ 818,259
Balances, December 31, 2023	$ 110,548	$ 216	$ 435,463	$ 322,379	$ (76,753)	$ 791,853
Net income	—	—	—	39,111	—	39,111
Other comprehensive income	—	—	—	—	16,113	16,113
Common dividends declared ($0.93 per share)	—	—	—	(20,283)	—	(20,283)
Preferred dividends declared ($58.125 per share)	—	—	—	(6,685)	—	(6,685)
Common stock repurchased	—	(2)	(5,502)	—	—	(5,504)
Share-based compensation expense	—	—	2,139	—	—	2,139
Issuance of common stock under employee benefit plans	—	—	1,515	—	—	1,515
Balances, September 30, 2024	$ 110,548	$ 214	$ 433,615	$ 334,522	$ (60,640)	$ 818,259
Balances, June 30, 2023	$ 110,548	$ 218	$ 442,886	$ 307,888	$ (84,719)	$ 776,821
Net income	—	—	—	11,402	—	11,402
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	$ 310,461	$ (101,181)	$ 757,610
Balances, December 31, 2022	$ 110,548	$ 222	$ 449,196	$ 282,405	$ (83,797)	$ 758,574
Net income	—	—	—	54,749	—	54,749
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	$ 310,461	$ (101,181)	$ 757,610

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,	
	2024	2023
Cash flows from operating activities:		
Net income	$ 39,111	$ 54,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	35,800	14,182
Depreciation on premises and equipment	3,721	3,567
Amortization of intangible assets	3,056	3,628
Amortization of operating lease right-of-use asset	1,219	1,241
Amortization of loan servicing rights	1,925	861
Share-based compensation expense	2,139	1,796
Increase in cash surrender value of life insurance	(5,708)	(2,685)
Investment securities accretion, net	(3,741)	(1,424)
Loss on sales of investment securities, net	196	6,478
Gain on repurchase of subordinated debt	(244)	(676)
Gain on sales of other real estate owned	(22)	(819)
Impairment on other real estate owned	1,278	—
Origination of loans held for sale	(55,951)	(45,690)
Proceeds from sales of loans and leases held for sale	67,614	65,291
Gain on sale of loans held for sale	(1,716)	(1,712)
Net change in operating assets and liabilities:		
Accrued interest receivable	(2,165)	(3,970)
Other assets	5,203	(58,408)
Accrued expenses and other liabilities	(13,501)	30,874
Net cash provided by operating activities	78,214	67,283
Cash flows from investing activities:		
Purchases of investment securities available for sale	(471,040)	(305,021)
Proceeds from sales of investment securities available for sale	58,874	165,871
Maturities and payments on investment securities available for sale	140,682	43,838
Purchases of equity securities	(214)	(244)
Proceeds from sales of equity securities	—	5,148
Net decrease (increase) in loans	348,351	(6,195)
Purchases of premises and equipment	(4,185)	(7,064)
Proceeds from sale of premises and equipment	—	104
Purchases of nonmarketable equity securities	(169,806)	(157,382)
Proceeds from redemptions of nonmarketable equity securities	172,057	158,372
Proceeds from sales of other real estate owned	301	7,346
Purchases of company-owned life insurance, net	—	(48,622)
Net cash provided by (used in) investing activities	75,020	(143,849)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(52,693)	40,350
Net decrease in short-term borrowings	(21,016)	(24,313)
Net decrease in short-term FHLB borrowings	(46,000)	(27,000)
Proceeds from long-term FHLB borrowings	255,000	130,000
Payments made on long-term FHLB borrowings	(260,000)	(25,000)
Payments made on subordinated debt	(10,756)	(5,845)
Cash dividends paid on preferred stock	(6,685)	(6,685)
Cash dividends paid on common stock	(20,283)	(20,008)
Common stock repurchased	(5,504)	(15,025)
Proceeds from issuance of common stock under employee benefit plans	1,515	1,593
Net cash (used in) provided by financing activities	(166,422)	48,067
Net decrease in cash and cash equivalents	(13,188)	(28,499)
Cash and cash equivalents:		
Beginning of period	135,061	160,631
End of period	$ 121,873	$ 132,132
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid on deposits and borrowed funds	$ 144,205	$ 114,011
Income tax paid (net of refunds)	21,870	17,762
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to other real estate owned	982	278
Right of use assets obtained in exchange for lease obligations	2,707	2,459
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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Our wholly owned banking subsidiary, Midland States 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; 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with GAAP and guidance provided by the SEC for interim financial information. Accordingly, the condensed financial statements do not include all of the information and footnotes required by GAAP for completed financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

The consolidated financial statements of the Company should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024. Certain reclassifications of 2023 amounts have been made to conform to the 2024 presentation. All significant transactions and accounts between subsidiaries have been eliminated. Assets held for customers in a fiduciary or agency capacity are not assets of the Company and, accordingly, other than trust cash on deposit with the Bank, are not included in the accompanying unaudited balance sheets. Management has evaluated subsequent events for potential recognition or disclosure. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or any other period.

Accounting Guidance Adopted in 2024

FASB ASU No. 2023-02, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method – In March 2023, the FASB issued ASU

No. 2023-02, which allows for reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the type of program the tax credits are related to. The ASU is effective for fiscal years beginning after December 15, 2023. The Company adopted this guidance on January 1, 2024 on a prospective basis. The adoption of this accounting pronouncement did not have a material impact on the consolidated financial statements.

Accounting Guidance Not Yet Adopted

FASB ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures - In December 2023, the FASB issued ASU No. 2023-07, which requires public entities to disclose significant segment expenses, an amount and description for other segment items, the title and position of the entity's chief operating decision maker and an explanation of how the chief operating decision maker uses the reported measures of profit or loss to assess segment performance, and, on an interim basis, certain segment related disclosures that previously were required only on an annual basis. The ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The Company will update the related disclosures upon adoption.

FASB ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures - In December 2023, the FASB issued ASU No. 2023-09, which requires public entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. The pronouncement also requires entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold, among other things. The ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company will update the related disclosures upon adoption.

NOTE 2 – INVESTMENT SECURITIES

Investment Securities Available for Sale

Investment securities available for sale at September 30, 2024 and December 31, 2023 were as follows:

	September 30, 2024				
(dollars in thousands)	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Basis Adjustments[(2)]**	**Fair value**
Investment securities available for sale					
U.S. government sponsored entities and U.S. agency securities	$ 44,046	$ 150	$ (1,372)	—	$ 42,824
Mortgage-backed securities - agency	897,052	5,103	(67,253)	(138)	834,764
Mortgage-backed securities - non-agency	87,241	1,447	(2,762)	—	85,926
State and municipal securities	74,816	592	(4,937)	—	70,471
Corporate securities	94,424	306	(6,768)	—	87,962
Other securities[(1)]	90,181	98	(136)	—	90,143
Total available for sale securities	$ 1,287,760	$ 7,696	$ (83,228)	$ (138)	$ 1,212,090

(1) The fair value of other securities includes student loan asset backed securities of $54.0 million and structured financial products of $36.1 million.

(2) Basis adjustments represent the amount of fair value hedging adjustments included in the carrying amount of fixed-rate investment securities designated in fair value hedging arrangements. See Note 5 - *Derivative Instruments* for additional information regarding these derivative financial instruments.

(dollars in thousands)	December 31, 2023 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury securities	$ 1,097	$ —	$ —	$ 1,097
U.S. government sponsored entities and U.S. agency securities	74,161	176	(1,765)	72,572
Mortgage-backed securities - agency	650,119	2,325	(77,944)	574,500
Mortgage-backed securities - non-agency	87,019	414	(3,904)	83,529
State and municipal securities	62,952	258	(5,750)	57,460
Corporate securities	109,598	41	(10,467)	99,172
Other securities(1)	27,646	3	(84)	27,565
Total available for sale securities	$ 1,012,592	$ 3,217	$ (99,914)	$ 915,895

(1) The fair value of other securities includes structured financial products of $27.6 million.

The following is a summary of the amortized cost and fair value of the investment securities available for sale, by maturity, at September 30, 2024. 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	$ 1,032	$ 1,031
After one year through five years	67,779	64,894
After five years through ten years	123,284	114,690
After ten years	111,372	110,785
Mortgage-backed securities	984,293	920,690
Total available for sale securities	$ 1,287,760	$ 1,212,090

Proceeds and gross realized gains and losses on sales of investment securities available for sale for the three and nine months ended September 30, 2024 and 2023 are summarized as follows:

(dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Investment securities available for sale				
Proceeds from sales	$ 13,049	$ 65,911	$ 58,874	$ 165,871
Gross realized gains on sales	113	—	420	338
Gross realized losses on sales	(157)	(4,961)	(616)	(6,816)

Unrealized losses and fair values for investment securities available for sale as of September 30, 2024 and December 31, 2023, 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, 2024					
	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. government sponsored entities and U.S. agency securities	$ 12,266	$ 43	$ 8,670	$ 1,329	$ 20,936	$ 1,372
Mortgage-backed securities - agency	136,270	690	406,381	66,563	542,651	67,253
Mortgage-backed securities - non-agency	6,580	66	18,888	2,696	25,468	2,762
State and municipal securities	1,802	26	45,341	4,911	47,143	4,937
Corporate securities	22,100	1,689	55,045	5,079	77,145	6,768
Other securities	46,223	136	—	—	46,223	136
Total available for sale securities	$ 225,241	$ 2,650	$ 534,325	$ 80,578	$ 759,566	$ 83,228

	December 31, 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. government sponsored entities and U.S. agency securities	$ 42,826	$ 87	$ 8,323	$ 1,678	$ 51,149	$ 1,765
Mortgage-backed securities - agency	130,106	7,386	348,476	70,558	478,582	77,944
Mortgage-backed securities - non-agency	8,852	353	19,418	3,551	28,270	3,904
State and municipal securities	51,497	5,750	—	—	51,497	5,750
Corporate securities	4,688	53	84,662	10,414	89,350	10,467
Other securities	14,763	84	—	—	14,763	84
Total available for sale securities	$ 252,732	$ 13,713	$ 460,879	$ 86,201	$ 713,611	$ 99,914

At September 30, 2024, 240 investment securities available for sale had unrealized losses with aggregate depreciation of 9.88% from their amortized cost basis. For all of the above investment securities, the unrealized losses were generally due to changes in interest rates and other market conditions, and unrealized losses were considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates and principal is paid back in full. 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 3 – LOANS

The following table presents total loans outstanding by portfolio class, as of September 30, 2024 and December 31, 2023:

(dollars in thousands)	September 30, 2024	December 31, 2023
Commercial:		
Commercial	$ 797,318	$ 825,938
Commercial other	559,354	656,592
Commercial real estate:		
Commercial real estate non-owner occupied	1,630,930	1,622,668
Commercial real estate owner occupied	455,101	436,857
Multi-family	355,988	279,904
Farmland	68,453	67,416
Construction and land development	422,253	452,593
Total commercial loans	4,289,397	4,341,968
Residential real estate:		
Residential first lien	315,634	317,388
Other residential	63,023	63,195
Consumer:		
Consumer	90,626	107,743
Consumer other	572,608	827,435
Lease financing	417,531	473,350
Total loans	$ 5,748,819	$ 6,131,079

Total loans include net deferred loan costs of $2.3 million and $3.8 million at September 30, 2024 and December 31, 2023, respectively, and unearned discounts of $59.0 million and $66.4 million within the lease financing portfolio at September 30, 2024 and December 31, 2023, 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 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 leasing business provides financing leases to varying types of businesses, nationwide, for purchases of business equipment. 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 as comparable transactions with non-insiders, including collateralization and interest rates prevailing at the time. The new loans, other additions, repayments and other reductions for the three and nine months ended September 30, 2024 and 2023, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Beginning balance	$ 20,894	$ 21,569	$ 20,990	$ 19,776
New loans and other additions	1,000	—	1,500	2,368
Repayments and other reductions	(264)	(287)	(860)	(862)
Ending balance	$ 21,630	$ 21,282	$ 21,630	$ 21,282

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, 2024 and 2023:

	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, 2024:							
Balance, beginning of period	$ 24,247	$ 22,197	$ 12,966	$ 5,193	$ 14,292	$ 13,288	$ 92,183
Provision for credit losses on loans	1,866	364	(907)	255	90	3,332	5,000
Charge-offs	(2,491)	(32)	—	(159)	(6,395)	(2,979)	(12,056)
Recoveries	484	2	2	62	44	83	677
Balance, end of period	$ 24,106	$ 22,531	$ 12,061	$ 5,351	$ 8,031	$ 13,724	$ 85,804
Changes in allowance for credit losses on loans for the nine months ended September 30, 2024:							
Balance, beginning of period	$ 21,847	$ 20,229	$ 4,163	$ 5,553	$ 3,770	$ 12,940	$ 68,502
Provision for credit losses on loans	9,375	788	7,895	(138)	10,896	7,184	36,000
Charge-offs	(7,869)	(728)	—	(194)	(6,829)	(6,728)	(22,348)
Recoveries	753	2,242	3	130	194	328	3,650
Balance, end of period	$ 24,106	$ 22,531	$ 12,061	$ 5,351	$ 8,031	$ 13,724	$ 85,804
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

The Company utilizes a combination of models which measure probability of default and loss given default 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 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 similar risk characteristics with other loans in the pool. The following table presents the amortized cost basis of individually evaluated loans on nonaccrual status as of September 30, 2024 and December 31, 2023:

	September 30, 2024			December 31, 2023		
(dollars in thousands)	Nonaccrual with allowance	Nonaccrual with no allowance	Total nonaccrual	Nonaccrual with allowance	Nonaccrual with no allowance	Total nonaccrual
Commercial:						
Commercial	$ 6,558	$ 235	$ 6,793	$ 3,560	$ —	$ 3,560
Commercial other	9,406	—	9,406	4,941	—	4,941
Commercial real estate:						
Commercial real estate non-owner occupied	17,533	982	18,515	1,614	14,098	15,712
Commercial real estate owner occupied	10,847	—	10,847	4,276	6,500	10,776
Multi-family	17,918	2,472	20,390	240	6,015	6,255
Farmland	1,261	—	1,261	1,148	—	1,148
Construction and land development	15,724	10,831	26,555	39	—	39
Total commercial loans	79,247	14,520	93,767	15,818	26,613	42,431
Residential real estate:						
Residential first lien	3,474	499	3,973	2,583	490	3,073
Other residential	477	—	477	635	—	635
Consumer:						
Consumer	83	—	83	134	—	134
Lease financing	12,200	—	12,200	9,097	36	9,133
Total loans	$ 95,481	$ 15,019	$ 110,500	$ 28,267	$ 27,139	$ 55,406

There was no interest income recognized on nonaccrual loans during the three and nine months ended September 30, 2024 and 2023 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 $2.7 million and $6.3 million for the three and nine months ended September 30, 2024, respectively, and $0.8 million and $2.5 million for the three and nine months ended September 30, 2023, respectively.

Collateral Dependent Financial Assets

A collateral dependent financial asset is a loan that 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 amortized cost basis of individually evaluated, collateral dependent loans by loan class, for borrowers experiencing financial difficulty, as of September 30, 2024 and December 31, 2023:

	Type of Collateral			
(dollars in thousands)	**Real Estate**	**Blanket Lien**	**Equipment**	**Total**
September 30, 2024				
Commercial:				
Commercial	$ —	$ 1,637	$ —	$ 1,637
Commercial real estate:				
Non-owner occupied	17,191	—	—	17,191
Owner occupied	9,275	—	—	9,275
Multi-family	20,382	—	—	20,382
Construction and land development	26,442	—	—	26,442
Lease financing	—	—	501	501
Total collateral dependent loans	$ 73,290	$ 1,637	$ 501	$ 75,428
December 31, 2023				
Commercial:				
Commercial	$ —	$ —	$ 1,972	$ 1,972
Commercial other	—	—	1,232	1,232
Commercial real estate:				
Non-owner occupied	14,147	—	—	14,147
Owner occupied	9,275	—	—	9,275
Multi-family	5,143	—	—	5,143
Total collateral dependent loans	$ 28,565	$ —	$ 3,204	$ 31,769

The aging status of the recorded investment in loans by portfolio as of September 30, 2024 was as follows:

(dollars in thousands)	Accruing loans 30-59 days past due	60-89 days past due	Past due 90 days or more	Total past due	Nonaccrual	Current	Total
Commercial:							
Commercial	$ 587	$ 10,452	$ —	$ 11,039	$ 6,793	$ 779,486	$ 797,318
Commercial other	6,118	2,814	74	9,006	9,406	540,942	559,354
Commercial real estate:							
Commercial real estate non-owner occupied	64	—	—	64	18,515	1,612,351	1,630,930
Commercial real estate owner occupied	514	7,635	—	8,149	10,847	436,105	455,101
Multi-family	8,140	—	—	8,140	20,390	327,458	355,988
Farmland	—	49	—	49	1,261	67,143	68,453
Construction and land development	—	188	—	188	26,555	395,510	422,253
Total commercial loans	15,423	21,138	74	36,635	93,767	4,158,995	4,289,397
Residential real estate:							
Residential first lien	5	430	163	598	3,973	311,063	315,634
Other residential	111	11	—	122	477	62,424	63,023
Consumer:							
Consumer	114	10	—	124	83	90,419	90,626
Consumer other	6,744	3,223	3,819	13,786	—	558,822	572,608
Lease financing	4,497	3,623	—	8,120	12,200	397,211	417,531
Total loans	$ 26,894	$ 28,435	$ 4,056	$ 59,385	$ 110,500	$ 5,578,934	$ 5,748,819

The aging status of the recorded investment in loans by portfolio as of December 31, 2023 was as follows:

(dollars in thousands)	Accruing loans 30-59 days past due	60-89 days past due	Past due 90 days or more	Total past due	Nonaccrual	Current	Total
Commercial:							
Commercial	$ 9,340	$ 504	$ —	$ 9,844	$ 3,560	$ 812,534	$ 825,938
Commercial other	11,156	5,990	781	17,927	4,941	633,724	656,592
Commercial real estate:							
Commercial real estate non-owner occupied	384	—	—	384	15,712	1,606,572	1,622,668
Commercial real estate owner occupied	—	—	—	—	10,776	426,081	436,857
Multi-family	14,506	8,140	—	22,646	6,255	251,003	279,904
Farmland	—	120	—	120	1,148	66,148	67,416
Construction and land development	211	10,593	—	10,804	39	441,750	452,593
Total commercial loans	35,597	25,347	781	61,725	42,431	4,237,812	4,341,968
Residential real estate:							
Residential first lien	69	299	161	529	3,073	313,786	317,388
Other residential	100	50	—	150	635	62,410	63,195
Consumer:							
Consumer	62	20	—	82	134	107,527	107,743
Consumer other	7,225	4,561	3	11,789	—	815,646	827,435
Lease financing	7,622	1,826	—	9,448	9,133	454,769	473,350
Total loans	$ 50,675	$ 32,103	$ 945	$ 83,723	$ 55,406	$ 5,991,950	$ 6,131,079

Loan Restructurings

The Company may offer various types of concessions when a borrower is experiencing financial difficulties that result in a direct change in the timing or amount of contractual cash flows including principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Commercial 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.

The following table represents, by loan portfolio segment, a summary of the loan restructuring for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024		2023		2024		2023	
(dollars in thousands)	Balance	Count	Balance	Count	Balance	Count	Balance	Count
Commercial:								
Commercial	$ 77	2	$ 40	1	$ 77	2	$ 40	1
Commercial other	370	5	—	—	2,277	17	354	4
Commercial real estate:								
Commercial real estate non-owner occupied	3,552	1	—	—	9,941	2	—	—
Commercial real estate owner occupied	6,131	3	—	—	6,131	3	—	—
Construction and land development	1,334	1	—	—	1,334	1	—	—
Total commercial loans	11,464	12	40	1	19,760	25	394	5
Residential real estate:								
Residential first lien	—	—	34	1	65	1	34	1
Other residential	—	—	—	—	82	2	—	—
Consumer:								
Consumer	11	1	—	—	37	2	—	—
Lease financing	348	2	423	1	2,480	11	763	2
Total loan restructurings	$ 11,823	15	$ 497	3	$ 22,424	41	$ 1,191	8

	Balance	Count	Balance	Count	Balance	Count	Balance	Count
Interest Rate Reduction	$ 77	1	$ —	—	$ 556	3	$ —	—
Term Extension	4,886	2	497	3	8,555	23	1,191	8
Forgiveness of Principal or Interest	893	3	—	—	893	3	—	—
Other[(1)]	5,967	9	—	—	12,420	12	—	—
Total loan restructurings	$ 11,823	15	$ 497	3	$ 22,424	41	$ 1,191	8

(1) Other types of loan restructurings could include, but are not limited to, changes to the loan amortization period, additional escrow requirements or reserve requirements.

The Company has not committed to lend any additional amounts to the borrowers that have been granted a loan modification.

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 geographic regions. 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.

Special mention and substandard loans increased at September 30, 2024, compared to December 31, 2023, primarily within the Company's Specialty Finance Group and Equipment Financing loan portfolios. The Specialty Finance Group provides bridge loan financing for commercial real estate projects. These projects seek short term financing in anticipation of obtaining FHA financing. The loans are typically outside of the Company's core market. Equipment financing portfolio includes loans and leases originated to customers throughout the United States.

Commercial loans classified as special mention increased $64.8 million to $85.5 million and substandard loans increased $34.7 million to $261.3 million, at September 30, 2024 compared to December 31, 2023. Credit deterioration in the specialty finance group and equipment financing portfolios generated these increases. As a result, the Company changed its underwriting criteria and construction review processes to reduce potential risks and losses, stopped originating loans within certain industries, and is evaluating options to determine how best to resolve these specific credits.

Other loans classified as nonperforming loans increased $7.6 million to $20.7 million at September 30, 2024 compared to December 31, 2023, primarily within the Company’s Equipment Financing and BaaS loan portfolios. The BaaS portfolio is primarily third-party originated consumer loans. Loans originated by LendingPoint are unsecured consumer instruments originated throughout the United States. As a result of their system conversion in the third quarter of 2023, our portfolio has experienced credit deterioration and servicing-related deficiencies. Nonperforming consumer loans and nonperforming leases increased $3.8 million and $3.1 million, respectively. As a result, the Company changed its underwriting criteria, stopped originating leases within certain industries, and ceased originating consumer loans through LendingPoint in the fourth quarter of 2023.

Table of Contents

The following tables present the recorded investment of the commercial loan portfolio by risk category as of September 30, 2024 and December 31, 2023:

			September 30, 2024							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			2024	2023	2022	2021	2020	Prior	Revolving loans	Total
Commercial	Commercial	Acceptable credit quality	$ 77,788	$ 102,827	$ 68,784	$ 58,890	$ 29,121	$ 46,247	$ 326,750	$ 710,407
		Special mention	—	54,759	—	—	—	148	145	55,052
		Substandard	1,277	2,876	12,841	420	212	1,252	6,188	25,066
		Substandard – nonaccrual	—	839	363	567	105	4,235	684	6,793
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	79,065	161,301	81,988	59,877	29,438	51,882	333,767	797,318
	Commercial other	Acceptable credit quality	78,262	99,165	143,956	68,968	33,004	32,784	92,168	548,307
		Special mention	2	183	753	336	76	47	—	1,397
		Substandard	—	33	—	—	—	—	211	244
		Substandard – nonaccrual	—	3,885	3,438	1,111	292	581	99	9,406
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	78,264	103,266	148,147	70,415	33,372	33,412	92,478	559,354
Commercial real estate	Non-owner occupied	Acceptable credit quality	329,690	191,611	477,879	278,629	85,010	158,435	9,203	1,530,457
		Special mention	—	4,283	—	7,068	442	180	—	11,973
		Substandard	23,230	9,827	11,545	—	4,639	20,744	—	69,985
		Substandard – nonaccrual	—	—	—	86	—	18,429	—	18,515
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	352,920	205,721	489,424	285,783	90,091	197,788	9,203	1,630,930
	Owner occupied	Acceptable credit quality	46,377	37,889	96,564	103,164	46,154	86,789	655	417,592
		Special mention	—	—	—	125	—	494	—	619
		Substandard	99	5,509	8,028	—	—	12,407	—	26,043
		Substandard – nonaccrual	97	90	8,619	264	2	1,471	304	10,847
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	46,573	43,488	113,211	103,553	46,156	101,161	959	455,101
	Multi-family	Acceptable credit quality	32,888	31,773	152,131	25,248	27,591	19,648	947	290,226
		Special mention	—	—	—	5,290	—	—	—	5,290
		Substandard	40,036	—	—	—	—	46	—	40,082
		Substandard – nonaccrual	—	1,573	—	899	—	17,918	—	20,390
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	72,924	33,346	152,131	31,437	27,591	37,612	947	355,988
	Farmland	Acceptable credit quality	3,191	9,660	4,619	15,888	11,191	20,560	1,954	67,063
		Special mention	—	—	—	—	—	—	—	—
		Substandard	—	—	—	14	—	115	—	129
		Substandard – nonaccrual	—	—	—	114	—	1,099	48	1,261
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	3,191	9,660	4,619	16,016	11,191	21,774	2,002	68,453
Construction and land development		Acceptable credit quality	30,851	55,643	204,196	57,897	—	1,505	25,198	375,290
		Special mention	—	—	9,851	1,334	—	—	—	11,185
		Substandard	—	—	—	6,000	—	—	—	6,000
		Substandard – nonaccrual	—	—	10,831	15,684	—	40	—	26,555
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,634	1,181	385	—	—	23		3,223
		Subtotal	32,485	56,824	225,263	80,915	—	1,568	25,198	422,253
Total		Acceptable credit quality	599,047	528,568	1,148,129	608,684	232,071	365,968	456,875	3,939,342
		Special mention	2	59,225	10,604	14,153	518	869	145	85,516
		Substandard	64,642	18,245	32,414	6,434	4,851	34,564	6,399	167,549
		Substandard – nonaccrual	97	6,387	23,251	18,725	399	43,773	1,135	93,767
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,634	1,181	385	—	—	23	—	3,223
Total commercial loans			$ 665,422	$ 613,606	$ 1,214,783	$ 647,996	$ 237,839	$ 445,197	$ 464,554	$ 4,289,397

			December 31, 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	$ 157,498	$ 96,295	$ 71,366	$ 36,680	$ 14,688	$ 42,827	$ 369,297	$ 788,651
		Special mention	3,015	450	4	—	181	43	983	4,676
		Substandard	4,485	13,651	420	342	253	4,961	4,940	29,052
		Substandard – nonaccrual	1,238	—	1,321	25	79	360	536	3,559
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	166,236	110,396	73,111	37,047	15,201	48,191	375,756	825,938
	Commercial other	Acceptable credit quality	139,057	195,726	100,946	59,392	32,848	28,946	90,928	647,843
		Special mention	—	532	399	114	107	4	1,682	2,838
		Substandard	37	220	—	—	—	—	639	896
		Substandard – nonaccrual	1,819	1,918	449	184	361	94	116	4,941
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	74	—	—	—	—	—	—	74
		Subtotal	140,987	198,396	101,794	59,690	33,316	29,044	93,365	656,592
Commercial real estate	Non-owner occupied	Acceptable credit quality	237,215	653,057	309,013	110,743	82,563	124,430	6,328	1,523,349
		Special mention	4,480	—	181	457	—	274	—	5,392
		Substandard	35,811	1,658	—	—	17,835	22,911	—	78,215
		Substandard – nonaccrual	5,573	—	154	999	7,597	1,389	—	15,712
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	283,079	654,715	309,348	112,199	107,995	149,004	6,328	1,622,668
	Owner occupied	Acceptable credit quality	32,972	100,893	113,264	48,415	23,671	77,854	1,803	398,872
		Special mention	5,750	—	129	—	149	177	8	6,213
		Substandard	—	7,716	265	—	705	12,310	—	20,996
		Substandard – nonaccrual	126	9,431	28	171	27	689	304	10,776
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	38,848	118,040	113,686	48,586	24,552	91,030	2,115	436,857
	Multi-family	Acceptable credit quality	4,483	170,519	25,835	28,137	10,185	11,538	254	250,951
		Special mention	—	—	—	—	—	—	—	—
		Substandard	8,140	—	—	—	—	14,558	—	22,698
		Substandard – nonaccrual	1,700	—	899	—	104	3,552	—	6,255
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	14,323	170,519	26,734	28,137	10,289	29,648	254	279,904
	Farmland	Acceptable credit quality	10,104	4,735	13,405	12,255	3,723	18,636	1,439	64,297
		Special mention	—	—	1,451	—	—	96	—	1,547
		Substandard	—	—	133	—	22	269	—	424
		Substandard – nonaccrual	—	—	—	—	—	1,100	48	1,148
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	10,104	4,735	14,989	12,255	3,745	20,101	1,487	67,416
Construction and land development		Acceptable credit quality	65,538	233,660	88,047	—	677	916	29,385	418,223
		Special mention	—	—	—	—	—	40	—	40
		Substandard	—	—	16,594	—	—	—	15,349	31,943
		Substandard – nonaccrual	—	—	—	—	—	39	—	39
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,535	432	356	—	—	25	—	2,348
		Subtotal	67,073	234,092	104,997	—	677	1,020	44,734	452,593
Total		Acceptable credit quality	646,867	1,454,885	721,876	295,622	168,355	305,147	499,434	4,092,186
		Special mention	13,245	982	2,164	571	437	634	2,673	20,706
		Substandard	48,473	23,245	17,412	342	18,815	55,009	20,928	184,224
		Substandard – nonaccrual	10,456	11,349	2,851	1,379	8,168	7,223	1,004	42,430
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,609	432	356	—	—	25	—	2,422
Total commercial loans			$ 720,650	$ 1,490,893	$ 744,659	$ 297,914	$ 195,775	$ 368,038	$ 524,039	$ 4,341,968

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, 2024:

		Term Loans by Origination Year							
(dollars in thousands)		**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans**	**Total**
For the three months ended September 30, 2024									
Commercial	Commercial	$ —	$ —	$ —	$ —	$ 22	$ 1	$ —	$ 23
	Commercial Other	—	320	1,608	301	43	196	—	2,468
Commercial Real Estate	Owner occupied	—	—	—	—	—	32	—	32
Total gross commercial charge-offs		$ —	$ 320	$ 1,608	$ 301	$ 65	$ 229	$ —	$ 2,523
For the nine months ended September 30, 2024									
Commercial	Commercial	$ —	$ 475	$ —	$ 750	$ 32	$ 15	$ 103	$ 1,375
	Commercial Other	—	1,765	3,619	722	66	322	—	6,494
Commercial Real Estate	Non-owner occupied	—	—	—	—	138	558	—	696
	Owner occupied	—	—	—	—	—	32	—	32
Total gross commercial charge-offs		$ —	$ 2,240	$ 3,619	$ 1,472	$ 236	$ 927	$ 103	$ 8,597

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, 2024 and December 31, 2023:

			September 30, 2024							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans**	**Total**
Residential real estate	Residential first lien	Performing	$ 22,558	$ 41,905	$ 70,045	$ 36,026	$ 27,966	$ 112,953	$ 45	$ 311,498
		Nonperforming	—	251	360	519	—	3,006	—	4,136
		Subtotal	22,558	42,156	70,405	36,545	27,966	115,959	45	315,634
	Other residential	Performing	1,846	2,316	940	284	332	2,048	54,780	62,546
		Nonperforming	—	—	—	—	—	160	317	477
		Subtotal	1,846	2,316	940	284	332	2,208	55,097	63,023
Consumer	Consumer	Performing	9,871	23,224	17,945	25,281	4,105	8,676	1,441	90,543
		Nonperforming	—	22	40	3	—	14	4	83
		Subtotal	9,871	23,246	17,985	25,284	4,105	8,690	1,445	90,626
	Consumer other	Performing	365	137,075	270,883	101,436	40,086	18,944	—	568,789
		Nonperforming	—	2,616	1,201	—	—	2	—	3,819
		Subtotal	365	139,691	272,084	101,436	40,086	18,946	—	572,608
Leases financing		Performing	77,382	105,613	119,595	50,869	30,591	21,281	—	405,331
		Nonperforming	—	3,689	5,034	2,732	477	268	—	12,200
		Subtotal	77,382	109,302	124,629	53,601	31,068	21,549	—	417,531
Total		Performing	112,022	310,133	479,408	213,896	103,080	163,902	56,266	1,438,707
		Nonperforming	—	6,578	6,635	3,254	477	3,450	321	20,715
Total other loans			$ 112,022	$ 316,711	$ 486,043	$ 217,150	$ 103,557	$ 167,352	$ 56,587	$ 1,459,422

(dollars in thousands)			December 31, 2023 Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving loans	Total
Residential real estate	Residential first lien	Performing	$ 42,550	$ 74,613	$ 37,009	$ 29,628	$ 19,647	$ 110,703	$ 4	$ 314,154
		Nonperforming	179	50	335	—	139	2,531	—	3,234
		Subtotal	42,729	74,663	37,344	29,628	19,786	113,234	4	317,388
	Other residential	Performing	3,245	1,113	377	409	836	2,009	54,571	62,560
		Nonperforming	—	9	—	—	—	178	448	635
		Subtotal	3,245	1,122	377	409	836	2,187	55,019	63,195
Consumer	Consumer	Performing	30,748	24,190	31,946	6,116	2,313	10,794	1,502	107,609
		Nonperforming	11	55	6	6	—	56	—	134
		Subtotal	30,759	24,245	31,952	6,122	2,313	10,850	1,502	107,743
	Consumer other	Performing	190,018	392,184	149,791	63,461	23,991	7,987	—	827,432
		Nonperforming	—	—	—	—	—	3	—	3
		Subtotal	190,018	392,184	149,791	63,461	23,991	7,990	—	827,435
Leases financing		Performing	143,334	157,059	74,359	50,174	30,428	8,863	—	464,217
		Nonperforming	1,485	5,043	1,482	317	612	194	—	9,133
		Subtotal	144,819	162,102	75,841	50,491	31,040	9,057	—	473,350
Total										
		Performing	409,895	649,159	293,482	149,788	77,215	140,356	56,077	1,775,972
		Nonperforming	1,675	5,157	1,823	323	751	2,962	448	13,139
Total other loans			$ 411,570	$ 654,316	$ 295,305	$ 150,111	$ 77,966	$ 143,318	$ 56,525	$ 1,789,111

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, 2024:

(dollars in thousands)		Term Loans by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
For the three months ended September 30, 2024									
Residential real estate	Residential first lien	$ —	$ 18	$ —	$ —	$ —	$ —	$ —	$ 18
	Other residential	—	—	—	—	—	1	140	141
Consumer	Consumer	1	—	6,167	—	—	—	7	6,175
	Consumer other	1	—	—	—	—	219	—	220
Lease financing		—	583	1,560	464	245	127	—	2,979
Total gross other charge-offs		$ 2	$ 601	$ 7,727	$ 464	$ 245	$ 347	$ 147	$ 9,533
For the nine months ended September 30, 2024									
Residential real estate	Residential first lien	$ —	$ 18	$ 11	$ —	$ —	$ —	$ —	$ 29
	Other residential	—	—	16	—	—	1	148	165
Consumer	Consumer	1	—	6,189	5	17	27	7	6,246
	Consumer other	2	—	—	—	—	581	—	583
Lease financing		—	1,652	3,830	802	297	147	—	6,728
Total gross other charge-offs		$ 3	$ 1,670	$ 10,046	$ 807	$ 314	$ 756	$ 155	$ 13,751

NOTE 4 – PREMISES, EQUIPMENT AND LEASES

A summary of premises, equipment and leases at September 30, 2024 and December 31, 2023 is as follows:

(dollars in thousands)	September 30, 2024	December 31, 2023
Land	$ 15,968	$ 15,968
Buildings and improvements	80,959	78,104
Furniture and equipment	36,284	35,797
Lease right-of-use assets	9,160	7,673
Total	142,371	137,542
Accumulated depreciation	(57,699)	(54,728)
Premises and equipment, net	$ 84,672	$ 82,814

Depreciation expense for the three and nine months ended September 30, 2024 was $1.2 million and $3.7 million, respectively, and $1.1 million and $3.6 million for the three and nine months ended September 30, 2023, respectively.

The Company has entered into operating leases, primarily for banking offices and operating facilities, which have remaining lease terms of 3 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 in the remaining lease term if they are reasonably certain to be exercised. The Company had operating lease right-of-use assets of $9.2 million and $7.7 million as of September 30, 2024 and December 31, 2023, respectively, included in premises and equipment on our consolidated balance sheets. The operating lease liabilities of the Company were $10.5 million and $9.3 million as of September 30, 2024 and December 31, 2023, 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, 2024 and 2023 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2024	2023	2024	2023
Operating lease cost	$ 504	$ 472	$ 1,461	$ 1,449
Operating cash flows from leases	600	529	1,748	1,709
Right-of-use assets obtained in exchange for lease obligations	1,168	1,112	2,707	2,459
Weighted average remaining lease term	7.0 years	7.8 years	7.0 years	7.8 years
Weighted average discount rate	3.65 %	3.39 %	3.65 %	3.39 %

The projected minimum rental payments under the terms of the leases as of September 30, 2024 were as follows:

(dollars in thousands)	Amount
Year ending December 31:	
2024 remaining	$ 472
2025	1,912
2026	1,815
2027	1,673
2028	1,619
Thereafter	4,501
Total future minimum lease payments	11,992
Less imputed interest	(1,469)
Total operating lease liabilities	$ 10,523

NOTE 5 – DERIVATIVE INSTRUMENTS

The Company enters into derivative instruments, which may include interest rate swaps and interest rate options, in connection with our risk-management activities. Our primary objective for using derivative financial instruments is to manage interest rate risk associated with our fixed-rate and variable-rate assets and liabilities.

Interest Rate Risk

We monitor our mix of fixed-rate and variable-rate assets and liabilities and may enter into interest rate swaps, forwards, and options to achieve a more desired mix of fixed-rate and variable-rate assets and liabilities. We execute these trades to modify our exposure to interest rate risk by converting certain fixed-rate instruments to a variable-rate and certain variable-rate instruments to a fixed-rate. We use a mix of both derivatives that qualify for hedge accounting treatment and economic hedges that do not qualify for hedge accounting treatment.

Derivatives qualifying for hedge accounting treatment can include receive-fixed swaps designated as fair value hedges of specific fixed-rate unsecured debt obligations, receive-fixed swaps designated as fair value hedges of specific fixed-rate FHLB advances and pay-fixed swaps designated as fair value hedges of securities within our available-for-sale portfolio. Other derivatives qualifying for hedge accounting consist of interest rate floor contracts designated as cash flow hedges of the expected future cash flows in the form of interest receipts on a portion of our commercial and commercial real estate loans.

We have the ability to execute economic hedges, which could consist of interest rate swaps, interest rate caps, forwards, and options to mitigate interest rate risk.

We also enter into interest rate lock commitments and forward commitments that are executed as part of our mortgage business that do not meet the accounting definition of a derivative, as well as 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.

Balance Sheet Presentation

The following table summarizes the fair value of derivative instruments reported on our consolidated balance sheet. The amounts are presented on a gross basis, are segregated by derivatives that are designated and qualifying as hedging instruments or those that are not, and are further segregated by type of contract within those two categories. Derivative assets and derivative liabilities are included in other assets and other liabilities, respectively on the consolidated balance sheet.

Notional amounts are reference amounts from which contractual obligations are derived and are not recorded on the balance sheet. In our view, derivative notional is not an accurate measure of our derivative exposure when viewed in isolation from other factors, such as market rate fluctuations and counterparty credit risk.

(dollars in thousands)	September 30, 2024 Fair Value Assets	September 30, 2024 Fair Value Liabilities	September 30, 2024 Notional amount	December 31, 2023 Fair Value Assets	December 31, 2023 Fair Value Liabilities	December 31, 2023 Notional amount
Derivatives designated as accounting hedges						
Interest rate contracts						
Fixed-rate mortgage-backed securities	$ —	$ 1,915	$ 246,512	$ —	$ 1,324	$ 150,000
Pools of commercial and commercial real estate loans	—	3,551	200,000	—	6,654	200,000
FHLB advances, brokered CDs and other borrowings	—	1,086	75,000	—	465	50,000
Total derivatives designated as accounting hedges	$ —	$ 6,552	$ 521,512	$ —	$ 8,443	$ 400,000
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	$ 180	$ 180	$ 13,059	$ 310	$ 310	$ 13,832
Interest rate lock commitments	133	—	7,177	62	—	2,405
Forward commitments to sell mortgage-backed securities	—	93	12,750	—	83	5,000
Total derivatives not designated as accounting hedges	$ 313	$ 273	$ 32,986	$ 372	$ 393	$ 21,237

The following table presents amounts recorded in the consolidated balance sheets related to cumulative basis adjustments for fair value hedges.

(dollars in thousands)	Carrying amount of the hedged items September 30, 2024	Carrying amount of the hedged items December 31, 2023	Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged items September 30, 2024	Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged items December 31, 2023
Investment securities available for sale	$ 260,843	$ —	$ 138	$ —

Statement of Income Presentation

The following table summarizes the location and amounts of gains and losses on derivative instruments not designated as accounting hedges reported in the consolidated statements of income.

(dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Gain (loss) recognized in earnings				
Interest rate contracts	$ (70)	$ (23)	$ 60	$ 116

The following table summarizes the effect of derivative instruments in fair value hedging relationships on the consolidated statements of income.

(dollars in thousands)	Location of gain (loss) recognized in income on derivative	Hedged item		Derivative designated as hedging instrument	
		2024	2023	2024	2023
Three Months Ended September 30,					
Gain (loss) on fair value hedging relationships					
Interest rate contracts					
Fixed-rate mortgage-backed securities	Interest income on investment securities	$ (138)	$ —	$ 138	$ —
Nine Months Ended September 30,					
Gain (loss) on fair value hedging relationships					
Interest rate contracts					
Fixed-rate mortgage-backed securities	Interest income on investment securities	$ (138)	$ —	$ 138	$ —

The following table summarizes the effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income.

(dollars in thousands)	Location of gain (loss) recognized in income on derivative	Gain (loss) reclassified from AOCI into income	
		2024	2023
Three Months Ended September 30,			
Gain (loss) on cash flow hedging relationships			
Interest rate contracts			
Pools of commercial and commercial real estate loans	Interest income on loans	$ (1,547)	$ (1,526)
FHLB advances, brokered CDs and other borrowings	Interest expense	198	117
Total gain (loss) on cash flow hedging relationships		$ (1,349)	$ (1,409)
Nine Months Ended September 30,			
Gain (loss) on cash flow hedging relationships			
Interest rate contracts			
Pools of commercial and commercial real estate loans	Interest income on loans	$ (4,642)	$ (4,024)
FHLB advances, brokered CDs and other borrowings	Interest expense	773	223
Total gain (loss) on cash flow hedging relationships		$ (3,869)	$ (3,801)

During the next 12 months, we estimate $2.7 million of losses will be reclassified into pretax earnings from derivatives designated as cash flow hedges.

NOTE 6 – DEPOSITS

The following table summarizes the classification of deposits as of September 30, 2024 and December 31, 2023:

(dollars in thousands)	September 30, 2024	December 31, 2023
Noninterest-bearing demand	$ 1,050,617	$ 1,145,395
Interest-bearing:		
Checking	2,389,970	2,511,840
Money market	1,187,139	1,135,629
Savings	510,260	559,267
Time	1,118,850	957,398
Total deposits	$ 6,256,836	$ 6,309,529

NOTE 7 – FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings as of September 30, 2024 and December 31, 2023:

(dollars in thousands)	September 30, 2024	December 31, 2023
FHLB advances – fixed rate, fixed term at rates averaging 4.80% and 4.94% at September 30, 2024 and December 31, 2023 - maturing through April 2029	$ 150,000	$ 150,000
FHLB advances – putable fixed rate at rates averaging 3.36% and 3.07% at September 30, 2024 and December 31, 2023, respectively – maturing through July 2034 with call provisions through January 2025	155,000	160,000
FHLB advances – Short term fixed rate at rates of 4.92% and 5.45% at September 30, 2024 and December 31, 2023 – matured October 2024	120,000	166,000
Total FHLB advances and other borrowings	$ 425,000	$ 476,000

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 $3.20 billion and $2.98 billion at September 30, 2024 and December 31, 2023, respectively.

NOTE 8 – SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt at September 30, 2024 and December 31, 2023:

	Subordinated debt		
	Fixed to Float		
(dollars in thousands)	Issued September 2019	Issued September 2019	Total
At September 30, 2024			
Outstanding amount	$ 55,750	$ 27,250	$ 83,000
Carrying amount	55,750	26,994	82,744
Current rate	8.20 %	5.50 %	
At December 31, 2023			
Outstanding amount	$ 66,750	$ 27,250	$ 94,000
Carrying amount	66,573	26,973	93,546
Current rate	5.00 %	5.50 %	
Maturity date	9/30/2029	9/30/2034	
Optional redemption date	9/30/2024	9/30/2029	
Fixed to variable conversion date	9/30/2024	9/30/2029	
Variable rate	3-month SOFR plus 3.61%	3-month SOFR plus 4.05%	
Interest payment terms	Semiannually through 9/30/2024; Quarterly for all subsequent periods	Semiannually through 9/30/2029; Quarterly for all subsequent periods	

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 9 – 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, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**2024**	**2023**	**2024**	**2023**
Net income	$ 18,476	$ 11,402	$ 39,111	$ 54,749
Preferred dividends declared	(2,229)	(2,229)	(6,685)	(6,685)
Net income available to common shareholders	16,247	9,173	32,426	48,064
Common shareholder dividends	(6,632)	(6,524)	(19,959)	(19,772)
Unvested restricted stock award dividends	(115)	(76)	(324)	(236)
Undistributed earnings to unvested restricted stock awards	(147)	(105)	(187)	(405)
Undistributed earnings to common shareholders	$ 9,353	$ 2,468	$ 11,956	$ 27,651
Basic				
Distributed earnings to common shareholders	$ 6,632	$ 6,524	$ 19,959	$ 19,772
Undistributed earnings to common shareholders	9,353	2,468	11,956	27,651
Total common shareholders earnings, basic	$ 15,985	$ 8,992	$ 31,915	$ 47,423
Diluted				
Distributed earnings to common shareholders	$ 6,632	$ 6,524	$ 19,959	$ 19,772
Undistributed earnings to common shareholders	9,353	2,468	11,956	27,651
Total common shareholders earnings	15,985	8,992	31,915	47,423
Total common shareholders earnings, diluted	$ 15,985	$ 8,992	$ 31,915	$ 47,423
Weighted average common shares outstanding, basic	21,675,818	21,970,372	21,726,143	22,214,862
Dilutive effect of options	2,424	6,824	5,950	9,124
Weighted average common shares outstanding, diluted	21,678,242	21,977,196	21,732,093	22,223,986
Basic earnings per common share	$ 0.74	$ 0.41	$ 1.47	$ 2.14
Diluted earnings per common share	0.74	0.41	1.47	2.14
Antidilutive stock options[(1)]	279,163	305,051	231,120	305,051

(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 10 – 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).

Nonperforming loans. All of our nonaccrual loans are considered nonperforming and are reviewed individually for the amount of impairment, if any. We measure collateral dependent 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. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. 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 (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, 2024 and December 31, 2023, are summarized below:

	September 30, 2024			
(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. government sponsored entities and U.S. agency securities	$ 42,824	$ —	$ 42,824	$ —
Mortgage-backed securities - agency	834,764	—	834,764	—
Mortgage-backed securities - non-agency	85,926	—	85,926	—
State and municipal securities	70,471	—	70,471	—
Corporate securities	87,962	—	87,962	—
Other securities	90,143	—	90,143	—
Equity securities	4,705	4,705	—	—
Loans held for sale	8,001	—	8,001	—
Derivative assets	313	—	313	—
Total	$ 1,225,109	$ 4,705	$ 1,220,404	$ —
Liabilities				
Derivative liabilities	$ 6,825	$ —	$ 6,825	$ —
Total	$ 6,825	$ —	$ 6,825	$ —
Assets measured at fair value on a non-recurring basis:				
Nonperforming loans	$ 68,213	$ —	$ 57,128	$ 11,085
Other real estate owned	8,646	—	8,646	—

(dollars in thousands)	December 31, 2023 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	$ 1,097	$ 1,097	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	72,572	—	72,572	—
Mortgage-backed securities - agency	574,500	—	574,500	—
Mortgage-backed securities - non-agency	83,529	—	83,529	—
State and municipal securities	57,460	—	57,460	—
Corporate securities	99,172	—	99,172	—
Equity securities	4,501	4,501	—	—
Loans held for sale	3,811	—	3,811	—
Derivative assets	372	—	372	—
Total	$ 924,579	$ 5,598	$ 918,981	$ —
Liabilities				
Derivative liabilities	$ 8,836	$ —	$ 8,836	$ —
Total	$ 8,836	$ —	$ 8,836	$ —
Assets measured at fair value on a non-recurring basis:				
Nonperforming loans	$ 4,633	$ —	$ 3,964	$ 669
Other real estate owned	9,112	—	9,112	—

The following table presents losses recognized on assets measured on a nonrecurring basis for the three and nine months ended September 30, 2024 and 2023:

(dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Nonperforming loans	$ 355	$ 10,085	14,225	14,761
Other real estate owned	548	—	1,278	—
Total losses on assets measured on a nonrecurring basis	$ 903	$ 10,085	$ 15,503	$ 14,761

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, 2024 and December 31, 2023:

(dollars in thousands)	Fair value	Valuation technique	Unobservable input / assumptions	Range (weighted average)(1)
September 30, 2024				
Nonperforming loans	$ 11,085	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0.00% - 51.00% (44.69%)
December 31, 2023				
Nonperforming loans	$ 669	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	24.38% - 100.00% (27.46%)

(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, 2024 and December 31, 2023:

	September 30, 2024			December 31, 2023		
(dollars in thousands)	**Aggregate fair value**	**Difference**	**Contractual principal**	**Aggregate fair value**	**Difference**	**Contractual principal**
Residential loans held for sale	$ 8,001	$ 393	$ 7,608	$ 3,811	$ 203	$ 3,608

The following table presents the amount of gains 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, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Residential loans held for sale	$ 133	$ (37)	150	112

The carrying values and estimated fair value of certain financial instruments not carried at fair value at September 30, 2024 and December 31, 2023 were as follows:

	September 30, 2024				
(dollars in thousands)	**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	$ 121,220	$ 121,220	$ 121,220	$ —	$ —
Federal funds sold	653	653	653	—	—
Loans	5,748,819	5,581,468	—	—	5,581,468
Accrued interest receivable	27,099	27,099	—	27,099	—
Liabilities					
Deposits	$ 6,256,836	$ 6,243,589	$ —	$ 6,243,589	$ —
Short-term borrowings	13,849	13,849	—	13,849	—
FHLB and other borrowings	425,000	426,209	—	426,209	—
Subordinated debt	82,744	78,208	—	78,208	—
Trust preferred debentures	51,058	53,336	—	53,336	—

(dollars in thousands)	December 31, 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	$ 134,212	$ 134,212	$ 134,212	$ —	$ —
Federal funds sold	849	849	849	—	—
Loans	6,131,079	6,129,244	—	—	6,129,244
Accrued interest receivable	24,934	24,934	—	24,934	—
Liabilities					
Deposits	$ 6,309,529	$ 6,294,979	$ —	$ 6,294,979	$ —
Short-term borrowings	34,865	34,865	25,000	9,865	—
FHLB and other borrowings	476,000	475,240	—	475,240	—
Subordinated debt	93,546	90,253	—	90,253	—
Trust preferred debentures	50,616	51,626	—	51,626	—

The methods utilized to measure fair value of financial instruments at September 30, 2024 and December 31, 2023 represent an approximation of exit price; however, an actual exit price may differ.

NOTE 11 – 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. During the second quarter of 2024, the Company recorded an accrual related to various legal actions. No other 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, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	September 30, 2024	December 31, 2023
Commitments to extend credit	$ 856,757	$ 855,489
Financial guarantees – standby letters of credit	25,826	22,745

NOTE 12 – SEGMENT INFORMATION

The Company's reportable segments are comprised of strategic business units primarily based upon industry categories and, to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing. Segment determination also considers organizational structure and is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy and allocate resources. The Company's chief operating decision maker is the Chief Executive Officer of the Company. Management has determined that the Company has three reportable segments consisting of Banking, Wealth Management and Corporate.

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 Corporate segment includes the holding company financing and investment activities, administrative expenses, as well as the elimination of intercompany transactions. The Corporate segment also included our captive insurance business unit for the nine months ended September 30, 2023. This business was dissolved as of December 31, 2023.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2023 Annual Report on Form 10-K.

Transactions between segments consist primarily of borrowed funds and servicing fees. Noninterest income and expense directly attributable to a segment are assigned to it with various shared service costs such as human resources, accounting, finance, risk management and information technology expense assigned to the Banking segment.

Selected business segment financial information for the three and nine months ended September 30, 2024 and 2023 were as follows:

(dollars in thousands)	Banking	Wealth Management	Corporate	Total
Three Months Ended September 30, 2024				
Net interest income (expense)	$ 57,091	$ (16)	$ (2,125)	$ 54,950
Provision for credit losses	5,000	—	—	5,000
Noninterest income	12,137	7,104	98	19,339
Noninterest expense	41,996	5,515	(778)	46,733
Income (loss) before income taxes (benefit)	22,232	1,573	(1,249)	22,556
Income taxes (benefit)	5,159	1,136	(2,215)	4,080
Net income (loss)	$ 17,073	$ 437	$ 966	$ 18,476
Total assets	$ 7,728,251	$ 33,763	$ (10,531)	$ 7,751,483
Nine Months Ended September 30, 2024				
Net interest income (expense)	$ 172,530	$ (36)	$ (6,572)	$ 165,922
Provision for credit losses	35,800	—	—	35,800
Noninterest income	37,503	21,037	(358)	58,182
Noninterest expense	124,886	16,269	(2,076)	139,079
Income (loss) before income taxes (benefit)	49,347	4,732	(4,854)	49,225
Income taxes (benefit)	11,324	2,444	(3,654)	10,114
Net income (loss)	$ 38,023	$ 2,288	$ (1,200)	$ 39,111
Total assets	$ 7,728,251	$ 33,763	$ (10,531)	$ 7,751,483
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	5,367	6,288	(110)	11,545
Noninterest expense	37,272	5,023	(257)	42,038
Income (loss) before income taxes (benefit)	23,744	1,262	(2,071)	22,935
Income taxes (benefit)	11,475	913	(855)	11,533
Net income (loss)	$ 12,269	$ 349	$ (1,216)	$ 11,402
Total assets	$ 7,957,507	$ 30,860	$ (19,082)	$ 7,969,285
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	26,862	18,968	247	46,077
Noninterest expense	115,669	14,539	(794)	129,414
Income (loss) before income taxes (benefit)	81,471	4,426	(5,476)	80,421
Income taxes (benefit)	26,007	1,797	(2,132)	25,672
Net income (loss)	$ 55,464	$ 2,629	$ (3,344)	$ 54,749
Total assets	$ 7,957,507	$ 30,860	$ (19,082)	$ 7,969,285

NOTE 13 – 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, 2024 and 2023.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Noninterest income - in-scope of Topic 606				
Wealth management revenue:				
Trust management/administration fees	$ 6,159	$ 5,470	$ 18,280	$ 16,462
Investment advisory and brokerage fees	494	420	1,417	1,281
Other	451	398	1,340	1,225
Service charges on deposit accounts:				
Nonsufficient fund fees	2,058	1,950	5,716	5,389
Other	1,353	1,199	3,932	3,355
Interchange revenues	3,506	3,609	10,427	10,717
Other income:				
Merchant services revenue	357	409	1,058	1,165
Other	2	(66)	614	1,618
Noninterest income - out-of-scope of Topic 606	4,959	(1,844)	15,398	4,865
Total noninterest income	$ 19,339	$ 11,545	$ 58,182	$ 46,077

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. The Company also earns 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, 2024, as compared to December 31, 2023, and unaudited consolidated operating results for the three and nine months ended September 30, 2024 and 2023. These comments should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes appearing elsewhere herein and the audited financial statements and accompanying notes provided in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024.

In addition to the historical information contained herein, this Quarterly Report on 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 interest rates and other general economic, business and political conditions, including the rate of inflation; changes in the financial markets; changes in business plans as circumstances warrant; risks related to legal proceedings; 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 1 – 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, 2023. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2023.

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, 2024 and 2023, and our financial condition as of September 30, 2024 and December 31, 2023, and may affect the comparability of financial information we report in future fiscal periods.

Balance sheet repositioning. The Company took advantage of certain market conditions during 2023 and the first nine months of 2024 to reposition out of lower yielding securities into other structures, which were expected to result in improved overall margin, liquidity and capital allocations. These transactions resulted in losses of $0.2 million in the nine months ended September 30, 2024 compared to losses of $5.0 million and $6.5 million in the three and nine months ended September 30, 2023, respectively.

In addition, in the third quarter of 2023, the Company surrendered certain low-yielding life insurance policies and purchased additional policies resulting in improved income. The Company recognized a $4.5 million income tax charge related to the surrender of the policies.

Redemption of Subordinated Notes. In the second and third quarters of 2024, the Company redeemed a total of $11.0 million of outstanding subordinated notes. The weighted average redemption price was 97.7% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest. The Company recorded gains totaling $0.2 million on these redemptions.

In addition, 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.

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, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**2024**	**2023**	**2024**	**2023**
Income Statement Data:				
Interest income	$ 104,834	$ 103,585	$ 309,804	$ 299,615
Interest expense	49,884	44,989	143,882	121,675
Net interest income	54,950	58,596	165,922	177,940
Provision for credit losses	5,000	5,168	35,800	14,182
Noninterest income	19,339	11,545	58,182	46,077
Noninterest expense	46,733	42,038	139,079	129,414
Income before income taxes	22,556	22,935	49,225	80,421
Income taxes	4,080	11,533	10,114	25,672
Net income	18,476	11,402	39,111	54,749
Preferred dividends	2,229	2,229	6,685	6,685
Net income available to common shareholders	$ 16,247	$ 9,173	$ 32,426	$ 48,064
Per Share Data:				
Basic earnings per common share	$ 0.74	$ 0.41	$ 1.47	$ 2.14
Diluted earnings per common share	$ 0.74	$ 0.41	$ 1.47	$ 2.14
Performance Metrics:				
Return on average assets	0.95 %	0.57 %	0.67 %	0.93 %
Return on average shareholders' equity	9.24 %	5.86 %	6.62 %	9.48 %

During the three months ended September 30, 2024, we generated net income of $18.5 million, or diluted earnings per common share of $0.74, compared to net income of $11.4 million, or diluted earnings per common share of $0.41, in the three months ended September 30, 2023. Earnings for the third quarter of 2024 compared to the third quarter of 2023 increased primarily due to a $7.8 million increase in noninterest income, a $7.5 million decrease in income tax expense and a $0.2 million decrease in provision for credit losses. These results were partially offset by a $3.6 million decrease in net interest income, and a $4.7 million increase in noninterest expense.

During the nine months ended September 30, 2024, we generated net income of $39.1 million, or diluted earnings per common share of $1.47, compared to net income of $54.7 million, or diluted earnings per common share of $2.14, in the nine months ended September 30, 2023. Earnings for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 decreased primarily due to a $21.6 million increase in provision for credit losses, a $12.0 million decrease in net interest income and a $9.7 million increase in noninterest expense. These results were partially offset by a $12.1 million increase in noninterest income, and a $15.6 million decrease in income tax expense.

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 2024 and 2023.

The Federal Reserve announced at its September 2024 FOMC meeting that it is cutting its benchmark interest rate by 0.50 percentage points, marking the first reduction in four years. This rate cut lowers the federal funds rate into a range of 4.75% to 5.00%, down from its prior range of 5.25% to 5.50%, which had been its highest level in 23 years. The half-point move signals that the Federal Reserve is acting aggressively to keep the U.S. economy from stalling, given that historically most rate cuts are 0.25 percentage points.

The FOMC statement indicated that the Committee has gained greater confidence that inflation is moving sustainably toward two percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance. The committee noted that "job gains have slowed and the unemployment rate has moved up but remains low." FOMC officials raised their expected unemployment rate this year to 4.4%, from the 4.0% projection at the last update in June, and lowered the inflation outlook to 2.3% from 2.6%.

During the three months ended September 30, 2024, net interest income, on a tax-equivalent basis, decreased to $55.2 million compared to $58.8 million for the three months ended September 30, 2023. The tax-equivalent net interest margin decreased to 3.10% for the third quarter of 2024 compared to 3.20% for the third quarter of 2023.

During the nine months ended September 30, 2024, net interest income, on a tax-equivalent basis, decreased to $166.5 million with a tax-equivalent net interest margin of 3.13% compared to net interest income, on a tax-equivalent basis, of $178.6 million and a tax-equivalent net interest margin of 3.27% for the nine months ended September 30, 2023.

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, 2024 and 2023. 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, 2024 Average balance	2024 Interest & fees	2024 Yield/ Rate	2023 Average balance	2023 Interest & fees	2023 Yield/ Rate
Interest-earning assets:						
Federal funds sold and cash investments	$ 75,255	$ 1,031	5.45 %	$ 78,391	$ 1,036	5.24 %
Investment securities:						
Taxable investment securities	1,111,147	13,259	4.75	813,582	7,475	3.65
Investment securities exempt from federal income tax (1)	51,604	493	3.80	49,416	347	2.79
Total securities	1,162,751	13,752	4.71	862,998	7,822	3.60
Loans:						
Loans (2)	5,737,805	88,860	6.16	6,245,179	93,488	5.94
Loans exempt from federal income tax (1)	45,603	484	4.22	52,389	630	4.77
Total loans	5,783,408	89,344	6.15	6,297,568	94,118	5.93
Loans held for sale	7,505	124	6.57	6,078	104	6.80
Nonmarketable equity securities	41,137	788	7.62	39,347	710	7.16
Total interest-earning assets	7,070,056	105,039	5.91	7,284,382	103,790	5.65
Noninterest-earning assets	653,279			622,969		
Total assets	$ 7,723,335			$ 7,907,351		
Interest-bearing liabilities:						
Deposits:						
Checking and money market deposits	$ 3,554,785	$ 31,061	3.48 %	$ 3,770,735	$ 29,401	3.09 %
Savings deposits	523,112	429	0.33	604,475	506	0.33
Time deposits	849,664	8,034	3.76	865,263	6,441	2.95
Brokered time deposits	205,079	2,446	4.74	113,883	1,421	4.95
Total interest-bearing deposits	5,132,640	41,970	3.25	5,354,356	37,769	2.80
Short-term borrowings	53,577	602	4.47	20,127	14	0.28
FHLB advances and other borrowings	428,739	4,743	4.40	402,500	4,557	4.49
Subordinated debt	89,120	1,228	5.48	93,441	1,280	5.43
Trust preferred debentures	50,990	1,341	10.46	50,379	1,369	10.78
Total interest-bearing liabilities	5,755,066	49,884	3.45	5,920,803	44,989	3.01
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,075,712			1,116,988		
Other noninterest-bearing liabilities	97,235			97,935		
Total noninterest-bearing liabilities	1,172,947			1,214,923		
Shareholders' equity	795,322			771,625		
Total liabilities and shareholders' equity	$ 7,723,335			$ 7,907,351		
Net interest income / net interest margin (3)		$ 55,155	3.10 %		$ 58,801	3.20 %

(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 for each of the three months ended September 30, 2024 and 2023.

(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, 2024 Average balance	Interest & fees	Yield/ Rate	2023 Average balance	Interest & fees	Yield/ Rate
Interest-earning assets:						
Federal funds sold and cash investments	$ 69,960	$ 2,857	5.45 %	$ 76,939	$ 2,868	4.98 %
Investment securities:						
Taxable investment securities	1,029,008	35,921	4.66	784,954	19,744	3.35
Investment securities exempt from federal income tax (1)	54,589	1,344	3.29	59,992	1,359	3.02
Total securities	1,083,597	37,265	4.59	844,946	21,103	3.33
Loans:						
Loans (2)	5,856,676	266,107	6.07	6,270,427	272,297	5.81
Loans exempt from federal income tax (1)	46,540	1,463	4.20	54,151	1,708	4.22
Total loans	5,903,216	267,570	6.05	6,324,578	274,005	5.79
Loans held for sale	5,281	263	6.65	3,900	179	6.14
Nonmarketable equity securities	40,429	2,438	8.06	44,034	2,104	6.39
Total interest-earning assets	7,102,483	310,393	5.84	7,294,397	300,259	5.50
Noninterest-earning assets	663,967			615,383		
Total assets	$ 7,766,450			$ 7,909,780		
Interest-bearing liabilities:						
Deposits:						
Checking and money market deposits	$ 3,572,032	$ 89,910	3.36 %	$ 3,743,483	$ 79,858	2.85 %
Savings deposits	541,420	1,377	0.34	626,976	1,145	0.24
Time deposits	849,529	23,096	3.63	791,555	14,694	2.48
Brokered time deposits	179,998	6,277	4.66	61,838	2,094	4.53
Total interest-bearing deposits	5,142,979	120,660	3.13	5,223,852	97,791	2.50
Short-term borrowings	49,750	1,746	4.69	26,865	53	0.26
FHLB advances and other borrowings	414,259	13,615	4.39	471,084	15,959	4.53
Subordinated debt	91,921	3,773	5.48	96,820	3,985	5.49
Trust preferred debentures	50,873	4,088	10.73	50,216	3,887	10.35
Total interest-bearing liabilities	5,749,782	143,882	3.34	5,868,837	121,675	2.77
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,119,764			1,184,410		
Other noninterest-bearing liabilities	107,192			84,650		
Total noninterest-bearing liabilities	1,226,956			1,269,060		
Shareholders' equity	789,712			771,883		
Total liabilities and shareholders' equity	$ 7,766,450			$ 7,909,780		
Net interest income / net interest margin (3)		$ 166,511	3.13 %		$ 178,584	3.27 %

(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 for each of the nine months ended September 30, 2024 and 2023, 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, 2024 compared with Three Months Ended September 30, 2023			Nine Months Ended September 30, 2024 compared with Nine Months Ended September 30, 2023		
	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	$ (44)	$ 39	$ (5)	$ (272)	$ 261	$ (11)
Investment securities:						
Taxable investment securities	3,141	2,643	5,784	7,304	8,873	16,177
Investment securities exempt from federal income tax	19	127	146	(128)	113	(15)
Total securities	3,160	2,770	5,930	7,176	8,986	16,162
Loans:						
Loans	(7,845)	3,217	(4,628)	(18,267)	12,077	(6,190)
Loans exempt from federal income tax	(78)	(68)	(146)	(240)	(5)	(245)
Total loans	(7,923)	3,149	(4,774)	(18,507)	12,072	(6,435)
Loans held for sale	24	(4)	20	67	17	84
Nonmarketable equity securities	33	45	78	(194)	528	334
Total earning assets	$ (4,750)	$ 5,999	$ 1,249	$ (11,730)	$ 21,864	$ 10,134
Interest-bearing liabilities:						
Checking and money market deposits	$ (1,824)	$ 3,484	$ 1,660	$ (3,953)	$ 14,005	$ 10,052
Savings deposits	(69)	(8)	(77)	(186)	418	232
Time deposits	(141)	1,734	1,593	1,333	7,069	8,402
Brokered time deposits	1,110	(85)	1,025	4,065	118	4,183
Total interest-bearing deposits	(924)	5,125	4,201	1,259	21,610	22,869
Short-term borrowings	199	389	588	424	1,269	1,693
FHLB advances and other borrowings	287	(101)	186	(1,890)	(454)	(2,344)
Subordinated debt	(56)	4	(52)	(200)	(12)	(212)
Trust preferred debentures	15	(43)	(28)	54	147	201
Total interest-bearing liabilities	$ (479)	$ 5,374	$ 4,895	$ (353)	$ 22,560	$ 22,207
Net interest income	$ (4,271)	$ 625	$ (3,646)	$ (11,377)	$ (696)	$ (12,073)

Interest Income. Interest income, on a tax-equivalent basis, increased $1.2 million to $105.0 million in the three months ended September 30, 2024 as compared to the same quarter in 2023, primarily due to improved yields on earning assets. The yield on earning assets increased 26 basis points to 5.91% from 5.65% primarily due to the impact of increasing market interest rates.

Average earning assets decreased to $7.07 billion in the third quarter of 2024 from $7.28 billion in the same quarter of 2023. The decrease in average loans of $514.2 million was partially offset by a $299.8 million increase in investment securities.

Average loans decreased $514.2 million to $5.78 billion in the third quarter of 2024 compared to the same quarter of 2023, due primarily to continued reductions in our equipment financing and consumer loan portfolios. Average equipment finance loan and lease balances decreased $215.3 million to $868.2 million in the third quarter of 2024, compared to the third quarter of 2023. The Company continued to reduce its concentration of this product within the overall loan portfolio. Consumer loans decreased $358.7 million during the third quarter to $722.1 million due to loan payoffs and a cessation in loans originated through GreenSky. Our Greensky-originated average loan balances decreased $280.0 million in the third quarter of 2024 to

$504.6 million, compared to the third quarter of 2023. In addition, as previously disclosed, during the fourth quarter of 2023, the Company ceased originating loans through LendingPoint.

For the nine months ended September 30, 2024, interest income, on a tax-equivalent basis, increased $10.1 million to $310.4 million as compared to the same period in 2023, primarily due to the increase in market rates year over year. The yield on earning assets increased 34 basis points to 5.84% from 5.50%, primarily due to the impact of increasing market interest rates.

Average earning assets decreased to $7.10 billion in the first nine months of 2024 from $7.29 billion in the same period in 2023. Average loans decreased $421.4 million, which was partially offset by an increase in investment securities of $238.7 million. The changes in average loan mix on a year-to-date basis is consistent with the quarter-to-date changes described previously.

Interest Expense. Interest expense increased $4.9 million to $49.9 million for the three months ended September 30, 2024 compared to the three months ended September 30, 2023. The cost of interest-bearing liabilities increased to 3.45% for the third quarter of 2024 compared to 3.01% for the third quarter of 2023 due to the increase in deposit costs as a result of the rate increases previously enacted by the Federal Reserve.

Interest expense on deposits increased $4.2 million to $42.0 million for the three months ended September 30, 2024 from the comparable period in 2023. The increase was primarily due to an increase in rates paid on deposits. Average balances of interest-bearing deposit accounts decreased $221.7 million, or 4.1%, to $5.13 billion for the three months ended September 30, 2024 compared to the same period one year earlier.

For the nine month period ended September 30, 2024, interest expense increased $22.2 million to $143.9 million compared to the nine months ended September 30, 2023. The cost of interest-bearing liabilities increased to 3.34% for the first nine months of 2024 compared to 2.77% for the same period of 2023. Interest expense on deposits increased to $120.7 million from $97.8 million for the comparable period in 2023, primarily due to increases in interest rates on deposits.

Interest expense on FHLB advances and other borrowings decreased $2.3 million for the nine months ended September 30, 2024, from the comparable period in 2023. Average balances decreased $56.8 million for the nine months ended September 30, 2024, from the comparable period in 2023, as loan paydowns permitted a decrease in the use of this funding source.

Provision for Credit Losses. The Company's provision for credit losses totaled $5.0 million for the three months ended September 30, 2024, compared to $5.2 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024 and 2023, the Company recorded provision expense of $35.8 million and $14.2 million, respectively. The provision expense was attributable to loans, as further described below, with the exception of $0.2 million recapture attributable to unfunded commitments in the three and nine months ended September 30, 2024.

The elevated provision for credit losses for the nine months ended September 30, 2024, was primarily due to credit deterioration and servicing issues involving one of our FinTech partners, LendingPoint, subsequent to their system conversion in late 2023. The Company recognized provision expense of $14.0 million in the second quarter of 2024 related to this portfolio. In addition, the provision expense for the first quarter of 2024 included a specific reserve of $8.0 million on a multi-family construction project.

The provision for credit losses on loans recognized during the three and nine months ended September 30, 2024 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 $7.8 million and $12.1 million for the three and nine months ended September 30, 2024, respectively, compared to the same periods one year prior. The following table sets forth the major components of our noninterest income for the three and nine months ended September 30, 2024 and 2023:

(dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Increase (decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Increase (decrease)
Noninterest income:						
Wealth management revenue	$ 7,104	$ 6,288	$ 816	$ 21,037	$ 18,968	$ 2,069
Service charges on deposit accounts	3,411	3,149	262	9,648	8,744	904
Interchange revenue	3,506	3,609	(103)	10,427	10,717	(290)
Residential mortgage banking revenue	697	507	190	1,781	1,452	329
Income on company-owned life insurance	1,982	918	1,064	5,708	2,685	3,023
Loss on sales of investment securities, net	(44)	(4,961)	4,917	(196)	(6,478)	6,282
Other income	2,683	2,035	648	9,777	9,989	(212)
Total noninterest income	$ 19,339	$ 11,545	$ 7,794	$ 58,182	$ 46,077	$ 12,105

Wealth management revenue. Wealth management revenue increased $0.8 million and $2.1 million for the three and nine months ended September 30, 2024, as compared to the same periods in 2023. Assets under administration increased to $4.27 billion at September 30, 2024 from $3.50 billion at September 30, 2023, primarily due to improved sales activity and an increase in market performance.

Income on company-owned life insurance. Income on company-owned life insurance increased $1.1 million and $3.0 million for the three and nine months ended September 30, 2024, as compared to the same periods in 2023. As previously discussed, the Company surrendered certain low-yielding life insurance policies and purchased additional policies in the third quarter of 2023, resulting in the increase in revenue.

Noninterest Expense. The following table sets forth the major components of noninterest expense for the three and nine months ended September 30, 2024 and 2023:

(dollars in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Increase (decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Increase (decrease)
Noninterest expense:						
Salaries and employee benefits	$ 24,382	$ 22,307	$ 2,075	$ 71,356	$ 69,407	$ 1,949
Occupancy and equipment	4,393	3,730	663	12,499	12,052	447
Data processing	6,955	6,468	487	20,882	19,323	1,559
FDIC insurance	1,402	1,107	295	3,895	3,632	263
Professional services	1,744	1,554	190	6,242	4,977	1,265
Marketing	967	950	17	2,445	2,323	122
Communications	359	507	(148)	1,037	1,514	(477)
Loan expense	1,935	866	1,069	4,416	3,104	1,312
Amortization of intangible assets	951	1,129	(178)	3,056	3,628	(572)
Other expense	3,645	3,420	225	13,251	9,454	3,797
Total noninterest expense	$ 46,733	$ 42,038	$ 4,695	$ 139,079	$ 129,414	$ 9,665

Salaries and employee benefits. For the three and nine months ended September 30, 2024, salaries and employee benefits expense increased $2.1 million and $1.9 million, respectively, as compared to the same period in 2023, primarily due to annual salary increases and increased incentive expense. The Company employed 907 employees at September 30, 2024 compared to 911 employees at September 30, 2023.

Data processing fees. The $0.5 million and $1.6 million increases in data processing fees for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in 2023, were primarily the result of our continuing investments in technology to better serve our growing customer base and increased transaction volumes.

Loan expense. The $1.1 million and $1.3 million increases in loan expense for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in 2023, were primarily for loan collection expenses due to the increased volume of nonperforming loans and assets.

Other expense. Other expense increased $3.8 million for the nine months ended September 30, 2024, as compared to the same period in 2023. OREO expenses, including impairment and property taxes, increased $1.8 million. In addition, the Company recognized expenses of $3.1 million related to various legal actions.

Income Tax Expense. The Company's effective tax rates were 18.1% and 20.6% for the three and nine months ended September 30, 2024, respectively, compared to 50.3% and 31.9% for the three and nine months ended September 30, 2023, respectively. The decrease in the effective tax rate from the three and nine months ended September 30, 2023 is due primarily to tax expense of $4.5 million associated with a surrender of company-owned life insurance policies recognized in the third quarter of 2023, as previously discussed, and a $1.4 million return to provision adjustment also recognized in the third quarter of 2023.

Financial Condition

Assets. Total assets were $7.75 billion at September 30, 2024, as compared to $7.87 billion at December 31, 2023.

Loans. The loan portfolio is the largest category of our assets. The following table presents the balance and associated percentage of each major category in our loan portfolio at September 30, 2024 and December 31, 2023:

	September 30, 2024		December 31, 2023	
(dollars in thousands)	**Balance**	**Percent**	**Balance**	**Percent**
Loans:				
Commercial:				
Equipment finance loans	$ 442,552	7.7 %	$ 531,143	8.7 %
Equipment finance leases	417,531	7.3	473,350	7.7
Commercial FHA lines	50,198	0.9	—	—
Other commercial loans	863,922	15.0	951,387	15.5
Total commercial loans and leases	1,774,203	30.9	1,955,880	31.9
Commercial real estate	2,510,472	43.7	2,406,845	39.3
Construction and land development	422,253	7.3	452,593	7.4
Residential real estate	378,657	6.6	380,583	6.2
Consumer	663,234	11.5	935,178	15.2
Total loans, gross	5,748,819	100.0 %	6,131,079	100.0 %
Allowance for credit losses on loans	(85,804)		(68,502)	
Total loans, net	$ 5,663,015		$ 6,062,577	

Total loans decreased $382.3 million to $5.75 billion at September 30, 2024, as compared to December 31, 2023. Increases in commercial FHA warehouse lines and commercial real estate loans of $50.2 million and $103.6 million, respectively, were offset by decreases in all other loan categories. The Company continued to shrink its equipment financing and consumer loan portfolios, and focus on commercial loan opportunities in our community bank footprint.

Equipment finance loan and lease balances decreased $144.4 million to $860.1 million at September 30, 2024 compared to December 31, 2023 as the Company continued to reduce its concentration of this product within the overall loan portfolio. Consumer loans decreased $271.9 million due to loan payoffs and a cessation in loans originated through GreenSky. Our Greensky-originated loan balances decreased $208.2 million during the first nine months of 2024 to $475.3 million at September 30, 2024. In addition, as previously disclosed, during the fourth quarter of 2023, the Company ceased originating loans through LendingPoint. As of September 30, 2024, the Company had $96.5 million in loans that were originated through and serviced by LendingPoint. Equipment financing and consumer loans comprised 15.0% and 11.5%, respectively, of the loan portfolio at September 30, 2024, compared to 16.4% and 15.2%, respectively, at December 31, 2023.

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, skilled nursing 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.

The following table presents the balance and associated percentage of the major property types within our commercial real estate and construction and land development loan portfolios at September 30, 2024 and December 31, 2023:

	September 30, 2024		December 31, 2023	
(dollars in thousands)	**Balance**	**Percent**	**Balance**	**Percent**
Multi-Family	$ 555,984	19.0 %	$ 516,295	18.1 %
Skilled Nursing	397,700	13.7	469,096	16.4
Retail	461,017	15.7	454,589	15.9
Industrial/Warehouse	216,870	7.4	217,956	7.6
Hotel/Motel	243,292	8.3	159,707	5.6
Office	147,189	5.0	153,756	5.4
All other	910,673	30.9	888,039	31.0
Total commercial real estate and construction and land development loans	$ 2,932,725	100.0 %	$ 2,859,438	100.0 %

Loans secured by office space totaled $147.2 million and $153.8 million at September 30, 2024 and December 31, 2023, respectively, primarily located in suburban locations in Illinois and Missouri.

Residential real estate loans. Our residential real estate loans are loans secured by 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, 2024:

	September 30, 2024								
	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	$ 135,890	$ 421,349	$ 481,705	$ 77,196	$ 103,527	$ 92,405	$ —	$ 44,600	$ 1,356,672
Commercial real estate	371,569	377,978	1,014,476	247,232	283,529	192,413	5,530	17,745	2,510,472
Construction and land development	88,322	149,344	67,853	62,720	1,477	50,299	94	2,144	422,253
Total commercial loans	595,781	948,671	1,564,034	387,148	388,533	335,117	5,624	64,489	4,289,397
Residential real estate	4,554	6,026	8,497	17,790	22,881	36,855	179,791	102,263	378,657
Consumer	4,617	599	547,414	82,156	28,448	—	—	—	663,234
Lease financing	28,604	—	313,475	—	—	75,452	—	—	417,531
Total loans	$ 633,556	$ 955,296	$ 2,433,420	$ 487,094	$ 439,862	$ 447,424	$ 185,415	$ 166,752	$ 5,748,819

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 $85.8 million, or 1.49% of total loans, at September 30, 2024 compared to $68.5 million, or 1.12% of total loans, at December 31, 2023. The following table allocates the allowance for credit losses on loans by loan category:

	September 30, 2024		December 31, 2023	
(dollars in thousands)	**Allowance**	**Percent (1)**	**Allowance**	**Percent (1)**
Commercial	$ 24,106	1.78 %	$ 21,847	1.47 %
Commercial real estate	22,531	0.90	20,229	0.84
Construction and land development	12,061	2.86	4,163	0.92
Total commercial loans	58,698	1.37	46,239	1.06
Residential real estate	5,351	1.41	5,553	1.46
Consumer	8,031	1.21	3,770	0.40
Lease financing	13,724	3.29	12,940	2.73
Total allowance for credit losses on loans	$ 85,804	1.49 %	$ 68,502	1.12 %

(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.

In estimating expected credit losses as of September 30, 2024, 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 ranging from 2.5% to 3.1% over the next four quarters; (ii) the 10-year treasury rate decreasing from 4.0% in the third quarter of 2024 to 3.9% by the fourth quarter of 2025; and (iii) Illinois unemployment rate averaging 5.5% through the fourth quarter of 2025.

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. The qualitative factor adjustment at September 30, 2024, was approximately 56 basis points of total loans. The additional provision expense related to the LendingPoint portfolio resulted in the increase in the qualitative factor adjustment when compared to 41 basis points at December 31, 2023.

The allowance allocated to commercial loans totaled $24.1 million, or 1.78% of total commercial loans, at September 30, 2024, compared to $21.8 million, or 1.47%, at December 31, 2023. Modeled expected credit losses increased $0.5 million and qualitative factor adjustments related to commercial loans increased $2.7 million. A certain portion of the LendingPoint portfolio is classified as commercial loans. The Company recognized provision expense of $3.2 million on this portfolio during the nine months ended September 30, 2024. Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis decreased $1.0 million from $1.8 million at December 31, 2023.

The allowance allocated to commercial real estate loans totaled $22.5 million, or 0.90% of total commercial real estate loans, at September 30, 2024, increasing $2.3 million, from $20.2 million, or 0.84% of total commercial real estate loans, at December 31, 2023. Modeled expected credit losses increased $0.7 million and qualitative factor adjustments decreased $0.1 million. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis increased from $0.7 million at December 31, 2023, to $1.5 million at September 30, 2024. The commercial real estate portfolio does not include significant exposure to urban office properties.

The allowance allocated to construction and land development loans totaled $12.1 million, or 2.86% of total construction and land development loans, at September 30, 2024, increasing $7.9 million, from $4.2 million, or 0.92% of total constructions loans, at December 31, 2023. Specific allocations for construction loans that were evaluated for expected credit losses on an individual basis totaled $8.0 million and $0.0 million at September 30, 2024 and December 31, 2023, respectively. This represents the specific reserve on one large construction and land development loan recognized in the first quarter of 2024 provision for credit losses. Modeled expected credit losses decreased $0.4 million and qualitative factor adjustments related to construction loans increased $0.3 million.

The allowance allocated to consumer loans totaled $8.0 million, or 1.21% of total consumer loans, at September 30, 2024, compared to $3.8 million, or 0.40%, at December 31, 2023. Credit deterioration and servicing related issues with the LendingPoint portfolio, as previously discussed, resulted in an increase of the allowance of $5.0 million at September 30, 2024 compared to December 31, 2023. The Company's consumer portfolios benefit from credit enhancements provided by LendingPoint and Greensky. The Company calculated its expected loss estimate based on delinquent loans, as reported by LendingPoint, net of expected credit enhancements. The Company expects to recognize charge offs over the remaining life of this portfolio, and believes that it has properly reserved for expected losses based upon the data that is currently known and available. Specific allocations for consumer loans that were evaluated for expected credit losses on an individual basis decreased $0.1 million.

The allowance allocated to the lease portfolio totaled $13.7 million, or 3.29% of total commercial leases, at September 30, 2024, increasing $0.8 million, from $12.9 million, or 2.73% of total commercial leases at December 31, 2023. Modeled expected credit losses and specific allocation reserves increased $0.8 million and $0.4 million, respectively. Qualitative factor adjustments related to commercial leases decreased $0.1 million.

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, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Balance, beginning of period	$ 92,183	$ 64,950	$ 68,502	$ 61,051
Charge-offs:				
Commercial	2,491	3,249	7,869	5,289
Commercial real estate	32	2,316	728	4,606
Construction and land development	—	44	—	378
Residential real estate	159	95	194	180
Consumer	6,395	250	6,829	773
Lease financing	2,979	1,394	6,728	2,555
Total charge-offs	12,056	7,348	22,348	13,781
Recoveries:				
Commercial	484	80	753	577
Commercial real estate	2	3,678	2,242	4,006
Construction and land development	2	—	3	32
Residential real estate	62	33	130	98
Consumer	44	53	194	226
Lease financing	83	55	328	278
Total recoveries	677	3,899	3,650	5,217
Net charge-offs	11,379	3,449	18,698	8,564
Provision for credit losses on loans	5,000	5,168	36,000	14,182
Balance, end of period	$ 85,804	$ 66,669	$ 85,804	$ 66,669
Gross loans, end of period	$ 5,748,819	$ 6,280,883	$ 5,748,819	$ 6,280,883
Average total loans	$ 5,783,408	$ 6,297,568	$ 5,903,216	$ 6,324,578
Net charge-offs to average loans	0.78 %	0.22 %	0.42 %	0.18 %
Allowance for credit losses to total loans	1.49 %	1.06 %	1.49 %	1.06 %

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 when the collectability of a loan balance is unlikely. Recoveries on loans previously charged-off are added to the allowance.

Net charge-offs for the three months ended September 30, 2024 totaled $11.4 million, compared to $3.4 million for the same period one year ago. The Company recorded $6.2 million of charge-offs of consumer loans originated and serviced by LendingPoint. Net charge-offs of equipment financing loans and leases for the three months ended September 30, 2024 and 2023, totaled $4.9 million and $2.2 million, respectively, primarily due to continued weakness within the trucking and transportation sector.

Net charge-offs for the nine months ended September 30, 2024 totaled $18.7 million, compared to $8.6 million for the same period one year ago. Net charge-offs of equipment financing loans and leases totaled $12.1 million for the nine months ended September 30, 2024, compared to $4.9 million for the same period one year ago. The Company recorded $6.2 million of charge-offs of consumer loans originated and serviced by LendingPoint in the nine months ended September 30, 2024. The Company recognized a $2.0 million partial recovery in the second quarter of 2024 related to a third quarter of 2023 charge off.

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.

(dollars in thousands)	September 30, 2024	December 31, 2023
Nonperforming loans:		
Commercial	$ 16,273	$ 9,282
Commercial real estate	51,013	33,891
Construction and land development	26,555	39
Residential real estate	4,613	3,869
Consumer	3,902	137
Lease financing	12,200	9,133
Total nonperforming loans	114,556	56,351
Other real estate owned and other repossessed assets	12,215	11,350
Nonperforming assets	$ 126,771	$ 67,701
Nonperforming loans to total loans	1.99 %	0.92 %
Nonperforming assets to total assets	1.64 %	0.86 %
Allowance for credit losses to nonperforming loans	74.90 %	121.56 %

Non-performing loans increased $58.2 million to $114.6 million at September 30, 2024, compared to $56.4 million at December 31, 2023. Five loans totaling $51.0 million account for the increase. Of these, three loans totaling $40.9 million are multi-family construction or multi-family projects. Nonperforming consumer loans increased to $3.9 million as $3.8 million of loans servicing by LendingPoint were transferred to nonaccrual status.

We did not recognize interest income on nonaccrual loans during the three months ended September 30, 2024 or 2023 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 $2.7 million and $6.3 million for the three and nine months ended September 30, 2024, respectively, and $0.8 million and $2.5 million for the three and nine months ended September 30, 2023, respectively.

Collateral Dependent Financial Assets

The following table presents the change in our non-performing loans for the nine months ended September 30, 2024:

(dollars in thousands)	Nine months ended September 30, 2024
Balance, beginning of period	$ 56,351
New nonperforming loans	75,364
Return to performing status	(1,253)
Payments received	(9,390)
Transfer to OREO and other repossessed assets	(1,698)
Charge-offs	(4,818)
Balance, end of period	$ 114,556

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. In the periods presented, all investment securities of the Company are classified as available for sale and, therefore, the book value of investment securities is equal to the fair market value.

The following table sets forth the book value and associated percentage of each category of investment securities at September 30, 2024 and December 31, 2023.

	September 30, 2024		December 31, 2023	
(dollars in thousands)	**Balance**	**Percent**	**Balance**	**Percent**
Investment securities available for sale:				
U.S. Treasury securities	$ —	— %	$ 1,097	0.1 %
U.S. government sponsored entities and U.S. agency securities	42,824	3.5	72,572	7.9
Mortgage-backed securities - agency	834,764	68.9	574,500	62.7
Mortgage-backed securities - non-agency	85,926	7.1	83,529	9.1
State and municipal securities	70,471	5.8	57,460	6.3
Corporate securities	87,962	7.3	99,172	10.9
Other securities	90,143	7.4	27,565	3.0
Total investment securities, available for sale, at fair value	$ 1,212,090	100.0 %	$ 915,895	100.0 %

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at September 30, 2024.

(dollars in thousands)	Balance	Percent	Weighted average yield
Investment securities available for sale:			
U.S. government sponsored entities and U.S. agency securities:			
Maturing within one year	$ —	— %	— %
Maturing in one to five years	27,189	2.2	4.44
Maturing in five to ten years	15,635	1.3	5.92
Maturing after ten years	—	—	—
Total U.S. government sponsored entities and U.S. agency securities	$ 42,824	3.5 %	4.98 %
Mortgage-backed securities - agency:			
Maturing within one year	$ 10,767	0.9 %	6.08 %
Maturing in one to five years	343,832	28.4	4.61
Maturing in five to ten years	268,200	22.1	4.24
Maturing after ten years	211,965	17.5	3.45
Total mortgage-backed securities - agency	$ 834,764	68.9 %	4.21 %
Mortgage-backed securities - non-agency:			
Maturing within one year	$ 5,153	0.4 %	5.43 %
Maturing in one to five years	56,993	4.7	5.02
Maturing in five to ten years	—	—	—
Maturing after ten years	23,780	2.0	4.63
Total mortgage-backed securities - non-agency	$ 85,926	7.1 %	4.94 %
State and municipal securities [(1)]:			
Maturing within one year	$ 1,031	0.1 %	3.17 %
Maturing in one to five years	7,188	0.6	2.57
Maturing in five to ten years	26,383	2.1	2.35
Maturing after ten years	35,869	3.0	4.60
Total state and municipal securities	$ 70,471	5.8 %	3.53 %
Corporate securities:			
Maturing within one year	$ —	— %	— %
Maturing in one to five years	40,022	3.3	6.01
Maturing in five to ten years	47,940	4.0	3.83
Maturing after ten years	—	—	—
Total corporate securities	$ 87,962	7.3 %	4.82 %
Other securities:			
Maturing within one year	$ 293	— %	6.22 %
Maturing in one to five years	6,217	0.5	6.14
Maturing in five to ten years	26,934	2.2	6.76
Maturing after ten years	56,699	4.7	6.44
Total other securities	$ 90,143	7.4 %	6.51 %
Total investment securities, available for sale	$ 1,212,090	100.0 %	4.47 %

(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, 2024.

(dollars in thousands)	Amortized cost	Fair Value	Average credit rating AAA	AA+/-	A+/-	BBB+/-	<BBB-	Not Rated
Investment securities available for sale:								
U.S. government sponsored entities and U.S. agency securities	$ 44,046	$ 42,824	$ —	$ 42,824	$ —	$ —	$ —	$ —
Mortgage-backed securities - agency	897,052	834,764	—	834,764	—	—	—	—
Mortgage-backed securities - non-agency	87,241	85,926	5,380	80,546	—	—	—	—
State and municipal securities	74,816	70,471	6,804	56,924	1,205	130	—	5,408
Corporate securities	94,424	87,962	—	—	15,584	58,441	6,508	7,429
Other securities	90,181	90,143	45,569	36,772	7,802	—	—	—
Total investment securities, available for sale	$ 1,287,760	$ 1,212,090	$ 57,753	$ 1,051,830	$ 24,591	$ 58,571	$ 6,508	$ 12,837

Liabilities. At September 30, 2024, liabilities totaled $6.93 billion compared to $7.08 billion at December 31, 2023.

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 decreased $52.7 million to $6.26 billion at September 30, 2024, as compared to December 31, 2023. Decreases in noninterest-bearing demand account, interest-bearing checking account, and savings account balances of $94.8 million, $121.9 million and $49.0 million, respectively, during this period, were partially offset by increases in money market account and time deposit account balances. Brokered time deposit account balances increased to $269.4 million at September 30, 2024 from $94.5 million at December 31, 2023, accounting for the increase in time deposit account balances. Deposit outflows were primarily related to certain larger commercial clients moving funds to the Company's wealth management business, in addition to seasonal outflows of public funds.

(dollars in thousands)	September 30, 2024		December 31, 2023	
	Balance	Percent	Balance	Percent
Noninterest-bearing demand	$ 1,050,617	16.8 %	$ 1,145,395	18.1 %
Interest-bearing:				
Checking	2,389,970	38.1	2,511,840	39.8
Money market	1,187,139	19.0	1,135,629	18.0
Savings	510,260	8.2	559,267	8.9
Time	1,118,850	17.9	957,398	15.2
Total deposits	$ 6,256,836	100.0 %	$ 6,309,529	100.0 %

The following table sets forth the maturity of uninsured time deposits as of September 30, 2024:

(dollars in thousands)	Amount
Three months or less	$ 50,405
Three to six months	19,631
Six to 12 months	18,077
After 12 months	10,667
Total	$ 98,780

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, fair value hedges and cash flow hedges.

Shareholders' equity increased $26.4 million to $818.3 million at September 30, 2024 as compared to December 31, 2023. The change in shareholders' equity was the result of the generation of net income of $39.1 million, offset by dividends to common shareholders of $20.3 million, dividends to preferred shareholders of $6.7 million, the repurchases of common stock of $5.5 million and decrease in accumulated other comprehensive losses of $16.1 million.

On December 5, 2023, the Company's board of directors authorized a new share repurchase program, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2024. During the nine months ended September 30, 2024, the Company repurchased 228,266 shares of its common stock at a weighted average price of $23.93 under its stock repurchase program, with approximately $19.5 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 $14.0 million and $20.9 million at September 30, 2024 and December 31, 2023, respectively, were pledged for securities sold under agreements to repurchase.

The table below presents our sources of liquidity as of September 30, 2024 and December 31, 2023:

(dollars in thousands)	**September 30, 2024**	**December 31, 2023**
Cash and cash equivalents	$ 121,873	$ 135,061
Unpledged securities	532,835	346,843
FHLB committed liquidity	1,086,286	935,977
FRB discount window availability	552,777	699,896
Total Estimated Liquidity	$ 2,293,771	$ 2,117,777
Conditional Funding Based on Market Conditions		
Additional credit facility	$ 433,000	$ 419,000
Brokered CDs (additional capacity)	$ 350,000	$ 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, 2024, 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.

The Company adopted the five-year CECL transition option in 2020 provided for by the Office of the Comptroller of the Currency, the Federal Reserve, and the FDIC in March 2020. At the end of 2024 this transition will be complete.

At September 30, 2024, 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, 2024:

Ratio	Actual	Minimum Regulatory Requirements (1)	Well Capitalized
Total risk-based capital ratio			
Midland States Bancorp, Inc.	13.98 %	10.50 %	N/A
Midland States Bank	13.34	10.50	10.00 %
Tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	11.65	8.50	N/A
Midland States Bank	12.09	8.50	8.00
Common equity tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	9.00	7.00	N/A
Midland States Bank	12.09	7.00	6.50
Tier 1 leverage ratio			
Midland States Bancorp, Inc.	10.10	4.00	N/A
Midland States Bank	10.47	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.

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 SOFR (basis risk).

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment, funding and hedging 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.

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 a stable net interest income profile 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.

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 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, 2024:				
Dollar change	$ 3,024	$ 2,031	$ (3,618)	$ (7,926)
Percent change	1.4 %	0.9 %	(1.6)%	(3.6)%
December 31, 2023:				
Dollar change	$ 539	$ (293)	$ (1,424)	$ (3,162)
Percent change	0.2 %	(0.1)%	(0.6)%	(1.3)%

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 were within board policy limits for all scenarios at September 30, 2024.

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, 2024 projects that our earnings exhibit increasing profitability in a declining rate environment, consistent with our modeling at December 31, 2023. Throughout the course of 2023, the bank exhibited similar trends to the industry concerning its beta assumptions related to its non-maturity deposit portfolio. Coupled with a market shift to slowing rate increases or even rate cuts into 2024, the bank did start to position its investment strategy to protect against lower rates in the future. These two aspects are the primary drivers of moving to a virtually neutral position as measured in the +/- 100 basis point rate shocks.

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 investment 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 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

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries is a party or of which any of their property is the subject. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, we, like all banking organizations, are subject to various legal proceedings from time to time, including those referenced in "Note 11 - Commitments, Contingencies and Credit Risk" to our consolidated financial statements.

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, 2023.

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 2024.

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, 2024	23,215	$	22.55	23,113	$	19,537,960
August 1 - 31, 2024	303		21.46	—		19,537,960
September 1 - 30, 2024	—		—	—		19,537,960
Total	23,518	$	22.53	23,113	$	19,537,960

(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 5, 2023, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2024. 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, 2024, 228,266 shares of the Company's common stock have been repurchased under the program for an aggregate purchase price of $5.5 million.

ITEM 5 – OTHER INFORMATION

During the three months ended September 30, 2024, 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, 2024 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, 2024 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 6, 2024	By:	/s/ Jeffrey G. Ludwig
		Jeffrey G. Ludwig *President and Chief Executive Officer* (Principal Executive Officer)
Date: November 6, 2024	By:	/s/ Eric T. Lemke
		Eric T. Lemke *Chief Financial Officer* (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 6, 2024

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.

Midland States Bancorp, Inc.

Dated as of: November 6, 2024

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, 2024 (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 6, 2024

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, 2024 (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 6, 2024

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