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gaap:SubordinatedDebtMemberus-gaap:SecuredOvernightFinancingRateSofrOvernightIndexSwapRateMember2020-06-102020-06-10 Â Â Table of Contents UNITED STATES OF AMERICA SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 Â FORM 10-QÂ (Mark One) Â â˜’ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934Â For the Quarterly Period Ended June 30, 2024 OR Â â˜ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Â For the transition period from Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â toÂ Â Â Â Â Â Â Â Commission File Number:Â 000-11486 CONNECTONE BANCORP, INC. (Exact Name of Registrant as Specified in Its Charter)Â New Jersey 52-1273725 (State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.) 301 Sylvan Avenue Englewood Cliffs, New Jersey 07632 (Address of Principal Executive Offices) (Zip Code) 201-816-8900 (Registrantâ€™s Telephone Number, Including Area Code) Securities registered pursuant to Section 12(b) of the Act: Title of each class Trading symbol Name of each exchange on which registered Common stock CNOB NASDAQ Depositary Shares (each representing a 1/40thÂ interest in a share of 5.25% Series A Non-Cumulative, perpetual preferred stock) CNOBP NASDAQ Â 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 â˜’ No â˜ Â 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 (Â§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).Â YesÂ â˜’Â NoÂ â˜ Â

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definition of â€œlarge accelerated filerâ€, â€œaccelerated filerâ€ â€œsmaller reporting companyâ€ and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act (check one): LargeÂ acceleratedÂ filerÂ â˜’ AcceleratedÂ filerÂ Â â˜ Non-acceleratedÂ filerÂ Â â˜ Â SmallerÂ reportingÂ companyÂ Â â˜Â Emerging growth companyÂ Â â˜ Â 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 7(a)(2)(B) of the Securities Act.Â â˜ Â IndicateÂ byÂ checkÂ markÂ whetherÂ the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes â˜ No â˜’ Â Indicate the number of shares outstanding of each of the issuerâ€™s classes of common stock, as of the latest practicable date. Common Stock, no par value: 38,368,217Â shares (Title of Class) (Outstanding as of August 2, 2024) Â Â Table of Contents Â Â Â Table of Contents Â Â Page Â Â PART I â€"Â FINANCIAL INFORMATION Â Â Â Item 1. Financial Statements 3 Â Consolidated Statements of Condition as of June 30, 2024Â (unaudited) and December 31, 2023 3 Â Consolidated Statements of Income for the three and six months ended June 30, 2024Â and 2023Â (unaudited) 4 Â Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2024Â and 2023Â (unaudited) 5 Â Consolidated Statements of Changes in Stockholdersâ€™Â Equity for the three and six months ended June 30, 2024Â and 2023Â (unaudited) 6 Â Consolidated Statements of Cash Flows for the six months ended June 30, 2024Â and 2023Â (unaudited) 8 Â Notes to Consolidated Financial Statements (unaudited) 10 Â Â Item 2. Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations 45 Â Â Â Item 3. Qualitative and Quantitative Disclosures about Market Risks 65 Â Â Â Item 4. Controls and Procedures 65 Â Â Â PART II â€" OTHER INFORMATION Â Â Â Item 1. Legal Proceedings 66 Â Â Item 1a. Risk Factors 66 Â Â Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 66 Â Â Item 3. Defaults Upon Senior Securities 66 Â Â Item 4. Mine Safety Disclosures 66 Â Â Item 5. Other Information 66 Â Â Item 6. Exhibits 67 Â Â SIGNATURES 68 Â 2 Table of Contents Â Â Item 1. Financial Statements CONNECTONE BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CONDITION Â (in thousands, except for share data) Â June 30, Â Â December 31, Â Â Â 2024 Â Â 2023 Â Â Â (unaudited)Â Â Â Â Â ASSETS Â Â Â Â Â Â Â Â Â Cash and due from banks Â $47,105Â Â $61,421Â Interest-bearing deposits with banks Â Â 246,408Â Â Â 181,293Â Cash and cash equivalents Â Â 293,513Â Â Â 242,714Â Â Â Â Â Â Â Â Â Â Investment securities Â Â 620,579Â Â Â 617,162Â Equity securities Â Â 19,743Â Â Â 18,564Â Â Â Â Â Â Â Â Â Â Loans held-for-sale Â Â 435Â Â Â -Â Â Â Â Â Â Â Â Â Â Â Loans receivable Â Â 8,157,903Â Â Â 8,345,145Â Less: Allowance for credit losses - loans Â Â 82,077Â Â Â 81,974Â Net loans receivable Â Â 8,075,826Â Â Â 8,263,171Â Â Â Â Â Â Â Â Â Â Investment in restricted stock, at cost Â Â 43,403Â Â Â 51,457Â Bank premises and equipment, net Â Â 28,881Â Â Â 30,779Â Accrued interest receivable Â Â 48,262Â Â Â 49,108Â Bank owned life insurance Â Â 240,985Â Â Â 237,644Â Right of use operating lease assets Â Â 13,359Â Â Â 12,007Â Goodwill Â Â 208,372Â Â Â 208,372Â Core deposit intangibles Â Â 5,232Â Â Â 5,874Â Other assets Â Â 125,141Â Â Â 118,751Â Total assets Â $9,723,731Â Â $9,855,603Â LIABILITIES Â Â Â Â Â Â Â Â Deposits: Â Â Â Â Â Â Â Â Noninterest-bearing Â $1,268,882Â Â $1,259,364Â Interest-bearing Â Â 6,307,132Â Â Â 6,276,838Â Total deposits Â Â 7,576,014Â Â Â 7,536,202Â Borrowings Â Â 756,144Â Â Â 933,579Â Subordinated debentures, net Â Â 79,692Â Â Â 79,439Â Operating lease liabilities Â Â 14,435Â Â Â 13,171Â Other liabilities Â Â 73,219Â Â Â 76,592Â Total liabilities Â Â 8,499,504Â Â Â 8,638,983Â Â Â Â Â Â Â Â Â Â COMMITMENTS AND CONTINGENCIES Â STOCKHOLDERSâ€™ EQUITY Â Â Â Â Â Â Â Â Preferred Stock, no par value; $1,000 per share liquidation preference; Authorized 5,000,000 shares; issued 115,000 shares as of June 30, 2024 and as of December 31, 2023; outstanding 115,000 shares as of June 30, 2024 and as of December 31, 2023 Â Â 110,927Â Â Â 110,927Â Common stock, no par value: Authorized 100,000,000 shares; issued 42,250,617 shares as of June 30, 2024 and 42,122,948 shares as of December 31, 2023; outstanding 38,365,069 shares as of June 30, 2024 and 38,519,770 as of December 31, 2023 Â Â 586,946Â Â Â 586,946Â Additional paid-in capital Â Â 33,955Â Â Â 33,182Â Retained earnings Â Â 610,759Â Â Â 590,970Â Treasury stock, at cost 3,885,548 common shares as of June 30, 2024 and 3,603,178 as of December 31, 2023 Â Â (76,116)Â Â (70,296) Accumulated other comprehensive loss Â Â (42,244)Â Â (35,109) Total stockholdersâ€™ equity Â Â 1,224,227Â Â Â 1,216,620Â Total liabilities and stockholdersâ€™ equity Â $9,723,731Â Â $9,855,603Â Â See accompanying notes to unaudited consolidated financial statements. Â 3 Table of Contents Â Â CONNECTONE BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (unaudited) Â Â Â Three Months Ended Â Â Six Months Ended Â Â Â June 30, Â Â June 30, Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â (dollars in thousands, except for per share data) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Interest income Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Interest and fees on loans Â $120,145Â Â $111,048Â Â $240,233Â Â $217,951Â Interest and dividends on investment securities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Taxable Â Â 4,683Â Â Â 4,029Â Â Â 9,017Â Â Â 8,258Â Tax-exempt Â Â 1,121Â Â Â 1,247Â Â Â 2,275Â Â Â 2,339Â Dividends Â Â 1,217Â Â Â 945Â Â Â 2,342Â Â Â 1,843Â Interest on federal funds sold and other short-term investments Â Â 2,841Â Â Â 4,056Â Â Â 5,747Â Â Â 7,031Â Total interest income Â Â 130,007Â Â Â 121,325Â Â Â 259,614Â Â Â 237,422Â Interest expense Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Deposits Â Â 62,086Â Â Â 50,714Â Â Â 122,493Â Â Â 90,801Â Borrowings Â Â 6,482Â Â Â 6,768Â Â Â 15,382Â Â Â 15,694Â Total interest expense Â Â 68,568Â Â Â 57,482Â Â Â 137,875Â Â Â 106,495Â Net interest income Â Â 61,439Â Â Â 63,843Â Â Â 121,739Â Â Â 130,927Â Provision for credit losses Â Â 2,500Â Â Â 3,000Â Â Â 6,500Â Â Â 4,000Â Net interest income after provision for credit losses Â Â 58,939Â Â Â 60,843Â Â Â 115,239Â Â Â 126,927Â Noninterest income Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Deposit, loan and other income Â Â 1,654Â Â Â 1,545Â Â Â 3,246Â Â Â 2,948Â Income on bank owned life insurance Â Â 1,677Â Â Â 1,553Â Â Â 3,341Â Â Â 3,084Â Net gains on sale of loans held-for-sale Â Â 1,277Â Â Â 550Â Â Â 1,783Â Â Â 599Â Net losses on equity securities Â Â (209)Â Â (210)Â Â (123)Â Â (401) Total noninterest income Â Â 4,399Â Â Â 3,438Â Â Â 8,247Â Â Â 6,230Â Noninterest expenses Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Salaries and employee benefits Â Â 22,786Â Â Â 21,751Â Â Â 44,982Â Â Â 44,013Â Occupancy and equipment Â Â 2,899Â Â Â 2,677Â Â Â 5,908Â Â Â 5,438Â FDIC insurance Â Â 1,800Â Â Â 1,715Â Â Â 3,600Â Â Â 2,665Â Professional and consulting Â Â 1,923Â Â Â 1,932Â Â Â 3,851Â Â Â 4,126Â Marketing and advertising Â Â 613Â Â Â 556Â Â Â 1,290Â Â Â 1,088Â Information technology and communications Â Â 4,198Â Â Â 3,644Â Â Â 8,587Â Â Â 6,705Â Amortization of core deposit intangibles Â Â 321Â Â Â 371Â Â Â 642Â Â Â 743Â Other components of net periodic pension expense Â Â (65)Â Â (25)Â Â (130)Â Â (51) Other expenses Â Â 3,119Â Â Â 2,829Â Â Â 5,929Â Â Â 5,593Â Total noninterest expenses Â Â 37,594Â Â Â 35,450Â Â Â 74,659Â Â Â 70,320Â Income before income tax expense Â Â 25,744Â Â Â 28,831Â Â Â 48,827Â Â Â 62,837Â Income tax expense Â Â 6,688Â Â Â 7,437Â Â Â 12,566Â Â Â 16,514Â Net income Â Â 19,056Â Â Â 21,394Â Â Â 36,261Â Â Â 46,323Â Preferred dividends Â Â 1,509Â Â Â 1,509Â Â Â 3,018Â Â Â 3,018Â Net income available to common stockholders Â $17,547Â Â $19,885Â Â $33,243Â Â $43,305Â Earnings per common share Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Basic Â $0.46Â Â $0.51Â Â $0.87Â Â $1.11Â Diluted Â Â 0.46Â Â Â 0.51Â Â Â 0.86Â Â Â 1.10Â Â See accompanying notes to unaudited consolidated financial statements. Â 4 Table of Contents Â Â CONNECTONE BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited) Â Â Â Three Months Ended Â Â Six Months Ended Â Â June 30, Â Â June 30, Â (dollars in thousands) Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Net income Â $19,056Â Â $21,394Â Â $36,261Â Â $46,323Â Other comprehensive income (loss), net of tax Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Unrealized holding losses on available-for-sale securities arising during the period Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Net losses arising during the period Â Â (3,263)Â Â (7,348)Â Â (12,229)Â Â (2,865) Total Â Â (3,263)Â Â (7,348)Â Â (12,229)Â Â (2,865) Unrealized gains on cash flow hedges Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Net gains on cash flow hedges arising during the period Â Â 3,204Â Â Â 10,085Â Â Â 13,164Â Â Â 7,036Â Less reclassification adjustment for net gains included in net income Â Â (4,085)Â Â (2,764)Â Â (8,132)Â Â (5,747) Total Â Â (881)Â Â 7,321Â Â Â 5,032Â Â Â 1,289Â Defined benefit pension and post-retirement benefit plans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Amortization of actuarial net loss Â Â 32Â Â Â 52Â Â Â 62Â Â Â 103Â Total other comprehensive (loss) income, net of tax Â Â (4,112)Â Â 25Â Â Â (7,135)Â Â (1,473) Total comprehensive income Â $14,944Â Â $21,419Â Â $29,126Â Â $44,850Â Â See accompanying notes to unaudited consolidated financial statements. Â 5 Table of Contents Â Â CONNECTONE BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERSâ€™ EQUITY (unaudited) Â Â Â Three Months Ended June 30, 2024 Â Accumulated Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Additional Â Â Â Â Â Â Â Â Â Â Â Other Â Â Total Â Â Â Preferred Â Â Common Â Â Paid-In Â Â Retained Â Â Treasury Â Â Comprehensive Â Â Stockholdersâ€™ Â (in thousands, except share data) Â Stock Â Â Stock Â Â Capital Â Â Earnings Â Â Stock Â Â (Loss) Income Â Â Equity Â Balance as of March 31, 2024 Â $110,927Â Â $586,946Â Â $32,866Â Â $600,118Â Â $(76,116)Â $(38,132)Â $1,216,609Â Net income Â Â -Â Â Â -Â Â Â -Â Â Â 19,056Â Â Â -Â Â Â -Â Â Â 19,056Â Other comprehensive loss, net of tax Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (4,112)Â Â (4,112) Cash dividends paid on preferred stock ($0.328125 per depositary share) Â Â -Â Â Â -Â Â Â -Â Â Â (1,509)Â Â -Â Â Â -Â Â Â (1,509) Cash dividends paid on common stock ($0.18 per share) Â Â -Â Â Â -Â Â Â -Â Â Â (6,906)Â Â -Â Â Â -Â Â Â (6,906) Restricted stock grants, net of forfeitures (32,016 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Stock-based compensation expense Â Â -Â Â Â -Â Â Â 1,089Â Â Â -Â Â Â -Â Â Â -Â Â Â 1,089Â Balance as of June 30, 2024 Â $110,927Â Â $586,946Â Â $33,955Â Â $610,759Â Â $(76,116)Â $(42,244)Â $1,224,227Â Three Months Ended June 30, 2023 Â Accumulated Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Additional Â Â Â Â Â Â Â Â Â Â Â Other Â Â Total Â Â Â Preferred Â Â Common Â Â Paid-In Â Â Retained Â Â Treasury Â Â Comprehensive Â Â Stockholdersâ€™ Â (in thousands, except share data) Â Stock Â Â Stock Â Â Capital Â Â Earnings Â Â Stock Â Â (Loss) Income Â Â Equity Â Balance as of March 31, 2023 Â $110,927Â Â $586,946Â Â $31,350Â Â $553,261Â Â $(57,652)Â $(33,862)Â $1,190,970Â Net income Â Â -Â Â Â -Â Â Â -Â Â Â 21,394Â Â Â -Â Â Â -Â Â Â 21,394Â Other comprehensive income, net of tax Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 25Â Â Â 25Â Cash dividends declared on preferred stock ($0.328125 per depositary share) Â Â -Â Â Â -Â Â Â -Â Â Â (1,509)Â Â -Â Â Â -Â Â Â (1,509) Cash dividends declared on common stock ($0.17 per share) Â Â -Â Â Â -Â Â Â -Â Â Â (6,648)Â Â -Â Â Â -Â Â Â (6,648) Exercise of stock options (269 shares) Â Â -Â Â Â -Â Â Â 4Â Â Â -Â Â Â -Â Â Â -Â Â Â 4Â Restricted stock grants, net of forfeitures (37,332 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Share redemption for tax withholding on performance units and deferred stock units earned Â Â -Â Â Â -Â Â Â (1,836)Â Â -Â Â Â -Â Â Â -Â Â Â (1,836) Repurchase of treasury stock (270,000 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (4,225)Â Â -Â Â Â (4,225) Stock-based compensation expense Â Â -Â Â Â -Â Â Â 1,222Â Â Â -Â Â Â -Â Â Â -Â Â Â 1,222Â Balance as of June 30, 2023 Â $110,927Â Â $586,946Â Â $30,740Â Â $566,498Â Â $(61,877)Â $(33,837)Â $1,199,397Â Â 6 Table of Contents Â (continued) Â Â Â Six Months Ended June 30, 2024 Â Accumulated Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Additional Â Â Â Â Â Â Â Â Â Â Â Other Â Â Total Â Â Â Preferred Â Â Common Â Â Paid-In Â Â Retained Â Â Treasury Â Â Comprehensive Â Â Stockholdersâ€™ Â (in thousands, except share data) Â Stock Â Â Stock Â Â Capital Â Â Earnings Â Â Stock Â Â (Loss) Income Â Â Equity Â Balance as of December 31, 2023 Â $110,927Â Â $586,946Â Â $33,182Â Â $590,970Â Â $(70,296)Â $(35,109)Â $1,216,620Â Net income Â Â -Â Â Â -Â Â Â -Â Â Â 36,261Â Â Â -Â Â Â -Â Â Â 36,261Â Other comprehensive loss, net of tax Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (7,135)Â Â (7,135) Cash dividends paid on preferred stock ($0.65625 per depositary share) Â Â -Â Â Â -Â Â Â -Â Â Â (3,018)Â Â -Â Â Â -Â Â Â (3,018) Cash dividends paid on common stock ($0.35 per share) Â Â -Â Â Â -Â Â Â -Â Â Â (13,454)Â Â -Â Â Â -Â Â Â (13,454) Restricted stock grants, net of forfeitures (68,462 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Stock grants (1,533 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Net shares issued in satisfaction of deferred stock units earned (33,604 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Net shares issued in satisfaction of performance units earned (24,070 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Share redemption for tax withholdings on performance units and deferred stock units earned Â Â -Â Â Â -Â Â Â (1,324)Â Â -Â Â Â -Â Â Â -Â Â Â (1,324) Repurchase of treasury stock (282,370 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (5,820)Â Â -Â Â Â (5,820) Stock-based compensation expense Â Â -Â Â Â -Â Â Â 2,097Â Â Â -Â Â Â -Â Â Â -Â Â Â 2,097Â Balance as of June 30, 2024 Â $110,927Â Â $586,946Â Â $33,955Â Â $610,759Â Â $(76,116)Â $(42,244)Â $1,224,227Â Â Â Â Six Months Ended June 30, 2023 Â Accumulated Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Additional Â Â Â Â Â Â Â Â Â Â Â Other Â Â Total Â Â Â Preferred Â Â Common Â Â Paid-In Â Â Retained Â Â Treasury Â Â Comprehensive Â Â Stockholdersâ€™ Â (in thousands, except share data) Â Stock Â Â Stock Â Â Capital Â Â Earnings Â Â Stock Â Â (Loss) Income Â Â Equity Â Balance as of December 31, 2022 Â $110,927Â Â $586,946Â Â $30,126Â Â $535,915Â Â $(52,799)Â $(32,364)Â $1,178,751Â Net income Â Â -Â Â Â -Â Â Â -Â Â Â 46,323Â Â Â -Â Â Â -Â Â Â 46,323Â Other comprehensive loss, net of tax Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (1,473)Â Â (1,473) Cash dividends declared on preferred stock ($0.65625 per depositary share) Â Â -Â Â Â -Â Â Â -Â Â Â (3,018)Â Â -Â Â Â -Â Â Â (3,018) Cash dividends declared on common stock ($0.34 per share) Â Â -Â Â Â -Â Â Â -Â Â Â (12,722)Â Â -Â Â Â -Â Â Â (12,722) Exercise of stock options (6,742 shares) Â Â -Â Â Â -Â Â Â 85Â Â Â -Â Â Â -Â Â Â -Â Â Â 85Â Restricted stock grants, net of forfeitures (86,534 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Stock grants (995 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Net shares issued in satisfaction of deferred stock units earned (32,068 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Net shares issued in satisfaction of performance units earned (48,140 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Share redemption for tax withholdings on performance units and deferred stock units earned Â Â -Â Â Â -Â Â Â (1,836)Â Â -Â Â Â -Â Â Â -Â Â Â (1,836) Repurchase of treasury stock (485,163 shares) Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (9,078)Â Â -Â Â Â (9,078) Stock-based compensation expense Â Â -Â Â Â -Â Â Â 2,365Â Â Â -Â Â Â -Â Â Â -Â Â Â 2,365Â Balance as of June 30, 2023 Â $110,927Â Â $586,946Â Â $30,740Â Â $566,498Â Â $(61,877)Â $(33,837)Â $1,199,397Â Â See accompanying notes to unaudited consolidated financial statements. Â 7 Table of Contents Â Â CONNECTONE BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) Â Â Â Six Months Ended Â Â Â June 30, Â (dollars in thousands) Â 2024 Â Â 2023 Â Cash flows from operating activities Â Â Â Â Â Â Â Net income Â $ 36,261 Â Â $ 46,323 Â Adjustments to reconcile net income to net cash provided by operating activities: Â Â Â Â Â Â Â Depreciation and amortization of premises and equipment Â Â 2,185 Â Â Â 2,211 Â Provision for credit losses Â Â 6,500 Â Â Â 4,000 Â Amortization of intangibles Â Â 642 Â Â Â 743 Â Net accretion of loans Â Â (472) Â Â (1,248) Accretion on bank premises Â Â (24) Â Â (24) Accretion on deposits Â Â (65) Â Â (177) Amortization on borrowings, net Â Â 11 Â Â Â 11 Â Stock-based compensation Â Â 2,097 Â Â Â 2,365 Â Losses on equity securities, net Â Â 123 Â Â Â 401 Â Gains on sale of loans held-for-sale, net Â Â (1,783) Â Â (599) Loans originated for resale Â Â (12,511) Â Â (10,084) Proceeds from sale of loans held-for-sale Â Â 13,859 Â Â Â 18,382 Â Loss on sale of other real estate owned Â Â - Â Â Â 22 Â Increase in cash surrender value of bank owned life insurance Â Â (3,341) Â Â (3,084) Amortization of premium and accretion of discounts on securities available-for-sale Â Â 401 Â Â Â 565 Â Amortization of subordinated debentures issuance costs Â Â 253 Â Â Â 932 Â Decrease (increase) in accrued interest receivable Â Â 846 Â Â Â (175) Net change in operating leases Â Â (88) Â Â (85) Decrease (increase) in other assets Â Â 1,176 Â Â Â (5,378) Decrease in other liabilities Â Â (3,251) Â Â (17,463) Net cash provided by operating activities Â Â 42,819 Â Â Â 37,638 Â Â Â Â Â Â Â Â Cash flows from investing activities Â Â Â Â Â Â Â Investment securities available-for-sale: Â Â Â Â Â Â Â Purchases Â Â (48,814) Â Â (14,678) Maturities, calls and principal repayments Â Â 30,209 Â Â Â 32,403 Â Purchase of equity securities Â Â (1,302) Â Â (2,540) Net redemptions (purchases) of restricted investment in bank stocks Â Â 8,054 Â Â Â (84) Payments on loans held-for-sale Â Â - Â Â Â 25 Â Net decrease (increase) in loans Â Â 181,281 Â Â Â (48,168) Purchases of premises and equipment Â Â (263) Â Â (3,480) Proceeds from sale of OREO Â Â - Â Â Â 242 Â Net cash provided by (used in) investing activities Â Â 169,165 Â Â Â (36,280) Â Â Â Â Â Â Â Â Cash flows from financing activities Â Â Â Â Â Â Â Net increase in deposits Â Â 39,877 Â Â Â 181,852 Â Advances of Federal Home Loan Bank (â€œFHLBâ€) borrowings Â Â 595,587 Â Â Â 1,377,000 Â Repayments of FHLB borrowings Â Â (773,033) Â Â (1,407,032) Repayments of subordinated debt Â Â - Â Â Â (75,000) Cash dividends on preferred stock Â Â (3,018) Â Â (3,018) Cash dividends paid on common stock Â Â (13,454) Â Â (12,722) Repurchase of treasury stock Â Â (5,820) Â Â (9,078) Proceeds from exercise of stock options Â Â - Â Â Â 85 Â Share redemption for tax withholdings on performance units and deferred stock units earned Â Â (1,324) Â Â (1,836) Net cash (used in) provided by financing activities Â Â (161,185) Â Â 50,251 Â Net change in cash and cash equivalents Â Â 50,799 Â Â Â 51,609 Â Cash and cash equivalents at beginning of period Â Â 242,714 Â Â Â 268,315 Â Cash and cash equivalents at end of period Â $ 293,513 Â Â $ 319,924 Â Â 8 Table of Contents Â (continued) Â Supplemental disclosures of cash flow information Â Â Â Â Â Â Â Cash payments for: Â Â Â Â Â Â Â Interest paid on deposits and borrowings Â $ 137,520 Â Â $ 104,752 Â Income taxes Â Â 15,594 Â Â Â 18,655 Â Supplemental disclosures of noncash activities Â Â Â Â Â Â Â Investing: Â Â Â Â Â Â Â Transfer of loans from held-for-sale to held-for-investment Â Â - Â Â Â 16,156 Â Transfer of loans from held-for-investment to held-for-sale Â Â - Â Â Â 11,197 Â See accompanying notes to unaudited consolidated financial statements. Â 9 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 1a.Â Nature of Operations, Principles of Consolidation and Risk and Uncertainties Â Nature of Operations Â ConnectOne Bancorp, Inc. (the â€œParent Corporationâ€) is incorporated under the laws of the State of New Jersey and is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the â€œBHCAâ€). The Parent Corporationâ€™s business currently consists of the operation of its wholly-owned subsidiary, ConnectOne Bank (the â€œBankâ€ and, collectively with the Parent Corporation and the Parent Corporationâ€™s subsidiaries, the â€œCompanyâ€) and making certain limited investments. The Bankâ€™s direct and indirect subsidiaries include Union Investment Co. (a New Jersey investment company), Twin Bridge Investment Co. (a DelawareÂ investment company), ConnectOne Preferred Funding Corp. (a New Jersey real estate investment trust), Center Financial Group, LLC (a New Jersey financial services company), Center Advertising, Inc. (a New Jersey advertising company), Morris Property Company, LLC, (a New Jersey limited liability company), Volosin Holdings, LLC, (a New Jersey limited liability company), NJCB Spec-1, LLC (a New Jersey limited liability company), Port Jervis Holdings, LLC (a New Jersey limited liability company), BONJ Special Properties, LLC (a New Jersey limited liability company) and BoeFly, Inc. (a New Jersey financial technology company). Â The Bank is a community-based, full-service New Jersey-chartered commercial bank that was founded in 2005. The Bank operates from its headquarters located at 301 Sylvan Avenue in the Borough of Englewood Cliffs, Bergen County, New Jersey and through its 24Â other banking offices. Substantially all loans are secured with various types of collateral, including business assets, consumer assets and commercial/residential real estate. Each borrowerâ€™s ability to repay its loans is dependent on the conversion of assets, cash flows generated from the borrowersâ€™ business, real estate rental and consumer wages. Â Basis of Presentation and PrinciplesÂ of Consolidation Â The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The consolidated financial statements of the Parent Corporation are prepared on an accrual basis and include the accounts of the Parent Corporation and the Company. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements. Â Segments Â FASB ASC 28, â€œSegment Reporting,â€ requires companies to report certain information about operating segments. The Company is managed as one segment: a community bank. All decisions including but not limited to loan growth, deposit funding, interest rate risk, credit risk and pricing are determined after assessing the effect on the totality of the organization. For example, loan growth is dependent on the ability of the organization to fund this growth through deposits or other borrowings. As a result, the Company is managed as one operating segment. Â Use of Estimates Â In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of condition and that affect the results of operations for the periods presented. Actual results could differ significantly from those estimates. Â 10 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 1b. Authoritative Accounting Guidance Â Adoption of New Accounting Standards in 2024 Â In June 2022, the Financial Accounting Standards Board (â€œFASBâ€) issued Accounting Standards Update (â€œASUâ€) 2022-03, â€œFair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictionsâ€ (â€œASU 2022-03â€). ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value.Â We adopted ASU 2022-03 on January 1, 2024 and it did not have a material effect on the Companyâ€™s financial statements. Â Newly Issued, But Not Yet Effective Accounting Standards Â In December 2023, the Financial Accounting Standards Board (â€œFASBâ€) issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures.Â These amendments require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5%Â of the amount computed by multiplying pretax income (or loss)Â by the applicable statutory income tax rate).Â The amendments require that all entities disclose on an annual basis the following information about income taxes paid: 1) The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes. 2) The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5%Â of total income taxes paid (net of refunds received). The amendments also require that all entities disclose the following information: 1) Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and 2) Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.Â ASU 2023-09 is effective for the Company beginning January 1, 2025.Â The Company is evaluatingÂ the effect that ASU 2023-09 will have on its consolidated financial statements. Â 11 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 2.Â Earnings per Common Share Â Financial Accounting Standards Board Accounting Standards Codification (â€œFASB ASCâ€) No. 260-10-45 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (â€œEPSâ€).Â The restricted stock awards granted by the Company contain non-forfeitable rights to dividends and therefore are considered participating securities.Â The two-class method for calculating basic EPS excludes dividends paid to participating securities and any undistributed earnings attributable to participating securities. Â Earnings per common share have been computed based on the following: Â Â Â Three Months Ended Â Â Six Months Ended Â Â Â June 30, Â Â June 30, Â (dollars in thousands, except for per share data) Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Net income available to common stockholders Â $17,547Â Â $19,885Â Â $33,243Â Â $43,305Â Earnings allocated to participating securities Â Â (46)Â Â (53)Â Â (89)Â Â (98) Income attributable to common stock Â $17,501Â Â $19,832Â Â $33,154Â Â $43,207Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Weighted average common shares outstanding, including participating securities Â Â 38,421Â Â Â 39,078Â Â Â 38,383Â Â Â 39,127Â Weighted average participating securities Â Â (101)Â Â (104)Â Â (103)Â Â (88) Weighted average common shares outstanding Â Â 38,320Â Â Â 38,974Â Â Â 38,280Â Â Â 39,039Â Incremental shares from assumed conversions of options, performance units and restricted shares Â Â 129Â Â Â 43Â Â Â 173Â Â Â 135Â Weighted average common and equivalent shares outstanding Â Â 38,449Â Â Â 39,017Â Â Â 38,453Â Â Â 39,174Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Earnings per common share: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Basic Â $0.46Â Â $0.51Â Â $0.87Â Â $1.11Â Diluted Â Â 0.46Â Â Â 0.51Â Â Â 0.86Â Â Â 1.10Â Â There were no antidilutive share equivalents during the sixÂ months ended June 30, 2024Â andÂ June 30, 2023. Â 12 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 3.Â Investment Securities Â All of the Companyâ€™s investment securities are classified as available-for-sale as of June 30, 2024 and December 31, 2023. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in stockholdersâ€™ equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value as of June 30, 2024 and December 31, 2023. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value. See Note 6 of the Notes to Consolidated Financial Statements for further discussion. Â The following tables present information related to the Companyâ€™s portfolio of securities available-for-sale as of June 30, 2024 and December 31, 2023. Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Allowance Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â for Â Â Â Â Â Â Gross Â Â Gross Â Â Â Â Â Â Investment Â Â Â Amortized Â Â Unrealized Â Â Unrealized Â Â Fair Â Â Credit Â Â Â Cost Â Â Gains Â Â Losses Â Â Value Â Â Losses Â Â Â (dollars in thousands) Â June 30, 2024 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Investment securities available-for-sale: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Federal agency obligations Â $93,088Â Â $205Â Â $(11,918)Â $81,375Â Â $-Â Residential mortgage pass-through securities Â Â 446,631Â Â Â 148Â Â Â (60,787)Â Â 385,992Â Â Â -Â Commercial mortgage pass-through securities Â Â 25,115Â Â Â -Â Â Â (3,697)Â Â 21,418Â Â Â -Â Obligations of U.S. states and political subdivisions Â Â 145,574Â Â Â 73Â Â Â (19,977)Â Â 125,670Â Â Â -Â Corporate bonds and notes Â Â 5,000Â Â Â -Â Â Â (22)Â Â 4,978Â Â Â -Â Asset-backed securities Â Â 1,012Â Â Â -Â Â Â (12)Â Â 1,000Â Â Â -Â Other securities Â Â 146Â Â Â -Â Â Â -Â Â Â 146Â Â Â -Â Total investment securities available-for-sale Â $716,566Â Â $426Â Â $(96,413)Â $620,579Â Â $-Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â December 31, 2023 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Investment securities available-for-sale: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Federal agency obligations Â $55,898Â Â $189Â Â $(10,761)Â $45,326Â Â $-Â Residential mortgage pass-through securities Â Â 462,004Â Â Â 620Â Â Â (51,433)Â Â 411,191Â Â Â -Â Commercial mortgage pass-through securities Â Â 25,240Â Â Â -Â Â Â (3,676)Â Â 21,564Â Â Â -Â Obligations of U.S. states and political subdivisions Â Â 148,795Â Â Â 415Â Â Â (16,505)Â Â 132,705Â Â Â -Â Corporate bonds and notes Â Â 5,000Â Â Â -Â Â Â (27)Â Â 4,973Â Â Â -Â Asset-backed securities Â Â 1,260Â Â Â -Â Â Â (22)Â Â 1,238Â Â Â -Â Other securities Â Â 165Â Â Â -Â Â Â -Â Â Â 165Â Â Â -Â Total investment securities available-for-sale Â $698,362Â Â $1,224Â Â $(82,424)Â $617,162Â Â $-Â Â 13 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 3.Â Investment Securities â€“ (continued) Â Investment securities having a carrying value of approximatelyÂ $197.0Â million and $358.0Â million as of June 30, 2024 and December 31, 2023, respectively, were pledged to secure public deposits, borrowings, repurchase agreements, access to unutilized Federal Reserve Discount Window, Bank TermÂ Funding ProgramÂ ("BTFP") borrowings, and access to unutilized Federal Home Loan Bank advances and for other purposes required or permitted by law. The BTFP was a temporary facility of the Federal Reserve and expired on March 11, 2024, contributing to the decrease in pledged securities as noted above.Â As of June 30, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholdersâ€™ equity. Â The following table presents information for investments in securities available-for-sale as of June 30, 2024, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer. Securities not due at a single maturity date areÂ shown separately. Â Â Â June 30, 2024 Â Â Â Amortized Â Â Fair Â Â Â Cost Â Â Value Â Â Â (dollars in thousands) Â Investment securities available-for-sale: Â Â Â Â Â Â Â Â Due in one year or less Â $2,284Â Â $2,279Â Due after one year through five years Â Â 6,300Â Â Â 6,248Â Due after five years through ten years Â Â 2,223Â Â Â 2,161Â Due after ten years Â Â 233,867Â Â Â 202,335Â Residential mortgage pass-through securities Â Â 446,631Â Â Â 385,992Â Commercial mortgage pass-through securities Â Â 25,115Â Â Â 21,418Â Other securities Â Â 146Â Â Â 146Â Total investment securities available-for-sale Â $716,566Â Â $620,579Â Â There wereÂ noÂ realized gains or losses on securities duringÂ the sixÂ monthsÂ ended June 30, 2024Â and June 30, 2023. Â 14 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 3.Â Investment Securities â€“ (continued) Â Impairment Analysis of Available-for-Sale Debt Securities Â The following tables indicate securities in an unrealized loss position for which an allowance for credit losses (â€œACLâ€) has not been recorded, aggregated by investment category and by the length of continuous time individual securities have been in an unrealized loss position as of June 30, 2024 and December 31, 2023. Â Â Â June 30, 2024 Â Â Â Total Â Â Less than 12 Months Â Â 12 Months or Longer Â Â Â Fair Â Â Unrealized Â Â Fair Â Â Unrealized Â Â Fair Â Â Unrealized Â Â Â Value Â Â Losses Â Â Value Â Â Losses Â Â Value Â Â Losses Â Â Â (dollars in thousands) Â Investment securities available-for-sale: Â Federal agency obligations Â $57,109Â Â $(11,918)Â $19,579Â Â $(129)Â $37,530Â Â $(11,789) Residential mortgage pass-through securities Â Â 373,145Â Â Â (60,787)Â Â 15,527Â Â Â (92)Â Â 357,618Â Â Â (60,695) Commercial mortgage pass-through securities Â Â 21,419Â Â Â (3,697)Â Â -Â Â Â -Â Â Â 21,419Â Â Â (3,697) Obligations of U.S. states and political subdivisions Â Â 114,985Â Â Â (19,977)Â Â 20,002Â Â Â (558)Â Â 94,983Â Â Â (19,419) Corporate bonds and notes Â Â 4,978Â Â Â (22)Â Â 2,984Â Â Â (16)Â Â 1,994Â Â Â (6) Asset-backed securities Â Â 1,001Â Â Â (12)Â Â -Â Â Â -Â Â Â 1,001Â Â Â (12) Total temporarily impaired securities Â $572,637Â Â $(96,413)Â $58,092Â Â $(795)Â $514,545Â Â $(95,618) Â Â Â December 31, 2023 Â Â Â Total Â Â Less than 12 Months Â Â 12 Months or Longer Â Â Â Fair Â Â Unrealized Â Â Fair Â Â Unrealized Â Â Fair Â Â Unrealized Â Â Â Value Â Â Losses Â Â Value Â Â Losses Â Â Value Â Â Losses Â Â Â (dollars in thousands) Â Investment securities available-for-sale: Â Federal agency obligations Â $40,779Â Â $(10,761)Â $1,689Â Â $(65)Â $39,090Â Â $(10,696) Residential mortgage pass-through securities Â Â 382,042Â Â Â (51,433)Â Â 4,138Â Â Â (51)Â Â 377,904Â Â Â (51,382) Commercial mortgage pass-through securities Â Â 21,565Â Â Â (3,676)Â Â -Â Â Â -Â Â Â 21,565Â Â Â (3,676) Obligations of U.S. states and political subdivisions Â Â 101,189Â Â Â (16,505)Â Â 1,340Â Â Â (7)Â Â 99,849Â Â Â (16,498) Corporate bonds and notes Â Â 4,973Â Â Â (27)Â Â 2,993Â Â Â (7)Â Â 1,980Â Â Â (20) Asset-backed securities Â Â 1,238Â Â Â (22)Â Â -Â Â Â -Â Â Â 1,238Â Â Â (22) Total temporarily impaired securities Â $551,786Â Â $(82,424)Â $10,160Â Â $(130)Â $541,626Â Â $(82,294) Â 15 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 3.Â Investment Securities â€“ (continued) Â The Company has elected to exclude accrued interest from the amortized cost of its investment securities available-for-sale.Â Accrued interest receivable for investment securities available-for-sale totaledÂ $2.3Â million as of both June 30, 2024 and December 31, 2023. Â The Company evaluates securities in an unrealized loss position for impairment related to credit losses on at least a quarterly basis. Securities in unrealized loss positions are first assessed as to whether we intend to sell, or if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If one of the criteria is met, the securityâ€™s amortized cost basis is written down to fair value through current earnings. For securities that do not meet these criteria, the Company evaluates whether the decline in fair value resulted from credit losses or other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Unrealized losses on asset backed securities and state and municipal securities have not been recognized into income because the issuers are of high credit quality andÂ we do not intend to sell and it is likely that we will not be required to sell the securities prior to their anticipated recovery. The decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes. No allowance for credit losses for available-for-sale securities was recorded as of June 30, 2024. Â Federal agency obligations, residential mortgage-backed pass-through securities and commercial mortgage-backed pass-through securities are issued by U.S. Government agencies and U.S. Government sponsored enterprises. Although a government guarantee exists on these investments, these entities are not legally backed by the full faith and credit of the federal government, and the current support they receive is subject to a cap as part of the agreement entered into in 2008. Nonetheless, at this time we do not foresee any set of circumstances in which the government would not fund its commitments on these investments as the issuers are an integral part of the U.S. housing market in providing liquidity and stability. Therefore, we concluded that a zero-allowance approach for these investment securities is appropriate. Â Note 4.Â Derivatives Â As part of our overall asset liability management strategy the Company uses derivative instruments, which can include interest rate swaps, collars, caps, and floors.Â The notional amount does not represent amounts exchanged by the parties.Â The amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis. Â Derivatives Designated as Hedges Â Subsequent changes in fair value for a hedging instrument that has been designated and qualifies as part of a hedging relationship are accounted for in the following manner: Â 1) Cash flow hedges: changes in fair value are recognized as a component in other comprehensive income 2) Fair value hedges: changes in fair value are recognized concurrently in earnings Â As long as a hedging instrument is designated and the results of the effectiveness testing support that the instrument qualifies for hedge accounting treatment, 100% of the periodic changes in fair value of the hedging instrument are accounted for as outlined above. This is the case whether or not economic mismatches exist in the hedging relationship. As a result, there is no periodic measurement or recognition of ineffectiveness. Rather, the full impact of hedge gains and losses is recognized in the period in which the hedged transactions impact earnings. The change in fair value of the hedging instrument that is included in the assessment of hedge effectiveness is presented in the same income statement line item that is used to present the earnings effect of the hedged item.Â As of June 30, 2024, the Bank was not utilizing fair value hedges. Â 16 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 4. Derivatives â€“ (continued) Â Cash Flow Hedges Â The Company during 2021, 2022 and 2024Â entered into twelveÂ pay fixed-rate interest rate swaps, with a total notional amount of $550Â million.Â These are designated as cash flow hedges of outstandingÂ Federal Home Loan Bank advances. We are required to pay fixed rates of interest ranging from 0.63%Â to 3.72%Â and receive variable rates of interest that reset quarterly based on the daily compounding secured overnight financing rate (â€œSOFRâ€).Â The twelveÂ swaps carry expiration dates ranging from December 2025Â to March 2028.Â The swaps are determined to be fully effective during the period presented and therefore no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swap is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedges no longer be considered effective. The Company expects the hedges to remain fully effective during the remaining term of the swaps.Â Â Â The Company previously entered into twoÂ forward starting interest rate cap spread transactions, one with a total notional amount of $150Â million, which becameÂ effective on October 1, 2022 and which matures in October of 2027 and one interest rate cap spread transaction, with a total notional amount of $75 million, which became effective in November 2022 and which matures in November of 2027.Â These are designated as cash flow hedges of brokered certificates of deposits, and the interest rate cap spread is indexed to a benchmark of fed funds with payment requiredÂ on a monthly basis. The structure of these instruments is such that the Company entered into a total ofÂ $225 million in notional amount of sold interest rate cap agreements, in which we are required to pay the counterparty an incremental amount if the index rate exceeds a set cap rate. Simultaneously, the Company purchased a total of $225 million notional amount of interest rate cap agreements in which we receive an incremental amount if the index rate is above a set cap rate.Â No payments are required if the index rate isÂ at, or below, the cap rate on the sold or purchased interest rate cap agreements. Â Net interest incomeÂ recorded on these swap and interest rate cap transactions totaled approximatelyÂ $5.7Â million and $11.3Â million andÂ $5.0Â million andÂ $9.3 millionÂ during the three and six months ended June 30, 2024Â and June 30, 2023, respectively, and is recorded as a component of either interest expense on FHLB Advances or on brokered certificates of deposit. Â 17 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Note 4. Derivatives â€“ (continued) Â The following table presents the net gains (losses)Â recorded in other comprehensive income and the Consolidated Statements of Income relating to the cash flow hedge derivative instruments for the periods indicated: Â Â Â Six Months Ended June 30, 2024 Â Â Â Amount of gain (loss) recognized in OCI (Effective Portion) Â Â Amount of (gain) loss reclassified from OCI to interest expense Â Â Amount of gain recognized in other Noninterest income (Ineffective Portion) Â Â Â (dollars in thousands) Â Interest rate contracts Â $17,337Â Â $(11,312)Â $-Â Â Â Â Six Months Ended June 30, 2023 Â Â Â Amount of gain (loss) recognized in OCI (Effective Portion) Â Â Amount of (gain) loss reclassified from OCI to interest expense Â Â Amount of gain recognized in other Noninterest income (Ineffective Portion) Â Â Â (dollars in thousands) Â Interest rate contracts Â $10,064Â Â $(8,221)Â $-Â Â The following table reflects the cash flow hedges included in the consolidated statements of condition as of June 30, 2024 and December 31, 2023: Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Notional Amount Â Â Fair Value Â Â Notional Amount Â Â Fair Value Â Â Â Â Â Â Â (dollars in thousands) Â Â Â Â Â Interest rate contracts Â $1,000,000Â Â $48,734Â Â $950,000Â Â $43,805Â Â 18 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses Â Loans Receivable â€“ The following table sets forth the composition of the Companyâ€™s loan portfolio segments, including net deferred loan fees, as of June 30, 2024 and December 31, 2023: Â Â Â June 30, 2024Â Â December 31, 2023Â Â Â (dollars in thousands) Â Commercial Â $1,501,732Â Â $1,578,730Â Commercial real estate Â Â 5,763,869Â Â Â 5,895,545Â Commercial construction Â Â 639,168Â Â Â 620,496Â Residential real estate Â Â 256,786Â Â Â 256,041Â Consumer Â Â 945Â Â Â 1,029Â Gross loans Â Â 8,162,500Â Â Â 8,351,841Â Net deferred loan fees Â Â (4,597)Â Â (6,696) Total loans receivable Â $8,157,903Â Â $8,345,145Â Â As ofÂ June 30, 2024Â and December 31, 2023, loans totalingÂ approximately $5.7Â billion and $5.8Â billion, respectively,Â were pledged to secure borrowings from the FHLB of New York and the Federal Reserve Bank of New York. Â Loans held-for-sale - The following table sets forth the composition of the Companyâ€™s loans held-for-saleÂ as of JuneÂ 30, 2024Â and December 31, 2023: Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â (dollars in thousands) Â Residential real estate Â $435Â Â $-Â Total loans held-for-sale Â $435Â Â $-Â Â Â Loans Receivable on Nonaccrual Status - The following tables present the carrying value of nonaccrual loans with an ACL and the carrying value of nonaccrual loans without an ACL as of June 30, 2024 and December 31, 2023: Â Â Â June 30, 2024 Â Â Â Nonaccrual loans with ACL Â Â Nonaccrual loans without ACL Â Â Total nonaccrual loans Â Â Â (dollars in thousands) Â Commercial Â $1,928Â Â $10,850Â Â $12,778Â Commercial real estate Â Â -Â Â Â 29,585Â Â Â 29,585Â Commercial construction Â Â 409Â Â Â 1,795Â Â Â 2,204Â Residential real estate Â Â 237Â Â Â 1,222Â Â Â 1,459Â Total Â $2,574Â Â $43,452Â Â $46,026Â Â 19 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Â Â December 31, 2023 Â Â Â Nonaccrual loans with ACLÂ Â Nonaccrual loans without ACLÂ Â Total nonaccrual loansÂ Â Â (dollars in thousands) Â Commercial Â $1,763Â Â $11,064Â Â $12,827Â Commercial real estate Â Â 8,013Â Â Â 28,179Â Â Â 36,192Â Residential real estate Â Â 1,033Â Â Â 2,472Â Â Â 3,505Â Total Â $10,809Â Â $41,715Â Â $52,524Â Â Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated andÂ individually evaluated. Â Credit Quality Indicators - The Company continuously monitors the credit quality of its loans receivable. In addition to its internal monitoring, the Company utilizes the services of a third-party loan review firm to periodically validate the credit quality of its loans receivable on a sample basis. Credit quality is monitored by reviewing certain credit quality indicators. Assets classified â€œPassâ€ are deemed to possess average to superior credit quality, requiring no more than normal attention. Assets classified as â€œSpecial Mentionâ€ have generally acceptable credit quality yet possess higher risk characteristics/circumstances than satisfactory assets. Such conditions include strained liquidity, slow pay, stale financial statements, or other conditions that require more stringent attention from the lending staff. These conditions, if not corrected, may weaken the creditÂ quality or inadequately protect the Companyâ€™s credit position at some future date. Assets are classified â€œSubstandardâ€ if the asset has a well-defined weakness that requires managementâ€™s attention to a greater degree than for loans classified special mention. Such weakness, if left uncorrected, could possibly result in the compromised ability of the loan to perform to contractual requirements. An asset is classified as â€œDoubtfulâ€ if it is inadequately protected by the net worth and/or paying capacity of the obligor or of the collateral, if any, that secures the obligation. Assets classified as doubtful include assets for which there is a â€œdistinct possibilityâ€ that a degree of loss will occur if the inadequacies are not corrected. Â Â 20 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â We evaluate whether a modification, extension or renewal of a loan is a current period origination in accordance with GAAP. Generally, loans up for renewal are subject to a full credit evaluation before the renewal is granted and such loans are considered current period originations for purposes of the table below.Â The following table presents loans by origination,Â risk designation and gross charge-offs as of and during the six months ended June 30, 2024 (dollars in thousands): Â Â Â Term loans amortized cost basis by origination year Â Â Â Â Â Â Â Â Â 2024 Â Â 2023 Â Â 2022 Â Â 2021 Â Â 2020 Â Â Prior Â Â Revolving Loans Â Â Total Gross Loans Â Commercial Â Pass Â $16,275Â Â $148,282Â Â $195,059Â Â $283,478Â Â $32,453Â Â $122,418Â Â $652,444Â Â $1,450,409Â Special mention Â Â -Â Â Â -Â Â Â 11,090Â Â Â 2,810Â Â Â 1,634Â Â Â 9,920Â Â Â 11,150Â Â Â 36,604Â Substandard Â Â -Â Â Â 250Â Â Â 739Â Â Â 230Â Â Â -Â Â Â 12,773Â Â Â 727Â Â Â 14,719Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total commercial Â $16,275Â Â $148,532Â Â $206,888Â Â $286,518Â Â $34,087Â Â $145,111Â Â $664,321Â Â $1,501,732Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $300Â Â $300Â Commercial Real Estate Â Pass Â $100,404Â Â $273,253Â Â $1,534,768Â Â $1,562,051Â Â $357,702Â Â $1,509,393Â Â $371,401Â Â $5,708,972Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 15,072Â Â Â -Â Â Â 15,072Â Substandard Â Â -Â Â Â -Â Â Â -Â Â Â 1,867Â Â Â -Â Â Â 37,958Â Â Â -Â Â Â 39,825Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total commercial real estate Â $100,404Â Â $273,253Â Â $1,534,768Â Â $1,563,918Â Â $357,702Â Â $1,562,423Â Â $371,401Â Â $5,763,869Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $6,481Â Â $-Â Â $6,481Â Commercial Construction Â Pass Â $9,500Â Â $582Â Â $2,124Â Â $9,071Â Â $6,236Â Â $10,500Â Â $590,251Â Â $628,264Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 8,700Â Â Â 8,700Â Substandard Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 2,204Â Â Â 2,204Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total commercial construction Â $9,500Â Â $582Â Â $2,124Â Â $9,071Â Â $6,236Â Â $10,500Â Â $601,155Â Â $639,168Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Residential Â Pass Â $11,222Â Â $15,126Â Â $41,597Â Â $21,675Â Â $21,004Â Â $104,637Â Â $36,626Â Â $251,887Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 643Â Â Â 2,797Â Â Â 3,440Â Substandard Â Â -Â Â Â -Â Â Â -Â Â Â 536Â Â Â -Â Â Â 686Â Â Â 237Â Â Â 1,459Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total residential real estate Â $11,222Â Â $15,126Â Â $41,597Â Â $22,211Â Â $21,004Â Â $105,966Â Â $39,660Â Â $256,786Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Consumer Â Pass Â $809Â Â $27Â Â $10Â Â $-Â Â $-Â Â $-Â Â $99Â Â $945Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Substandard Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total consumer Â $809Â Â $27Â Â $10Â Â $-Â Â $-Â Â $-Â Â $99Â Â $945Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Total Â Pass Â $138,210Â Â $437,270Â Â $1,773,558Â Â $1,876,275Â Â $417,395Â Â $1,746,948Â Â $1,650,821Â Â $8,040,477Â Special mention Â Â -Â Â Â -Â Â Â 11,090Â Â Â 2,810Â Â Â 1,634Â Â Â 25,635Â Â Â 22,647Â Â Â 63,816Â Substandard Â Â -Â Â Â 250Â Â Â 739Â Â Â 2,633Â Â Â -Â Â Â 51,417Â Â Â 3,168Â Â Â 58,207Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Grand total Â $138,210Â Â $437,520Â Â $1,785,387Â Â $1,881,718Â Â $419,029Â Â $1,824,000Â Â $1,676,636Â Â $8,162,500Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $6,481Â Â $300Â Â $6,781Â Â 21 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â The following table presents loans by origination, risk designation and gross charge-offs as of and for the year ended December 31, 2023 (dollars in thousands): Â Â Â Term loans amortized cost basis by origination year Â Â Â Â Â Â Â Â Â 2023 Â Â 2022 Â Â 2021 Â Â 2020 Â Â 2019Â Â Prior Â Â Revolving Loans Â Â Total Gross Loans Â Commercial Â Pass Â $178,582Â Â $252,151Â Â $265,705Â Â $38,909Â Â $13,726Â Â $112,145Â Â $684,779Â Â $1,545,997Â Special mention Â Â -Â Â Â 10,620Â Â Â -Â Â Â -Â Â Â 562Â Â Â 3,417Â Â Â 3,199Â Â Â 17,798Â Substandard Â Â 250Â Â Â 439Â Â Â 241Â Â Â 1Â Â Â 612Â Â Â 11,695Â Â Â 1,697Â Â Â 14,935Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total commercial Â $178,832Â Â $263,210Â Â $265,946Â Â $38,910Â Â $14,900Â Â $127,257Â Â $689,675Â Â $1,578,730Â YTD gross charge-offs Â $54Â Â $3,397Â Â $-Â Â $-Â Â $280Â Â $11,094Â Â $63Â Â $14,888Â Commercial real estate Â Pass Â $248,660Â Â $1,561,841Â Â $1,585,109Â Â $352,445Â Â $353,391Â Â $1,232,240Â Â $497,588Â Â $5,831,274Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 24,202Â Â Â -Â Â Â 24,202Â Substandard Â Â -Â Â Â -Â Â Â 1,888Â Â Â -Â Â Â 1,255Â Â Â 20,141Â Â Â 16,785Â Â Â 40,069Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total commercial real estate Â $248,660Â Â $1,561,841Â Â $1,586,997Â Â $352,445Â Â $354,646Â Â $1,276,583Â Â $514,373Â Â $5,895,545Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $2,142Â Â $-Â Â $2,142Â Commercial construction Â Pass Â $582Â Â $5,463Â Â $15,645Â Â $6,236Â Â $-Â Â $-Â Â $583,870Â Â $611,796Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 8,700Â Â Â 8,700Â Substandard Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total commercial construction Â $582Â Â $5,463Â Â $15,645Â Â $6,236Â Â $-Â Â $-Â Â $592,570Â Â $620,496Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Residential real estate Â Pass Â $15,455Â Â $42,830Â Â $21,987Â Â $21,704Â Â $19,896Â Â $91,114Â Â $36,082Â Â $249,068Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 651Â Â Â 2,817Â Â Â 3,468Â Substandard Â Â -Â Â Â -Â Â Â 555Â Â Â -Â Â Â -Â Â Â 2,144Â Â Â 806Â Â Â 3,505Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total residential real estate Â $15,455Â Â $42,830Â Â $22,542Â Â $21,704Â Â $19,896Â Â $93,909Â Â $39,705Â Â $256,041Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $18Â Â $18Â Consumer Â Pass Â $849Â Â $83Â Â $-Â Â $5Â Â $-Â Â $-Â Â $92Â Â $1,029Â Special mention Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Substandard Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Total consumer Â $849Â Â $83Â Â $-Â Â $5Â Â $-Â Â $-Â Â $92Â Â $1,029Â YTD gross charge-offs Â $-Â Â $-Â Â $-Â Â $-Â Â $-Â Â $1Â Â $1Â Total Â Pass Â $444,128Â Â $1,862,368Â Â $1,888,446Â Â $419,299Â Â $387,013Â Â $1,435,499Â Â $1,802,411Â Â $8,239,164Â Special mention Â Â -Â Â Â 10,620Â Â Â -Â Â Â -Â Â Â 562Â Â Â 28,270Â Â Â 14,716Â Â Â 54,168Â Substandard Â Â 250Â Â Â 439Â Â Â 2,684Â Â Â 1Â Â Â 1,867Â Â Â 33,980Â Â Â 19,288Â Â Â 58,509Â Doubtful Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Grand total Â $444,378Â Â $1,873,427Â Â $1,891,130Â Â $419,300Â Â $389,442Â Â $1,497,749Â Â $1,836,415Â Â $8,351,841Â YTD gross charge-offs Â $54Â Â $3,397Â Â $-Â Â $-Â Â $280Â Â $13,236Â Â $82Â Â $17,049Â Â Â 22 Table of Contents Â CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Collateral Dependent Loans: Loans which meet certain criteria are individually evaluated as part of the process of calculating the allowance for credit losses. The evaluation is determined on an individual basis using the fair value of the collateral as of the reporting date. The following table presents collateral dependent loans that were individually evaluated for impairment as of June 30, 2024 and December 31, 2023: Â Â Â June 30, 2024 Â Â Â Real EstateÂ Â Other Â Â Total Â Â Â (dollars in thousands) Â Commercial Â $1,677Â Â $10,174Â Â $11,851Â Commercial real estate Â Â 29,585Â Â Â -Â Â Â 29,585Â Commercial construction Â Â 2,204Â Â Â -Â Â Â 2,204Â Residential real estate Â Â 813Â Â Â -Â Â Â 813Â Total Â $34,279Â Â $10,174Â Â $44,453Â Â Â Â December 31, 2023 Â Â Â Real EstateÂ Â Other Â Â Total Â Â Â (dollars in thousands) Â Commercial Â $4,949Â Â $10,387Â Â $15,336Â Commercial real estate Â Â 39,986Â Â Â -Â Â Â 39,986Â Commercial construction Â Â 8,700Â Â Â -Â Â Â 8,700Â Residential real estate Â Â 5,941Â Â Â -Â Â Â 5,941Â Total Â $59,576Â Â $10,387Â Â $69,963Â Â 23 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â AgingÂ Analysis - The following table provides an analysis of the aging of the loans by class, excluding the effect of net deferred fees, whichÂ are past due as of June 30, 2024 and December 31, 2023: Â Â Â June 30, 2024 Â Â Â 30-59 Days Past Due Â Â 60-89 Days Past Due Â Â 90 Days or Greater Past Due and Still Accruing Â Â Nonaccrual Â Â Total Past Due and Nonaccrual Â Â Current Â Â Gross Loans Â Â Â (dollars in thousands) Â Commercial Â $1,667Â Â $427Â Â $-Â Â $12,778Â Â $14,872Â Â $1,486,860Â Â $1,501,732Â Commercial real estate Â Â -Â Â Â 4,876Â Â Â -Â Â Â 29,585Â Â Â 34,461Â Â Â 5,729,408Â Â Â 5,763,869Â Commercial construction Â Â -Â Â Â -Â Â Â -Â Â Â 2,204Â Â Â 2,204Â Â Â 636,964Â Â Â 639,168Â Residential real estate Â Â -Â Â Â 1,813Â Â Â -Â Â Â 1,459Â Â Â 3,272Â Â Â 253,514Â Â Â 256,786Â Consumer Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 945Â Â Â 945Â Total Â $1,667Â Â $7,116Â Â $-Â Â $46,026Â Â $54,809Â Â $8,107,691Â Â $8,162,500Â Â Â Â December 31, 2023 Â Â Â 30-59 Days Past Due Â Â 60-89 Days Past Due Â Â 90 Days or Greater Past Due and Still Accruing Â Â Nonaccrual Â Â Total Past Due and Nonaccrual Â Â Current Â Â Gross Loans Â Â Â (dollars in thousands) Â Commercial Â $555Â Â $-Â Â $-Â Â $12,827Â Â $13,382Â Â $1,565,348Â Â $1,578,730Â Commercial real estate Â Â 527Â Â Â -Â Â Â -Â Â Â 36,192Â Â Â 36,719Â Â Â 5,858,826Â Â Â 5,895,545Â Commercial construction Â Â -Â Â Â 23,600Â Â Â -Â Â Â -Â Â Â 23,600Â Â Â 596,896Â Â Â 620,496Â Residential real estate Â Â 275Â Â Â 226Â Â Â -Â Â Â 3,505Â Â Â 4,006Â Â Â 252,035Â Â Â 256,041Â Consumer Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 1,029Â Â Â 1,029Â Total Â $1,357Â Â $23,826Â Â $-Â Â $52,524Â Â $77,707Â Â $8,274,134Â Â $8,351,841Â Â 24 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â The following tables detail, at the period-end presented, the amount of gross loans (excluding loans held-for-sale) that are evaluated individually, and collectively, for impairment, those acquired with deteriorated quality, and the related portion of the allowance for credit losses that are allocated to each loan portfolio segment: Â Â Â June 30, 2024 Â Â Â Commercial Â Â Commercial real estateÂ Â Commercial construction Â Â Residential real estateÂ Â Consumer Â Â Total Â Â Â (dollars in thousands) Â Allowance for credit losses - loans Â Individually analyzed Â $337Â Â $-Â Â $-Â Â $-Â Â $-Â Â $337Â Collectively evaluated Â Â 19,458Â Â Â 53,098Â Â Â 4,472Â Â Â 4,484Â Â Â 3Â Â Â 81,515Â Acquired with deteriorated credit quality Â Â 225Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 225Â Total Â $20,020Â Â $53,098Â Â $4,472Â Â $4,484Â Â $3Â Â $82,077Â Gross loans Â Individually analyzed Â $12,188Â Â $29,585Â Â $2,204Â Â $813Â Â $-Â Â $44,790Â Collectively evaluated Â Â 1,489,083Â Â Â 5,734,284Â Â Â 636,964Â Â Â 255,973Â Â Â 945Â Â Â 8,117,249Â Acquired with deteriorated credit quality Â Â 461Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 461Â Total Â $1,501,732Â Â $5,763,869Â Â $639,168Â Â $256,786Â Â $945Â Â $8,162,500Â Â Â Â December 31, 2023 Â Â Â Commercial Â Â Commercial real estate Â Â Commercial construction Â Â Residential real estate Â Â Consumer Â Â Total Â Â Â (dollars in thousands) Â Allowance for credit losses - loans Â Individually analyzed Â $-Â Â $941Â Â $-Â Â $-Â Â $-Â Â $941Â Collectively evaluated Â Â 20,215Â Â Â 51,337Â Â Â 4,739Â Â Â 4,320Â Â Â 5Â Â Â 80,616Â Acquired with deteriorated credit quality Â Â 417Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 417Â Total

Â $20,632Â Â $52,278Â Â $4,739Â Â $4,320Â Â $5Â Â $81,974Â Gross loans Â Individually analyzed Â $15,336Â Â $39,986Â Â $8,700Â Â $5,941Â Â $-Â Â $69,963Â Collectively evaluated Â Â 1,562,910Â Â Â 5,855,559Â Â Â 611,796Â Â Â 250,100Â Â Â 1,029Â Â Â 8,281,394Â Acquired with deteriorated credit quality Â Â 484Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 484Â Total Â $1,578,730Â Â $5,895,545Â Â $620,496Â Â $256,041Â Â $1,029Â Â $8,351,841Â Â 25 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Activity in the Companyâ€™s ACL for loans for the three and six months ended June 30, 2024 is summarized in the tables below. Â Â Â Three Months Ended June 30, 2024 Â Â Â Commercial Â Â Commercial real estate Â Â Commercial construction Â Â Residential real estate Â Â Consumer Â Â Total Â Â Â (dollars in thousands) Â Balance as of March 31, 2024 Â $20,735Â Â $52,794Â Â $5,011Â Â $4,326Â Â $3Â Â $82,869Â Charge-offs Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â (3,595) Recoveries Â Â 324Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 324Â (Reversal of) provision for credit losses - loans Â Â (1,039)Â Â 3,899Â Â Â (539)Â Â 158Â Â Â -Â Â Â 2,479Â Balance as of June 30, 2024 Â $20,020Â Â $53,098Â Â $4,472Â Â $4,484Â Â $3Â Â $82,077Â Â Â Â Six Months Ended June 30, 2024 Â Â Â Commercial Â Â Commercial real estate Â Â Commercial construction Â Â Residential real estate Â Â Consumer Â Â Total Â Â Â (dollars in thousands) Â Balance as of December 31, 2023 Â $20,632Â Â $52,278Â Â $4,739Â Â $4,320Â Â $5Â Â $81,974Â Charge-offs Â Â (300)Â Â (6,480)Â Â -Â Â Â -Â Â Â -Â Â Â (6,780) Recoveries Â Â 347Â Â Â -Â Â Â -Â Â Â -Â Â Â -Â Â Â 347Â (Reversal of) provision for credit losses - loans Â Â (659)Â Â 7,300Â Â Â (267)Â Â 164Â Â Â (2)Â Â 6,536Â Balance as of June 30, 2024 Â $20,020Â Â $53,098Â Â $4,472Â Â $4,484Â Â $3Â Â $82,077Â Â 26 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Activity in the Companyâ€™s ACL for loans for the three and six months ended June 30, 2023 is summarized in the table below. Â Â Â Three Months Ended June 30, 2023 Â Â Â Commercial Â Â Commercial real estate Â Â Commercial construction Â Â Residential real estate Â Â Consumer Â Â Total Â Â Â (dollars in thousands) Â Balance as of March 31, 2023 Â $26,162Â Â $53,000Â Â $3,966Â Â $3,868Â Â $6Â Â $87,002Â Charge-offs Â Â (1,100)Â Â -Â Â Â -Â Â Â (18)Â Â -Â Â Â (1,118) Recoveries Â Â 9Â Â Â -Â Â Â -Â Â Â 67Â Â Â -Â Â Â 76Â Provision for (reversal of) credit losses - loans Â Â 4,255Â Â Â (491)Â Â (420)Â Â (98)Â Â (1)Â Â 3,245Â Balance as of June 30, 2023 Â $29,326Â Â $52,509Â Â $3,546Â Â $3,819Â Â $5Â Â $89,205Â Â Â Â Six Months Ended June 30, 2023 Â Â Â Commercial Â Â Commercial real estate Â Â Commercial construction Â Â Residential real estate Â Â Consumer Â Â Total Â Â Â (dollars in thousands) Â Balance as of December 31, 2022 Â $28,903Â Â $53,742Â Â $3,718Â Â $4,143Â Â $7Â Â $90,513Â Charge-offs Â Â (3,867)Â Â (1,717)Â Â -Â Â Â (18)Â Â -Â Â Â (5,602) Recoveries Â Â 9Â Â Â -Â Â Â -Â Â Â 68Â Â Â -Â Â Â 77Â Provision for (reversal of) credit losses - loans Â Â 4,281Â Â Â 484Â Â Â (172)Â Â (374)Â Â (2)Â Â 4,217Â Balance as of June 30, 2023 Â $29,326Â Â $52,509Â Â $3,546Â Â $3,819Â Â $5Â Â $89,205Â Â 27 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Loan Modifications to Borrowers Experiencing Financial Difficulty: Â The following tables presents the amortized cost basis at the end of the reporting period of the loanÂ modifications to borrowers experiencing financial difficulty and the percentage of the amortized cost basis of loans that were modified to borrowers experiencing financial difficulty as compared to the gross loans of the relevant loan segment. The total percentage represents the total modified loans as compared to the total gross loans balance. Â Â Â Three Months Ended Â Â Â June 30, 2024 Â Â Â Term Extension Â Â Payment Deferral Â Â Interest Rate Reduction Â Â Total Â Â % of Portfolio Loan Segment Â Â Â (dollars in thousands) Â Â Â Â Â Commercial Â $11,150Â Â $-Â Â $-Â Â $11,150Â Â Â 0.75% Residential real estate Â Â 1,417Â Â Â -Â Â Â -Â Â Â 1,417Â Â Â 0.01Â Â Â Â Six Months Ended Â Â Â June 30, 2024 Â Â Â Term Extension Â Â Payment Deferral Â Â Interest Rate Reduction Â Â Total Â Â % of Portfolio Loan Segment Â Â Â (dollars in thousands) Â Â Â Â Â Commercial Â $11,150Â Â $126Â Â $-Â Â $11,276Â Â Â 0.75% Residential real estate Â Â 1,417Â Â Â -Â Â Â -Â Â Â 1,417Â Â Â 0.01Â Â The above table consists of two commercial loans and one residential real estate loan that were modified during the six months ended June 30, 2024 where the borrower was experiencing financial difficulty. AnÂ $11.1 million commercial loan was a six-month term extension, while a $0.1 million commercial loan was a three-month payment deferral.Â The $1.4 million residential real estate loan involved the freezing of a loan commitment, combined with a 10-year term extension. Â 28 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Â Â Three Months Ended Â Â Â June 30, 2023 Â Â Â Term Extension Â Â Payment Deferral Â Â Interest Rate Reduction Â Â Total Â Â % of Portfolio Loan Segment Â Â Â (dollars in thousands) Â Â Â Â Â Commercial Â $-Â Â $-Â Â $-Â Â $-Â Â Â 0.00% Commercial real estate Â Â 213Â Â Â Â Â Â Â Â Â Â 213Â Â Â 0.00% Â Â Â Six Months Ended Â Â Â June 30, 2023 Â Â Â Term Extension Â Â Payment Deferral Â Â Interest Rate Reduction Â Â Total Â Â % of Portfolio Loan Segment Â Â Â (dollars in thousands) Â Â Â Â Â Commercial Â $53Â Â $-Â Â $-Â Â $53Â Â Â 0.00% Commercial real estate Â Â 213Â Â Â Â Â Â Â Â Â Â 213Â Â Â 0.00% Â The above table consists of one commercial loan and one commercial real estate loan that were modified during the six months ended June 30, 2023 where the borrower was experiencing financial difficulty. The $50 thousand commercial loan was a 3-year term extension, while the $213 thousand commercial real estate loan was a 15-year term extension. Â The Company closely monitors the performance of loans that are modified to borrowerâ€™s experiencing financial difficulty to understand the effectiveness of its modification efforts. The following tablesÂ presentÂ the payment status of loans that have been modified in the last twelve months. Â Â Â June 30, 2024 Â Â Â Current Â Â 30-89 Days Past Due Â Â 90 Days or Greater Past Due and Still Accruing Â Â Â (dollars in thousands) Â Commercial Â $21,559Â Â $-Â Â $-Â Commercial real estate Â Â 7,272Â Â Â -Â Â Â -Â Residential real estate Â Â 1,417Â Â Â -Â Â Â -Â Â Â Â Â Loan Modifications to Borrowers Experiencing Financial Difficulty: Â During the six months ended June 30, 2024 and June 30, 2023, the Company hadÂ noÂ commitments to lend additional funds to borrowers experiencing financial difficulty for which the Company modified the terms of the loans in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension during the current period. Â Â Â There wereÂ noÂ loans to borrowers experiencing financial difficulty that had a payment default during the six months ended June 30, 2024 and 2023 and were modified in the twelve months prior to that default. Default is determined at 90 or more days past due, upon charge-off, or upon foreclosure. Modified loans in default are individually evaluated for the allowance for credit losses or if the modified loan is deemed uncollectible, the loan, or a portion of the loan, is written off and the allowance for credit losses is adjusted accordingly. Â 29 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Allowance for Credit Losses for Unfunded Commitments Â The Company has recorded an ACL for unfunded credit commitments, which was recorded in other liabilities. The provision is recorded within the provision for (reversal of) credit losses on the Companyâ€™s income statement. The following tableÂ presents a roll forward of the allowance for credit losses for unfunded commitments for theÂ three and six months ended June 30, 2024 and 2023: Â Â Â Three Months Ended Â Â Three Months Ended Â Â Â June 30, Â Â June 30, Â Â Â 2024 Â Â 2023 Â Â Â (dollars in thousands) Â Balance at beginning of period Â $2,754Â Â $3,064Â Provision for (reversal of) credit losses - unfunded commitments Â Â 21Â Â Â (245) Balance at end of period Â $2,775Â Â $2,819Â Â Â Â Six Months Ended Â Â Six Months Ended Â Â Â June 30, Â Â June 30, Â Â Â 2024 Â Â 2023 Â Â Â (dollars in thousands) Â Balance at beginning of period Â $2,811Â Â $3,036Â Reversal of credit losses - unfunded commitments Â Â (36)Â Â (217) Balance at end of period Â $2,775Â Â $2,819Â Â 30 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 5. Loans and the Allowance for Credit Losses â€“ (continued) Â Components of Provision for Credit Losses Â The following tableÂ summarizes the provision for (reversal of) credit losses for theÂ three and six months ended June 30, 2024 and 2023: Â Â Â Three Months Ended Â Â Three Months Ended Â Â Â June 30, Â Â June 30, Â Â Â 2024 Â Â 2023 Â Â Â (dollars in thousands) Â Provision for credit losses â€“ loans Â $2,479Â Â $3,245Â Provision for (reversal of) credit losses - unfunded commitments Â Â 21Â Â Â (245) Provision for credit losses Â $2,500Â Â $3,000Â Â Â Â Six Months Ended Â Â Six Months Ended Â Â Â June 30, Â Â June 30, Â Â Â 2024 Â Â 2023 Â Â Â (dollars in thousands) Â Provision for credit losses â€“ loans Â $6,536Â Â $4,217Â Reversal of credit losses - unfunded commitments Â Â (36)Â Â (217) Provision for credit losses Â $6,500Â Â $4,000Â Â 31 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments Â Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Â Â Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Â Â Level 2: Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Â Â Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (for example, supported with little or no market activity). Â An assetâ€™s or liabilityâ€™s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Companyâ€™s assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Companyâ€™s disclosures and those of other companies may not be meaningful. Â 32 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€“ (continued) Â Assets and Liabilities Measured at Fair Value on a Recurring Basis Â The following methods and assumptions were used to estimate the fair values of the Companyâ€™s assets measured at fair value on a recurring basis as of June 30, 2024 and December 31, 2023: Â Investment Securities Available-for-Sale and Equity Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of instruments which would generally be classified within Level 2 of the valuation hierarchy include municipal bonds and certain agency collateralized mortgage obligations. In certain cases where there is limited activity in the market for a particular instrument, assumptions must be made to determine the fair value of the instruments and these are classified as Level 3. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Companyâ€™s evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class. Â Derivatives: The fair value of derivatives is based on valuation models using observable market data as of the measurement date (level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rate, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Â For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of June 30, 2024 and December 31, 2023 are as follows: Â Â Â Â Â Â Â June 30, 2024 Â Â Â Â Â Â Â Fair Value Measurements at Reporting Date Using Â Â Â Total Fair Value Â Â Quoted Prices in Active Markets for Identical Assets (Level 1) Â Â Significant Other Observable Inputs (Level 2) Â Â Significant Unobservable Inputs (Level 3) Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Recurring fair value measurements: Assets Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Investment securities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Available-for-sale: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Federal agency obligations Â $81,375Â Â $-Â Â $81,375Â Â $-Â Residential mortgage pass-through securities Â Â 385,992Â Â Â -Â Â Â 385,992Â Â Â -Â Commercial mortgage pass-through securities Â Â 21,418Â Â Â -Â Â Â 21,418Â Â Â -Â Obligations of U.S. states and political subdivision Â Â 125,670Â Â Â -Â Â Â 118,919Â Â Â 6,751Â Corporate bonds and notes Â Â 4,978Â Â Â -Â Â Â 4,978Â Â Â -Â Asset-backed securities Â Â 1,000Â Â Â -Â Â Â 1,000Â Â Â -Â Other securities Â Â 146Â Â Â 146Â Â Â -Â Â Â -Â Total available-for-sale Â Â 620,579Â Â Â 146Â Â Â 613,682Â Â Â 6,751Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Equity securities Â Â 19,743Â Â Â 9,693Â Â Â 10,050Â Â Â -Â Derivatives Â Â 48,734Â Â Â -Â Â Â 48,734Â Â Â -Â Total assets Â $689,056Â Â $9,839Â Â $672,466Â Â $6,751Â Â 33 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€“Â (continued) Â Â Â Â Â Â Â December 31, 2023 Â Â Â Â Â Â Â Fair Value Measurements at Reporting Date Using Â Â Â Total Fair Value Â Â Quoted Prices in Active Markets for Identical Assets (Level 1) Â Â Significant Other Observable Inputs (Level 2) Â Â Significant Unobservable Inputs (Level 3) Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Recurring fair value measurements: Assets Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Investment securities: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Available-for-sale: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Federal agency obligations Â $45,326Â Â $-Â Â $45,326Â Â $-Â Residential mortgage pass-through securities Â Â 411,191Â Â Â -Â Â Â 411,191Â Â Â -Â Commercial mortgage pass-through securities Â Â 21,564Â Â Â -Â Â Â 21,564Â Â Â -Â Obligations of U.S. states and political subdivision Â Â 132,705Â Â Â -Â Â Â 125,583Â Â Â 7,122Â Corporate bonds and notes Â Â 4,973Â Â Â -Â Â Â 4,973Â Â Â -Â Asset-backed securities Â Â 1,238Â Â Â -Â Â Â 1,238Â Â Â -Â Other securities Â Â 165Â Â Â 165Â Â Â -Â Â Â -Â Total available-for-sale Â $617,162Â Â $165Â Â $609,875Â Â $7,122Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Equity securities Â Â 18,564Â Â Â 9,867Â Â Â 8,697Â Â Â -Â Derivatives Â Â 43,805Â Â Â -Â Â Â 43,805Â Â Â -Â Total assets Â $679,531Â Â $10,032Â Â $662,377Â Â $7,122Â Â There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2024 and during the year ended December 31, 2023. Â Assets Measured at Fair Value on a Nonrecurring Basis Â The Company may be required periodically to measure certain assets at fair value on a nonrecurring basis in accordance withÂ GAAP. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or impairment write-downs of individual assets. The following methods and assumptions were used to estimate the fair values of the Companyâ€™s assets measured at fair value on a nonrecurring basis as of June 30, 2024 and December 31, 2023. Â Loans Held-for-Sale: Residential mortgage loans, originated and intended for sale in the secondary market, are carried at the lower of aggregate cost or estimated fair value as determined by outstanding commitments from investors. For these loans originated and intended for sale, gains and losses on loan sales (sale proceeds minus carrying value) are recorded in other income and direct loan origination costs and fees are deferred at origination of the loan and are recognized in other income upon sale of the loan. Management obtains quotes or bids on all or parts of these loans directly from the purchasing financial institutions (Level 2). Â Other loans held-for-sale are carried at the lower of aggregate cost or estimated fair value.Â Fair value of these loans is determined based on the terms of the loan, such as interest rate, maturity date, reset term, as well as sales of similar assets (Level 3). Â 34 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€“Â (continued) Â Collateral Dependent Loans: The Company may record adjustments to the carrying value of loans based on fair value measurements, generally as partial charge-offs of the uncollectible portions of these loans. These adjustments also include certain impairment amounts for collateral dependent loans calculated in accordance with GAAP.Â Impairment amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated impairment amount applicable to that loan does not necessarily represent the fair value of the loan. Real estate collateral is valued using independent appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable by market participants. However, due to the substantial judgment applied and limited volume of activity as compared to other assets, fair value is based on Level 3 inputs. Estimates of fair value used for collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and are also based on Level 3 inputs. Â For assets measured at fair value on a nonrecurring basis, the fair value measurements as of June 30, 2024 and December 31, 2023 are as follows: Â Â Â Â Â Â Â Fair Value Measurements at Reporting Date Using Â Assets measured at fair value on a nonrecurring basis: Â June 30, 2024Â Quoted Prices in Active Markets for Identical Assets (Level 1)Â Â Significant Other Observable Inputs (Level 2)Â Â Significant Unobservable Inputs (Level 3)Â Collateral dependent loans: Â (dollars in thousands) Â Commercial Â $775Â Â $-Â Â $-Â Â $775Â Â Â Â Â Â Â Â Â Fair Value Measurements at Reporting Date Using Â Assets measured at fair value on a nonrecurring basis: Â December 31, 2023Â Â Quoted Prices in Active Markets for Identical Assets (Level 1)Â Â Significant Other Observable Inputs (Level 2)Â Â Significant Unobservable Inputs (Level 3)Â Collateral dependent loans: Â (dollars in thousands) Â Commercial Â $657Â Â $-Â Â $-Â Â $657Â Commercial real estate Â Â 7,005Â Â Â -Â Â Â -Â Â Â 7,005Â Â Collateral dependent loans â€“ Collateral dependent loans as of June 30, 2024 that required a valuation allowance were $1.0Â million with a related valuation allowance of $0.2Â million compared to $7.7Â million with a related valuation allowance of $1.4Â million as of December 31, 2023. Â 35 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€"Â (continued) Â Assets Measured with Significant Unobservable Level 3 Inputs Â Recurring basis Â The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2024 and for the year ended December 31, 2023: Â Â Â Municipal SecuritiesÂ Â Â (dollars in thousands) Â Beginning balance, January 1, 2024 Â $7,122Â Principal paydowns Â Â (150) Change in unrealized loss Â Â (221) Ending balance, June 30, 2024 Â $6,751Â Â Â Municipal SecuritiesÂ Â Â (dollars in thousands) Â Beginning balance, January 1, 2023 Â $7,349Â Principal paydowns Â Â (272) Changes in unrealized gain Â Â 45Â Ending balance, December 31, 2023 Â $7,122Â Â The following methods and assumptions were used to estimate the fair values of the Companyâ€™s assets measured at fair value on a recurring basis as of June 30, 2024 and December 31, 2023. The table below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 hierarchy. Â June 30, 2024 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Fair Value Â Valuation Techniques Â Unobservable Input Â Rate Â Securities available-for-sale: Â Â Â Â (dollars in thousands) Â Â Â Â Â Â Municipal securities Â $6,751Â Discounted cash flows Â Discount rate Â Â 4.8% Â December 31, 2023 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Fair Value Â Valuation Techniques Â Unobservable Input Â Rate Â Securities available-for-sale: Â Â Â Â (dollars in thousands) Â Â Â Â Â Â Municipal securities Â $7,122Â Discounted cash flows Â Discount rate Â Â 4.3% Â 36 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€"Â (continued) Â Nonrecurring basis: The following methods and assumptions were used to estimate the fair values of the Companyâ€™s assets measured at fair value on a nonrecurring basis for the periods presented. The tables below provide quantitative information about significant unobservable inputs used in fair value measurements within Level 3 hierarchy of collateral dependent loans. Â June 30, 2024 Â Â Â Â Â Â Â Â Â Â Â Â Â (dollars in thousands) Â Fair Value Â Â Valuation Techniques Unobservable Input Â Range (weighted average) Â Commercial Â $775Â Â Appraisals of collateral value Adjustment for comparable sales Â -7.5% to +25% (+0.8%)Â Â December 31, 2023 Â Â Â Â Â Â Â Â Â Â Â Â (dollars in thousands) Â Fair Value Â Â Valuation Techniques Unobservable Input Â Range (weighted average) Â Commercial loans Â $657Â Â Appraisals of collateral value Adjustment for comparable sales Â Â -7.5% to +25% (+.1%)Â Commercial real estate loans Â Â 7,005Â Â Appraisals of collateral value Adjustment for comparable sales Â -15% to +0% (-10.3%) Â Â 37 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€"Â (continued) Â As of June 30, 2024 the fair value measurements presented are consistent with Topic 820, Fair Value Measurement, in which fair value represents exit price. The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Companyâ€™s financial instruments as of June 30, 2024 and December 31, 2023:Â Â Â Â Â Â Â Â Â Â Â Â Â Fair Value Measurements Â Â Â Carrying Amount Â Â Fair Value Â Â Quoted Prices in Active Markets for Identical Assets (Level 1) Â Â Significant Other Observable Inputs (Level 2) Â Â Significant Unobservable Inputs (Level 3) Â Â Â (dollars in thousands) Â June 30, 2024 Â Financial assets: Â Cash and due from banks Â $293,513Â Â $293,513Â Â $293,513Â Â $-Â Â $-Â Securities available-for-sale Â Â 620,579Â Â Â 620,579Â Â Â 146Â Â Â 613,682Â Â Â 6,751Â Restricted investments in bank stocks Â Â 43,403Â Â Â n/aÂ Â Â n/aÂ Â Â n/aÂ Â Â n/aÂ Equity securities Â Â 19,743Â Â Â 19,743Â Â Â 9,693Â Â Â 10,050Â Â Â -Â Net loans Â Â 8,075,826Â Â Â 7,832,816Â Â Â -Â Â Â -Â Â Â 7,832,816Â Derivatives - interest rate contracts Â Â 48,734Â Â Â 48,734Â Â Â -Â Â Â 48,734Â Â Â -Â Accrued interest receivable Â Â 48,262Â Â Â 48,262Â Â Â -Â Â Â 5,891Â Â Â 42,371Â Financial liabilities: Â Noninterest-bearing deposits Â Â 1,268,882Â Â Â 1,268,882Â Â Â 1,268,882Â Â Â -Â Â Â -Â Interest-bearing deposits Â Â 6,307,132Â Â Â 6,287,889Â Â Â 3,713,967Â Â Â 2,573,922Â Â Â -Â Borrowings Â Â 756,144Â Â Â 753,394Â Â Â -Â Â Â 753,394Â Â Â -Â Subordinated debentures Â Â 79,692Â Â Â 79,680Â Â Â -Â Â Â 79,680Â Â Â -Â Accrued interest payable Â Â 10,309Â Â Â 10,309Â Â Â -Â Â Â 10,309Â Â Â -Â December 31, 2023 Â Financial assets: Â Cash and due from banks Â $242,714Â Â $242,714Â Â $242,714Â Â $-Â Â $-Â Investment securities available-for-sale Â Â 617,162Â Â Â 617,162Â Â Â 165Â Â Â 609,875Â Â Â 7,122Â Restricted investment in bank stocks Â Â 51,457Â Â Â n/aÂ Â Â n/aÂ Â Â n/aÂ Â Â n/aÂ Equity securities Â Â 18,564Â Â Â 18,564Â Â Â 9,867Â Â Â 8,697Â Â Â -Â Net loans Â Â 8,263,171Â Â Â 8,001,504Â Â Â -Â Â Â -Â Â Â 8,001,504Â Derivatives - interest rate contracts Â Â 43,805Â Â Â 43,805Â Â Â -Â Â Â 43,805Â Â Â -Â Accrued interest receivable Â Â 49,108Â Â Â 49,108Â Â Â -Â Â Â 5,387Â Â Â 43,721Â Financial liabilities: Â Noninterest-bearing deposits Â Â 1,259,364Â Â Â 1,259,364Â Â Â 1,259,364Â Â Â -Â Â Â -Â Interest-bearing deposits Â Â 6,276,838Â Â Â 6,256,444Â Â Â 3,745,467Â Â Â 2,510,977Â Â Â -Â Borrowings Â Â 933,579Â Â Â 932,081Â Â Â .Â Â Â 932,081Â Â Â -Â Subordinated debentures Â Â 79,439Â Â Â 77,952Â Â Â -Â Â Â 77,952Â Â Â -Â Accrued interest payable Â Â 10,152Â Â Â 10,152Â Â Â -Â Â Â 10,152Â Â Â -Â Â 38 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 6. Fair Value Measurements and Fair Value of Financial Instruments â€"Â (continued) Â The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of commitments to originate loans is immaterial and not included in the tables above. Â Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. Â The Companyâ€™s remaining assets and liabilities, which are not considered financial instruments, have not been valued differently than has been customary with historical cost accounting. No disclosure of the relationship value of the Companyâ€™s core deposit base is required by FASB ASC 825-10. Â Fair value estimates are based on existing balance sheet financial instruments, without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, there are certain significant assets and liabilities that are not considered financial assets or liabilities, such as deferred taxes, premises and equipment, and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates. Â Management believes that reasonable comparability between financial institutions may not be likely, due to the wide range of permitted valuation techniques and numerous estimates which must be made, given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values. Â Note 7. Comprehensive (Loss) Income Â Total comprehensive income (loss) includes all changes in equity during a period from transactions and other events and circumstances from non-owner sources. The Companyâ€™s other comprehensive income is comprised of unrealized holding gains and losses on securities available-for-sale, unrealized gains (losses) on cash flow hedges, obligations for defined benefit pension plan and an adjustment to reflect the curtailment of the Companyâ€™s defined benefit pension plan, each net of taxes. Â The following table represents the reclassification out of accumulated other comprehensive (loss) for the periods presented (dollars in thousands): Â Details about Accumulated Other Comprehensive Income Components Â Amounts Reclassified from Accumulated Other Comprehensive Income Â Â Amounts Reclassified from Accumulated Other Comprehensive Income Â Affected Line item in the Consolidated Statements of Income Â Â Three Months Ended June 30, Â Â Six Months Ended June 30, Â Â Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Â Interest income on cash flow hedges Â $5,683Â Â $3,953Â Â $11,312Â Â $8,220Â Borrowings and deposits expense Â Â Â (1,598)Â Â (1,189)Â Â (3,180)Â Â (2,473) Income tax expense Â Â $4,085Â Â $2,764Â Â $8,132Â Â $5,747Â Amortization of pension plan net actuarial losses Â $(43)Â $(74)Â $(86)Â $(148) Other components of net periodic pension expense Â Â Â 11Â Â Â 22Â Â Â 24Â Â Â 45Â Income tax benefit Â Â $(32)Â $(52)Â $(62)Â $(103)Â Total reclassification Â $4,053Â Â $2,712Â Â $8,070Â Â $5,644Â Â Â 39 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 7.Â Comprehensive (Loss) IncomeÂ â€" (continued)Â Â Accumulated other comprehensive lossÂ as of June 30, 2024 and December 31, 2023 consisted of the following: Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â (dollars in thousands) Â Investment securities available-for-sale, net of tax Â $(70,064)Â $(57,835) Cash flow hedge, net of tax Â Â 29,842Â Â Â 24,810Â Defined benefit pension and post-retirement plans, net of tax Â Â (2,022)Â Â (2,084) Total Â $(42,244)Â $(35,109) Â Â Note 8.Â Stock-based CompensationÂ Â The Companyâ€™s stockholders approved the 2017 Equity Compensation Plan (â€œthe Planâ€) on May 23, 2017.Â The Plan eliminates all remaining issuable shares under previous plans and is the only outstanding plan as of June 30, 2024. On May 30, 2023, the Company's stockholders approved an amendment to the Plan that increasedÂ the maximum numberÂ of shares issuable toÂ 1,200,000. Grants under the Plan can be in the form of stock options (qualified or non-qualified), restricted shares, deferredÂ stockÂ units or performance units. Shares available for grant and issuance under the Plan as of June 30, 2024Â wereÂ approximatelyÂ 338,684. The Company intends to issue all shares under the Plan in the form of newly issued shares. Â Restricted stock, options and deferredÂ stock units typically have a three-year vesting period starting one year after the date of grant with one-third vesting each year. Restricted stock and deferredÂ stock units granted to new employees and board members may be granted with shorter vesting periods. Grants of performance units typically have a cliff vesting after three years or upon a change of control. All issuances are subject to forfeiture if the recipient is no longer employedÂ prior to the award's vesting. Any forfeitures would result in previously recognized expense being reversed. Restricted stock grants have the same dividend and voting rights as common stock, while options, performance units and deferred stock unitsÂ do not. Â All awards are issued at the fair value of the underlying shares at the grant date. The Company expenses the cost of the awards, which is determined to be the fair market value of the awards at the date of grant, ratably over the vesting period. Forfeiture rates are not estimated but are recorded as incurred.Â Stock-based compensation expense for the three andÂ sixÂ months ended June 30, 2024Â wasÂ $1.1 andÂ $2.1 respectively. Stock-based compensation expense for the three and six months ended June 30, 2023Â wasÂ $1.2Â million andÂ $2.4Â million, respectively.Â Â Activity under the Companyâ€™s restrictedÂ stock for the six months ended June 30, 2024 was as follows: Â Â Â Nonvested SharesÂ Â Weighted Average Grant Date Fair ValueÂ Nonvested as of December 31, 2023 Â Â 115,805Â Â $17.85Â Granted Â Â 71,843Â Â Â 18.93Â Vested Â Â (76,643)Â Â 18.41Â Forfeited/cancelled/expired Â Â (1,848)Â Â 18.95Â Nonvested as of June 30, 2024 Â Â 109,157Â Â $18.15Â Â 40 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 8.Â Stock-Based Compensation â€" (continued)Â Â As of June 30, 2024, there was approximately $1.4Â million of total unrecognized compensation cost related to nonvested restricted stockÂ granted. The cost is expected to be recognized over a weighted average period of 1.3Â years. Â A summary of the status of unearned performance unit awards and the change during the period is presented in the table below: Â Â Â Units (expected)Â Â Units (maximum)Â Â Weighted Average Grant Date Fair ValueÂ Unearned as of December 31, 2023 Â Â 164,231Â Â Â Â Â Â Â $23.06Â Awarded Â Â 91,691Â Â Â Â Â Â Â Â 19.01Â Change in estimate Â Â (10,774)Â Â Â Â Â Â Â 11.93Â Vested shares Â Â (53,041)Â Â Â Â Â Â 25.24Â Forfeited/cancelled/expired Â Â (10,260)Â Â Â Â Â Â 23.10Â Unearned as of June 30, 2024 Â Â 181,847Â Â Â 302,196Â Â $21.04Â Â As of June 30, 2024, the specific number of shares related to performance units that were expected to vest was 181,847, determined by actual performance in consideration of the established range of the performance targets, which is consistent with the level of expense currently being recognized over the vesting period. Should this expectation change, additional compensation expense could be recorded in future periods or previously recognized expense could be reversed. As of June 30, 2024, the maximum amount of performance units that ultimately could vest if performance targets were exceeded is 302,196. During the six months ended June 30, 2024, 53,041Â shares vested. A total of 28,971Â shares were netted from the vested shares to satisfy employee tax obligations. The net shares issued from vesting of performance units during the sixÂ months ended June 30, 2024Â wereÂ 24,070Â shares. As of June 30, 2024, compensation cost of approximately $2.7Â million related to non-vested performance units not yet recognized is expected to be recognized over a weighted-average period of 2.0Â years. Â A summary of the status of unearned deferredÂ stock units and the changes in deferredÂ stock units during the period is presented in the table below: Â Â Â Units (expected)Â Â Weighted Average Grant Date Fair ValueÂ Unearned as of December 31, 2023 Â Â 188,348Â Â $22.11Â Awarded Â Â 81,736Â Â Â 19.01Â Vested shares Â Â (73,013)Â Â 22.98Â Forfeited/cancelled/expired Â Â (7,360)Â Â 21.53Â Unearned as of June 30, 2024 Â Â 189,711Â Â $20.46Â Â Any forfeitures would result in previously recognized expense being reversed.Â A portion of the shares that vest will be netted out to satisfy the tax obligations of the recipient. During the six months ended June 30, 2024, 73,013Â shares vested. A total of 39,409Â shares were netted from the vested shares to satisfy employee tax obligations. The net shares issued from vesting of deferredÂ stock units during the six months ended June 30, 2024 were 33,604Â shares. As of June 30, 2024, compensation cost of approximately $2.0Â million related to non-vested deferredÂ stock units, not yet recognized, is expected to be recognized over a weighted-average period of 1.6Â years. Â 41 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 9.Â Components of Net Periodic Pension Cost Â The Company maintained a non-contributory defined benefit pension plan for substantially all of its employees until June 30, 2007, at which time the Company froze the plan. The following table sets forth the net periodic pension cost of the Companyâ€™s pension plan for the periods indicated. Â Â Â Three Months Ended Â Affected Line Item in the Consolidated Â Â June 30, Â Statements of Income Â Â 2024 Â Â 2023 Â Â Â Â (dollars in thousands) Â Â Service cost Â $-Â Â $-Â Â Interest cost Â Â 106Â Â Â 110Â Other components of net periodic pension expense Expected return on plan assets Â Â (214)Â Â (209) Other components of net periodic pension expense Net amortization Â Â 43Â Â Â 74Â Other components of net periodic pension expense Total periodic pension income Â $(65)Â $(25)Â Â Â Six Months Ended Â Affected Line Item in the Consolidated Â Â June 30, Â Statements of Income Â Â 2024 Â Â 2023 Â Â Â Â (dollars in thousands) Â Â Service cost Â $-Â Â $-Â Â Interest cost Â Â 212Â Â Â 220Â Other components of net periodic pension expense Expected return on plan assets Â Â (428)Â Â (419) Other components of net periodic pension expense Net amortization Â Â 86Â Â Â 148Â Other components of net periodic pension expense Total periodic pension income Â $(130)Â $(51)Â Â Â Â Â Â Â Â Contributions Â Â The Company did not contribute to the Pension Trust during the six months ended June 30, 2024. The Company does not plan on contributing amounts to the Pension Trust for the remainder of 2024. The trust is established to provide retirement and other benefits for eligible employees and their beneficiaries. No part of the trust assets may be applied to any purpose other than providing benefits under the plan and for defraying expenses of administering the plan and the trust. Â Note 10. Deposits Â Â Â Â Â Â Â Â Â Â Â Â Â Time Deposits Â As of June 30, 2024 and December 31, 2023, the Company's total time deposits were $2.6Â billion and $2.5Â billion, respectively. Included in time deposits were gross nonreciprocal brokered time deposits of $889.6Â million and $916.8Â million as of June 30, 2024 and December 31, 2023, respectively. As of June 30, 2024, the contractual maturities of these time deposits were as follows (dollars in thousands): Â 2024 Â $1,411,458Â 2025 Â Â 903,364Â 2026 Â Â 234,734Â 2027 Â Â 39,007Â 2028 Â Â 5,246Â thereafter Â Â 471Â Time deposits (before net discount) Â $2,594,280Â Fair value net discount Â Â (1,115) Total time deposits (after net discount) Â $2,593,165Â Â The amount of time deposits with balances in excess of $250,000Â were $729.5Â million and $643.4Â million as of June 30, 2024 and December 31, 2023, respectively. Â 42 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 11. FHLB Borrowings Â The Companyâ€™s FHLB borrowings and weighted average interest rates are summarized below: Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Amount Â Â Rate Â Â Amount Â Â Rate Â Â Â (dollars in thousands) Â By remaining period to maturity: Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Less than 1 year Â $603,587Â Â Â 5.50%Â $881,000Â Â Â 5.57% 1 year through less than 2 years Â Â 75,000Â Â Â 3.30Â Â Â 25,000Â Â Â 1.00Â 2 years through less than 3 years Â Â 52,050Â Â Â 4.19Â Â Â 2,050Â Â Â 2.23Â 3 years through less than 4 years Â Â 25,276Â Â Â 4.17Â Â Â 293Â Â Â 2.85Â 4 years through 5 years Â Â -Â Â Â 0.00Â Â Â 25,000Â Â Â 4.18Â After 5 years Â Â 278Â Â Â 2.96Â Â Â 294Â Â Â 2.96Â FHLB borrowings - gross Â Â 756,191Â Â Â 5.15%Â Â 933,637Â Â Â 5.41% Fair value discount Â Â (47)Â Â Â Â Â Â (58)Â Â Â Â Total FHLB borrowings Â $756,144Â Â Â Â Â Â $933,579Â Â Â Â Â Â The FHLB borrowings are secured by pledges of certain collateral including, but not limited to, U.S. government and agency mortgage-backed securities and a blanket assignment of qualifying first lien mortgage loans, consisting of both residential mortgages and commercial real estate loans. Â Advances are payable at stated maturity, with a prepayment penalty for fixed rate advances. All FHLB advances bear fixed rates. The advances as of June 30, 2024 were primarily collateralized by approximately $2.8Â billion of commercial mortgage loans and securities, net of required over collateralization amounts, under a blanket lien arrangement. As of June 30, 2024 the Company had remaining borrowing capacity of approximately $1.5Â billion at FHLB.Â Â 43 Table of Contents CONNECTONE BANCORP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) Â Note 12. Subordinated Debentures Â During 2003, the Company formed a statutory business trust, which exists for the exclusive purpose of (i) issuing Trust Securities representing undivided beneficial interests in the assets of the Trust; (ii) investing the gross proceeds of the Trust securities in junior subordinated deferrable interest debentures (subordinated debentures) of the Company; and (iii) engaging in only those activities necessary or incidental thereto. On December 19, 2003, Center Bancorp Statutory Trust II, a statutory business trust and wholly-owned subsidiary of the Parent Corporation issued $5.0 million of MMCapS capital securities to investors due on January 23, 2034. The capital securities presently qualify as Tier I capital. The trust loaned the proceeds of this offering to the Company and received in exchange $5.2 million of the Parent Corporationâ€™s subordinated debentures. The subordinated debentures are redeemable in whole or in part prior to maturity. Upon the cessation of publication of LIBOR rates and pursuant to the Federal LIBOR Act and Federal Reserve regulations implementing the Act,Â theÂ MMCapS capital securities converted effective June 30, 2023Â to a new index based on CME Term SOFR, as defined in the LIBOR Act, plus a tenor spread adjustment, which is referred to as the Benchmark Replacement. Therefore, effectiveÂ for quarterly interest rate resets afterÂ July 3, 2023 the subordinatedÂ debenturesâ€™Â floating rate will be three-month CME Term SOFR plus 2.85% plus a tenor spread adjustment of 0.26161%. The rate as of June 30, 2024Â was 8.44%. These subordinated debentures and the related income effects are not eliminated in the consolidated financial statements, as the statutory business trust is not consolidated in accordance with FASB ASC 810-10. Distributions on the subordinated debentures owned by the subsidiary trust have been classified as interest expense in the Consolidated Statements of Income. Â The following table summarizes the mandatory redeemable trust preferred securities of the Companyâ€™s Statutory Trust II as of June 30, 2024 and December 31, 2023. Â As of June 30, 2024 Issuance Date Â Securities Issued Â Liquidation Value Â Coupon Rate Â Maturity Â Redeemable by Issuer Beginning 12/19/2003 Â $5,000,000 Â $1,000 per Capital Security Â Floating 3-month CME Term SOFR + 285 Basis Points + 26.161 Basis Points Â 1/23/2034 Â 1/23/2009 Â Â Â Â Â Â Â Â Â Â Â As of December 31, 2023 Issuance DateÂ Securities IssuedÂ Liquidation ValueÂ Coupon RateÂ MaturityÂ Redeemable by Issuer Beginning 12/19/2003 Â $5,000,000 Â $1,000 per Capital Security Â Floating 3-month CME Term SOFR + 285 Basis Points+26.161 Basis Points Â 1/23/2034 Â 1/23/2009 Â On June 10, 2020, the Parent Corporation issued $75 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the â€œ2020 Notesâ€). The 2020 Notes bear interest at 5.75% annually from, and including, the date of initial issuance up to, but excluding, June 15, 2025 or the date of earlier redemption, payable semi-annually in arrears on June 15 and December 15 of each year, commencing December 15, 2020. From and including June 15, 2025 through maturity or earlier redemption, the interest rate shall reset quarterly to an interest rate per annum equal to a benchmark rate, which is expected to be Three-Month Term SOFR: (as defined in the Second Supplemental Indenture), plus 560.5 basis points, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2025. Notwithstanding the foregoing, if the benchmark rate is less than zero, then the benchmark rate shall be deemed to be zero. Â 44 Table of Contents Â Â Item 2. Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations Â The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Companyâ€™s results of operations for the periods presented herein and financial condition as of June 30, 2024 and December 31, 2023. In order to fully understand this analysis, the reader is encouraged to review the consolidated financial statements and accompanying notes thereto appearing elsewhere in this report. Â Cautionary Statement Concerning Forward-Looking Statements Â This report includes forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended, that involve inherent risks and uncertainties. This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of ConnectOne Bancorp Inc. and its subsidiaries, including statements preceded by, followed by, or that include words or phrases such as â€œbelieves,â€ â€œexpects,â€ â€œanticipates,â€ â€œplans,â€ â€œtrend,â€ â€œobjective,â€ â€œcontinue,â€ â€œremain,â€ â€œpatternâ€ or similar expressions or future or conditional verbs such as â€œwill,â€ â€œwould,â€ â€œshould,â€ â€œcould,â€ â€œmight,â€ â€œcan,â€ â€œmayâ€ or similar expressions. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) competitive pressures among depository institutions may increase significantly; (2) changes in the interest rate environment may reduce interest margins; (3) prepayment speeds, loan origination and sale volumes, charge-offs and credit loss provisions may vary substantially from period to period; (4) general economic conditions may be less favorable than expected; (5) political developments, sovereign debt problems, wars or other hostilities such as the ongoing conflict between Ukraine and Russia and instability in the Middle East, may disrupt or increase volatility in securities markets or other economic conditions; (6) legislative or regulatory changes or actions may adversely affect the businesses in which ConnectOne Bancorp is engaged; (7) changes and trends in the securities markets may adversely impact ConnectOne Bancorp; (8) a delayed or incomplete resolution of regulatory issues could adversely impact planning by ConnectOne Bancorp; (9) the impact on reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity could be significant; (10) the outcome of regulatory and legal investigations and proceedings may not be anticipated, and (11) the impact of health emergencies or natural disastersÂ on our employees and operations, and those of our customers. Further information on other factors that could affect the financial results of ConnectOne Bancorp is included in Item 1a. of ConnectOne Bancorpâ€™s Annual Report on Form 10-K as amended and updated in ConnectOne Bancorpâ€™s other filings with the Securities and Exchange Commission. These documents are available free of charge at the Commissionâ€™s website at http://www.sec.gov and/or from ConnectOne Bancorp, Inc. Â Critical Accounting Policies and Estimates Â Our accounting policies are integral to understanding the results reported. We consider accounting policies that require management to exercise significant judgment or discretion or to make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. As of June 30, 2024, there have been no material changes to our critical accounting policies as compared to the critical accounting policies disclosed in our most recent Annual Report on Form 10-K. Reference is made to Item 7 â€œManagementâ€™s Discussion and Analysis of Financial Condition and Results of Operationsâ€ in the Companyâ€™s Annual Report on Form 10-K for the year ended December 31, 2023. Â 45 Table of Contents Â Operating Results Overview Â Net income available to common stockholders for the three months ended June 30, 2024Â was $17.5Â million compared to $19.9Â million for the comparable three-month period ended June 30, 2023. The Companyâ€™s diluted earnings per share were $0.46Â for the three months ended June 30, 2024Â as compared with diluted earnings per share of $0.51Â for the comparable three-month period ended June 30, 2023. The $2.3Â million decrease in net income available to common stockholders and the $0.05Â decrease in diluted earnings per share versus the secondÂ quarter of 2023Â were due to a $2.4Â million decrease in net interest incomeÂ and a $2.1 million increase in noninterest expenses,Â partially offset by aÂ $1.0Â million increase in noninterest income,Â a $0.7 million decrease in income tax expense and a $0.5 million decrease in provision for credit losses. Â Net income available to common stockholders for the six months ended June 30, 2024Â was $33.2Â million compared to $43.3Â million for the comparable six-month period ended June 30, 2023. The Companyâ€™s diluted earnings per share were $0.86Â for the six months ended June 30, 2024Â as compared with diluted earnings per share of $1.10Â for the comparable six-month period ended June 30, 2023. The $10.1 million decrease in net income available to common stockholders and the $0.24Â decrease in diluted earnings per share versus the comparable six-month period ended June 30, 2023Â were due to a $9.2Â million decrease in net interest income,Â a $4.3Â million increase in noninterest expenses, and a $2.5 million increase in provision for credit losses, partially offset by aÂ $3.9Â million decrease in income tax expense and a $2.0 increase in noninterest income. Â Net Interest Income and Margin Â Net interest income is the difference between the interest earned on the portfolio of earning assets (principally loans and investments) and the interest paid onÂ deposits and borrowings, which support these assets. Net interest income is presented on a tax-equivalent basis by adjusting tax-exempt income (including interest earned on tax-free loans and on obligations of state and local political subdivisions) by the amount of income tax which would have been paid had the assets been invested in taxable assets. Net interest margin is defined as net interest income on a tax-equivalent basis as a percentage of total average interest-earning assets. Â Fully taxable equivalent net interest income for the three months ended June 30, 2024 decreased by $2.4Â million, or 3.7%, from the three months ended June 30, 2023. The decrease primarily resulted from a nineÂ basis-point decrease in the net interest margin to 2.72% from 2.81%, partially offset by a $63.5Â million, or 0.8%, increase in average total loans. The contraction of the net interest margin was primarily attributable to a 73Â basis-point increase in the average costs of deposits, partially offset by a 42Â basis-point increase in the loan portfolio yield. Â Fully taxable equivalent net interest income for the six months ended June 30, 2024 decreased by $9.1Â million, or 6.9%, from theÂ six months ended June 30, 2023. The decrease primarily resulted from a 21Â basis-point decrease in the net interest margin to 2.68% from 2.89%, partially offset by a $132.6Â million, or 1.6%, increase in average total loans. The contraction of the net interest margin was primarily attributable to a 94Â basis-point increase in the average costs of deposits, partially offset by a 47Â basis-point increase in the loan portfolio yield. Â 46 Table of Contents Â The following table, â€œAverage StatementsÂ of Condition with Interest and Average Ratesâ€, present for the three months ended June 30, 2024 and 2023, the Companyâ€™s average assets, liabilities and stockholdersâ€™ equity. The Companyâ€™s net interest income, net interest spread and net interest margin are also reflected. Â Average Statements of Condition with Interest and Average Rates Â Â Â Three Months Ended June 30, Â Â Â 2024 Â Â 2023 Â Â Â Â Â Â Â Interest Â Â Â Â Â Â Â Â Â Interest Â Â Â Â Â Â Â Average Â Â Income/ Â Â Average Â Â Average Â Â Income/ Â Â Average Â Â Â Balance Â Â Expense Â Â Rate (7) Â Â Balance Â Â Expense Â Â Rate (7) Â Â Â (dollars in thousands) Â Interest-earning assets: Â Investment securities (1) (2) Â $ 739,591 Â Â $ 6,102 Â Â Â 3.32 % Â $ 726,315 Â Â $ 5,607 Â Â Â 3.10 % Total loans (2) (3) (4) Â Â 8,212,825 Â Â Â 120,663 Â Â Â 5.91 Â Â Â 8,149,374 Â Â Â 111,501 Â Â Â 5.49 Â Federal funds sold and interest-bearing deposits with banks Â Â 212,811 Â Â Â 2,841 Â Â Â 5.37 Â Â Â 309,458 Â Â Â 4,056 Â Â Â 5.26 Â Restricted investment in bank stocks Â Â 44,823 Â Â Â 1,217 Â Â Â 10.92 Â Â Â 42,932 Â Â Â 945 Â Â Â 8.83 Â Total interest-earning assets Â Â 9,210,050 Â Â Â 130,823 Â Â Â 5.71 Â Â Â 9,228,079 Â Â Â 122,109 Â Â Â 5.31 Â Noninterest-earning assets Â Allowance for credit losses Â Â (84,681) Â Â Â Â Â Â Â Â Â Â Â (87,473) Â Â Â Â Â Â Â Â Other noninterest-earning assets Â Â 620,484 Â Â Â Â Â Â Â Â Â Â Â Â 624,976 Â Â Â Â Â Â Â Â Â Total assets Â $ 9,745,853 Â Â Â Â Â Â Â Â Â Â Â $ 9,765,582 Â Interest-bearing liabilities: Â Interest-bearing deposits: Â Time deposits Â $ 2,587,706 Â Â Â 28,898 Â Â Â 4.49 Â Â $ 2,658,673 Â Â Â 23,778 Â Â Â 3.59 Â Other interest-bearing deposits Â Â 3,721,167 Â Â Â 33,188 Â Â Â 3.59 Â Â Â 3,640,939 Â Â Â 26,936 Â Â Â 2.97 Â Total interest-bearing deposits Â Â 6,308,873 Â Â Â 62,086 Â Â Â 3.96 Â Â Â 6,299,612 Â Â Â 50,714 Â Â Â 3.23 Â Borrowings Â Â 787,256 Â Â Â 5,150 Â Â Â 2.63 Â Â Â 756,303 Â Â Â 5,438 Â Â Â 2.88 Â Subordinated debentures, net Â Â 79,609 Â Â Â 1,311 Â Â Â 6.62 Â Â Â 79,104 Â Â Â 1,306 Â Â Â 6.62 Â Finance lease Â Â 1,416 Â Â Â 21 Â Â Â 5.96 Â Â Â 1,658 Â Â Â 24 Â Â Â 5.81 Â Total interest-bearing liabilities Â Â 7,177,154 Â Â Â 68,568 Â Â Â 3.84 Â Â Â 7,136,677 Â Â Â 57,482 Â Â Â 3.23 Â Noninterest-bearing demand deposits Â Â 1,256,251 Â Â Â Â Â Â Â Â Â Â Â Â 1,347,268 Â Â Â Â Â Â Â Â Â Other liabilities Â Â 91,827 Â Â Â Â Â Â Â Â Â Â Â Â 84,594 Â Â Â Â Â Â Â Â Â Total noninterest-bearing liabilities Â Â 1,348,078 Â Â Â Â Â Â Â Â Â Â Â Â 1,431,862 Â Â Â Â Â Â Â Â Â Stockholdersâ€™ equity Â Â 1,220,621 Â Â Â Â Â Â Â Â Â Â Â Â 1,197,043 Â Â Â Â Â Â Â Â Â Total liabilities and stockholdersâ€™ equity Â $ 9,745,853 Â Â Â Â Â Â Â Â Â Â Â $ 9,765,582 Â Â Â Â Â Â Â Â Â Net interest income (tax-equivalent basis) Â Â Â Â Â Â 62,255 Â Â Â Â Â Â Â Â Â Â Â Â 64,627 Â Â Â Â Â Net interest spread (5) Â Â Â Â Â Â Â Â Â 1.87 % Â Â Â Â Â Â Â Â Â Â Â Â 2.08 % Net interest margin (6) Â Â Â Â Â Â Â Â Â Â Â 2.72 % Â Â Â Â Â Â Â Â Â Â Â Â 2.81 % Tax-equivalent adjustment Â Â Â Â Â Â (816) Â Â Â Â Â Â Â Â Â Â Â (784) Â Â Â Â Net interest income Â Â Â Â Â $ 61,439 Â Â Â Â Â Â Â Â Â Â Â Â $ 63,843 Â Â Â Â Â Â Â (1) Average balances are based on amortized cost and include equity securities. Â (2) Interest income is presented on a tax-equivalent basis using a 21% assumed tax rate. Â (3) Includes loan fee income and accretion of purchase accounting adjustments. Â (4) Total loans include loans held-for-sale and nonaccrual loans. Â (5) Represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities and is presented on a tax- equivalent basis. Â (6) Represents net interest income on a tax-equivalent basis divided by average total interest-earning assets. Â (7) Rates are annualized. Â 47 Table of Contents Â Â Â Six Months Ended June 30, Â Â Â 2024 Â Â 2023 Â Â Â Â Â Â Â Interest Â Â Â Â Â Â Â Â Â Interest Â Â Â Â Â Â Â Average Â Â Income/ Â Â Average Â Â Average Â Â Income/ Â Â Average Â Â Â Balance Â Â Expense Â Â Rate (7) Â Â Balance Â Â Expense Â Â Rate (7) Â Â Â (dollars in thousands) Â Interest-earning assets: Â Securities (1) (2) Â $ 729,947 Â Â $ 11,897 Â Â Â 3.28 % Â $ 729,604 Â Â $ 11,219 Â Â Â 3.08 % Total loans (2) (3) (4) Â Â 8,272,826 Â Â Â 241,255 Â Â Â 5.86 Â Â Â 8,140,255 Â Â Â 218,856 Â Â Â 5.39 Â Federal funds sold and interest-bearing with banks Â Â 215,512 Â Â Â 5,747 Â Â Â 5.36 Â Â Â 285,014 Â Â Â 7,031 Â Â Â 4.95 Â Restricted investment in bank stocks Â Â 48,385 Â Â Â 2,342 Â Â Â 9.73 Â Â Â 46,400 Â Â Â 1,843 Â Â Â 7.97 Â Total interest-earning assets Â Â 9,266,670 Â Â Â 261,241 Â Â Â 5.67 Â Â Â 9,201,273 Â Â Â 238,949 Â Â Â 5.21 Â Noninterest-earning assets: Â Allowance for credit losses Â Â (84,343) Â Â Â Â Â Â Â Â Â Â Â (88,820) Â Â Â Â Â Â Â Â Other noninterest-earning assets Â Â 620,976 Â Â Â Â Â Â Â Â Â Â Â Â 620,782 Â Â Â Â Â Â Â Â Â Total assets Â $ 9,803,303 Â Â Â Â Â Â Â Â Â Â Â $ 9,733,235 Â Interest-bearing liabilities: Â Interest-bearing deposits: Â Time deposits Â $ 2,577,737 Â Â Â 56,936 Â Â Â 4.44 Â Â $ 2,508,835 Â Â Â 41,045 Â Â Â 3.28 Â Other interest-bearing deposits Â Â 3,708,771 Â Â Â 65,557 Â Â Â 3.55 Â Â Â 3,599,582 Â Â Â 49,756 Â Â Â 2.77 Â Total interest-bearing deposits Â Â 6,286,508 Â Â Â 122,493 Â Â Â 3.92 Â Â Â 6,108,417 Â Â Â 90,801 Â Â Â 2.98 Â Borrowings Â Â 867,129 Â Â Â 12,717 Â Â Â 2.95 Â Â Â 848,273 Â Â Â 12,035 Â Â Â 2.85 Â Subordinated debentures Â Â 79,546 Â Â Â 2,622 Â Â Â 6.63 Â Â Â 91,303 Â Â Â 3,609 Â Â Â 7.93 Â Finance lease Â Â 1,450 Â Â Â 43 Â Â Â 5.96 Â Â Â 1,686 Â Â Â 50 Â Â Â 5.95 Â Total interest-bearing liabilities Â Â 7,234,633 Â Â Â 137,875 Â Â Â 3.83 Â Â Â 7,049,679 Â Â Â 106,495 Â Â Â 3.03 Â Demand deposits Â Â 1,255,225 Â Â Â Â Â Â Â Â Â Â Â Â 1,403,220 Â Â Â Â Â Â Â Â Â Other liabilities Â Â 92,725 Â Â Â Â Â Â Â Â Â Â Â Â 86,191 Â Â Â Â Â Â Â Â Â Total noninterest-bearing liabilities Â Â 1,347,950 Â Â Â Â Â Â Â Â Â Â Â Â 1,489,411 Â Â Â Â Â Â Â Â Â Stockholdersâ€™ equity Â Â 1,220,720 Â Â Â Â Â Â Â Â Â Â Â Â 1,194,145 Â Â Â Â Â Â Â Â Â Total liabilities and stockholdersâ€™ equity Â $ 9,803,303 Â Â Â Â Â Â Â Â Â Â Â $ 9,733,235 Â Â Â Â Â Â Â Â Â Net interest income (tax-equivalent basis) Â Â Â Â Â Â 123,366 Â Â Â Â Â Â Â Â Â Â Â Â 132,454 Â Â Â Â Â Net interest spread (5) Â Â Â Â Â Â Â Â Â Â 1.84 % Â Â Â Â Â Â Â Â Â Â Â Â 2.18 % Net interest margin (6) Â Â Â Â Â Â Â Â Â Â 2.68 % Â Â Â Â Â Â Â Â Â Â Â Â 2.89 % Tax-equivalent adjustment Â Â Â Â Â Â (1,627) Â Â Â Â Â Â Â Â Â Â Â (1,527) Â Â Â Â Net interest income Â Â Â Â Â $ 121,739 Â Â Â Â Â Â Â Â Â Â Â Â $ 130,927 Â Â Â Â Â Â (1) Average balances are based on amortized cost and include equity securities.Â (2) Interest income is presented on a tax-equivalent basis using a 21% assumed tax rate.Â (3) Includes loan fee income and accretion of purchase accounting adjustments.Â (4) Total loans include loans held-for-sale and nonaccrual loans.Â (5) Represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities and is presented on a tax- equivalent basis.Â (6) Represents net interest income on a tax-equivalent basis divided by average total interest-earning assets.Â (7) Rates are annualized. Â 48 Table of Contents Â Noninterest Income Â Noninterest income totaled $4.4Â million for the three months ended June 30, 2024, compared with $3.4Â million for the three months ended June 30, 2023.Â Included in noninterest income for both the three months ended June 30, 2024Â and June 30, 2023Â were net lossesÂ on equity securities of $0.2Â million. Noninterest income increased $1.0Â million when compared to the three months ended June 30, 2023.Â The increase was primarily attributable to an increaseÂ in net gains on sale of loans held-for-saleÂ of $0.7Â million, anÂ increase in deposit, loan, and other income of $0.1Â million and an increase in bank owned life insurance ("BOLI") income of $0.1 million. Â Noninterest income totaled $8.2Â million for the six months ended June 30, 2024, compared with $6.2Â million for the six months ended June 30, 2023.Â Included in noninterest income for the six months ended June 30, 2024Â and June 30, 2023Â were net lossesÂ on equity securities of $0.1Â million and $0.4Â million, respectively.Â Excluding these items, noninterest income increased $1.7Â million when compared to the six months ended June 30, 2023.Â The increase was primarily attributable to an increaseÂ in net gains on sale of loans held-for-saleÂ of $1.2Â million, anÂ increase in deposit, loan, and other income of $0.3Â million and an increase in bank owned life insurance ("BOLI") income of $0.2Â million. Â Noninterest Expenses Â Noninterest expenses totaled $37.6Â million for the three months ended June 30, 2024, compared with $35.5Â million for the three months ended June 30, 2023. Noninterest expenses increased by $2.1Â million when compared to the three months ended June 30, 2023.Â The increase was primarily attributable to increases in salaries and employee benefits of $1.0 million, due to increases in incentive-based compensation accruals, information technology and communications of $0.6Â million, due to additional investments in technology, equipment, and software, other expenses of $0.3 million, occupancy and equipment of $0.2 million, marketing and advertising $0.1 million andÂ FDIC insurance of $0.1Â million. Â Noninterest expenses totaled $74.7Â million for the six months ended June 30, 2024, compared with $70.3Â million for the six months ended June 30, 2023. Noninterest expenses increased by $4.3Â million when compared to the six months ended June 30, 2023.Â The increase wasÂ caused by the items discussed above and primarily reflectÂ increases in information technology and communications of $1.9 million, FDIC insurance of $0.9 million, salaries and employee benefits of $0.9Â million, occupancy and equipment of $0.5 million, other expenses of $0.3 million andÂ marketing and advertising of $0.2 million, partially offset by decreases of $0.3 million in professional and consulting and $0.1 million in amortization of core deposit intangibles. Â Income Taxes Â Income tax expense was $6.7Â million for the three months ended June 30, 2024, compared to $7.4Â million for the three months ended June 30, 2023.Â The decrease in income tax expense was the result of lowerÂ income before income tax expense. The effective tax rate for the three months ended June 30, 2024Â and June 30, 2023Â was 26.0% and 25.8%, respectively.Â Â Income tax expense was $12.6Â million for the six months ended June 30, 2024, compared to $16.5Â million for the six months ended June 30, 2023.Â The decrease in income tax expense was the result of lowerÂ income before income tax expense. The effective tax rate for the six months ended June 30, 2024Â and June 30, 2023Â was 25.7% and 26.3%, respectively.Â The decrease in the effective tax rate when compared to the six months ended June 30, 2023Â is largely attributable to lower taxable income. Â 49 Table of Contents Â Financial Condition Â Loan Portfolio Â The following table sets forth the composition of our loan portfolio, excluding loans held-for-sale and net deferred loan fees, by loan segment at the periods indicated. Â Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Amount Increase/ Â Â Â Amount Â Â Percent of Total Â Â Amount Â Â Percent of Total Â Â (Decrease) Â Â Â (dollars in thousands) Â Commercial Â $ 1,501,732 Â Â Â 18.4 % Â $ 1,578,730 Â Â Â 18.9 % Â $ (76,998) Commercial real estate Â Â 5,763,869 Â Â Â 70.6 Â Â Â 5,895,545 Â Â Â 70.6 Â Â Â (131,676) Commercial construction Â Â 639,168 Â Â Â 7.8 Â Â Â 620,496 Â Â Â 7.4 Â Â Â 18,672 Â Residential real estate Â Â 256,786 Â Â Â 3.2 Â Â Â 256,041 Â Â Â 3.1 Â Â Â 745 Â Consumer Â Â 945 Â Â Â - Â Â Â 1,029 Â Â Â - Â Â Â (84) Gross loans Â $ 8,162,500 Â Â Â 100.0 % Â $ 8,351,841 Â Â Â 100.0 % Â $ (189,341) Â As of June 30, 2024, gross loans totaled $8.2Â billion, aÂ decrease ofÂ $189.3Â million or 2.3%, compared to December 31, 2023.Â Â While the previous table reflects the classification of our loans by loan portfolio segment, the following tables present further disaggregation of our commercial real estate portfolio along with loan-to-value ("LTV")Â percentages.Â Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Loan-to-Value Â Â Balance Â Â Loan-to-Value Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Commercial real estate loans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Multifamily Â $ 2,489,205 Â Â 61 % Â $ 2,553,401 Â Â 61 % Nonowner-occupied Â Â 2,168,145 Â Â Â 53 Â Â Â 2,177,585 Â Â Â 54 Â Owner-occupied Â Â 891,113 Â Â Â 51 Â Â Â 930,319 Â Â Â 53 Â Land loans Â Â 215,249 Â Â Â 45 Â Â Â 234,563 Â Â Â 45 Â Total commercial real estate loans (before discount) Â $ 5,763,712 Â Â Â 56 % Â $ 5,895,868 Â Â Â 56 % Fair value premium (discount) Â Â 157 Â Â Â Â Â Â (323) Â Â Â Â Total commercial real estate loans Â $ 5,763,869 Â Â Â Â Â $ 5,895,545 Â Â Â Â Â Â 50 Table of Contents Â The tables aboveÂ areÂ further broken down in the following tables by geography: Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Percent of Total Â Â Balance Â Â Percent of Total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Multifamily loans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â New Jersey Â $ 1,576,764 Â Â Â 63.4 % Â $ 1,623,666 Â Â Â 63.6 % New York Â Â 747,324 Â Â Â 30.0 Â Â Â 789,065 Â Â Â 30.9 Â Florida Â Â 7,805 Â Â Â 0.3 Â Â Â 7,828 Â Â Â 0.3 Â Connecticut Â Â 40,420 Â Â Â 1.6 Â Â Â 36,761 Â Â Â 1.4 Â All Other States Â Â 116,892 Â Â Â 4.7 Â Â Â 96,081 Â Â Â 3.8 Â Total multifamily loans Â $ 2,489,205 Â Â Â 100.0 % Â $ 2,553,401 Â Â Â 100.0 % Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Percent of Total Â Â Balance Â Â Percent of Total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Nonowner-occupied Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â New Jersey Â $ 849,390 Â Â Â 39.2 % Â $ 972,907 Â Â Â 44.7 % New York Â Â 759,743 Â Â Â 35.0 Â Â Â 778,842 Â Â Â 35.8 Â Florida Â Â 205,611 Â Â Â 9.5 Â Â Â 205,178 Â Â Â 9.4 Â Connecticut Â Â 79,029 Â Â Â 3.6 Â Â Â 80,067 Â Â Â 3.7 Â All Other States Â Â 274,372 Â Â Â 12.7 Â Â Â 140,592 Â Â Â 6.4 Â Total nonowner occupied Â $ 2,168,145 Â Â Â 100.0 % Â $ 2,177,585 Â Â Â 100.0 % Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Percent of Total Â Â Balance Â Â Percent of Total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Owner-occupied Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â New Jersey Â $ 427,500 Â Â Â 48.0 % Â $ 474,905 Â Â Â 51.1 % New York Â Â 266,473 Â Â Â 29.9 Â Â Â 267,990 Â Â Â 28.8 Â Florida Â Â 50,188 Â Â Â 5.6 Â Â Â 69,989 Â Â Â 7.5 Â Connecticut Â Â 5,810 Â Â Â 0.7 Â Â Â 5,887 Â Â Â 0.6 Â All Other States Â Â 141,142 Â Â Â 15.8 Â Â Â 111,548 Â Â Â 12.0 Â Total owner-occupied Â $ 891,113 Â Â Â 100.0 % Â $ 930,319 Â Â Â 100.0 % Â 51 Table of Contents Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Percent of Total Â Â Balance Â Â Percent of Total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Land loans Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â New Jersey Â $ 100,575 Â Â Â 46.7 % Â $ 106,884 Â Â Â 45.6 % New York Â Â 57,682 Â Â Â 26.8 Â Â Â 77,767 Â Â Â 33.1 Â Florida Â Â 54,387 Â Â Â 25.3 Â Â Â 48,807 Â Â Â 20.8 Â Connecticut Â Â - Â Â Â - Â Â Â - Â Â Â - Â All Other States Â Â 2,605 Â Â Â 1.2 Â Â Â 1,105 Â Â Â 0.5 Â Total land Â $ 215,249 Â Â Â 100.0 % Â $ 234,563 Â Â Â 100.0 % Â In addition, the following tablesÂ presentÂ further details with respect to our nonowner-occupied and owner-occupied borrower concentrations included in the commercial real estate segment. Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Percent of Total Â Â Balance Â Â Percent of Total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Nonowner-occupied Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Retail Â $ 631,606 Â Â Â 29.1 % Â $ 637,211 Â Â Â 29.3 % Office Â Â 418,985 Â Â Â 19.3 Â Â Â 424,479 Â Â Â 19.5 Â Warehouse/Industrial Â Â 227,965 Â Â Â 10.5 Â Â Â 233,518 Â Â Â 10.7 Â Mixed Use Â Â 192,670 Â Â Â 8.9 Â Â Â 192,617 Â Â Â 8.8 Â Other Â Â 696,919 Â Â Â 32.2 Â Â Â 689,760 Â Â Â 31.7 Â Total nonowner-occupied Â $ 2,168,145 Â Â Â 100.0 % Â $ 2,177,585 Â Â Â 100.0 % Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Percent of Total Â Â Balance Â Â Percent of Total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Owner-occupied Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Retail Â $ 205,517 Â Â Â 23.1 % Â $ 208,685 Â Â Â 22.4 % Office Â Â 93,757 Â Â Â 10.5 Â Â Â 102,886 Â Â Â 11.1 Â Warehouse/Industrial Â Â 255,058 Â Â Â 28.6 Â Â Â 249,557 Â Â Â 26.8 Â Mixed Use Â Â 106,856 Â Â Â 12.0 Â Â Â 116,046 Â Â Â 12.5 Â Other Â Â 229,925 Â Â Â 25.8 Â Â Â 253,145 Â Â Â 27.2 Â Total owner-occupied Â $ 891,113 Â Â Â 100.0 % Â $ 930,319 Â Â Â 100.0 % Â 52 Table of Contents Â Allowance for Credit Losses and Related Provision Â As ofÂ June 30, 2024, the Companyâ€™s allowance for credit losses for loans was $82.1Â million, an increase of $0.1Â million from $82.0Â million as of December 31, 2023. Â The provision for credit losses, which includes a provision for unfunded commitments, for the three andÂ six months ended June 30, 2024Â wasÂ $2.5Â million andÂ $6.5Â million, respectively, compared to $3.0Â million and $4.0Â million, for the three and six months endedÂ June 30, 2023, respectively. The decrease in the provision for credit losses during the three months ended June 30, 2024, when compared to the comparable periodÂ in 2023 reflected decreases to the general reserve and specific reserves.Â The increase in the provision for credit losses during the six months ended June 30, 2024, when compared to the comparable period in 2023 reflected an increase to specific reserves and a decrease to the general reserve. Â There were $3.3Â million and $6.4Â million in net charge-offs for the three andÂ six months ended June 30, 2024Â compared with $1.0Â million and $5.5 million in net charge-offsÂ for the three andÂ six months ended June 30, 2023Â respectively. Net charge-offs during the six months ended June 30, 2024 consisted of charges related to a group of multifamily loans, while the net charge-offs during the six months ended June 30, 2023 were primarily the result of the resolution of certain nonaccrual taxi loans and one owner-occupied commercial real estate loan that was previously reserved for.Â Â The level of the allowance for the respective periods of 2024Â and 2023Â reflects the credit quality within the loan portfolio, loan growth, the changing composition of the commercial and residential real estate loan portfolios and other related factors. In managementâ€™s view, the level of the ACL as of June 30, 2024Â is adequate to cover credit losses inherent in the loan portfolio. Managementâ€™s judgment regarding the adequacy of the allowance constitutes a â€œForward-Looking Statementâ€ under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from managementâ€™s analysis, based principally upon the factors considered by management in establishing the allowance. Â 53 Table of Contents Â Changes in the ACL on loans are presented in the following table for the periods indicated. Â Â Â Three Months Ended Â Â Â June 30, Â Â Â 2024 Â Â 2023 Â Â Â (dollars in thousands) Â Average loans receivable Â $ 8,212,656 Â Â $ 8,140,859 Â Analysis of the ACL: Â Â Â Â Â Â Â Â Balance - beginning of quarter Â $ 82,869 Â Â $ 87,002 Â Charge-offs: Â Â Â Â Â Â Â Â Commercial Â Â - Â Â Â (1,100) Commercial real estate Â Â (3,595) Â Â - Â Residential real estate Â Â - Â Â Â (18) Total charge-offs Â Â (3,595) Â Â (1,118) Recoveries: Â Â Â Â Â Â Â Â Commercial Â Â 324 Â Â Â 9 Â Residential real estate Â Â - Â Â Â 67 Â Total recoveries Â Â 324 Â Â Â 76 Â Net charge-offs Â Â (3,271) Â Â (1,042) Provision for credit losses â€“ loans Â Â 2,479 Â Â Â 3,245 Â Balance - end of period Â $ 82,077 Â Â $ 89,205 Â Â Â Â Â Â Â Â Ratio of annualized net charge-offs during the period to average loans receivable during the period Â Â 0.16 % Â Â 0.05 % Loans receivable Â $ 8,157,903 Â Â $ 8,148,540 Â ACL as a percentage of loans receivable Â Â 1.01 % Â Â 1.09 % Â Â Six Months Ended Â Â Â June 30, Â Â Â 2024 Â Â 2023 Â Â Â (dollars in thousands) Â Average loans receivable Â $ 8,272,692 Â Â $ 8,129,280 Â Analysis of the ACL: Â Â Â Â Â Â Â Â Balance - beginning of quarter Â $ 81,974 Â Â $ 90,513 Â Charge-offs: Â Â Â Â Â Â Â Â Commercial Â Â (300) Â Â (3,867) Commercial real estate Â Â (6,480) Â Â (1,717) Residential real estate Â Â - Â Â Â (18) Total charge-offs Â Â (6,780) Â Â (5,602) Recoveries: Â Â Â Â Â Â Â Â Commercial Â Â 347 Â Â Â 9 Â Residential real estate Â Â - Â Â Â 68 Â Total recoveries Â Â 347 Â Â Â 77 Â Net charge-offs Â Â (6,433) Â Â (5,525) Provision for credit losses â€“ loans Â Â 6,536 Â Â Â 4,217 Â Balance - end of period Â $ 82,077 Â Â $ 89,205 Â Â Â Â Â Â Â Â Ratio of annualized net charge-offs during the period to average loans receivable during the period Â Â 0.16 % Â Â 0.14 % Loans receivable Â $ 8,157,903 Â Â $ 8,148,540 Â ACL as a percentage of loans receivable Â Â 1.01 % Â Â 1.09 % Â 54 Table of Contents Â Asset Quality Â The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that includeÂ analysis of credit requests and ongoing examination of outstanding loans, delinquencies, and potential problem loans, with particular attention to portfolio dynamics and mix. The Company strives to identify loans experiencing difficulty earlyÂ on,Â to record charge-offs promptly based on realistic assessments of current collateral values and cash flows, and to maintain an adequate allowance for credit losses at all times. Â It is generally the Companyâ€™s policy to discontinue interest accruals once a loan is past due as to interest or principal payments for a period of ninety days. When a loan is placed on nonaccrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on nonaccrual loans are generally applied against principal. A loan may be restored to an accruing basis when all past due amounts have been collected. Loans past due 90 days or more which are both well-secured and in the process of collection may remain on an accrual basis. Â Nonperforming assets include nonaccrual loans and other real estate owned. Nonaccrual loans represent loans onÂ which interest accruals have been suspended. In general, it is the policy of management to consider the charge-off of uncollectible amounts of loans at the point they become past due 90 days.Â Â The following table sets forth, as of the dates indicated, the amount of the Companyâ€™s nonperforming assets: Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â (dollars in thousands) Â Nonaccrual loans Â $ 46,026 Â Â $ 52,524 Â OREO Â Â - Â Â Â - Â Total nonperforming assets (1) Â $ 46,026 Â Â $ 52,524 Â Â (1) Nonperforming assets are defined as nonaccrual loans and OREO. Â Nonaccrual loans to total loans receivable Â Â 0.56 % Â Â 0.63 % Nonperforming assets to total assets Â Â 0.47 Â Â 0.53 Â 55 Table of Contents Â Investment Securities Â As of June 30, 2024, the principal components of the securities portfolio were federal agency obligations, mortgage-backed securities, obligations of U.S. states and political subdivisions, corporate bonds and notes, asset-backed securities and equity securities. For the three months ended June 30, 2024, average securities, on an amortized cost basis, increased by $13.3Â million to approximately $739.6Â million, or 8.0% of average total interest-earning assets, from approximately $726.3Â million, or 7.9% of averageÂ interest-earning assets, for the three months ended June 30, 2023.Â For the sixÂ months ended June 30, 2024, average securities, on an amortized cost basisÂ increased by $0.3Â million to approximately $729.9Â million, or 7.9% of average total interest-earning assets, from approximately $729.6Â million, or 7.9% of averageÂ interest-earning assets, for the sixÂ months ended June 30, 2023. Â As of June 30, 2024, net unrealized losses on securities available-for-sale, which are carried as a component of accumulated other comprehensive loss and included in stockholdersâ€™ equity, net of tax, amounted to $70.0Â million as compared with net unrealized losses of $57.8Â million as of December 31, 2023. The increase in unrealized losses is predominately attributable to changes in market conditions and interest rates. Unrealized losses have not been recognized into income because the issuers are of high credit quality,Â we do not intend to sell, and it is likely that we will not be required to sell the securities prior to their anticipated recovery.Â The decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities.Â Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes.Â The Company did not record an allowance for credit losses for available-for-sale securities as of June 30, 2024. Â Interest Rate Sensitivity Analysis Â The principal objective of our asset and liability management function is to evaluate the interest-rate risk included in certain balance sheet accounts; determine the level of risk appropriate given our business focus, operating environment, and capital and liquidity requirements; establish prudent asset concentration guidelines; and manage the risk consistent with Board approved guidelines. We seek to reduce the vulnerability of our operations to changes in interest rates, and actions in this regard are taken under the guidance of the Bankâ€™s Asset Liability Committee (the â€œALCOâ€). The ALCO generally reviews our liquidity, cash flow needs, maturities of investments, deposits and borrowings, and current market conditions and interest rates. Â The Company utilizes a number of strategies to manage interest rate risk including, but not limited to: (i) balancing the types and structures of interest-earning assets and interest-bearing liabilities by diversifying mix, coupons, maturities and/or repricing characteristics, (ii) reducing the overall interest rate sensitivity of liabilities by emphasizing core and/or longer-term deposits; utilizing FHLB advances and wholesale deposits for our interest rate risk profile, (iii) managing the investment portfolio for liquidity and interest rate risk profile, and (iv) entering into interest rate swap and cap agreements. Â We currently utilize net interest income simulation and economic value of equity (â€œEVEâ€) models to measure the potential impact to the Bank of future changes in interest rates. As of June 30, 2024Â and December 31, 2023, the results of the models were within guidelines prescribed by our Board of Directors. If model results were to fall outside prescribed ranges, action, including additional monitoring and reporting to the Board, would be required by the ALCO and the Bankâ€™s management. Â The net interest income simulation model attempts to measure the change in net interest income over the next one-year period, and over the next three-year period on a cumulative basis, assuming certain changes in the general level of interest rates. The model also utilizes immediate and parallel shifts in market interest rates as ofÂ June 30, 2024. Â Based on our model, which was run as of June 30, 2024, we estimated that over the next one-year period a 200 basis-point instantaneous and parallel increase in the general level of interest rates would decrease our net interest income by 6.65%, while a 100 basis-point instantaneous and parallel decrease in interest rates would increase net interest income by 1.56%. As of December 31, 2023, we estimated that over the next one-year period a 200 basis-point instantaneous and parallel increase in the general level of interest rates would decrease our net interest income by 9.25%, while a 100 basis-point instantaneous and parallel decrease in interest rates would increase net interest income by 5.34%. Â Based on our model, which was run as of June 30, 2024, we estimated that over the next three years, on a cumulative basis, a 200 basis-point instantaneous and parallel increase in the general level of interest rates would decrease our net interest income by 2.86%, while a 100 basis-point instantaneous and parallel decreaseÂ in interest rates would decrease net interest income by 0.25%. As of December 31, 2023, we estimated that over the next three years, on a cumulative basis, a 200 basis-point instantaneous and parallel increase in the general level of interest rates would decrease our net interest income by 5.68%, while a 100 basis-point instantaneous and parallel decrease in interest rates would increase net interest income by 4.29%. Â 56 Table of Contents Â An economic value of equity ("EVE") analysis is also used to dynamically model the present value of asset and liability cash flows with instantaneous and parallel rate shocks of up 200 basis points and down 100 basis points. The EVEÂ is likely to be different as interest rates change. Our EVE as of June 30, 2024, would decrease by 12.33% with an instantaneous and parallel rate shock of up 200 basis points, and increase by 2.44% with an instantaneous and parallel rate shock of down 100 basis points.Â Our EVE as of December 31, 2023, would decrease by 15.09% with an instantaneous and parallel rate shock of up 200 basis points, and increase by 5.75% with an instantaneous and parallel rate shock of down 100 basis-points. Â The change in interest rate sensitivity was impacted by changesÂ in overall market interest rates, updates to certain model assumptions, changes in short and intermediate-term fixed rate funding and by the deposit mix shift into certificates of deposit, from both noninterest-bearing and interest-bearing non-maturity deposits. Â The following table illustrates the most recent results for EVE and one-year NII sensitivity as of June 30, 2024. Â Interest Rates Â Â Estimated Â Â Estimated Change in EVE Â Â Interest Rates Â Â Estimated Â Â Estimated Change in NII Â (basis points) Â Â EVE Â Â Amount Â Â % Â Â (basis points) Â Â NII Â Â Amount Â Â % Â +300 Â Â $ 784,644 Â Â Â (183,590) Â Â (18.96) Â Â 300 Â Â $ 213,402 Â Â $ (25,210) Â Â (10.57) +200 Â Â Â 848,897 Â Â Â (119,337) Â Â (12.33) Â Â 200 Â Â Â 222,740 Â Â Â (15,872) Â Â (6.65) +100 Â Â Â 918,010 Â Â Â (50,224) Â Â (5.19) Â Â 100 Â Â Â 232,145 Â Â Â (6,467) Â Â (2.71) 0 Â Â Â 968,234 Â Â Â - Â Â Â - Â Â Â 0 Â Â Â 238,612 Â Â Â - Â Â Â - Â -100 Â Â Â 991,852 Â Â Â 23,618 Â Â Â 2.44 Â Â Â -100 Â Â Â 242,335 Â Â Â 3,723 Â Â Â 1.56 Â -200 Â Â Â 994,032 Â Â Â 25,798 Â Â Â 2.66 Â Â Â -200 Â Â Â 242,592 Â Â Â 3,980 Â Â Â 1.67 Â -300 Â Â Â 985,231 Â Â Â 16,997 Â Â Â 1.76 Â Â Â -300 Â Â Â 243,503 Â Â Â 4,891 Â Â Â 2.05 Â Certain model limitations are inherent in the methodology used in the EVE and net interest income measurements. The models require the making of certain assumptions which may tend to oversimplify the way actual yields and costs respond to changes in market interest rates. The models assume that the composition of the Companyâ€™s interest sensitive assets and liabilities existing at the beginning of a period remain constant over the period being measured, thus they do not consider the Companyâ€™s strategic plans, or any other steps it may take to respond to changes in rates over the forecasted period of time. Additionally, the models assume immediate changes in interest rates, based on yield curves as of a point-in-time, which are reflected in a parallel, instantaneous and uniform manner across all yield curves, when in reality changes may rarely be of this nature. The models also utilize data derived from historical performance and as interest rates change the actual performance of loan prepayments, rate sensitivities, and average life assumptions may deviate from assumptions utilized in the models and can impact the results. Accordingly, although the above measurements provide an indication of the Companyâ€™s interest rate risk exposure at a particular point in time, such measurements are not intended to provide a precise forecast of the effect of changes in market interest rates. Given the nature and speed with whichÂ interest rates change, the projections noted above on the Companyâ€™s EVE and net interest income can be expected to differ from actual results. Â Estimates of Fair Value Â The estimation of fair value is significant to a number of the Companyâ€™s assets, including loans held-for-sale and securities available-for-sale. These are all recorded at either fair value or the lower of cost or fair value. Fair values are volatile and may be influenced by a number of factors. Circumstances that could cause estimates of the fair value of certain assets and liabilities to change include a change in prepayment speeds, discount rates, or market interest rates. Fair values for most available-for-sale securities are based on quoted market prices. If quoted market prices are not available, fair values are based on judgments regarding future expected loss experience, current economic condition risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Â 57 Table of Contents Â Impact of Inflation and Changing Prices Â The consolidated financial statements and notes thereto presented elsewhere herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations; unlike most industrial companies, nearly all of the Companyâ€™s assets and liabilities are monetary. As a result, interest rates have a greater impact on performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services. Â Liquidity Â Management actively monitors and manages its liquidity position to determine any current or potential future liquidity needs.Â Liquidity is a measure of a bankâ€™s ability to fund loans, withdrawals or maturities of deposits, and other cash outflows in a cost-effective manner. Our principal sources of funds are deposits, scheduled amortization and prepayments of loan principal, maturities of investment securities, and funds provided by operations. While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit flow and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Â Liquidity and funding needs are managed through the Bank's Treasury functions and the Asset Liability Committee.Â An internal policy addresses liquidity and funds management and management monitors the adherence to policy limits to satisfy current and potential future cash flow needs. The policy includes internal limits, deposit concentrations, liquidity sources and availability, stress testing, collateral management, contingency funding plan and other qualitative and quantitative metrics. Â As of June 30, 2024, the amount of liquid assets remained at a level management deemed adequate to ensure that, on a short and long-term basis, contractual liabilities, depositorsâ€™ withdrawal requirements, and other operational and client credit needs could be satisfied. As of June 30, 2024, liquid assets (cash and due from banks, interest-bearing deposits with banks and unencumbered investment securities) were $731.2Â million, which represented 7.5% of total assets and 8.8% of total deposits and borrowings, compared to $516.3Â million as of December 31, 2023, which represented 5.2% of total assets and 6.1% of total deposits and borrowings.Â As of June 30, 2024, not included in the above liquid assets were securities with a market value of $107.2Â million which were pledged toÂ the Federal Home Loan Bank, which supportÂ aggregate unutilized borrowing capacity of $102.2Â million as of June 30, 2024.Â As of December 31, 2023, not included in the above liquid assets were securities with a market value of $276.0Â million which were pledged to either the Federal Reserve Bankâ€™s Bank Term Funding Program (â€œBTFPâ€), or the Federal Home Loan Bank, which supportÂ aggregate unutilized borrowing capacity of $300.5Â million as of December 31, 2023. Â The Bank is a member of the Federal Home Loan Bank of New York and, based on available qualified collateral as ofÂ June 30, 2024, had the ability to borrow $2.8Â billion.Â The Bank also has a credit facility established with the Federal Reserve Bank of New York for direct discount window borrowings based on pledged collateral and had the ability to borrowÂ $1.4Â billion as of June 30, 2024. In addition, as of June 30, 2024, the Bank had in place borrowing capacity of $305Â million through correspondent banks and other unsecured borrowing lines. As of June 30, 2024, the Bank had aggregate available and unused credit of approximately $3.2Â billion, which represents the aforementioned facilities totaling $4.5Â billion net of $1.3Â billion in outstanding borrowings and letters of credit. As of June 30, 2024, outstanding commitments for the Bank to extend credit were approximately $1.1Â billion. Â Cash and cash equivalents totaled $293.5Â million as of June 30, 2024, increasing by $50.8Â million from $242.7Â million as of December 31, 2023.Â Operating activities provided $42.8Â million in net cash.Â Investing activities providedÂ $169.2Â million in net cash, primarily reflecting an increase in loans. Financing activities usedÂ $161.2Â million in net cash, primarily reflecting $177.4Â million in net repayments of FHLB borrowings andÂ partially offset by an increase of $39.9Â million in deposits. Â 58 Table of Contents Â Deposits Â Deposits are our primary source of funds. Noninterest bearing demand deposit products include â€œTotally Free Checkingâ€ and â€œSimply Better Checkingâ€ for consumer clients and â€œSmall Business Checkingâ€ and â€œAnalysis Checkingâ€ for commercial clients. Interest-bearing checking accounts require minimum balances for both consumer and commercial clients and include â€œConsumer Interest Checkingâ€ and â€œBusiness Interest Checkingâ€. Money market accounts consist of products that provide a market rate of interest to depositors. Our savings accounts offerÂ paper and/or electronic statements. Time deposits ("TD") are for non-retirement and IRA accounts, generally with initial maturities ranging from 31 days to 60 months, and brokered TDs, which we use for asset liability management purposes and to supplement other sources of funding. Many of our deposit products can be accessed through both our branches and online to provide ease of access to our clients and communities. CDARS/ICS reciprocal deposits are offered based on the Bankâ€™s participation in the IntraFi Network LLC ("the network"). Clients, who are Federal Deposit Insurance Corporation (â€œFDICâ€) insurance sensitive, are able to place large dollar deposits with the Company and the Company utilizes CDARS to place those funds into certificates of deposit issued by other banks in the Network. This occurs in increments of less than the FDIC insurance limits so that both the principal and interest are eligible for FDIC insurance coverage in amounts larger than the insured dollar amount. Unless certain conditions are satisfied, the FDIC considers these funds as brokered deposits.Â The Bank also utilizes internet listing services deposits which are obtained through the use of websites such as Rateline or QwickRate. Â The following table sets forth the average balances and weighted average rates of our deposits for the periods indicated. Â Â Â Quarter-to-Date Average June 30, 2024 Â Â Quarter-to-Date Average June 30, 2023 Â Â Balance Â Â Rate Â Â Balance Â Â Rate Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Demand, noninterest-bearing Â $ 1,256,251 Â Â Â - Â Â $ 1,347,268 Â Â Â - Â Demand, interest-bearing & NOW Â Â 3,240,134 Â Â Â 3.64 % Â Â 3,279,785 Â Â Â 3.05 % Savings Â Â 481,033 Â Â Â 3.25 Â Â Â 361,154 Â Â Â 2.19 Â Time Â Â 2,587,706 Â Â Â 4.49 Â Â Â 2,658,673 Â Â Â 3.59 Â Total average deposits Â $ 7,565,124 Â Â Â 3.30 % Â $ 7,646,880 Â Â Â 2.66 % Â Â Â Average total deposits decreased by $82Â million, or 1.1%, during the secondÂ quarter of 2024 when compared to the second quarter of 2023.Â The decrease in total average deposits was primarily attributed to decreasesÂ in noninterest-bearing demand deposits of $91Â million, time deposits of $71.0Â million and interest-bearing and NOW depositsÂ ofÂ $40Â million, partially offset by increases inÂ savings deposits of $120Â million. Â The decrease in average time deposits of $71.0Â million during the secondÂ quarter of 2024 was primarily attributed to decreases in CDARs of $124Â million, nonreciprocal brokered time deposits of $94Â million and internet listing services of $16Â million, partially offset by an increaseÂ in retail time deposits of $163Â million. The Bank continues its utilization ofÂ nonreciprocal brokered time deposits to enhance balance sheet liquidity as it remains a favorable alternative to other borrowings. Â The decrease in average noninterest-bearing demand deposits was consistent with industry trends reflecting higher levels of interest rates which resulted in migration of noninterest-bearing deposits to interest-bearing transactionÂ deposits. Â Average demand deposits (including interest-bearing and noninterest-bearing) for the secondÂ quarter of 2024 included $1.2Â billion in ICS reciprocal deposits, compared to $1.1Â billion for the secondÂ quarter of 2023. Average time deposits for the secondÂ quarter of 2024 included $61Â million in CDARS, compared to $184Â million for the secondÂ quarter of 2023. The decrease in CDARS was attributed to maturities that did not renew. Â Â Â 59 Table of Contents Â The following table sets forth the average balances and weighted average rates of our deposits for the periods indicated. Â Â Â Year-to-Date Average June 30, 2024 Â Â Year-to-Date Average June 30, 2023 Â Â Balance Â Â Rate Â Â Balance Â Â Rate Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Demand, noninterest-bearing Â $ 1,255,225 Â Â Â - Â Â $ 1,403,220 Â Â Â - Â Demand, interest-bearing & NOW Â Â 3,247,479 Â Â Â 3.61 % Â Â 3,230,549 Â Â Â 2.85 % Savings Â Â 461,292 Â Â Â 3.17 Â Â Â 369,033 Â Â Â 2.10 Â Time Â Â 2,577,737 Â Â Â 4.44 Â Â Â 2,508,835 Â Â Â 3.28 Â Total average deposits Â $ 7,541,733 Â Â Â 3.27 % Â $ 7,511,637 Â Â Â 2.42 % Â Average total deposits increased by $30Â million, or 0.4%, during the six months ended June 30, 2024 when compared to the six months ended June 30, 2023.Â The increase in total average deposits was primarily attributed to increases in savings deposits of $92Â million, time deposits of $69Â million, and interest-bearing and NOW depositsÂ of $17Â million, partially offset by decreases in noninterest-bearing demand deposits of $148Â million. Â The increase in average time deposits of $69Â million during the six months ended June 30, 2024 was primarily attributed to increases in retail time deposits of $101Â million and internet listing services of $5Â million, partially offset by decreases in CDARs of $35Â million and nonreciprocal brokered time deposits of $2Â million. Â The decrease in average noninterest-bearing demand deposits was consistent with industry trends reflecting higher levels of interest rates which resulted in migration of noninterest-bearing deposits to interest-bearing transactionÂ deposits. Â Average demand deposits (including interest-bearing and noninterest-bearing) during the six months ended June 30, 2024 included $1.1Â billion in ICS reciprocal deposits, compared to $0.7Â billion during the six months ended June 30, 2023. Average time deposits during the six months ended June 30, 2024 included $76Â million in CDARS, compared to $111Â million during the six months ended June 30, 2023. The decrease in CDARS was attributed to maturities that did not renew. Â The beta, which is the measurement of deposit rate sensitivity in response to market rate changes, on nonreciprocal brokered deposits tends to be higher than that of ICS and CDARS reciprocal deposits, as nonreciprocal brokered time deposits are more directly correlated to prevailing market rates of interest, while ICS and CDARs reciprocal deposits reflect the Bankâ€™s relationship with reciprocal deposit clients and are more driven by a desire for FDIC insurance coverage than market leading rates. Â 60 Table of Contents Â The following table sets forth information related to the uninsured deposit balances of the Bank. Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Balance Â Â Balance Â (dollars in thousands) Â Â Â Â Â Â Â As stated in FFIEC 041-Consolidated Report of Condition, schedule RC-O: Â Â Â Â Â Â Â Â Total Bank unconsolidated deposits (including affiliate and subsidiary accounts) Â $ 11,493,169 Â Â $ 11,243,254 Â Estimated uninsured deposits Â Â 6,344,752 Â Â Â 6,152,454 Â Â Â Â Â Â Â Â Â Â The Company, on a consolidated basis: Â Â Â Â Â Â Â Â Total deposits Â $ 7,588,654 Â Â $ 7,356,202 Â Estimated uninsured deposits (excluding affiliate and subsidiary accounts) Â Â 2,412,640 Â Â Â 2,388,545 Â Â The following table sets forth the distribution of total actual deposit accounts, by account types for the periods indicated. Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â Amount Â Â Percent of total Â Amount Â Â Percent of total Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Demand, noninterest-bearing Â $ 1,268,882 Â Â Â 16.8 % Â $ 1,259,364 Â Â Â 16.7 % Demand, interest-bearing & NOW Â Â 3,212,891 Â Â Â 42.4 Â Â Â 3,326,989 Â Â Â 44.1 Â Savings Â Â 501,076 Â Â Â 6.6 Â Â Â 418,478 Â Â Â 5.6 Â Time Â Â 2,593,165 Â Â Â 34.2 Â Â Â 2,531,371 Â Â Â 33.6 Â Total deposits Â $ 7,576,014 Â Â Â 100.0 % Â $ 7,536,202 Â Â Â 100.0 % Â Total deposits increased by $40Â million, or 0.5%, to $7.6Â billion as of June 30, 2024 from $7.5Â billion as of December 31, 2023. The increase in total deposits was primarily attributed to increases in savings deposits of $83 million, time deposits ofÂ $62Â and noninterest-bearing demand deposits of $9Â million, partially offset by decreases in demand, interest-bearing demand deposits & NOW deposits of $114Â million. Â Total demand, interest-bearing & NOW deposits as of June 30, 2024 include $1.2Â billion in ICS reciprocal deposits, compared to $1.1Â billion as of December 31, 2023. Total time deposits as of June 30, 2024 include $61Â millionÂ in CDARS, compared to $96Â million as of December 31, 2023. Â Included in time deposits were nonreciprocal brokered deposits of $890Â million as of June 30, 2024, which were relatively flat when compared to $917Â million as of December 31, 2023. Â 61 Table of Contents Â As of June 30, 2024, we held $730Â million of time deposits with balances in excess of $250,000.Â The following table provides information on the maturity distribution of the time deposits with balances in excess of $250,000Â as of June 30, 2024: Â Â Â June 30, 2024 Â Â Â (dollars in thousands) Â 3 months or less Â $ 222,239 Â Over 3 to 6 months Â Â 192,937 Â Over 6 to 12 months Â Â 281,673 Â Over 12 months Â Â 32,653 Â Total Â $ 729,502 Â Â Subordinated Debentures Â During December 2003, Center Bancorp Statutory Trust II, a statutory business trust and wholly owned subsidiary of the Parent Corporation issued $5.0 million of MMCapS capital securities to investors due on January 23, 2034. The trust loaned the proceeds of this offering to the Company and received in exchange $5.2 million of the Parent Corporationâ€™s subordinated debentures. The subordinated debentures are redeemable in whole or part prior to maturity.Â Upon the cessation of publication ofÂ LIBOR rates and pursuant to the Federal LIBOR Act and Federal Reserve regulations implementing the Act,Â theÂ MMCapS capital securities converted as of June 30, 2023 to a new index based on CME Term SOFR, as defined in the LIBOR Act, plus a tenor spread adjustment, which is referred to as the Benchmark Replacement.Â EffectiveÂ for quarterly interest rate resets afterÂ July 3, 2023 the subordinated debentures' floating rate will be three-month CME Term SOFR plus 2.85% plus a tenor spread adjustment of 0.26161%. The rate as of June 30, 2024Â was 8.44%.Â Â During JuneÂ 2020, the Parent Corporation issued $75 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the â€œ2020 Notesâ€). The 2020 Notes bear interest at 5.75% annually from, and including, the date of initial issuance up to, but excluding, September 15, 2025 or the date of earlier redemption, payable semi-annually in arrears on September 15 and December 15 of each year, commencing December 15, 2020. From and including September 15, 2025 through maturity or earlier redemption, the interest rate shall reset quarterly to an interest rate per annum equal to a benchmark rate, which is expected to be Three-Month Term SOFR (as defined in the Second Supplemental Indenture), plus 560.5 basis points, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2025. Notwithstanding the foregoing, if the benchmark rate is less than zero, then the benchmark rate shall be deemed to be zero. Â 62 Table of Contents Â Stockholdersâ€™ Equity Â The Companyâ€™s stockholdersâ€™ equity remained relatively flat at approximatelyÂ $1.2Â billion at bothÂ June 30, 2024, and December 31, 2023. Retained earnings increased byÂ $20Â millionÂ and was offset byÂ increases in treasury stock of $6Â million and accumulated other comprehensive lossesÂ of $7Â million.Â As of June 30, 2024, the Companyâ€™s tangible common equity ratio and tangible book value per share were 9.46% and $23.45, respectively, compared toÂ 9.25%Â and $23.14, respectively, as of December 31, 2023.Â Total goodwill and other intangible assets were $213.6Â million as of June 30, 2024, and $214.2Â million as of December 31, 2023. Â The following table shows the reconciliation of common equity to tangible common equity and the tangible common equity ratio. Â Â Â June 30, 2024 Â Â December 31, 2023 Â Â Â (dollars in thousands, except for share and per share data) Â Common equity Â $ 1,113,300 Â Â $ 1,105,693 Â Less: intangible assets Â Â (213,604) Â Â (214,246) Tangible common stockholdersâ€™ equity Â $ 899,696 Â Â $ 891,447 Â Â Â Â Â Â Â Â Â Â Total assets Â $ 9,723,731 Â Â $ 9,855,603 Â Less: intangible assets Â Â (213,604) Â Â (214,246) Tangible assets Â $ 9,510,127 Â Â $ 9,641,357 Â Â Â Â Â Â Â Â Â Â Common stock outstanding at period end Â Â 38,365,069 Â Â Â 38,519,770 Â Â Â Â Â Â Â Â Â Tangible common equity ratio (1) Â Â 9.46 % Â Â 9.25 % Â Â Â Â Â Â Â Â Â Book value per common share Â $ 29.02 Â Â $ 28.70 Â Less: intangible assets Â Â 5.57 Â Â Â 5.56 Â Tangible book value per common share Â $ 23.45 Â Â $ 23.14 Â Â (1) Tangible common equity ratio is a non-GAAP measure. Â 63 Table of Contents Â Regulatory Capital and Capital Adequacy Â The maintenance of a solid capital foundation is a primary goal for the Company. Accordingly, capital plans, stock repurchases and dividend policies are monitored on an ongoing basis. The Companyâ€™s objective with respect to the capital planning process is to effectively balance the retention of capital to support future growth with the goal of providing stockholders with an attractive long-term return on their investment. Â The Company and the Bank are subject to regulatory guidelines establishing minimum capital standards that involve quantitative measures of assets, and certain off-balance sheet items, as risk-adjusted assets under regulatory accounting practices. Â The following is a summary of regulatory capital amounts and ratios as of June 30, 2024 for the Company and the Bank, compared with minimum capital adequacy requirements and the regulatory requirements for classification as a well-capitalized depository institution (for the Bank). Â Â Â ConnectOne Bancorp, Inc. Â Â For Capital Adequacy Purposes Â Â To Be Well-Capitalized Under Prompt Corrective Action Provisions Â The Company Â Amount Â Â Ratio Â Â Amount Â Â Ratio Â Â Amount Â Â Ratio Â As of June 30, 2024 Â (dollars in thousands) Â Tier 1 leverage capital Â $ 1,056,834 Â Â Â 10.97 % Â $ 385,324 Â Â Â 4.00 % Â Â NA Â Â Â NA Â CET I risk-based ratio Â Â 940,752 Â Â Â 10.90 Â Â Â 388,275 Â Â Â 4.50 Â Â Â NA Â Â Â NA Â Tier 1 risk-based capital Â Â 1,056,834 Â Â Â 12.25 Â Â Â 517,700 Â Â Â 6.00 Â Â Â NA Â Â Â NA Â Total risk-based capital Â Â 1,216,462 Â Â Â 14.10 Â Â Â 690,267 Â Â Â 8.00 Â Â Â NA Â Â Â NA Â Â N/A - not applicable Â Â Â ConnectOne Bank Â Â For Capital Adequacy Purposes Â Â

To Be Well-Capitalized Under Prompt Corrective Action Provisions Â The Bank Â Amount Â Â Ratio Â Â Amount Â Â Ratio Â Â Amount Â Â Ratio Â As of June 30, 2024 Â Â Â Â Â Â Â Â Â (dollars in thousands) Â Â Â Â Â Â Â Â Â Tier 1 leverage capital Â $ 1,086,753 Â Â Â 11.29 % Â $ 384,986 Â Â Â 4.00 % Â Â 481,232 Â Â Â 5.00 % CET I risk-based ratio Â Â 1,086,753 Â Â Â 12.60 Â Â Â 388,268 Â Â Â 4.50 Â Â Â 560,832 Â Â Â 6.50 Â Tier 1 risk-based capital Â Â 1,086,753 Â Â Â 12.60 Â Â Â 517,691 Â Â Â 6.00 Â Â Â 690,254 Â Â 8.00 Â Total risk-based capital Â Â 1,171,380 Â Â Â 13.58 Â Â Â 690,254 Â Â Â 8.00 Â Â Â 862,818 Â Â Â 10.00 Â Â As of June 30, 2024, both the Company and Bank satisfy the capital conservation buffer requirements applicable to them. The lowest ratio at the Company is the Total Risk Based Capital Ratio which was 3.60% above the minimum buffer ratio and, at the Bank, the lowest ratio was the Total Risk Based Capital Ratio which was 3.08% above the minimum buffer ratio. Â 64 Table of Contents Â Item 3. Qualitative and Quantitative Disclosures about Market Risks Â Market Risk Â Interest rate risk management is our primary market risk.Â See â€œItem 2- Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Sensitivity Analysisâ€ herein for a discussion of our management of our interest rate risk. Â Item 4. Controls and Procedures Â a) Disclosure controls and procedures. As of the end of the Companyâ€™s most recently completed fiscal quarter covered by this report, the Company carried out an evaluation, with the participation of the Companyâ€™s management, including the Companyâ€™s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Companyâ€™s disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Companyâ€™s Chief Executive Officer and Chief Financial Officer concluded that the Companyâ€™s disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SECâ€™s rules and forms and are operating in an effective manner and that such information is accumulated and communicated to management, including the Companyâ€™s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Â b) Changes in internal controls over financial reporting. There have been no changes in the Companyâ€™s internal controls over financial reporting that occurred during the Companyâ€™s last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Companyâ€™s internal control over financial reporting. Â 65 Table of Contents Â PART II - OTHER INFORMATION Â Item 1. Legal Proceedings Â The Company is not subject to any legal proceedings, which could have a materially adverse impact on its results of operations and financial condition. Â Item 1a. Risk Factors Â There have been no material changes to the risks inherent in our business from those described under Item 1A â€“ Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2023. Â Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Â Share Repurchase Program Â Historically, repurchases have been made from time to time as, in the opinion of management, market conditions warranted, in the open market or in privately negotiated transactions.Â During the quarter ended June 30, 2024, the Company did not repurchase any shares. As ofÂ June 30, 2024, shares remaining for repurchase under the program were 641,118. Â Item 3. Defaults Upon Senior Securities Â Not applicable Â Item 4. Mine Safety Disclosures Â Not applicable Â Item 5 Other Information Â Not applicable Â 66 Table of Contents Â Â Item 6. Exhibits Â Exhibit No. Â Description Â Â Â 31.1 Â Certification of the Chief Executive Officer of the Parent Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 31.2 Â Certification of the Chief Financial Officer of the Parent Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32.1 Â Certification of the Chief Executive Officer of the Parent Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 32.2 Â Certification of the Chief Financial Officer of the Parent Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 101.INS Â Inline XBRL Instance Document 101.SCH Â Inline XBRL Taxonomy Extension Schema Document. 101.CAL Â Inline XBRL Taxonomy Extension Calculation Linkbase Document. 101.DEF Â Inline XBRL Taxonomy Extension Definition Linkbase Document. 101.LAB Â Inline XBRL Taxonomy Extension Label Linkbase Document. 101.PRE Â Inline XBRL Taxonomy Extension Presentation Linkbase Document. 104 Â Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). Â 67 Table of Contents Â SIGNATURES Â 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. Â CONNECTONE BANCORP, INC. (Registrant) Â By: /s/ Frank Sorrentino III Â By: /s/ William S. Burns Â Frank Sorrentino III Â Â William S. Burns Â Chairman and Chief Executive Officer Â Â Senior Executive Vice President and Chief Financial Officer Â Â Â Â Â Date: August 2, 2024 Â Â Date: August 2, 2024 Â 68 0001437749-24-024478ex_668852.htm EXHIBIT 31.1Â CERTIFICATIONÂ I, Frank Sorrentino III, certify that:Â 1. I have reviewed this quarterly report on Form 10-Q of ConnectOne Bancorp, Inc.;Â 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;Â 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;Â 4. The Registrantâ€™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:Â 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 me by others within those entities, particularly during the period in which this report is being prepared;Â 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;Â 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; andÂ d) disclosed in this report any change in the Registrantâ€™s internal control over financial reporting that occurred during the Registrantâ€™s most recent fiscal quarter (the Registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrantâ€™s internal control over financial reporting.Â 5. The Registrantâ€™s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrantâ€™s auditors and the audit committee of the Registrantâ€™s board of directors (or persons performing the equivalent functions):Â 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 Registrantâ€™s ability to record, process, summarize and report financial information; andÂ 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.Â Date: August 2, 2024 /s/ Frank Sorrentino III Â Frank Sorrentino III Â Chairman and Chief Executive Officer Â Â Â 0001437749-24-024478ex_668853.htm EXHIBIT 31.2Â CERTIFICATIONÂ I, William S. Burns, certify that:Â 1. I have reviewed this quarterly report on Form 10-Q of ConnectOne Bancorp, Inc.;Â 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;Â 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;Â 4. The Registrantâ€™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:Â 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 me by others within those entities, particularly during the period in which this report is being prepared;Â 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;Â 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; andÂ d) disclosed in this report any change in the Registrantâ€™s internal control over financial reporting that occurred during the Registrantâ€™s most recent fiscal quarter (the Registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrantâ€™s internal control over financial reporting.Â 5. The Registrantâ€™s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrantâ€™s auditors and the audit committee of the Registrantâ€™s board of directors (or persons performing the equivalent functions):Â 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 Registrantâ€™s ability to record, process, summarize and report financial information; andÂ 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.Â Date: August 2, 2024 /s/ William S. Burns Â William S. Burns Â Senior Executive Vice President and Chief Financial Officer Â Â Â 0001437749-24-024478ex_668854.htm EXHIBIT 32.1Â CERTIFICATION PURSUANT TO18 U.S.C. SECTION 1350,AS ADOPTED PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002Â In connection with this Quarterly Report of ConnectOne Bancorp, Inc. (the â€œCompanyâ€) on Form 10-Q for the quarter ended June 30, 2024Â filed with the Securities and Exchange Commission (the â€œReportâ€), I, Frank Sorrentino III, Chairman and Chief Executive Officer of 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 my knowledge:Â 1. The Report fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934; andÂ 2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated results of operations of the Company for the periods presented.Â Date: August 2, 2024 /s/ Frank Sorrentino III Â Frank Sorrentino III Â Chairman and Chief Executive Officer Â Â Â 0001437749-24-024478ex_668855.htm EXHIBIT 32.2Â CERTIFICATION PURSUANT TO18 U.S.C. SECTION 1350,AS ADOPTED PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002Â In connection with this Quarterly Report of ConnectOne Bancorp, Inc. (the â€œCompanyâ€) on Form 10-Q for the quarter ended June 30, 2024Â filed with the Securities and Exchange Commission (the â€œReportâ€), I, William S. Burns, Senior Executive Vice President and Chief Financial Officer of 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 my knowledge:Â 1. The Report fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934; andÂ 2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated results of operations of the Company for the periods presented.Â Date: August 2, 2024 /s/ William S. Burns Â William S. Burns Â Senior Executive Vice President and Chief Financial Officer Â Â bsp;