

REFINITIV

DELTA REPORT

10-Q

CNOBP - CONNECTONE BANCORP, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1155

■ CHANGES	339
■ DELETIONS	485
■ ADDITIONS	331

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended **September 30, 2023** **March 31, 2024**

OR

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

For the transition period from **to**

Commission File Number: **000-11486**



CONNECTONE BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(Registrant'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
Depository Shares (each representing a 1/40th interest in a share of 5.25% Series A Non-Cumulative, perpetual preferred stock)	CNOBP	NASDAQ

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value:

38,606,370 38,333,053 shares

(Title of Class)

(Outstanding as of **November 3, 2023** **May 3, 2024**)

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Item 1. Financial Statements

CONNECTONE BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except for share data)

	September 30,	December 31,	March 31,	December
	2023	2022	2024	31, 2023
	(unaudited)		(unaudited)	
ASSETS				
Cash and due from banks	\$ 56,170	\$ 61,629	\$ 45,322	\$ 61,421
Interest-bearing deposits with banks	197,128	206,686	232,261	181,293
Cash and cash equivalents	253,298	268,315	277,583	242,714
Investment securities	581,867	634,884	619,397	617,162
Equity securities	17,677	15,811	19,457	18,564
Loans held-for-sale	-	13,772		
Loans receivable	8,181,109	8,099,689	8,297,957	8,345,145
Less: Allowance for credit losses - loans	88,230	90,513	82,869	81,974
Net loans receivable	8,092,879	8,009,176	8,215,088	8,263,171
Investment in restricted stock, at cost	49,387	46,604	48,931	51,457
Bank premises and equipment, net	28,432	27,800	29,827	30,779
Accrued interest receivable	46,795	46,062	49,731	49,108
Bank owned life insurance	236,009	231,328	239,308	237,644
Right of use operating lease assets	11,229	10,179	11,725	12,007
Other real estate owned	-	264		
Goodwill	208,372	208,372	208,372	208,372
Core deposit intangibles	6,222	7,312	5,553	5,874
Other assets	146,718	125,069	128,992	118,751
Total assets	\$ 9,678,885	\$ 9,644,948	\$ 9,853,964	\$ 9,855,603
LIABILITIES				
Deposits:				
Noninterest-bearing	\$ 1,224,125	\$ 1,501,614	\$ 1,290,523	\$ 1,259,364
Interest-bearing	6,214,370	5,855,008	6,298,131	6,276,838
Total deposits	7,438,495	7,356,622	7,588,654	7,536,202
Borrowings	887,590	857,622	877,568	933,579
Subordinated debentures, net	79,313	153,255	79,566	79,439
Operating lease liabilities	12,424	11,397	12,843	13,171
Other liabilities	72,909	87,301	78,724	76,592
Total liabilities	8,490,731	8,466,197	8,637,355	8,638,983
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY				
Preferred Stock, no par value; \$1,000 per share liquidation preference; Authorized 5,000,000 shares; issued 115,000 shares as of September 30, 2023 and as of December 31, 2022; outstanding 115,000 shares as of September 30, 2023 and as of December 31, 2022	110,927	110,927		
Common stock, no par value: Authorized 100,000,000 shares; issued 42,122,948 shares as of September 30, 2023 and 41,942,149 shares as of December 31, 2022; outstanding 38,621,970 shares as of September 30, 2023 and 39,243,123 as of December 31, 2022	586,946	586,946		
Preferred Stock, no par value; \$1,000 per share liquidation preference; Authorized 5,000,000 shares; issued 115,000 shares as of March 31, 2024 and as of December 31, 2023; outstanding 115,000 shares as of March 31, 2024 and as of December 31, 2023			110,927	110,927
Common stock, no par value: Authorized 100,000,000 shares; issued 42,218,601 shares as of March 31, 2024 and 42,122,948 shares as of December 31, 2023; outstanding 38,333,053 shares as of March 31, 2024 and 38,519,770 as of December 31, 2023			586,946	586,946
Additional paid-in capital	32,027	30,126	32,866	33,182
Retained earnings	579,776	535,915	600,118	590,970
Treasury stock, at cost 3,500,978 common shares as of September 30, 2023 and 2,699,026 as of December 31, 2022	(68,108)	(52,799)		

Treasury stock, at cost 3,885,548 common shares as of March 31, 2024 and 3,603,178 as of December 31, 2023							(76,116)	(70,296)
Accumulated other comprehensive loss							(53,414)	(32,364)
Total stockholders' equity							(38,132)	(35,109)
Total liabilities and stockholders' equity							1,188,154	1,178,751
							\$ 9,678,885	\$ 9,644,948
							\$ 9,853,964	\$ 9,855,603

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
(dollars in thousands, except for per share data)						
Interest income						
Interest and fees on loans	\$ 115,405	\$ 90,731	\$ 333,356	\$ 248,041	\$ 120,088	\$ 106,903
Interest and dividends on investment securities:						
Taxable	4,128	4,063	12,386	8,487	4,334	4,229
Tax-exempt	1,136	1,083	3,475	2,708	1,154	1,092
Dividends	907	438	2,750	943	1,125	898
Interest on federal funds sold and other short-term investments	2,110	665	9,141	1,098	2,906	2,975
Total interest income	123,686	96,980	361,108	261,277	129,607	116,097
Interest expense						
Deposits	56,043	13,299	146,844	24,018	60,407	40,087
Borrowings	5,286	5,520	20,980	13,149	8,900	8,926
Total interest expense	61,329	18,819	167,824	37,167	69,307	49,013
Net interest income	62,357	78,161	193,284	224,110	60,300	67,084
Provision for credit losses	1,500	10,000	5,500	14,450	4,000	1,000
Net interest income after provision for credit losses	60,857	68,161	187,784	209,660	56,300	66,084
Noninterest income						
Deposit, loan and other income	1,605	1,969	4,553	5,578	1,592	1,403
Income on bank owned life insurance	1,597	1,521	4,681	4,069	1,664	1,531
Net gains on sale of loans held-for-sale	633	262	1,232	1,519	506	49
Net losses on equity securities	(273)	(430)	(674)	(1,431)		
Net gain (losses) on equity securities					86	(191)
Total noninterest income	3,562	3,322	9,792	9,735	3,848	2,792
Noninterest expenses						
Salaries and employee benefits	22,276	21,025	66,289	59,470	22,196	22,261
Occupancy and equipment	2,738	2,600	8,176	7,262	3,009	2,761
FDIC insurance	1,800	720	4,465	2,051	1,800	950
Professional and consulting	1,834	1,980	5,960	5,896	1,928	2,194
Marketing and advertising	554	461	1,642	1,238	677	532
Information technology and communications	3,487	2,747	10,192	8,414	4,389	3,061
Amortization of core deposit intangibles	347	409	1,090	1,276	321	372
Other components of net periodic pension expense	(25)	(143)	(76)	(429)	(65)	(25)
Increase in value of acquisition price	-	-	-	-	1,516	
Other expenses	2,773	2,344	8,366	6,382	2,810	2,764
Total noninterest expenses	35,784	32,143	106,104	93,076	37,065	34,870

Income before income tax expense	28,635	39,340	91,472	126,319	23,083	34,006
Income tax expense	7,228	10,425	23,742	33,665	5,878	9,077
Net income	21,407	28,915	67,730	92,654	17,205	24,929
Preferred dividends	1,509	1,509	4,527	4,527	1,509	1,509
Net income available to common stockholders	\$ 19,898	\$ 27,406	\$ 63,203	\$ 88,127	\$ 15,696	\$ 23,420
Earnings per common share						
Basic	\$ 0.51	\$ 0.70	\$ 1.62	\$ 2.24	\$ 0.41	\$ 0.60
Diluted	0.51	0.70	1.61	2.23	0.41	0.59

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited)

(dollars in thousands)	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Net income	\$ 21,407	\$ 28,915	\$ 67,730	\$ 92,654	\$ 17,205	\$ 24,929
Other comprehensive income (loss):						
Unrealized holding losses on available-for-sale securities arising during the period	(32,285)	(39,912)	(36,060)	(94,428)		
Unrealized holding (losses) gains on available-for-sale securities arising during the period					(10,361)	6,528
Tax effect	9,177	11,471	10,087	27,178	1,395	(2,045)
Net of tax	(23,108)	(28,441)	(25,973)	(67,250)	(8,966)	4,483
Unrealized gains on cash flow hedges	9,768	16,969	19,832	44,253		
Unrealized gains (losses) on cash flow hedges					12,880	(4,361)
Tax effect	(2,938)	(5,094)	(5,966)	(13,381)	(2,920)	1,312
Net of tax	6,830	11,875	13,866	30,872	9,960	(3,049)
Reclassification adjustment for realized gains on cash flow hedges	(4,793)	(1,178)	(13,013)	(524)	(5,629)	(4,267)
Tax effect	1,442	343	3,915	159		
Net of tax	(3,351)	(835)	(9,098)	(365)		
Unrealized gains on pension plan	-	-	-	-	2,187	
Tax effect	-	-	-	(567)	1,582	1,284
Net of tax	-	-	-	1,620	(4,047)	(2,983)
Reclassification adjustment for realized losses on pension plan included in net income	74	17	222	49	43	74
Tax effect	(22)	(5)	(67)	(14)	(13)	(23)
Net of tax	52	12	155	35	30	51
Total other comprehensive loss	(19,577)	(17,389)	(21,050)	(35,088)	(3,023)	(1,498)
Total comprehensive income	\$ 1,830	\$ 11,526	\$ 46,680	\$ 57,566	\$ 14,182	\$ 23,431

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (audited)

Three Months Ended September 30, 2023								Three Months Ended March 31, 2024							
(in thousands, except share data)	Accumulated							Accumulated							
	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Comprehensive (Loss) Income	Total Stockholders' Equity	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Comprehensive (Loss) Income	Total Stockholders' Equity	
Balance as of June 30, 2023	\$ 110,927	\$ 586,946	\$ 30,740	\$ 566,498	\$ (61,877)	\$ (33,837)	\$ 1,199,397								
Balance as of December 31, 2023								\$ 110,927	\$ 586,946	\$ 33,182	\$ 590,970	\$ (70,296)	\$ (35,109)	\$ 1,212,000	
Net income				21,407			21,407					17,205			
Other comprehensive loss, net of tax						(19,577)	(19,577)							(3,023)	
Cash dividends paid on preferred stock (\$0.328125 per depositary share)				(1,509)			(1,509)					(1,509)			
Cash dividends paid on common stock (\$0.17 per share)				(6,620)			(6,620)					(6,548)			
Exercise of stock options (646 shares)			11				11								
Net shares issued in satisfaction of deferred stock units earned (3,938 shares)															
Restricted stock grants, net of forfeitures (2,477 shares)															

Repurchase of treasury stock (316,789 shares)	(6,231)	(6,231)					
Restricted stock grants, net of forfeitures (36,446 shares)							
Stock grants (1,533 shares)							
Net shares issued in satisfaction of deferred stock units earned (33,604 shares)							
Net shares issued in satisfaction of performance units earned (24,070 shares)							
Share redemption for tax withholdings on performance units and deferred stock units earned	(1,324)						
Stock-based compensation expense	1,276	1,008					
Repurchase of treasury stock (282,370 shares)		(5,820)					
Balance as of							
September 30, 2023	\$ 110,927	\$ 586,946	\$ 32,027	\$ 579,776	\$ (68,108)	\$ (53,414)	\$ 1,188,154
Balance as of							
March 31, 2024							

Three Months Ended September 30, 2022							Three Months Ended March 31, 2023								
		Accumulated							Accumulated						
Preferred	Common	Additional	Retained	Treasury	Other	Comprehensive	Stockholders'	Preferred	Common	Additional	Retained	Treasury	Other	Comprehensive	Stockholders'

(in thousands, except share data)	Stock	Stock	Capital	Earnings	Stock	(Loss) Income	Equity	Stock	Stock	Capital	Earnings	Stock	(Loss) Income	Equity
Balance as of June 30, 2022	\$ 110,927	\$ 586,946	\$ 27,536	\$ 489,640	\$ (52,799)	\$ (19,103)	\$ 1,143,147							
Balance as of December 31, 2022								\$ 110,927	\$ 586,946	\$ 30,126	\$ 535,915	\$ (52,799)	\$ (32,364)	\$ 1,143,147
Net income	-	-	-	28,915	-	-	28,915	-	-	-	24,929	-	-	-
Other comprehensive loss, net of tax	-	-	-	-	-	(17,389)	(17,389)	-	-	-	-	-	-	(1,498)
Cash dividends declared on preferred stock (\$0.328125 per depositary share)					(1,509)		(1,509)					(1,509)		
Cash dividends declared on common stock (\$0.155 per share)					(6,089)		(6,089)						(6,074)	
Cash dividends declared on common stock (\$0.17 per share)														(6,074)
Exercise of stock options (6,473 shares)												81		
Restricted stock grants, net of forfeitures (49,202 shares)														
Stock grants (995 shares)														
Net shares issued in satisfaction of deferred stock units earned (32,068 shares)														

Net shares issued in satisfaction of performance units earned (52,353 shares)							
Stock-based compensation expense	1,220		1,220		1,143		
Repurchase of treasury stock (205,163 shares)						(4,853)	
Balance as of September 30, 2022	\$ 110,927	\$ 586,946	\$ 28,756	\$ 510,957	\$ (52,799)	\$ (36,492)	\$ 1,148,295
Balance as of March 31, 2023	\$ 110,927	\$ 586,946	\$ 31,350	\$ 553,261	\$ (57,652)	\$ (33,862)	\$ 1,188,154

(continued)

	Nine Months Ended September 30, 2023						
	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Comprehensive (Loss) Income	Accumulated Stockholders' Equity
(in thousands, except share data)							
Balance as of December 31, 2022	\$ 110,927	\$ 586,946	\$ 30,126	\$ 535,915	\$ (52,799)	\$ (32,364)	\$ 1,178,751
Net income				67,730			67,730
Other comprehensive loss, net of tax						(21,050)	(21,050)
Cash dividends paid on preferred stock (\$0.984375 per depository share)				(4,527)			(4,527)
Cash dividends paid on common stock (\$0.51 per share)				(19,342)			(19,342)
Exercise of stock options (7,388 shares)			96				96
Restricted stock grants, net of forfeitures (84,057 shares)							
Stock grants (995 shares)							
Net shares issued in satisfaction of deferred stock units earned (36,006 shares)							
Net shares issued in satisfaction of performance units earned (52,353 shares)							
Share redemption for tax withholdings on performance units and deferred stock units earned			(1,836)				(1,836)
Repurchase of treasury stock (801,952 shares)					(15,309)		(15,309)
Stock-based compensation expense			3,641				3,641
Balance as of September 30, 2023	\$ 110,927	\$ 586,946	\$ 32,027	\$ 579,776	\$ (68,108)	\$ (53,414)	\$ 1,188,154
	Nine Months Ended September 30, 2022						
	Additional			Other			Total

(in thousands, except share data)	Preferred	Common	Paid-In	Retained	Treasury	Comprehensive	Stockholders'
	Stock	Stock	Capital	Earnings	Stock	(Loss) Income	Equity
Balance as of December 31, 2021	\$ 110,927	\$ 586,946	\$ 27,246	\$ 440,169	\$ (39,672)	\$ (1,404)	\$ 1,124,212
Net income	-	-	-	92,654	-	-	92,654
Other comprehensive loss, net of tax	-	-	-	-	-	(35,088)	(35,088)
Cash dividends declared on preferred stock (\$0.984375 per depositary share)	-	-	-	(4,527)	-	-	(4,527)
Cash dividends declared on common stock (\$0.44 per share)	-	-	-	(17,339)	-	-	(17,339)
Exercise of stock options (15,086 shares)	-	-	124	-	-	-	124
Restricted stock grants, net of forfeitures (53,169 shares)	-	-	-	-	-	-	-
Stock grants (153 shares)	-	-	-	-	-	-	-
Net shares issued in satisfaction of restricted stock units earned (31,383 shares)	-	-	-	-	-	-	-
Net shares issued in satisfaction of performance units earned (22,350 shares)	-	-	-	-	-	-	-
Share redemption for tax withholdings on performance units and deferred stock units earned	-	-	(2,133)	-	-	-	(2,133)
Repurchase of treasury stock (447,108 shares)	-	-	-	-	(13,127)	-	(13,127)
Stock-based compensation expense	-	-	3,519	-	-	-	3,519
Balance as of September 30, 2022	\$ 110,927	\$ 586,946	\$ 28,756	\$ 510,957	\$ (52,799)	\$ (36,492)	\$ 1,148,295

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(audited)

(dollars in thousands)	Nine Months Ended		Three Months Ended	
	September 30,		March 31,	
	2023	2022	2024	2023
Cash flows from operating activities				
Net income	\$ 67,730	\$ 92,654	\$ 17,205	\$ 24,929
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of premises and equipment	3,355	2,903	1,102	1,076
Provision for credit losses	5,500	14,450	4,000	1,000
Amortization of intangibles	1,090	1,276	321	372
Net accretion of loans	(1,618)	(2,448)	(247)	(743)
Accretion on bank premises	(37)	(37)	(12)	(12)
Accretion on deposits	(232)	(657)	(39)	(101)
Amortization on borrowings, net	16	27	5	5
Stock-based compensation	3,641	3,519	1,008	1,143
Losses on equity securities, net	674	1,431		
(Gains) losses on equity securities, net			(86)	191
Gains on sale of loans held-for-sale, net		(1,232)	(1,519)	(506)
Loans originated for resale		(19,511)	(18,619)	(6,617)
Proceeds from sale of loans held-for-sale	29,531	25,955	7,123	1,202

Loss on sale of other real estate owned	22	6	-	22
Increase in cash surrender value of bank owned life insurance	(4,681)	(4,069)	(1,664)	(1,531)
Amortization of premium and accretion of discounts on securities available-for-sale	821	1,848	185	268
Amortization of subordinated debentures issuance costs	1,058	228	127	805
Increase in accrued interest receivable	(733)	(4,788)	(623)	(239)
Net change in operating leases	(23)	(142)	(46)	(42)
Increase in other assets	(6,861)	(4,781)	(2,946)	(13,321)
Decrease in other liabilities	(13,949)	(12,291)		
Increase in other liabilities			2,232	2,253
Net cash provided by operating activities	64,561	94,946	20,522	16,374
Cash flows from investing activities				
Investment securities available-for-sale:				
Purchases	(33,454)	(320,946)	(25,947)	(4,763)
Maturities, calls and principal repayments	49,590	135,548	13,166	16,906
Purchase of equity securities	(2,540)	(3,200)	(807)	(2,405)
Net purchases of restricted investment in bank stocks	(2,783)	(17,498)		
Cash flow hedge premium payment	-	(6,965)		
Net redemptions of restricted investment in bank stocks			2,526	225
Payments on loans held-for-sale	25	5	-	17
Net increase in loans	(82,847)	(1,084,483)		
Purchase of bank owned life insurance	-	(30,000)		
Net decrease (increase) in loans			44,273	(33,911)
Purchases of premises and equipment	(3,950)	(2,353)	(138)	(2,867)
Proceeds from sale of OREO	242	309	-	242
Net cash used in investing activities	(75,717)	(1,329,583)		
Net cash provided by (used in) investing activities			33,073	(26,556)
Cash flows from financing activities				
Net increase in deposits	82,105	978,214	52,491	396,654
Advances of Federal Home Loan Bank ("FHLB") borrowings	2,391,500	2,305,181	445,000	750,000
Repayments of FHLB borrowings			(501,016)	(755,016)
Repayments of subordinated debt	(75,000)	-	-	(75,000)
Repayments of borrowings	(2,361,548)	(1,943,448)		
Cash dividends on preferred stock	(4,527)	(4,528)	(1,509)	(1,509)
Cash dividends paid on common stock	(19,342)	(17,338)	(6,548)	(6,074)
Repurchase of treasury stock	(15,309)	(13,127)	(5,820)	(4,853)
Proceeds from exercise of stock options	96	124	-	81
Share redemption for tax withholdings on performance units and deferred stock units earned	(1,836)	(2,133)	(1,324)	-
Net cash (used by) provided by financing activities	(3,861)	1,302,945		
Net cash (used in) provided by financing activities			(18,726)	304,283
Net change in cash and cash equivalents	(15,017)	68,308	34,869	294,101
Cash and cash equivalents at beginning of period	268,315	265,536	242,714	268,315
Cash and cash equivalents at end of period	\$ 253,298	\$ 333,844	\$ 277,583	\$ 562,416

(continued)

Supplemental disclosures of cash flow information

Cash payments for:

Interest paid on deposits and borrowings

\$ 164,108	\$ 34,552	\$ 67,063	\$ 46,590
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Income taxes	27,377	31,426	10,861	1,257
Supplemental disclosures of noncash activities				
<u>Investing:</u>				
Transfer of loans held-for-investment to other real estate owned	\$ -	\$ 579		
Transfer of loans from held-for-sale to held-for-investment	11,197	-		
Transfer of loans from held-for-investment to held-for-sale	16,156	13,652		
Supplemental disclosures of noncash activities				
<u>Investing:</u>				
Transfer of loans from held-for-sale to held-for-investment	13,456			
Transfer of loans from held-for-investment to held-for-sale	11,197			

See accompanying notes to unaudited consolidated financial statements.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1a. Nature of Operations, Principles of Consolidation and Risk and Uncertainties

Nature of Operations

ConnectOne Bancorp, Inc. (the "Parent Corporation") 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 "BHCA"). The Parent Corporation's business currently consists of the operation of its wholly-owned subsidiary, ConnectOne Bank (the "Bank" and, collectively with the Parent Corporation and the Parent Corporation's subsidiaries, the "Company") and making certain limited investments. The Bank's direct and indirect subsidiaries include Union Investment Co. (a New Jersey investment company), Twin Bridge Investment Co. (a Delaware 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).

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 24 other banking offices. Substantially all loans are secured with various types of collateral, including business assets, consumer assets and commercial/residential real estate. Each borrower's ability to repay its loans is dependent on the conversion of assets, cash flows generated from the borrowers' business, real estate rental and consumer wages.

Basis of Presentation and Principles of Consolidation

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.

Segments

FASB ASC 28, "Segment Reporting," 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.

Use of Estimates

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.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (audited)

Risks and Uncertainties

The United States economy is currently experiencing a level of price inflation not experienced since the late 1970's and early 1980's. It is therefore difficult to predict the response of consumers and businesses to this level of inflation, and its impact on the economy. In addition, in order to attempt to control and reduce the level of inflation, the Federal Reserve has embarked on a series of interest rate increases along with quantitative tightening to further constrict economic conditions. It is unclear whether the Federal Reserve's efforts will be successful, and what impact they may have on the United States' economy. It is possible that the combined effects of inflation and increases in market interest rates could cause the economy of the United States to enter a recession, which could negatively affect the businesses of our borrowers and their ability to repay their loans or need credit, which could negatively affect our results of operations.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (audited)

Note 1b. Authoritative Accounting Guidance

Adoption of New Accounting Standards in 2023/2024

In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2022-02, "Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintages Disclosures" ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs") in ASC 310-40, "Receivables - Troubled Debt Restructurings by Creditors" for entities that have adopted the current expected credit loss ("CECL") model introduced by ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments—Credit Losses—Measured at Amortized Cost". ASU 2022-02 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. We adopted ASU 2022-02 on January 1, 2023 and it did not have a material effect on the Company's consolidated financial statements.

Newly Issued, But Not Yet Effective Accounting Standards

In June 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions" ("ASU 2022-03"). 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. We adopted ASU 2022-03 on January 1, 2024 and it did not have a material effect on the Company's financial statements.

Newly Issued, But Not Yet Effective Accounting Standards

In December 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. 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% of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate). 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% 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. ASU 2023-09 is effective for the Company for fiscal years beginning after December 15, 2023, January 1, 2025, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect that ASU 2022-03 will have on its consolidated financial statements.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (audited)

Note 2. Earnings per Common Share

Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 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 ("EPS"). The restricted stock

awards granted by the Company contain non-forfeitable rights to dividends and therefore are considered participating securities. The two-class method for calculating basic EPS excludes dividends paid to participating securities and any undistributed earnings attributable to participating securities.

Earnings per common share have been computed based on the following:

(dollars in thousands, except for per share data)	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Net income available to common stockholders	\$ 19,898	\$ 27,406	\$ 63,203	\$ 88,127	\$ 15,696	\$ 23,420
Earnings allocated to participating securities	(63)	(67)	(160)	(217)	(42)	(44)
Income attributable to common stock	<u>\$ 19,835</u>	<u>\$ 27,339</u>	<u>\$ 63,043</u>	<u>\$ 87,910</u>	<u>\$ 15,654</u>	<u>\$ 23,376</u>
Weighted average common shares outstanding, including participating securities	38,817	39,243	39,020	39,393	38,423	39,178
Weighted average participating securities	(123)	(96)	(99)	(97)	(104)	(74)
Weighted average common shares outstanding	<u>38,694</u>	<u>39,147</u>	<u>38,921</u>	<u>39,296</u>	<u>38,319</u>	<u>39,104</u>
Incremental shares from assumed conversions of options, performance units and restricted shares	135	192	135	214	193	197
Weighted average common and equivalent shares outstanding	<u>38,829</u>	<u>39,339</u>	<u>39,056</u>	<u>39,510</u>	<u>38,512</u>	<u>39,301</u>
Earnings per common share:						
Basic	\$ 0.51	\$ 0.70	\$ 1.62	\$ 2.24	\$ 0.41	\$ 0.60
Diluted	0.51	0.70	1.61	2.23	0.41	0.59

There were no antidilutive share equivalents during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023**.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 3. Investment Securities

All of the Company's investment securities are classified as available-for-sale as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **2023**. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in stockholders' equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **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.

The following tables present information related to the Company's portfolio of securities available-for-sale as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **2023**.

	Allowance for Investment Credit Losses					Allowance for Investment Credit Losses				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains
				(dollars in thousands)						(dollars in thousands)
September 30, 2023										
March 31, 2024										
Investment securities available-for-sale:										

Federal agency obligations	\$ 57,243	\$ -	\$ (13,274)	\$ 43,969	\$ -	\$ 76,953	\$ 190	\$ (11,411)	\$ 65,732	\$ -
Residential mortgage pass-through securities	466,362	-	(76,935)	389,427	-	454,980	289	(58,848)	396,421	-
Commercial mortgage pass-through securities	25,303	-	(5,376)	19,927	-	25,178	-	(3,740)	21,438	-
Obligations of U.S. states and political subdivisions	150,218	-	(27,319)	122,899	-	147,553	166	(18,163)	129,556	-
Corporate bonds and notes	3,000	-	(39)	2,961	-	5,000	-	(29)	4,971	-
Asset-backed securities	1,354	-	(32)	1,322	-	1,167	-	(15)	1,152	-
Other securities	1,362	-	-	1,362	-	127	-	-	127	-
Total investment securities available-for-sale	\$ 704,842	\$ -	\$ (122,975)	\$ 581,867	\$ -	\$ 710,958	\$ 645	\$ (92,206)	\$ 619,397	\$ -
	\$ 704,842	\$ -	\$ (122,975)	\$ 581,867	\$ -	\$ 710,958	\$ 645	\$ (92,206)	\$ 619,397	\$ -

December 31, 2022

December 31, 2023

Investment securities available-for-sale:

Federal agency obligations	\$ 54,889	\$ -	\$ (10,439)	\$ 44,450	\$ -	\$ 55,898	\$ 189	\$ (10,761)	\$ 45,326	\$ -
Residential mortgage pass-through securities	475,263	178	(57,863)	417,578	-	462,004	620	(51,433)	411,191	-
Commercial mortgage pass-through securities	25,485	-	(4,381)	21,104	-	25,240	-	(3,676)	21,564	-
Obligations of U.S. states and political subdivisions	157,247	111	(14,462)	142,896	-	148,795	415	(16,505)	132,705	-
Corporate bonds and notes	7,000	-	(26)	6,974	-	5,000	-	(27)	4,973	-
Asset-backed securities	1,673	-	(33)	1,640	-	1,260	-	(22)	1,238	-
Other securities	242	-	-	242	-	165	-	-	165	-
Total investment securities available-for-sale	\$ 721,799	\$ 289	\$ (87,204)	\$ 634,884	\$ -	\$ 698,362	\$ 1,224	\$ (82,424)	\$ 617,162	\$ -
	\$ 721,799	\$ 289	\$ (87,204)	\$ 634,884	\$ -	\$ 698,362	\$ 1,224	\$ (82,424)	\$ 617,162	\$ -

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 3. Investment Securities – (continued)

Investment securities having a carrying value of approximately \$332.5 \$192.4 million and \$157.0 \$358.0 million as of September 30, 2023 March 31, 2024 and December 31, 2022 2023, respectively, were pledged to secure public deposits, borrowings, repurchase agreements, access to unutilized Federal Reserve Discount Window, Bank Term Funding Program ("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. As of September 30, 2023 March 31, 2024 and December 31, 2022 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 stockholders' equity.

The following table presents information for investments in securities available-for-sale as of September 30, 2023 March 31, 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 are shown separately.

		September 30, 2023		March 31, 2024	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(dollars in thousands)		(dollars in thousands)	
<u>Investment securities available-for-sale:</u>		\$ 2,000	\$ 1,967	\$ 2,284	\$ 2,269

Investment securities available-for-sale:

Due in one year or less

Due after one year through five years	4,389	4,331	6,362	6,338
Due after five years through ten years	1,856	1,783	2,283	2,241
Due after ten years	203,570	163,070	219,744	190,563
Residential mortgage pass-through securities	466,362	389,427	454,980	396,421
Commercial mortgage pass-through securities	25,303	19,927	25,178	21,438
Other securities	1,362	1,362	127	127
Total investment securities available-for-sale	\$ 704,842	\$ 581,867	\$ 710,958	\$ 619,397

There were no realized gains or losses on securities during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023**.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 3. Investment Securities – (continued)

Impairment Analysis of Available-for-Sale Debt Securities

The following tables indicate securities in an unrealized loss position for which an allowance for credit losses ("ACL") 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 **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**.

Investment securities available-for-sale:	September 30, 2023						March 31, 2024					
	Total		Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)											
Federal agency obligations	\$ 43,969	\$ (13,274)	\$ 6,056	\$ (194)	\$ 37,913	\$ (13,080)	\$ 49,276	\$ (11,411)	\$ 11,597	\$ (93)	\$ 37,679	\$ (11,318)
Residential mortgage pass-through securities	389,427	(76,935)	28,555	(858)	360,872	(76,077)	368,077	(58,848)	3,345	(77)	364,732	(58,771)
Commercial mortgage pass-through securities	19,927	(5,376)	-	-	19,927	(5,376)	21,437	(3,740)	-	-	21,437	(3,740)
Obligations of U.S. states and political subdivisions	122,899	(27,319)	22,739	(1,825)	100,160	(25,494)	118,304	(18,163)	19,806	(389)	98,498	(17,774)
Corporate bonds and notes	2,961	(39)	994	(6)	1,967	(33)	4,972	(29)	2,987	(14)	1,985	(15)
Asset-backed securities	1,322	(32)	-	-	1,322	(32)	1,153	(15)	-	-	1,153	(15)
Total temporarily impaired securities	\$ 580,505	\$ (122,975)	\$ 58,344	\$ (2,883)	\$ 522,161	\$ (120,092)	\$ 563,219	\$ (92,206)	\$ 37,735	\$ (573)	\$ 525,484	\$ (91,633)

	December 31, 2022						December 31, 2023					
	Total		Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)											
<u>Investment securities available-for-sale:</u>												
Federal agency obligations	\$ 44,451	\$ (10,439)	\$ 20,517	\$ (1,831)	\$ 23,934	\$ (8,608)	\$ 40,779	\$ (10,761)	\$ 1,689	\$ (65)	\$ 39,090	\$ (10,696)
Residential mortgage pass-through securities	403,039	(57,863)	218,918	(13,869)	184,121	(43,994)	382,042	(51,433)	4,138	(51)	377,904	(51,382)
Commercial mortgage pass-through securities	21,105	(4,381)	14,523	(2,304)	6,582	(2,077)	21,565	(3,676)	-	-	21,565	(3,676)
Obligations of U.S. states and political subdivisions	133,265	(14,462)	47,446	(3,404)	85,819	(11,058)	101,189	(16,505)	1,340	(7)	99,849	(16,498)
Corporate bonds and notes	4,973	(26)	4,973	(26)	-	-	4,973	(27)	2,993	(7)	1,980	(20)
Asset-backed securities	1,640	(33)	1,048	(16)	592	(17)	1,238	(22)	-	-	1,238	(22)
Total temporarily impaired securities	\$ 608,473	\$ (87,204)	\$ 307,425	\$ (21,450)	\$ 301,048	\$ (65,754)	\$ 551,786	\$ (82,424)	\$ 10,160	\$ (130)	\$ 541,626	\$ (82,294)

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 3. Investment Securities – (continued)

The Company has elected to exclude accrued interest from the amortized cost of its investment securities available-for-sale. Accrued interest receivable for investment securities available-for-sale as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **2023**, totaled **\$2.1** **\$2.2** million and **\$2.4** **\$2.3** million, respectively.

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 security'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 and 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 **September 30, 2023** **March 31, 2024**.

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.

Note 4. Derivatives

As part of our overall asset liability management strategy the Company uses derivative instruments, which can include interest rate swaps, collars, caps, and floors. The notional amount does not represent amounts exchanged by the parties. 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.

Derivatives Designated as Hedges

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:

- 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

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.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 4. Derivatives – (continued)

Cash Flow Hedges

The Company during 2021, 2022 and 2024 entered into eleven twelve pay fixed-rate interest rate swaps, with a total notional amount of \$500 million, all of which were entered into in 2021 and 2022. \$550 million. These are designated as cash flow hedges of current, outstanding, Federal Home Loan Bank advances. We are required to pay fixed rates of interest ranging from 0.63% to 3.41% 3.72% and receive variable rates of interest that reset quarterly based on the daily compounding secured overnight financing rate ("SOFR"). The eleven twelve swaps carry expiration dates ranging from December 2025 to March 2028. 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.

The Company previously entered into two forward starting interest rate cap spread transactions, one with a total notional amount of \$150 million, which became effective on October 1, 2022 and 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 matures in November of 2027. 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 required on a monthly basis. The structure of these instruments is such that the Company entered into a total of \$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. No payments are required if the index rate is at, or below, the cap rate on the sold or purchased interest rate cap agreements.

Net interest income (expense) recorded on these swap and interest rate cap transactions totaled approximately \$5.5 (\$5.7) million and \$14.6 (\$4.3) million during the three and nine months ended September 30, 2023, respectively, compared to \$1.2 million and \$0.5 million for the three March 31, 2024 and nine March 31, 2023, months ended

September 30, 2022, respectively, and is recorded as a component of either interest expense on Federal Home Loan Bank advances FHLB Advances or on brokered certificates of deposits. deposit.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 4. Derivatives – (continued)

The following table presents the net gains (losses) recorded in other comprehensive income and the Consolidated Statements of Income relating to the cash flow hedge derivative instruments for the periods indicated:

Three Months Ended March 31, 2024			
	Amount of gain (loss) recognized in OCI (Effective Portion)	Amount of (gain) loss reclassified from OCI to interest expense	Amount of gain recognized in other Noninterest income (Ineffective Portion)
	(dollars in thousands)		
Interest rate contracts	\$ 12,880	\$ (5,629)	\$ -

Nine Months Ended September 30, 2023			
	Amount of gain (loss) recognized in OCI (Effective Portion)	Amount of (gain) loss reclassified from OCI to interest expense	Amount of gain recognized in other Noninterest income (Ineffective Portion)
	(dollars in thousands)		
Interest rate contracts	\$ 19,832	\$ (13,013)	\$ -
Nine Months Ended September 30, 2022			
	Amount of gain (loss) recognized in OCI (Effective Portion)	Amount of (gain) loss reclassified from OCI to interest expense	Amount of gain recognized in other Noninterest income (Ineffective Portion)
	(dollars in thousands)		
Interest rate contracts	\$ 44,253	\$ (524)	\$ -

Three Months Ended March 31, 2023			
	Amount of gain (loss) recognized in OCI (Effective Portion)	Amount of (gain) loss reclassified from OCI to interest expense	Amount of gain recognized in other Noninterest income (Ineffective Portion)
	(dollars in thousands)		
Interest rate contracts	\$ (4,361)	\$ (4,267)	\$ -

The following table reflects the cash flow hedges included in the consolidated statements of condition as of September 30, 2023 March 31, 2024 and December 31, 2022 2023:

	September 30, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(dollars in thousands)			
Interest rate contracts	\$ 950,000	\$ 61,972	\$ 950,000	\$ 56,797

	March 31, 2024		December 31, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(dollars in thousands)			
Interest rate contracts	\$ 1,000,000	\$ 50,508	\$ 950,000	\$ 43,805

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 5. Loans and the Allowance for Credit Losses

Loans Receivable – The following table sets forth the composition of the Company's loan portfolio segments, including net deferred loan fees, as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)		(dollars in thousands)	
	\$ 1,475,571	\$ 1,472,734	\$ 1,572,494	\$ 1,578,730
Commercial	\$ 5,837,539	\$ 5,795,228	\$ 5,829,950	\$ 5,895,545
Commercial real estate	622,748	574,139	646,593	620,496
Commercial construction	251,416	264,748	254,214	256,041
Residential real estate	936	2,312	850	1,029
Consumer	8,188,210	8,109,161	8,304,101	8,351,841
Gross loans	(7,101)	(9,472)	(6,144)	(6,696)
Net deferred loan fees	\$ 8,181,109	\$ 8,099,689	\$ 8,297,957	\$ 8,345,145
Total loans receivable				

As of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**, loans totaling approximately **\$5.7** **\$6.1** billion and **\$2.7** **\$5.8** billion, respectively, were pledged to secure borrowings from the FHLB of New York and the Federal Reserve Bank of New York.

Loans held-for-sale - The following table sets forth the composition of the Company's **There were no** loans held-for-sale as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
	\$ -	\$ 13,473
Commercial real estate	\$ -	\$ 13,473
Residential real estate	\$ -	299
Total carrying amount	\$ -	\$ 13,772

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 **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

	September 30, 2023			March 31, 2024		
	Nonaccrual loans with ACL	Nonaccrual loans without ACL	Total nonaccrual loans	Nonaccrual loans with ACL	Nonaccrual loans without ACL	Total nonaccrual loans
	(dollars in thousands)			(dollars in thousands)		
Commercial	\$ 21,604	\$ 555	\$ 22,159	\$ 1,683	\$ 10,957	\$ 12,640
Commercial real estate	70	29,754	29,824	65	33,210	33,275
Residential real estate	806	3,270	4,076	691	832	1,523
Total	\$ 22,480	\$ 33,579	\$ 56,059	\$ 2,439	\$ 44,999	\$ 47,438

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Note 5. Loans and the Allowance for Credit Losses – (continued)

	December 31, 2022			December 31, 2023		
	Nonaccrual loans with ACL	Nonaccrual loans without ACL	Total nonaccrual loans	Nonaccrual loans with ACL	Nonaccrual loans without ACL	Total nonaccrual loans
	(dollars in thousands)			(dollars in thousands)		
Commercial	\$ 23,512	\$ 1,745	\$ 25,257	\$ 1,763	\$ 11,064	\$ 12,827
Commercial real estate	10,220	6,597	16,817	8,013	28,179	36,192
Residential real estate	604	1,776	2,380	1,033	2,472	3,505
Total	<u>\$ 34,336</u>	<u>\$ 10,118</u>	<u>\$ 44,454</u>	<u>\$ 10,809</u>	<u>\$ 41,715</u>	<u>\$ 52,524</u>

Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated and individually evaluated.

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 "Pass" are deemed to possess average to superior credit quality, requiring no more than normal attention. Assets classified as "Special Mention" 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 credit quality or inadequately protect the Company's credit position at some future date. Assets are classified "Substandard" if the asset has a well-defined weakness that requires management'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 "Doubtful" 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 "distinct possibility" that a degree of loss will occur if the inadequacies are not corrected.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 5. Loans and the Allowance for Credit Losses – (continued)

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 purpose of the table below. The following table presents loans by origination, and risk designation and gross charge-offs as of and during the September 30, 2023 three (dollars months ended March 31, 2024 dollars in thousands):

	Term loans amortized cost basis by origination year								Term loans amortized cost basis by origination year					
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total Gross Loans	2024	2023	2022	2021	2020	Prior
	Commercial													
Pass	\$ 146,241	\$ 259,603	\$ 271,580	\$ 41,459	\$ 13,749	\$ 119,592	\$ 590,667	\$ 1,442,891	\$ 8,719	\$ 163,629	\$ 253,890	\$ 257,399	\$ 37,512	\$ 112,27
Special mention	-	337	86	-	567	3,445	3,989	8,424	-	-	10,687	-	18	3,94
Substandard	304	1,316	163	4	1,551	19,559	1,359	24,256	-	250	124	236	-	12,99
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Commercial	\$ 146,545	\$ 261,256	\$ 271,829	\$ 41,463	\$ 15,867	\$ 142,596	\$ 596,015	\$ 1,475,571	\$ 8,719	\$ 163,879	\$ 264,701	\$ 257,635	\$ 37,530	\$ 129,21
Total commercial														

YTD gross charge-offs	\$ -	\$ -	\$ 300	\$ -	\$ -	\$ -
Commercial						
Real Estate						
Pass	\$ 170,541	\$ 1,572,880	\$ 1,581,212	\$ 356,251	\$ 355,665	\$ 1,269,678
Special mention	-	-	-	-	26,421	-
Substandard	-	-	1,899	-	2,625	20,964
Doubtful	-	-	-	-	-	16,830
Total	-	-	-	-	-	42,318
Commercial	\$ 170,541	\$ 1,572,880	\$ 1,583,111	\$ 356,251	\$ 358,290	\$ 1,317,063
Real Estate	-	-	-	-	-	\$ 479,403
Total commercial real estate	-	-	-	-	-	\$ 5,837,539
YTD gross charge-offs	-	-	-	-	-	\$ -
Commercial						
Construction						
Pass	\$ 582	\$ 5,693	\$ 15,682	\$ 6,236	\$ -	\$ 585,855
Special mention	-	-	-	-	-	\$ 614,048
Substandard	-	-	-	-	-	8,700
Doubtful	-	-	-	-	-	8,700
Total	-	-	-	-	-	-
Commercial	\$ 582	\$ 5,693	\$ 15,682	\$ 6,236	\$ -	\$ 594,555
Construction	-	-	-	-	-	\$ 622,748
Total commercial construction	-	-	-	-	-	\$ 5,250
YTD gross charge-offs	-	-	-	-	-	\$ -
Residential						
Pass	\$ 8,009	\$ 43,048	\$ 23,247	\$ 21,863	\$ 20,059	\$ 92,966
Special mention	-	-	-	-	-	655
Substandard	-	-	563	438	-	2,520
Doubtful	-	-	-	-	-	555
Total	-	-	-	-	-	4,076
Residential	\$ 8,009	\$ 43,048	\$ 23,810	\$ 22,301	\$ 20,059	\$ 96,141
Real Estate	-	-	-	-	-	\$ 38,048
Total residential real estate	-	-	-	-	-	\$ 251,416
YTD gross charge-offs	-	-	-	-	-	\$ -
Consumer						
Pass	\$ 747	\$ 96	\$ -	\$ 6	\$ -	\$ 87
Special mention	-	-	-	-	-	\$ 936

Substandard	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Consumer	\$ 747	\$ 96	\$ 6	\$ -	\$ -	\$ -	\$ 87	\$ 936							
Total consumer									\$ 706	\$ 29	\$ 36	\$ -	\$ 5	\$ -	\$ -
YTD gross charge-offs									\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total															
Pass	\$ 326,120	\$ 1,881,320	\$ 1,891,721	\$ 425,815	\$ 389,473	\$ 1,482,236	\$ 1,673,845	\$ 8,070,530	\$ 74,321	\$ 427,354	\$ 1,858,330	\$ 1,859,002	\$ 408,948	\$ 1,741,42	
Special mention	-	337	86	-	567	30,521	6,819	38,330	-	-	10,687	-	18	27,31	
Substandard	304	1,316	2,625	442	4,176	43,043	27,444	79,350	-	250	124	2,661	-	33,65	
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	\$ 326,424	\$ 1,882,973	\$ 1,894,432	\$ 426,257	\$ 394,216	\$ 1,555,800	\$ 1,708,108	\$ 8,188,210							
Grand total									\$ 74,321	\$ 427,604	\$ 1,869,141	\$ 1,861,663	\$ 408,966	\$ 1,802,39	
YTD gross charge-offs									\$ -	\$ -	\$ 300	\$ -	\$ -	\$ -	\$ 2,88

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 5. Loans and the Allowance for Credit Losses – (continued)

The following table presents loans by origination, and risk designation and gross charge-offs as of and for the year ended December 31, 20222023 (dollars in thousands):

	Term loans amortized cost basis by origination year							Term loans amortized cost basis by origination year							
	2022	2021	2020	2019	2018	Prior	Revolving Loans	Total Gross Loans	2023	2022	2021	2020	2019	Prior	
Commercial	Commercial		Real Estate		Commercial real estate		Commercial		Real Estate		Commercial real estate		Commercial		
Pass	\$ 301,636	\$ 305,721	\$ 47,952	\$ 28,177	\$ 52,950	\$ 127,739	\$ 550,483	\$ 1,414,658	\$ 178,582	\$ 252,151	\$ 265,705	\$ 38,909	\$ 13,726	\$ 112,1	
Special mention	-	-	-	583	26	8,551	3,292	12,452	-	10,620	-	-	562	3,4	
Substandard	7,615	146	15	1,769	11,214	22,596	2,269	45,624	250	439	241	1	612	11,6	
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Commercial	\$ 309,251	\$ 305,867	\$ 47,967	\$ 30,529	\$ 64,190	\$ 158,886	\$ 556,044	\$ 1,472,734							
Total commercial									\$ 178,832	\$ 263,210	\$ 265,946	\$ 38,910	\$ 14,900	\$ 127,2	
YTD gross charge-offs									\$ 54	\$ 3,397	\$ -	\$ -	\$ 280	\$ 11,0	
Commercial															
Real Estate															
Commercial															
real estate															
Pass	\$ 1,571,751	\$ 1,608,023	\$ 382,987	\$ 358,578	\$ 375,886	\$ 987,982	\$ 401,365	\$ 5,686,572	\$ 248,660	\$ 1,561,841	\$ 1,585,109	\$ 352,445	\$ 353,391	\$ 1,232,2	
Special mention	3,040	-	-	-	-	37,774	8,839	49,653	-	-	-	-	-	24,2	

Substandard	-	1,929	-	6,526	19,138	23,287	8,123	59,003	-	-	-	1,888	-	1,255	20,1
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total															
Commercial	\$ 1,574,791	\$ 1,609,952	\$ 382,987	\$ 365,104	\$ 395,024	\$ 1,049,043	\$ 418,327	\$ 5,795,228							
Real Estate															
Total															
commercial															
real estate															
YTD gross															
charge-offs															
<u>Commercial</u>															
<u>Construction</u>															
<u>Commercial</u>															
<u>construction</u>															
Pass	\$ 8,615	\$ 7,605	\$ 6,720	\$ 508	\$ -	\$ -	\$ 542,460	\$ 565,908	\$ 582	\$ 5,463	\$ 15,645	\$ 6,236	\$ -	\$ -	\$ -
Special mention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	8,231	8,231	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total															
Commercial	\$ 8,615	\$ 7,605	\$ 6,720	\$ 508	\$ -	\$ -	\$ 550,691	\$ 574,139							
Construction															
Total															
commercial															
construction															
YTD gross															
charge-offs															
<u>Residential</u>															
<u>Real Estate</u>															
<u>Residential</u>															
<u>real estate</u>															
Pass	\$ 45,926	\$ 25,318	\$ 24,409	\$ 21,557	\$ 20,284	\$ 78,314	\$ 41,468	\$ 257,276	\$ 15,455	\$ 42,830	\$ 21,987	\$ 21,704	\$ 19,896	\$ 91,1	\$ 6
Special mention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	3,379	4,093	7,472	-	-	555	-	-	2,1
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total															
Residential	\$ 45,926	\$ 25,318	\$ 24,409	\$ 21,557	\$ 20,284	\$ 81,693	\$ 45,561	\$ 264,748							
Real Estate															
Total															
residential															
real estate															
YTD gross															
charge-offs															
<u>Consumer</u>															
Pass	\$ 2,219	\$ -	\$ 9	\$ -	\$ 2	\$ 82	\$ 2,312	\$ 849	\$ 83	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -
Special mention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Total Consumer	\$ 2,219	\$ -	\$ 9	\$ -	\$ 2	\$ 82	\$ 2,312							
Total consumer								\$ 849	\$ 83	\$ -	\$ 5	\$ -	\$ -	
YTD gross charge-offs								\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total														
Pass	\$ 1,930,147	\$ 1,946,667	\$ 462,077	\$ 408,820	\$ 449,120	\$ 1,194,037	\$ 1,535,858	\$ 7,926,726	\$ 444,128	\$ 1,862,368	\$ 1,888,446	\$ 419,299	\$ 387,013	\$ 1,435,4
Special mention	3,040	-	-	583	26	46,325	12,131	62,105	-	10,620	-	-	562	28,2
Substandard	7,615	2,075	15	8,295	30,352	49,262	22,716	120,330	250	439	2,684	1	1,867	33,9
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	\$ 1,940,802	\$ 1,948,742	\$ 462,092	\$ 417,698	\$ 479,498	\$ 1,289,624	\$ 1,570,705	\$ 8,109,161	\$ 444,378	\$ 1,873,427	\$ 1,891,130	\$ 419,300	\$ 389,442	\$ 1,497,7
Grand total														
YTD gross charge-offs								\$ 54	\$ 3,397	\$ -	\$ -	\$ 280	\$ 13,2	

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 5. Loans and the Allowance for Credit Losses – (continued)

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 **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

	September 30, 2023			March 31, 2024				
	Real Estate		Other	Total	Real Estate		Other	Total
			(dollars in thousands)				(dollars in thousands)	
Commercial	\$ 4,891	\$ 14,719	\$ 19,610		\$ 1,700	\$ 10,280	\$ 11,980	
Commercial real estate	41,636	-	41,636		33,210	-	33,210	
Commercial construction	8,700	-	8,700		-	-	-	
Residential real estate	6,755	-	6,755		832	-	832	
Total	\$ 61,982	\$ 14,719	\$ 76,701		\$ 35,742	\$ 10,280	\$ 46,022	

	December 31, 2022			December 31, 2023				
	Real Estate		Other	Total	Real Estate		Other	Total
			(dollars in thousands)				(dollars in thousands)	
Commercial	\$ 5,352	\$ 22,517	\$ 27,869		\$ 4,949	\$ 10,387	\$ 15,336	
Commercial real estate	52,477	-	52,477		39,986	-	39,986	
Commercial construction	8,232	-	8,232		8,700	-	8,700	
Residential real estate	5,864	-	5,864		5,941	-	5,941	
Total	\$ 71,925	\$ 22,517	\$ 94,442		\$ 59,576	\$ 10,387	\$ 69,963	

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 5. Loans and the Allowance for Credit Losses – (continued)

Aging Analysis - The following table provides an analysis of the aging of the loans by class, excluding the effect of net deferred fees, which are past due as of **September 30, 2023** **March 31, 2024** and **December 31, 2022**: **2023**:

September 30, 2023												March 31, 2024												
90 Days												90 Days												
30-59	60-89	or	Days	Days	Greater	Nonaccrual	Total Past Due and	Current	Gross Loans	30-59	60-89	or	Days	Days	Greater	Nonaccrual	Total Past Due and	Current	Gross Loans					
Days	Days	Greater	Nonaccrual	Total Past Due and	Current	Gross Loans	Days	Days	Greater	Nonaccrual	Total Past Due and	Current	Gross Loans	Days	Days	Greater	Nonaccrual	Total Past Due and	Current	Gross Loans				
Past	Past	Past Due	Nonaccrual	Due and	Current	Gross Loans	Due	Due	Past	Nonaccrual	Due and	Current	Gross Loans	Due	Due	Past	Nonaccrual	Due and	Current	Gross Loans				
Due	Due	and Still	Nonaccrual	Due and	Current	Gross Loans	Due	Due	Still	Nonaccrual	Due and	Current	Gross Loans	Due	Due	Still	Nonaccrual	Due and	Current	Gross Loans				
Accruing												Accruing												
(dollars in thousands)												(dollars in thousands)												
Commercial	\$ 433	\$ 1,979	\$ -	\$ 22,159	\$ 24,571	\$ 1,451,000	\$ 1,475,571	\$ 495	\$ -	\$ -	\$ 12,640	\$ 13,135	\$ 1,559,359	\$ 1,572,494										
Commercial real estate	-	597	-	29,824	30,421	5,807,118	5,837,539	525	-	-	33,275	33,800	5,796,150	5,829,950										
Commercial construction	-	-	-	-	-	622,748	622,748	-	-	23,600	-	23,600	622,993	646,593										
Residential real estate	227	-	-	4,076	4,303	247,113	251,416	1,942	-	-	1,523	3,465	250,749	254,214										
Consumer	-	254	-	-	254	682	936	99	-	-	-	99	751	850										
Total	\$ 660	\$ 2,830	\$ -	\$ 56,059	\$ 59,549	\$ 8,128,661	\$ 8,188,210	\$ 3,061	\$ -	\$ 23,600	\$ 47,438	\$ 74,099	\$ 8,230,002	\$ 8,304,101										

December 31, 2022											
90 Days or Greater Past Due											
30-59 Days 60-89 Days											
Past Due											
Accruing											
(dollars in thousands)											
Commercial	\$ -	306	\$ -	\$ -	\$ -	\$ 25,257	\$ 25,563	\$ 1,447,171	\$ 1,472,734		
Commercial real estate		90		-	5,591	16,817	22,498	5,772,730	5,795,228		
Commercial construction	-	-	-	-	-	-	-	-	574,139	574,139	
Residential real estate		1,569		-	-	2,380	3,949	260,799	264,748		
Consumer	-	-	-	-	-	-	-	-	2,312	2,312	
Total	\$ -	\$ 1,965	\$ -	\$ 5,591	\$ 44,454	\$ 52,010	\$ 8,057,151	\$ 8,109,161			

As of March 31, 2024, one loan for \$23.6 million was past due more than 90 days and still accruing; the loan is well-secured at a loan-to-value of approximately 60% and is in the process of collection.

December 31, 2023											
90 Days or Greater Past Due											
30-59 Days 60-89 Days											
Past Due											
Accruing											
(dollars in thousands)											
Commercial	\$ -	555	\$ -	\$ -	\$ -	\$ 12,827	\$ 13,382	\$ 1,565,348	\$ 1,578,730		
Commercial real estate		527		-	-	36,192	36,719	5,858,826	5,895,545		
Commercial construction	-	-	23,600		-	-	-	23,600	596,896	620,496	
Residential real estate		275	226		-	3,505	4,006	252,035	256,041		
Consumer	-	-	-	-	-	-	-	-	1,029	1,029	
Total	\$ -	\$ 1,357	\$ 23,826	\$ -	\$ 52,524	\$ 77,707	\$ 8,274,134	\$ 8,351,841			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 5. Loans and the Allowance for Credit Losses – (continued)

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:

	September 30, 2023						
	Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total	
	(dollars in thousands)						
Allowance for credit losses - loans							
Individually evaluated impairment	\$ 7,685	\$ 661	\$ -	\$ -	\$ -	\$ 8,346	
Collectively evaluated impairment	19,433	52,072	3,909	3,732	5	79,151	
Acquired with deteriorated credit quality							
individually analyzed	733	-	-	-	-	733	
Total	\$ 27,851	\$ 52,733	\$ 3,909	\$ 3,732	\$ 5	\$ 88,230	
Gross loans							
Individually evaluated impairment	\$ 24,676	\$ 41,636	\$ 8,700	\$ 6,755	\$ -	\$ 81,767	
Collectively evaluated impairment	1,450,405	5,795,903	614,048	244,661	936	8,105,953	
Acquired with deteriorated credit quality							
individually analyzed	490	-	-	-	-	490	
Total	\$ 1,475,571	\$ 5,837,539	\$ 622,748	\$ 251,416	\$ 936	\$ 8,188,210	

	March 31, 2024						
	Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total	
	(dollars in thousands)						
Allowance for credit losses - loans							
Individually analyzed	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Collectively evaluated	20,475	52,794	5,011	4,326	3	82,609	
Acquired with deteriorated credit quality	260	-	-	-	-	260	
Total	\$ 20,735	\$ 52,794	\$ 5,011	\$ 4,326	\$ 3	\$ 82,869	
Gross loans							
Individually analyzed	\$ 11,980	\$ 33,210	\$ -	\$ 832	\$ -	\$ 46,022	
Collectively evaluated	1,560,040	5,796,740	646,593	253,382	850	8,257,605	
Acquired with deteriorated credit quality	474	-	-	-	-	474	
Total	\$ 1,572,494	\$ 5,829,950	\$ 646,593	\$ 254,214	\$ 850	\$ 8,304,101	

	December 31, 2022						
	Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total	
	(dollars in thousands)						
Allowance for credit losses - loans							
Individually evaluated impairment	\$ 7,426	\$ 1,003	\$ -	\$ 50	\$ -	\$ 8,479	
Collectively evaluated impairment	19,319	50,818	3,718	4,093	7	77,955	

Acquired with deteriorated credit quality								
individually analyzed	2,158	1,921	-	-	-	-	-	4,079
Total	\$ 28,903	\$ 53,742	\$ 3,718	\$ 4,143	\$ 7	\$ 90,513		
Gross loans								
Individually evaluated impairment	\$ 30,994	\$ 46,886	\$ 8,232	\$ 5,864	\$ -	\$ 91,976		
Collectively evaluated impairment	1,436,866	5,742,751	565,907	258,884	2,312	8,006,720		
Acquired with deteriorated credit quality								
individually analyzed	4,874	5,591	-	-	-	-	-	10,465
Total	\$ 1,472,734	\$ 5,795,228	\$ 574,139	\$ 264,748	\$ 2,312	\$ 8,109,161		

	December 31, 2023					
	Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total
		(dollars in thousands)				
Allowance for credit losses - loans						
Individually analyzed	\$ -	\$ 941	\$ -	\$ -	\$ -	\$ 941
Collectively evaluated	20,215	51,337	4,739	4,320	5	80,616
Acquired with deteriorated credit quality	417	-	-	-	-	417
Total	\$ 20,632	\$ 52,278	\$ 4,739	\$ 4,320	\$ 5	\$ 81,974
Gross loans						
Individually analyzed	\$ 15,336	\$ 39,986	\$ 8,700	\$ 5,941	\$ -	\$ 69,963
Collectively evaluated	1,562,910	5,855,559	611,796	250,100	1,029	8,281,394
Acquired with deteriorated credit quality	484	-	-	-	-	484
Total	\$ 1,578,730	\$ 5,895,545	\$ 620,496	\$ 256,041	\$ 1,029	\$ 8,351,841

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 5. Loans and the Allowance for Credit Losses – (continued)

Activity in the Company's ACL for loans for the three and ninemonths ended **September 30, 2023** **March 31, 2024** is summarized in the tables below.

	Three Months Ended September 30, 2023					Three Months Ended March 31, 2024					
	Commercial	Commercial real estate	Commercial construction	Residential real estate	Total	Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total
	(dollars in thousands)					(dollars in thousands)					
Balance as of June 30, 2023											
of June 30, 2023	\$ 29,326	\$ 52,509	\$ 3,546	\$ 3,819	\$ 5	\$ 89,205					
Balance as of December 31, 2023											
of December 31, 2023						\$ 20,632	\$ 52,278	\$ 4,739	\$ 4,320	\$ 5	\$ 81,974
Charge-offs	(2,250)	(237)	-	-	-	(2,487)	(300)	(2,885)	-	-	(3,185)
Recoveries	-	-	-	1	7	8	23	-	-	-	23

Provision for (reversal of) credit losses - loans	775	461	363	(88)	(7)	1,504	380	3,401	272	6	(2)	4,057
<hr/>												
Balance as of September 30, 2023	\$ 27,851	\$ 52,733	\$ 3,909	\$ 3,732	\$ 5	\$ 88,230						
Balance as of March 31, 2024							\$ 20,735	\$ 52,794	\$ 5,011	\$ 4,326	\$ 3	\$ 82,869

Nine Months Ended September 30, 2023												
	Commercial			Commercial real estate		Commercial construction		Residential real estate		Consumer		Total
												(dollars in thousands)
Balance as of December 31, 2022	\$ 28,903	\$ 53,742	\$ 3,718	\$ 4,143	\$ 7	\$ 90,513						
Charge-offs	(6,117)	(1,954)	-	(18)	-	(8,089)						
Recoveries	9	-	-	69	7	85						
Provision for (reversal of) credit losses - loans	5,056	945	191	(462)	(9)	5,721						
Balance as of September 30, 2023	\$ 27,851	\$ 52,733	\$ 3,909	\$ 3,732	\$ 5	\$ 88,230						

Activity in the Company's ACL for loans for the three months ended March 31, 2023 is summarized in the table below.

Three Months Ended September 30, 2022													
	Commercial			Commercial real estate		Commercial construction		Residential real estate		Consumer		Total	
												(dollars in thousands)	
Balance as of June 30, 2022	\$ 28,135	\$ 47,562	\$ 3,413	\$ 3,625	\$ 4	\$ 82,739							
Charge-offs	(410)	-	-	-	(3)	(413)							
Recoveries	53	-	-	-	-	53							
Provision for credit losses - loans	1,911	6,964	31	428	4	9,338							
Balance as of September 30, 2022	\$ 29,689	\$ 54,526	\$ 3,444	\$ 4,053	\$ 5	\$ 91,717							
Nine Months Ended September 30, 2022													
	Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total		Commercial	Commercial real estate	Commercial construction	Residential real estate	Consumer	Total
													(dollars in thousands)
Balance as of December 31, 2021	\$ 25,969	\$ 45,589	\$ 3,580	\$ 3,628	\$ 7	\$ 78,773							
Balance as of December 31, 2022							\$ 28,903	\$ 53,742	\$ 3,718	\$ 4,143	\$ 7	\$ 90,513	
Charge-offs	(751)	(226)	-	(9)	(3)	(989)	(2,767)	(1,717)	-	-	-	(4,484)	
Recoveries	54	-	-	63	-	117	-	-	-	-	1	-	1

Provision for (reversal of) credit losses - loans	4,417	9,163	(136)	371	1	13,816	26	975	248	(276)	(1)	972
<hr/>												
Balance as of September 30, 2022	\$ 29,689	\$ 54,526	\$ 3,444	\$ 4,053	\$ 5	\$ 91,717						
Balance as of March 31, 2023							\$ 26,162	\$ 53,000	\$ 3,966	\$ 3,868	\$ 6	\$ 87,002

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 5. Loans and the Allowance for Credit Losses – (continued)

Loan Modifications to Borrowers Experiencing Financial Difficulty:

The Company adopted Accounting Standards Update ("ASU") 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

The following table presents the amortized cost basis at the end of the reporting period of the loan 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.

	Nine Months Ended September 30, 2023		
	Term Extension		% of Portfolio
	(dollars in thousands)		
Commercial	\$ 44		0.00 %
Commercial real estate	211		0.00 %

	Three Months Ended March 31, 2024				
	Term Extension		Payment Deferral	Interest Rate Reduction	% of Portfolio Loan Segment
	(dollars in thousands)				
Commercial	\$ -	\$ 126	\$ -	\$ 126	0.01 %

The above table consists of one commercial loan that was modified, receiving a weighted average payment deferral of 13 three months.

	Three Months Ended March 31, 2023				
	Term Extension		Payment Deferral	Interest Rate Reduction	% of Portfolio Loan Segment
	(dollars in thousands)				

Commercial	\$	63	\$	-	\$	-	\$	63	0.01 %
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The above table consists of one commercial loan on which 3.0 years was added to the **maturity** life of the modified **loans**, which did not have a material effect on the cash flows. loan.

The following table presents Company closely monitors the performance of loans that are modified to borrower's experiencing financial difficulty to understand the effectiveness of its modification efforts. The following tables present the performance of such loans that have been modified during the three months ended March 31, 2024 and March 31, 2023:

	March 31, 2024			90 Days or Greater Past Due and Still Accruing
			Current	
			30-89 Days Past Due (dollars in thousands)	
Commercial	\$	126	\$	-
				March 31, 2023
Commercial	\$	63	\$	-

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 5. Loans and the Allowance for Credit Losses – (continued)

Loan Modifications to Borrowers Experiencing Financial Difficulty:

During the three months ended March 31, 2024 and March 31, 2023, the Company had no commitments to lend additional funds to borrowers experiencing financial difficulty for which the Company modified the terms of the loans in the last twelve months: form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension during the current period.

	September 30, 2023			Past Due 90 Days or More
			Current	
			Past Due 30-89 Days (dollars in thousands)	
Commercial	\$	44	\$	-
Commercial real estate		211		-

There were no loans to borrowers experiencing financial difficulty that had a payment default during the **nine** three months ended **September** **March 30, 2024** and **2023** and **which** 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.

Troubled debt restructurings:

Information on loan modifications prior to the adoption of ASU 2022-02 on January 1, 2023 is presented in accordance with the applicable accounting standards in effect at that time. During the nine months ended September 30, 2022, the Company modified five loans with maturity extensions and one loan interest rate reduction. The one loan that was an interest rate reduction was a commercial real estate loan that included a one-time \$500,000 principal paydown.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 5. Loans and the Allowance for Credit Losses – (continued)

Allowance for Credit Losses for Unfunded Commitments

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 Company's income statement. The following table presents a roll forward of the allowance for credit losses for unfunded commitments for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	
	(dollars in thousands)		
Balance at beginning of period	\$ 2,819	\$ 2,324	
(Reversal of) provision for credit losses - unfunded commitments	(4)	662	
Balance at end of period	<u>\$ 2,815</u>	<u>\$ 2,986</u>	
			Three Months Ended Nine Months Ended September 30, 2023
			Nine Months Ended September 30, 2022
			Three Months Ended March 31, 2024
			Three Months Ended March 31, 2023
			(dollars in thousands)
Balance at beginning of period	\$ 3,036	\$ 2,352	\$ 2,811
(Reversal of) provision for credit losses - unfunded commitments	(221)	634	(57)
Balance at end of period	<u>\$ 2,815</u>	<u>\$ 2,986</u>	<u>\$ 2,754</u>
			\$ 3,036
			\$ 28
			\$ 3,064

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 5. Loans and the Allowance for Credit Losses – (continued)

Components of (Reversal of) Provision for Credit Losses

The following table summarizes the provision for (reversal of) credit losses for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	
	(dollars in thousands)		
Provision for credit losses – loans	\$ 1,504	\$ 9,338	
(Reversal of) provision for credit losses - unfunded commitments	(4)	662	
Provision for credit losses	<u>\$ 1,500</u>	<u>\$ 10,000</u>	
			Three Months Ended Nine Months Ended September 30, 2023
			Nine Months Ended September 30, 2022
			Three Months Ended March 31, 2024
			Three Months Ended March 31, 2023
			(dollars in thousands)
Provision for credit losses – loans	\$ 5,721	\$ 13,816	\$ 4,057
(Reversal of) provision for credit losses - unfunded commitments	(221)	634	(57)
	<u>\$ 5,721</u>	<u>\$ 13,816</u>	<u>\$ 4,057</u>
			\$ 972
			\$ 28

Provision for credit losses	\$ 5,500	\$ 14,450	\$ 4,000	\$ 1,000
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments

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.

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices for similar assets 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.

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).

An asset's or liability'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 Company'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 Company's disclosures and those of other companies may not be meaningful.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following methods and assumptions were used to estimate the fair values of the Company's assets measured at fair value on a recurring basis as of **September 30, 2023**, **March 31, 2024** and December 31, **2022** **2023**:

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 Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

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.

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 **September 30, 2023**, **March 31, 2024** and December 31, **2022** **2023** are as follows:

September 30, 2023	March 31, 2024
Fair Value Measurements at Reporting Date Using	Fair Value Measurements at Reporting Date Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)						Quoted Prices in Active Markets for Identical Assets (Level 2)					
	Total Fair Value	Markets for Identical Assets	Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Markets for Identical Assets	Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(dollars in thousands)												
Recurring fair value measurements: Assets												
Investment securities:												
Available-for-sale:												
Federal agency obligations	\$ 43,969	\$ -	\$ 43,969	\$ -	\$ 65,732	\$ -	\$ 65,732	\$ -	\$ 65,732	\$ -		
Residential mortgage pass-through securities	389,427	-	389,427	-	396,421	-	396,421	-	396,421	-		
Commercial mortgage pass-through securities	19,927	-	19,927	-	21,438	-	21,438	-	21,438	-		
Obligations of U.S. states and political subdivision	122,899	-	115,882	7,017	129,556	-	122,666	-	122,666	6,890		
Corporate bonds and notes	2,961	-	2,961	-	4,971	-	4,971	-	4,971	-		
Asset-backed securities	1,322	-	1,322	-	1,152	-	1,152	-	1,152	-		
Other securities	1,362	1,362	-	-	127	127	-	-	-	-		
Total available-for-sale	581,867	1,362	573,488	7,017	619,397	127	612,380	-	612,380	6,890		
Equity securities	17,677	9,394	8,283	-	19,457	9,743	9,714	-	9,714	-		
Derivatives	61,972	-	61,972	-	50,508	-	50,508	-	50,508	-		
Total assets	\$ 661,516	\$ 10,756	\$ 643,743	\$ 7,017	\$ 689,362	\$ 9,870	\$ 672,602	\$ 6,890				

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued)

	December 31, 2022						December 31, 2023					
	Fair Value Measurements at Reporting Date Using						Fair Value Measurements at Reporting Date Using					
	Quoted Prices in Active Markets for Identical Assets (Level 1)						Quoted Prices in Active Markets for Identical Assets (Level 2)					
	Total Fair Value	Markets for Identical Assets	Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Markets for Identical Assets	Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(dollars in thousands)												
Recurring fair value measurements: Assets												
Investment securities:												
Available-for-sale:												
Federal agency obligations	\$ 44,450	\$ -	\$ 44,450	\$ -	\$ 45,326	\$ -	\$ 45,326	\$ -	\$ 45,326	\$ -		
Residential mortgage pass- through securities	417,578	-	417,578	-	411,191	-	411,191	-	411,191	-		

Commercial mortgage pass-through securities	21,104	-	21,104	-	21,564	-	21,564	-
Obligations of U.S. states and political subdivision	142,896	-	135,547	7,349	132,705	-	125,583	7,122
Corporate bonds and notes	6,974	-	6,974	-	4,973	-	4,973	-
Asset-backed securities	1,640	-	1,640	-	1,238	-	1,238	-
Other securities	242	242	-	-	165	165	-	-
Total available-for-sale	\$ 634,884	\$ 242	\$ 627,293	\$ 7,349	\$ 617,162	\$ 165	\$ 609,875	\$ 7,122
Equity securities	15,811	9,733	6,078	-	18,564	9,867	8,697	-
Derivatives	56,797	-	56,797	-	43,805	-	43,805	-
Total assets	\$ 707,492	\$ 9,975	\$ 690,168	\$ 7,349	\$ 679,531	\$ 10,032	\$ 662,377	\$ 7,122

There were no transfers between Level 1 and Level 2 during the **nine****three** months ended **September 30, 2023****March 31, 2024** and during the year ended December 31, **2022****2023**.

Assets Measured at Fair Value on a Nonrecurring Basis

The Company may be required periodically to measure certain assets at fair value on a nonrecurring basis in accordance with 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 Company's assets measured at fair value on a nonrecurring basis as of **September 30, 2023****March 31, 2024** and December 31, **2022****2023**.

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).

Other loans held-for-sale are carried at the lower of aggregate cost or estimated fair value. 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).

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued) (continued)

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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. 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.

For assets measured at fair value on a nonrecurring basis, the fair value measurements as of **September 30, 2023****March 31, 2024** and December 31, **2022****2023** are as follows:

Fair Value Measurements at Reporting Date Using	Fair Value Measurements at Reporting Date Using
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<u>Assets measured at fair value on a nonrecurring basis:</u>	September 30, 2023			March 31, 2024		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Collateral dependent loans:</u>						
Commercial	\$ 10,659	\$ -	\$ -	\$ 10,659	\$ 763	\$ -
Commercial real estate	7,330	-	-	7,330	-	\$ 763

<u>Assets measured at fair value on a nonrecurring basis:</u>	Fair Value Measurements at Reporting Date Using			Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Collateral dependent loans:</u>						
Commercial	\$ 14,550	\$ -	\$ -	\$ 14,550	\$ 657	\$ -
Commercial real estate	17,264	-	-	17,264	7,005	-
Residential real estate	1,392	-	-	1,392	-	7,005

Collateral dependent loans – Collateral dependent loans as of September 30, 2023 March 31, 2024 that required a valuation allowance were \$23.8 \$1.0 million with a related valuation allowance of \$5.8 \$0.3 million compared to \$43.8 \$7.7 million with a related valuation allowance of \$10.5 \$1.4 million as of December 31, 2022 2023.

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CONNECTNE BANCORP, INC. AND SUBSIDIARIES
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued)

Assets Measured with Significant Unobservable Level 3 Inputs

Recurring basis

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 nine three months ended September 30, 2023 March 31, 2024 and for the year ended December 31, 2022 2023:

	Municipal Securities (dollars in thousands)
Beginning balance, December 31, 2022	\$ 7,349
Principal paydowns	(221)
Change in unrealized gain	(111)
Ending balance, September 30, 2023	<u>\$ 7,017</u>

Municipal Securities

	(dollars in thousands)
Beginning balance, January 1, 2024	\$ 7,122
Principal paydowns	(75)
Change in unrealized loss	(157)
Ending balance, March 31, 2024	<u><u>\$ 6,890</u></u>

	Municipal Securities (dollars in thousands)
Beginning balance, December 31, 2021	\$ 8,565
Principal paydowns	(287)
Changes in unrealized loss	(929)
Ending balance, December 31, 2022	<u><u>\$ 7,349</u></u>

	Municipal Securities (dollars in thousands)
Beginning balance, January 1, 2023	\$ 7,349
Principal paydowns	(272)
Changes in unrealized gain	45
Ending balance, December 31, 2023	<u><u>\$ 7,122</u></u>

The following methods and assumptions were used to estimate the fair values of the Company's assets measured at fair value on a recurring basis as of **September 30, 2023**, **March 31, 2024** and December 31, **2022**, **2023**. The table below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 hierarchy.

<u>September 30, 2023</u>					<u>March 31, 2024</u>					
	Fair Value	Valuation Techniques	Unobservable Input	Rate		Fair Value	Valuation Techniques	Unobservable Input	Rate	
Securities available-for-sale:										
Municipal securities	\$ 7,017	(dollars in thousands)	Discounted cash flows	Discount rate	4.4%	\$ 6,890	(dollars in thousands)	Discounted cash flows	Discount rate	4.6%

<u>December 31, 2022</u>					<u>December 31, 2023</u>					
	Fair Value	Valuation Techniques	Unobservable Input	Rate		Fair Value	Valuation Techniques	Unobservable Input	Rate	
Securities available-for-sale:										
Municipal securities	\$ 7,349	(dollars in thousands)	Discounted cash flows	Discount rate	4.3%	\$ 7,122	(dollars in thousands)	Discounted cash flows	Discount rate	4.3%

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued)

Nonrecurring basis: The following methods and assumptions were used to estimate the fair values of the Company'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.

September 30, 2023		March 31, 2024							
(dollars in thousands)		Fair Value	Valuation Techniques	Unobservable Input	Range (weighted average)	Fair Value	Valuation Techniques	Unobservable Input	Range (weighted average)
Commercial		\$ 10,205	Market approach (100%)	Average transfer price as a price to unpaid principal balance	65% – 92% (68%)	\$ 763	Appraisals of collateral value	Adjustment for comparable sales	-7.5% to +25% (+0.8%)
Commercial		454	Appraisals of collateral value	Adjustment for comparable sales	-7.5% to +25% (+0.1%)				
Commercial real estate		7,330	Appraisals of collateral value	Adjustment for comparable sales	-15% to +5% (+4%)				

December 31, 2022		December 31, 2023							
(dollars in thousands)		Fair Value	Valuation Techniques	Unobservable Input	Range (weighted average)	Fair Value	Valuation Techniques	Unobservable Input	Range (weighted average)
Commercial loans		\$ 14,028	Market approach (100%)	Average transfer price as a price to unpaid principal balance	65% to 96% (67%)	\$ 657	Appraisals of collateral value	Adjustment for comparable sales	-7.5% to +25% (+1%)
Commercial loans		522	Appraisals of collateral value	Adjustment for comparable sales	-10% to +13% (+3%)				
Commercial real estate loans		17,264	Appraisals of collateral value	Adjustment for comparable sales	-20% to +0% (-15%)	7,005	Appraisals of collateral value	Adjustment for comparable sales	-15% to +0% (-10.3%)
Residential real estate loans		1,392	Appraisals of collateral value	Adjustment for comparable sales	+21% to +39% (22%)				

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued)

As of **September 30, 2023** **March 31, 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 Company's financial instruments as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**:

Fair Value Measurements	Fair Value Measurements
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	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)			Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Unobservable Inputs (Level 3)										
			Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			Markets for Identical Assets	Significant Other Observable Inputs (Level 2)												
(dollars in thousands)						(dollars in thousands)															
September 30, 2023																					
March 31, 2024																					
Financial assets:																					
Cash and due from banks	\$ 253,298	\$ 253,298	\$ 253,298	\$ -	\$ -	\$ 277,583	\$ 277,583	\$ 277,583	\$ -	\$ -	\$ -										
Securities available-for-sale	581,867	581,867	1,362	573,488	7,017	619,397	619,397	127	612,380	6,890											
Restricted investments in bank stocks	49,387	n/a	n/a	n/a	n/a	48,931	n/a	n/a	n/a	n/a	n/a										
Equity securities	17,677	17,677	9,394	8,283	-	19,457	19,457	9,743	9,714	-											
Net loans	8,092,879	7,725,439	-	-	7,725,439	8,215,088	7,946,659	-	-	7,946,659											
Derivatives - interest rate contracts	61,972	61,972	-	61,972	-	50,508	50,508	-	50,508	-											
Accrued interest receivable	46,795	46,795	-	5,160	41,635	49,731	49,731	-	5,847	43,884											
Financial liabilities:																					
Noninterest-bearing deposits	1,224,125	1,224,125	1,224,125	-	-	1,290,523	1,290,523	1,290,523	-	-	-										
Interest-bearing deposits	6,214,370	6,181,082	3,692,159	2,488,923	-	6,298,131	6,276,751	3,674,740	2,602,011	-											
Borrowings	887,590	884,745	-	884,745	-	877,568	874,778	-	874,778	-											
Subordinated debentures	79,313	77,588	-	77,588	-	79,566	79,748	-	79,748	-											
Accrued interest payable	9,800	9,800	-	9,800	-	12,304	12,304	-	12,304	-											
December 31, 2022																					
December 31, 2023																					
Financial assets:																					
Cash and due from banks	\$ 268,315	\$ 268,315	\$ 268,315	\$ -	\$ -	\$ 242,714	\$ 242,714	\$ 242,714	\$ -	\$ -	\$ -										
Investment securities available-for-sale	634,884	634,884	242	627,293	7,349	617,162	617,162	165	609,875	7,122											
Restricted investment in bank stocks	46,604	n/a	n/a	n/a	n/a	51,457	n/a	n/a	n/a	n/a	n/a										
Equity securities	15,811	15,811	9,733	6,078	-	18,564	18,564	9,867	8,697	-											
Net loans	8,009,176	7,723,378	-	-	7,723,378	8,263,171	8,001,504	-	-	8,001,504											
Derivatives - interest rate contracts	56,797	56,797	-	56,797	-	43,805	43,805	-	43,805	-											
Accrued interest receivable	46,062	46,062	-	4,685	41,377	49,108	49,108	-	5,387	43,721											
Financial liabilities:																					
Noninterest-bearing deposits	1,501,614	1,501,614	1,501,614	-	-	1,259,364	1,259,364	1,259,364	-	-	-										
Interest-bearing deposits	5,855,008	5,811,291	3,460,818	2,350,473	-	6,276,838	6,256,444	3,745,467	2,510,977	-	-										

Borrowings	857,622	854,698	.	854,698	-	933,579	932,081	.	932,081	-
Subordinated debentures	153,255	153,581	-	153,581	-	79,439	77,952	-	77,952	-
Accrued interest payable	6,925	6,925	-	6,925	-	10,152	10,152	-	10,152	-

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 6. Fair Value Measurements and Fair Value of Financial Instruments – (continued)

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.

Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

The Company'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 Company's core deposit base is required by FASB ASC 825-10.

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.

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.

Note 7. Comprehensive (Loss) Income

Total comprehensive (loss) income includes all changes in equity during a period from transactions and other events and circumstances from non-owner sources. The Company'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 Company's defined benefit pension plan, each net of taxes.

The following table represents the reclassification out of accumulated other comprehensive (loss) for the periods presented (dollars in thousands):

Details about Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income		Amounts Reclassified from Accumulated Other Comprehensive Income		Affected Line item in the Consolidated Statements of Income	Amounts Reclassified from Accumulated Other Comprehensive Income	Affected Line item in the Consolidated Statements of Income			
	Three Months Ended September		Nine Months Ended September							
	30, 2023	2022	30, 2023	2022						
Interest income (expense) on cash flow hedges	\$ 4,793	\$ 1,178	\$ 13,013	\$ 524	Borrowings and deposits expense	Borrowings				
Interest income on cash flow hedges						\$ 5,629	\$ 4,267			
							and deposits expense			

	(1,442)	(343)	(3,915)	(159) Income tax (expense) benefit	(1,582)	(1,284) (expense) benefit
	\$ 3,351	\$ 835	\$ 9,098	\$ 365	\$ 4,047	\$ 2,983
Amortization of pension plan net actuarial losses	\$ (74)	\$ (17)	\$ (222)	\$ (49) Other components of net periodic pension expense	\$ (43)	\$ (74) Other components of net periodic pension expense
	22	5	67	14 Income tax benefit	13	23 Income tax benefit
Total reclassification	\$ (52)	\$ (12)	\$ (155)	\$ (35)	\$ (30)	\$ (51)
	\$ 3,299	\$ 823	\$ 8,943	\$ 330	\$ 4,017	\$ 2,932

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 7. Comprehensive (Loss) Income – (continued)

Accumulated other comprehensive loss as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **2023** consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)		(dollars in thousands)	
Investment securities available-for-sale, net of tax	\$ (87,748)	\$ (61,775)	\$ (66,743)	\$ (57,835)
Cash flow hedge, net of tax	37,128	32,360	30,723	24,810
Defined benefit pension and post-retirement plans, net of tax	(2,794)	(2,949)	(2,112)	(2,084)
Total	\$ (53,414)	\$ (32,364)	\$ (38,132)	\$ (35,109)

Note 8. Stock-based Compensation

The Company's stockholders approved the 2017 Equity Compensation Plan ("the Plan") on May 23, 2017. The Plan eliminates all remaining issuable shares under previous plans and is the only outstanding plan as of **September 30, 2023** **March 31, 2024**. On May 30, 2023, the Company's stockholders approved an amendment to the Plan that increased the maximum number of shares issuable by 450,000. The maximum number of shares of common stock or equivalents which may be issued under the Plan is now to 1,200,000. Grants under the Plan can be in the form of stock options (qualified or non-qualified), restricted shares, deferred stock units or performance units. Shares available for grant and issuance under the Plan as of **September 30, 2023** **March 31, 2024** were approximately 469,501, 373,848. The Company intends to issue all shares under the Plan in the form of newly issued shares.

Restricted stock, options and deferred stock units typically have a three-year vesting period starting one year after the date of grant with one-third vesting each year. The options generally expire ten years from the date of grant. Restricted stock and deferred 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 employed 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 units do not.

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. Stock-based compensation expense for the three and ninemonths ended **September 30, 2023**, **March 31, 2024** and **March 31, 2023** was \$1.3 million and \$3.6 million, respectively. Stock-based compensation expense Activity under the Company's restricted stock for the three and ninemonths ended **September 30, 2022** was \$1.2 million and \$3.5 million, respectively.

Activity under the Company's options for the nine months ended **September 30, 2023** **March 31, 2024** was as follows:

	Number of Stock Options	Weighted-Average Exercise Price
Outstanding as of December 31, 2022	8,680	\$ 12.95
Exercised	(7,388)	12.73
Forfeited/cancelled/expired	(1,292)	14.24
Outstanding as of September 30, 2023	-	-
Exercisable as of September 30, 2023	-	\$ -
	Nonvested Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2023	115,805	\$ 17.85
Granted	39,653	19.16
Vested	(32,764)	23.63
Forfeited/cancelled/expired	(1,674)	17.93
Nonvested as of March 31, 2024	121,020	\$ 16.71

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 8. Stock-Based Compensation – (continued)

Activity under the Company's restricted stock for the nine months ended September 30, 2023 was as follows:

	Nonvested Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2022	85,931	\$ 26.20
Granted	93,147	16.19
Vested	(47,067)	27.59
Forfeited/cancelled/expired	(9,090)	21.76
Nonvested as of September 30, 2023	122,921	\$ 18.41

As of **September 30, 2023** **March 31, 2024**, there was approximately \$1.1 million of total unrecognized compensation cost related to nonvested restricted stock granted. The cost is expected to be recognized over a weighted average period of **1.2** **1.7** years.

A summary of the status of unearned performance unit awards and the change during the period is presented in the table below:

	Units (expected)	Units (maximum)	Weighted Average Grant Date Fair Value	Units (expected)	Units (maximum)	Weighted Average Grant Date Fair Value
Unearned as of December 31, 2022	195,265		\$ 17.98			
Unearned as of December 31, 2023				164,231		\$ 23.06
Awarded	85,158		17.93	91,691		19.01
Change in estimate				(10,774)		11.93
Vested shares	(116,192)		10.77	(53,041)		25.24
Unearned as of September 30, 2023	164,231	233,087	\$ 23.06			
Forfeited/cancelled/expired				(10,260)		23.10
Unearned as of March 31, 2024	181,847	302,196	\$ 21.04			

As of **September 30, 2023** **March 31, 2024**, the specific number of shares related to performance units that were expected to vest was **164,231**, **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 **September 30, 2023** **March 31, 2024**, the maximum amount of performance units that ultimately could vest if performance targets were exceeded is **233,087** **302,196**. During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, **116,192** **53,041** shares vested. A total of **63,839** **28,971** shares were netted from the vested shares to satisfy employee tax obligations. The net shares issued from vesting of performance units during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** were **52,353** **24,070** shares. As of **September 30, 2023** **March 31, 2024**, compensation cost of approximately **\$1.8** **\$3.0** million related to non-vested performance units not yet recognized is expected to be recognized over a weighted-average period of **1.9** **2.2** years.

A summary of the status of unearned deferred stock units and the changes in deferred stock units during the period is presented in the table below:

	Units (expected)	Weighted Average Grant Date Fair Value	Units (expected)	Weighted Average Grant Date Fair Value
Unearned as of December 31, 2022	120,035	\$ 23.84		
Unearned as of December 31, 2023			188,348	\$ 22.11
Awarded	146,857	18.97	81,736	19.01
Vested shares	(78,544)	19.71	(73,013)	22.98
Unearned as of September 30, 2023	<u>188,348</u>	\$ <u>21.77</u>		
Forfeited/cancelled/expired			(7,360)	21.53
Unearned as of March 31, 2024			<u>189,711</u>	\$ <u>20.46</u>

Any forfeitures would result in previously recognized expense being reversed. A portion of the shares that vest will be netted out to satisfy the tax obligations of the recipient. During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, **78,544** **73,013** shares vested. A total of **42,538** **39,409** shares were netted from the vested shares to satisfy employee tax obligations. The net shares issued from vesting of deferred stock units during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** were **36,006** **33,604** shares. As of **September 30, 2023** **March 31, 2024**, compensation cost of approximately **\$2.3** **\$2.4** million related to non-vested deferred stock units, not yet recognized, is expected to be recognized over a weighted-average period of **1.5** **1.8** years.

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 9. Components of Net Periodic Pension Cost

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 Company's pension plan for the periods indicated.

	Three Months Ended		Affected Line Item in the Consolidated Statements of Income	
	September 30,			
	2023	2022		
(dollars in thousands)				
Service cost	\$ -	\$ -		
Interest cost	110	78	Other components of net periodic pension expense	
Expected return on plan assets	(209)	(237)	Other components of net periodic pension expense	
Net amortization	74	17	Other components of net periodic pension expense	
Total periodic pension income	<u>\$ (25)</u>	<u>\$ (142)</u>		
Nine Months Ended		Affected Line Item in the Consolidated Statements of Income		
September 30,				
2023	2022	March 31, 2024	March 31, 2023	
Affected Line Item in the Consolidated Statements of Income				

	(dollars in thousands)				(dollars in thousands)	
	\$	-	\$	-	\$	-
Service cost						
Interest cost	330		233	Other components of net periodic pension expense	106	110
Expected return on plan assets	(628)		(711)	Other components of net periodic pension expense	(214)	(209)
Net amortization	222		49	Other components of net periodic pension expense	43	74
Total periodic pension income	<u>\$ (76)</u>	<u>\$ (429)</u>			<u>\$ (65)</u>	<u>\$ (25)</u>

Contributions

The Company did not contribute to the Pension Trust during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**. The Company does not plan on contributing amounts to the Pension Trust for the remainder of **2023** **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.

Note 10. Deposits

Time Deposits

As of March 31, 2024 and December 31, 2023, the Company's total time deposits were \$2.6 billion and \$2.5 billion, respectively. Included in time deposits were gross nonreciprocal brokered time deposits of \$920.1 million and \$916.8 million as of March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024, the contractual maturities of these time deposits were as follows (dollars in thousands):

2024	\$ 1,756,289
2025	598,372
2026	226,995
2027	38,946
2028	3,891
thereafter	176
Time deposits (before net discount)	\$ 2,624,669
Fair value net discount	(1,278)
Total time deposits (after net discount)	<u>\$ 2,623,391</u>

The amount of time deposits with balances in excess of \$250,000 were \$647.9 million and \$643.4 million as of March 31, 2024 and December 31, 2023, respectively.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 10, 11. FHLB Borrowings

The Company's FHLB borrowings and weighted average interest rates are summarized below:

	September 30, 2023	December 31, 2022
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	Amount	Rate	Amount	Rate
	(dollars in thousands)			
By remaining period to maturity:				
Less than 1 year	\$ 835,000	5.60 %	\$ 830,000	4.42 %
1 year through less than 2 years	25,000	1.00	-	-
2 years through less than 3 years	2,050	2.23	25,000	1.00
3 years through less than 4 years	-	-	2,050	2.23
4 years through 5 years	25,301	4.16	326	2.85
After 5 years	302	2.96	326	2.96
FHLB borrowings - gross	887,653	5.42 %	857,702	4.32 %
Fair value discount	(63)		(80)	
Total FHLB borrowings	\$ 887,590		\$ 857,622	

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CONNECTONE BANCORP, INC. AND SUBSIDIARIES
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Note 10. FHLB Borrowings – (continued)

	March 31, 2024		December 31, 2023	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
By remaining period to maturity:				
Less than 1 year	\$ 725,000	5.48 %	\$ 881,000	5.57 %
1 year through less than 2 years	75,000	3.30	25,000	1.00
2 years through less than 3 years	52,050	4.15	2,050	2.23
3 years through less than 4 years	285	2.85	293	2.85
4 years through 5 years	25,000	4.18	25,000	4.18
After 5 years	286	2.96	294	2.96
FHLB borrowings - gross	877,621	5.18 %	933,637	5.41 %
Fair value discount	(53)		(58)	
Total FHLB borrowings	\$ 877,568		\$ 933,579	

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.

Advances are payable at stated maturity, with a prepayment penalty for fixed rate advances. All FHLB advances bear fixed rates. The advances as of **September 30, 2023** **March 31, 2024** were primarily collateralized by approximately \$2.8 billion of commercial mortgage loans and securities, net of required over collateralization amounts, under a blanket lien arrangement. As of **September 30, 2023** **March 31, 2024** the Company had remaining borrowing capacity of approximately \$1.4 billion at FHLB.

CONNECTONE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Note 11, 12. Subordinated Debentures

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 Corporation's subordinated debentures. The subordinated debentures are redeemable in whole or in part prior to maturity. **The floating interest rate on the subordinate debentures was previously three-month LIBOR plus 2.85% and reprises**

quarterly. Upon the cessation of publication of LIBOR rates and pursuant to the Federal LIBOR Act and Federal Reserve regulations implementing the Act, applicable US Dollar LIBOR indexed instruments like the Company's outstanding \$5.0 million of MMCapS capital securities converted effective 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. Therefore, effective for quarterly interest rate resets after July 3, 2023 the subordinated debentures' floating rate will be three-month CME Term SOFR plus 2.85% plus a tenor spread adjust of 0.26161%. The rate as of **September 30, 2023** **March 31, 2024**, was **8.48%** **8.43%**. 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.

The following table summarizes the mandatory redeemable trust preferred securities of the Company's Statutory Trust II as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023**.

As of September 30, 2023 March 31, 2024						
Issuance Date	Securities		Liquidation Value	Coupon Rate	Redeemable by Issuer	
	Issued	Maturity			Beginning	
12/19/2003	\$5,000,000	\$1,000 per Capital Security	Floating 3-month CME Term SOFR + 285 Basis Points + 26.161 Basis Points		1/23/2034	1/23/2009

As of December 31, 2022 December 31, 2023						
Issuance Date	Securities		Liquidation Value	Coupon Rate	Redeemable by Issuer	
	Issued	Maturity			Beginning	
12/19/2003	\$5,000,000	\$1,000 per Capital Security	Floating 3-month CME Term SOFR + 285 Basis Points + 26.161 Basis Points		1/23/2034	1/23/2009

On June 10, 2020, the Parent Corporation issued \$75 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the "2020 Notes"). 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.

On January 11, 2018, the Parent Corporation issued \$75 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the "2018 Notes"). The 2018 Notes bore interest at a rate that resets quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 284 basis points (2.84%) payable quarterly in arrears. Interest on the 2018 Notes was to be paid on February 1, May 1, August 1, and November 1, of each year to but excluding the stated maturity date, unless in any case previously redeemed. The 2018 Notes were redeemed in full on February 1, 2023.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this analysis is to provide the reader with information relevant to understanding and assessing the Company's results of operations for the periods presented herein and financial condition as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **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.

Cautionary Statement Concerning Forward-Looking Statements

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 "believes," "expects," "anticipates," "plans," "trend," "objective," "continue," "remain," "pattern" or similar expressions or future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" 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 the COVID-19 pandemic 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 Bancorp's Annual Report on Form 10-K as amended and updated in ConnectOne Bancorp's other filings with the Securities and Exchange Commission. These documents are available free of charge at the Commission's website at <http://www.sec.gov> and/or from ConnectOne Bancorp, Inc.

Critical Accounting Policies and Estimates

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, 2023** **March 31, 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

Operating Results Overview

Net income available to common stockholders for the three months ended **September 30, 2023** **March 31, 2024** was **\$19.9 million** **\$15.7 million** compared to **\$27.4 million** **\$23.4 million** for the comparable three-month period ended **September 30, 2022** **March 31, 2023**. The Company's diluted earnings per share were **\$0.51** **\$0.41** for the three months ended **September 30, 2023** **March 31, 2024** as compared with diluted earnings per share of **\$0.70** **\$0.59** for the comparable three-month period ended **September 30, 2022** **March 31, 2023**. The **\$7.5 million** decrease in net income available to common stockholders and **\$0.19** **\$0.18** decrease in diluted earnings per share versus the **third** **first** quarter of **2022** **2023** were due to a **\$15.8 million** decrease in net interest income, a **\$3.0 million** increase in provision for credit losses, and a **\$3.6 million** **\$2.2 million** increase in noninterest expenses, partially offset by a **\$8.5 million** decrease in provision for credit losses, a **\$3.2 million** **\$3.2 million** decrease in income tax expense and a **\$0.2 million** **\$1.1 million** increase in noninterest income.

Net income available to common stockholders for the nine months ended September 30, 2023 was \$63.2 million compared to \$88.1 million for the comparable nine-month period ended September 30, 2022. The Company's diluted earnings per share were \$1.61 for the nine months ended September 30, 2023 as compared with diluted earnings per share of \$2.23 for the comparable nine-month period ended September 30, 2022. The \$24.9 million decrease in net income available to common stockholders and \$0.62 decrease in diluted earnings per share versus the nine months ended September 2022 were due to a \$30.8 million decrease in net interest income and a \$13.0 million increase in noninterest expenses, partially offset by an \$8.9 million decrease in provision for credit losses, a \$9.9 million decrease in income tax expense and a \$0.1 million increase in noninterest income.

Net Interest Income and Margin

Net interest income is the difference between the interest earned on the portfolio of earning assets (principally loans and investments) and the interest paid on 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.

Fully taxable equivalent net interest income for the three months ended **September 30, 2023** **March 31, 2024** decreased by \$15.6 million, **\$6.7 million**, or **19.8%** **9.9%**, from the comparable three-month period **three months** ended **September 30, 2022** **March 31, 2023**. The decrease from the three months ended September 30, 2022 resulted primarily from a **250 basis-point increase** **decrease** in rate paid on interest-bearing deposits, the net interest margin to 2.64% from 3.00%, partially offset by an 88 basis-point **\$149.1 million**, or **1.6%**, increase rate earned on total in average interest-earning assets and a 92 basis-point assets. The contraction of the net interest margin was primarily attributable to **2.76%** from **3.68%**.

Fully taxable equivalent net interest income for the nine months ended September 30, 2023 decreased by \$30.2 million, or 13.4%, from the comparable nine-month period ended September 30, 2022. The decrease from the nine months ended September 30, 2022 resulted primarily from a **254 basis-point increase** in rate paid on interest-bearing the average costs of deposits, partially offset by a **92 basis-point increase** in rate earned on total interest-earning assets and a **91 basis-point contraction** of the net interest margin to 2.85% from 3.76%. loan portfolio yield.

The following **tables**, **table**, "Average Statements of Condition with Interest and Average Rates", present for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022** **2023**, the Company's average assets, liabilities and stockholders' equity. The Company's net interest income, net interest spread and net interest margin are also reflected.

Average Statements of Condition with Interest and Average Rates

	Three Months Ended September 30,						Three Months Ended March 31,					
	2023			2022			2024			2023		
	Interest		Interest		Interest		Interest		Interest		Interest	
	Average	Income/	Average	Average	Income/	Average	Average	Income/	Average	Income/	Average	Income/
	Balance	Expense	Rate (7)	Balance	Expense	Rate (7)	Balance	Expense	Rate (7)	Balance	Expense	Rate (7)
	(dollars in thousands)						(dollars in thousands)					
Interest-earning assets:												
Securities (1) (2)	\$ 723,408	\$ 5,566	3.05 %	\$ 740,394	\$ 5,434	2.91 %						
Investment securities (1) (2)							\$ 720,303	\$ 5,794	3.24 %	\$ 732,929	\$ 5,620	3.11 %
Total loans (2) (3) (4)	8,169,310	115,954	5.63	7,582,371	91,132	4.77	8,332,828	120,592	5.82	8,131,035	107,348	5.35
Federal funds sold and interest-bearing with banks	158,155	2,110	5.29	135,331	665	1.95						
Federal funds sold and interest-bearing deposits with banks							218,212	2,906	5.36	260,297	2,975	4.64
Restricted investment in bank stocks	38,558	907	9.33	42,220	438	4.12	51,948	1,126	8.72	49,906	898	7.30
Total interest-earning assets	9,089,431	124,537	5.44	8,500,316	97,669	4.56	9,323,291	130,418	5.63	9,174,167	116,841	5.17
Noninterest-earning assets:												
Noninterest-earning assets												
Allowance for credit losses	(89,966)			(84,307)			(84,005)			(90,182)		
Other noninterest-earning assets	626,160			614,580			621,467			616,545		
Total assets	<u>\$ 9,625,625</u>			<u>\$ 9,030,589</u>			<u>\$ 9,860,753</u>			<u>\$ 9,700,530</u>		
Interest-bearing liabilities:												
Interest-bearing deposits:												
Time deposits	\$ 2,606,122	25,437	3.87	\$ 1,525,076	5,396	1.40	\$ 2,567,767	28,038	4.39	\$ 2,357,332	17,267	2.97
Other interest-bearing deposits	3,723,561	30,606	3.26	3,686,520	7,903	0.85	3,696,374	32,369	3.52	3,565,904	22,820	2.60
Total interest-bearing deposits	6,329,683	56,043	3.51	5,211,596	13,299	1.01	6,264,141	60,407	3.88	5,923,236	40,087	2.74
Borrowings	651,112	3,950	2.41	772,561	3,297	1.69	947,003	7,567	3.21	941,266	7,322	3.15
Subordinated debentures	79,230	1,312	6.57	153,129	2,196	5.69						
Subordinated debentures, net							79,483	1,311	6.63	103,638	1,579	6.18
Finance lease	1,603	24	5.94	1,813	27	5.91	1,483	22	5.97	1,714	25	5.92
Total interest-bearing liabilities	7,061,628	61,329	3.45	6,139,099	18,819	1.22	7,292,110	69,307	3.82	6,969,854	49,013	2.85
Demand deposits	1,275,325			1,682,135								
Noninterest-bearing demand deposits							1,254,201			1,451,654		
Other liabilities	<u>86,025</u>			<u>48,907</u>			<u>93,624</u>			<u>87,807</u>		

Total noninterest-bearing liabilities	1,361,350	1,731,042	1,347,825	1,539,461
Stockholders' equity	1,202,647	1,160,448	1,220,818	1,191,215
Total liabilities and stockholders' equity	\$ 9,625,625	\$ 9,030,589	\$ 9,860,753	\$ 9,700,530
Net interest income (tax-equivalent basis)	63,208	78,850	61,111	67,828
Net interest spread (5)	1.99 %	3.34 %	1.80 %	2.32 %
Net interest margin (6)	2.76 %	3.68 %	2.64 %	3.00 %
Tax-equivalent adjustment	(851)	(689)	(811)	(744)
Net interest income	\$ 62,357	\$ 78,161	\$ 60,300	\$ 67,084

(1) Average balances are based on amortized cost and include equity securities.

(2) Interest income is presented on a tax-equivalent basis using a 21% assumed tax rate.

(3) Includes loan fee income and accretion of purchase accounting adjustments.

(4) Total loans include loans held-for-sale and nonaccrual loans.

(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.

(6) Represents net interest income on a tax-equivalent basis divided by average total interest-earning assets.

(7) Rates are annualized.

Nine Months Ended September 30,								
			2023			2022		
			Interest				Interest	
			Average	Income/	Average	Average	Income/	Average
			Balance	Expense	Rate (7)	Balance	Expense	Rate (7)
(dollars in thousands)								
Interest-earning assets:								
Securities (1) (2)	\$ 727,516	\$ 16,784	3.08 %	\$ 632,736	\$ 11,915			2.52 %
Total loans (2) (3) (4)	8,150,047	334,810	5.49	7,159,107	249,049			4.65
Federal funds sold and interest-bearing with banks	242,262	9,141	5.04	200,937	1,098			0.73
Restricted investment in bank stocks	43,757	2,750	8.40	32,997	943			3.82
Total interest-earning assets	9,163,582	363,485	5.30	8,025,777	263,005			4.38
Noninterest-earning assets:								
Allowance for credit losses	(89,206)			(81,711)				
Other noninterest-earning assets	622,750			600,171				
Total assets	\$ 9,697,126			\$ 8,544,237				
Interest-bearing liabilities:								
Interest-bearing deposits:								
Time deposits	\$ 2,541,620	66,482	3.50	\$ 1,252,503	9,729			1.04
Other interest-bearing deposits	3,641,362	80,362	2.95	3,751,266	14,289			0.51
Total interest-bearing deposits	6,182,982	146,844	3.18	5,003,769	24,018			0.64
Borrowings	781,831	15,986	2.73	576,728	6,522			1.51
Subordinated debentures	87,234	4,921	7.54	153,054	6,543			5.72
Finance lease	1,658	73	5.89	1,865	84			6.02
Total interest-bearing liabilities	7,053,705	167,824	3.18	5,735,416	37,167			0.87
Demand deposits	1,360,120			1,612,713				

Other liabilities	86,291	50,834
Total noninterest-bearing liabilities	1,446,411	1,663,547
Stockholders' equity	1,197,010	1,145,274
Total liabilities and stockholders' equity	\$ 9,697,126	\$ 8,544,237
Net interest income (tax-equivalent basis)	195,661	225,838
Net interest spread (5)	2.12 %	3.51 %
Net interest margin (6)	2.85 %	3.76 %
Tax-equivalent adjustment	(2,377)	(1,728)
Net interest income	\$ 193,284	\$ 224,110

(1) Average balances are based on amortized cost and include equity securities.

(2) Interest income is presented on a tax-equivalent basis using a 21% assumed tax rate.

(3) Includes loan fee income and accretion of purchase accounting adjustments.

(4) Total loans include loans held-for-sale and nonaccrual loans.

(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.

(6) Represents net interest income on a tax-equivalent basis divided by average total interest-earning assets.

(7) Rates are annualized.

Noninterest Income

Noninterest income totaled \$3.6 \$3.9 million for the three months ended September 30, 2023 March 31, 2024, compared with \$3.3 million \$2.8 million for the three months ended September 30, 2022 March 31, 2023. Included in noninterest income for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 were net losses gain (losses) on equity securities of \$0.3 \$0.1 million and \$0.4 million, (\$0.2) million, respectively. Excluding these items, noninterest income increased \$0.1 \$0.8 million when compared to the three months ended September 30, 2022 March 31, 2023. The increase was primarily attributable to an increase in net gains on sale of loans held-for-sale, primarily Small Business Administration ("SBA") loans of \$0.4 \$0.5 million, an increase in deposit, loan, and other income of \$0.2 million and an increase in bank owned life insurance ("BOLI") income of \$0.1 million, partially offset by a decrease in deposit, loan, and other income of \$0.4 million.

Noninterest income totaled \$9.8 million for the nine months ended September 30, 2023, compared with \$9.7 million for the nine months ended September 30, 2022. Included in noninterest income were net losses on equity securities of \$0.7 million and \$1.4 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. Excluding these items, noninterest income decreased \$0.7 million when compared to the nine months ended September 30, 2022. The decrease was primarily attributable to a decrease in deposit, loan and other income of \$1.0 million and a decrease in net gains on sale of loans held-for-sale, primarily SBA, of \$0.3 million, partially offset by an increase in BOLI income of \$0.6 million.

Noninterest Expenses

Noninterest expenses totaled \$35.8 \$37.1 million for the three months ended September 30, 2023 March 31, 2024, compared with \$32.1 \$34.9 million for the three months ended September 30, 2022 March 31, 2023. Noninterest expenses increased by \$3.6 \$2.2 million when compared to the three months ended September 30, 2022 March 31, 2023. The increase was primarily attributable to an increase in salaries information technology and employee benefits communications of \$1.3 million, which was attributable \$1.3 million, due to new hires, an increase additional investments in technology, equipment, and software, FDIC insurance expense of \$1.1 million, which was \$0.9 million, primarily attributable to balance sheet growth and a two-basis point increase in the Bank's initial base rate, an increase in information technology and communication expenses of \$0.7 million, which was primarily attributable to additional investments in technology, equipment, and software, an increase in other expenses of \$0.4 million, an increase in occupancy and equipment of \$0.1 million \$0.3 million, an increase in marketing and advertising expenses of \$0.1 million \$0.2 million, and an increase in other components of net periodic pension expense of \$0.1 million, partially offset by a decrease decreases in professional and consulting of \$0.2 million, salaries and employee benefits of \$0.1 million and a decrease in amortization of core deposit intangibles of \$0.1 million.

Noninterest expenses totaled \$106.1 million for the nine months ended September 30, 2023, compared to \$93.1 million for the nine months ended September 30, 2022. Noninterest expenses increased by \$13.0 million when compared to the nine months ended September 30, 2022. The increase was primarily attributable to an increase in salaries and employee benefits of \$6.8 million, which was attributable to new hires, an increase in FDIC insurance expense of \$2.4 million, which was attributable to balance sheet growth and a two-basis point increase in the Bank's initial base rate, an increase in information technology and communication expenses of \$1.8 million, which was primarily attributable to additional investments in technology, equipment, and software, an increase in other expenses of \$2.0 million, which was primarily attributable to expenses incurred related to derivatives cash collateral during the nine months ended September 30, 2023, an increase in occupancy and equipment of \$0.9 million, an increase in marketing and advertising expenses of \$0.4 million and an increase in other components of net periodic pension expense of \$0.4 million, partially offset by a decrease in BoeFly acquisition expense of \$1.5 million and a decrease in amortization of core deposit intangibles of \$0.2 million.

Income Taxes

Income tax expense was \$7.2 \$5.9 million for the three months ended **September 30, 2023** **March 31, 2024**, compared to \$10.4 \$9.1 million for the three months ended **September 30, 2022** **March 31, 2023**. The decrease in income tax expense was the result of lower income before income tax expense. The effective tax rate for the three months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023** was 25.2% 25.5% and 26.5% 26.7%, respectively. The decrease in the effective tax rate when compared to the three months ended **September 30, 2022** is largely attributable to lower taxable income.

Income tax expense was \$23.7 million for the nine months ended **September 30, 2023**, compared to \$33.7 million for the nine months ended **September 30, 2022**. The effective tax rate for the nine months ended **September 30, 2023** and **September 30, 2022** was 26.0% and 26.7%, respectively. The decrease in the effective tax rate when compared to the nine months ended **September 30, 2022** **March 31, 2023** is largely attributable to lower taxable income.

Financial Condition

Loan Portfolio

The following table sets forth the composition of our loan portfolio, excluding loans held-for-sale and unearned net origination deferred loan fees, and costs, by loan segment at the periods indicated.

	September 30, 2023		December 31, 2022		Amount Increase/ (Decrease)	March 31, 2024		December 31, 2023		Amount Increase/ (Decrease)
	Amount	%	Amount	%		Amount	Percent of Total	Amount	Percent of Total	
	(dollars in thousands)								(dollars in thousands)	
Commercial	\$ 1,475,571	18.0	\$ 1,472,734	18.2%	\$ 2,837	\$ 1,572,494	18.9%	\$ 1,578,730	18.9%	\$ (6,236)
Commercial real estate	5,837,539	71.3	5,795,228	71.5	42,311	5,829,950	70.2	5,895,545	70.6	(65,595)
Commercial construction	622,748	7.6	574,139	7.1	48,609	646,593	7.8	620,496	7.4	26,097
Residential real estate	251,416	3.1	264,748	3.3	(13,332)	254,214	3.1	256,041	3.1	(1,827)
Consumer	936	-	2,312	-	(1,376)	850	-	1,029	-	(179)
Gross loans	\$ 8,188,210	100.0 %	\$ 8,109,161	100.0 %	\$ 79,049	\$ 8,304,101	100.0 %	\$ 8,351,841	100.0 %	\$ (47,740)

As of **September 30, 2023** **March 31, 2024**, gross loans totaled \$8.2 \$8.3 billion, an increase a decrease of \$79.0 \$47.7 million or 1.0% -0.6%, compared to **December 31, 2022** **December 31, 2023**. Net loan growth was attributable to organic loan originations.

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") percentages.

		March 31, 2024		December 31, 2023	
		Balance	Loan-to-Value	Balance	Loan-to-Value
(dollars in thousands)					
Commercial real estate loans					
Multifamily	\$ 2,496,821	61 %	\$ 2,553,401	61 %	
Nonowner-occupied	2,174,399	53	2,177,585	54	
Owner-occupied	929,835	53	930,319	53	
Land loans	228,968	45	234,563	45	
Total commercial real estate loans (before discount)	5,830,023	56 %	5,895,868	56 %	
Fair value discount	(73)		(323)		
Total commercial real estate loans	\$ 5,829,950		\$ 5,895,545		

The tables above are further broken down in the following tables by geography:

		March 31, 2024		December 31, 2023	
		Balance	Percent of Total	Balance	Percent of Total
(dollars in thousands)					
Multifamily loans					

	\$ 1,586,258	63.5 %	\$ 1,623,666	63.6 %
New Jersey	755,714	30.3	789,065	30.9
New York	7,816	0.3	7,828	0.3
Florida	40,504	1.6	36,761	1.4
Connecticut	106,529	4.3	96,081	3.8
All Other States	<u>106,529</u>	<u>4.3</u>	<u>96,081</u>	<u>3.8</u>
Total multifamily loans	<u>\$ 2,496,821</u>	<u>100.0 %</u>	<u>\$ 2,553,401</u>	<u>100.0 %</u>
	March 31, 2024		December 31, 2023	
	Balance	Percent of Total	Balance	Percent of Total
(dollars in thousands)				
Nonowner-occupied				
New Jersey	\$ 872,766	40.1 %	\$ 972,907	44.7 %
New York	753,637	34.7	778,842	35.8
Florida	204,839	9.4	205,178	9.4
Connecticut	79,546	3.7	80,067	3.7
All Other States	263,611	12.1	140,592	6.4
Total nonowner occupied	<u>\$ 2,174,399</u>	<u>100.0 %</u>	<u>\$ 2,177,585</u>	<u>100.0 %</u>
	March 31, 2024		December 31, 2023	
	Balance	Percent of Total	Balance	Percent of Total
(dollars in thousands)				
Owner-occupied				
New Jersey	\$ 466,271	50.2 %	\$ 474,905	51.1 %
New York	265,327	28.5	267,990	28.8
Florida	50,666	5.4	69,989	7.5
Connecticut	5,849	0.6	5,887	0.6
All Other States	141,722	15.3	111,548	12.0
Total owner-occupied	<u>\$ 929,835</u>	<u>100.0 %</u>	<u>\$ 930,319</u>	<u>100.0 %</u>

	March 31, 2024		December 31, 2023	
	Balance	Percent of Total	Balance	Percent of Total
(dollars in thousands)				
Land loans				
New Jersey	\$ 97,000	42.4 %	\$ 106,884	45.6 %
New York	78,433	34.2	77,767	33.1
Florida	52,430	22.9	48,807	20.8
Connecticut	-	-	-	-
All Other States	1,105	0.5	1,105	0.5
Total land	<u>\$ 228,968</u>	<u>100.0 %</u>	<u>\$ 234,563</u>	<u>100.0 %</u>

In addition, the following tables presents further detail with respect to our owner-occupied and nonowner-occupied borrower concentrations included in the commercial real estate segment.

	March 31, 2024		December 31, 2023	
	Balance	Percent of Total	Balance	Percent of Total
(dollars in thousands)				
Owner-occupied				
Retail	\$ 206,551	22.2 %	\$ 208,685	22.4 %
Office	98,209	10.6	102,886	11.1
Warehouse/Industrial	252,423	27.1	249,557	26.8
Mixed Use	111,121	12.0	116,046	12.5
Other	261,531	28.1	253,145	27.2

	\$ 929,835	100.0 %	\$ 930,319	100.0 %
	March 31, 2024		December 31, 2023	
	Balance	Percent of Total	Balance	Percent of Total
(dollars in thousands)				
Nonowner-occupied				
Retail	\$ 637,734	29.3 %	\$ 637,211	29.3 %
Office	418,472	19.2	424,479	19.5
Warehouse/Industrial	230,403	10.6	233,518	10.7
Mixed Use	192,996	8.9	192,617	8.8
Other	694,794	32.0	689,760	31.7
Total nonowner-occupied	<u>\$ 2,174,399</u>	<u>100.0 %</u>	<u>\$ 2,177,585</u>	<u>100.0 %</u>

Allowance for Credit Losses and Related Provision

As of **September 30, 2023** **March 31, 2024**, the Company's allowance for credit losses for loans was **\$88.2** **\$82.9** million, a decrease an increase of **\$2.3** **\$0.9** million from **\$90.5** **\$82.0** million as of **December 31, 2022** **December 31, 2023**. The decrease was primarily attributable to \$8.0 million in net charge-offs, offset by a \$5.7 million provision for credit losses.

The provision for credit losses, which includes a provision for unfunded commitments, for the three and nine months ended **September 30, 2023** **March 31, 2024** and **September 30, 2022** **March 31, 2023** was **\$1.5** **\$4.0** million and **\$5.5** **\$1.0** million, respectively, compared to \$10.0 million and \$14.5 million, for the three and nine months ended **September 30, 2022**, respectively. The decrease increase in the provision for credit losses when compared to the comparable periods period in 2022 was mainly attributable to 2023 reflected increases in changes in forecasted macroeconomic conditions, forecasts, qualitative factor adjustments and specific reserves.

There were \$2.5 million and \$8.1 million in \$3.2 million net charge-offs for the three and nine months ended **September 30, 2023** **March 31, 2024**, compared with \$0.4 million and \$0.9 \$4.5 million in net charge-offs for the three and nine months ended **September 30, 2022**, respectively. The increase in net charge-offs for the three ended September 30, 2023 when compared to the comparable prior period resulted from the partial charge-off of one commercial loan that we previously reserved for. The increase in net charge-offs for the nine months ended September 30, 2023 when compared to the comparable prior period resulted from the aforementioned partial charge-off during the third quarter of 2023, the resolution of certain nonaccrual taxi loans and one owner-occupied commercial real estate loan that were previously reserved for and, therefore, required no additional loan loss provisioning. **March 31, 2023**. The ACL as a percentage of loans receivable amounted to **1.08%** **1.00%** as of **September 30, 2023** **March 31, 2024** compared to **1.12%** **0.98%** as of **December 31, 2022** **December 31, 2023**.

The level of the allowance for the respective periods of **2023** **2024** and **2022** **2023** 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 management's view, the level of the ACL as of **September 30, 2023** **March 31, 2024** is adequate to cover credit losses inherent in the loan portfolio. Management's judgment regarding the adequacy of the allowance constitutes a "Forward-Looking Statement" under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from management's analysis, based principally upon the factors considered by management in establishing the allowance.

Changes in the ACL on loans are presented in the following table for the periods indicated.

	Three Months Ended	
	September 30,	
	2023	2022
(dollars in thousands)		
Average loans receivable	\$ 8,169,139	\$ 7,580,176
Analysis of the ACL:		
Balance - beginning of quarter	\$ 89,205	\$ 82,739
Charge-offs:		
Commercial	(2,250)	(410)
Commercial real estate	(237)	-
Residential real estate	-	-
Consumer	-	(3)

Total charge-offs		(2,487)	(413)		
Recoveries:					
Commercial		-	53		
Residential real estate		1	-		
Consumer		7	-		
Total recoveries		8	53		
Net charge-offs		(2,479)	(360)		
Provision for credit losses – loans		1,504	9,338		
Balance - end of period	\$	<u>88,230</u>	\$ <u>91,717</u>		
Ratio of annualized net charge-offs during the period to average loans receivable during the period		0.12 %	0.02 %		
Loans receivable	\$	8,181,109	\$ 7,900,450		
ACL as a percentage of loans receivable		1.08 %	1.16 %		
		Nine Months Ended		Three Months Ended	
		September 30,		March 31,	
		2023	2022	2024	2023
		(dollars in thousands)			
Average loans receivable	\$	8,142,712	\$ 7,155,209	\$ 8,332,729	\$ 8,117,572
Analysis of the ACL:					
Balance - beginning of quarter	\$	90,513	\$ 78,773	\$ 81,974	\$ 90,513
Charge-offs:					
Commercial		(6,117)	(751)	(300)	(2,767)
Commercial real estate		(1,954)	(226)	(2,885)	(1,716)
Residential real estate		(18)	(9)		
Consumer		-	(3)		
Total charge-offs		(8,089)	(989)	(3,185)	(4,483)
Recoveries:					
Commercial		9	54	23	-
Residential real estate		69	35		
Consumer		7	28	-	1
Total recoveries		85	117	23	1
Net charge-offs		(8,004)	(872)	(3,162)	(4,482)
Provision for credit losses – loans		5,721	13,816	4,057	1,000
Balance - end of period	\$	<u>88,230</u>	\$ <u>91,717</u>	\$ <u>82,869</u>	\$ <u>87,031</u>
Ratio of annualized net charge-offs during the period to average loans receivable during the period		0.13 %	0.02 %	0.15 %	0.22 %
Loans receivable	\$	8,181,109	\$ 7,900,450	\$ 8,297,957	\$ 8,132,119
ACL as a percentage of loans receivable		1.08 %	1.16 %	1.00 %	1.07 %

Asset Quality

The Company manages asset quality and credit risk by maintaining diversification in its loan portfolio and through review processes that includes 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 early on, 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.

It is generally the Company'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.

Nonperforming assets include nonaccrual loans and other real estate owned. Nonaccrual loans represent loans on 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. As of March 31, 2024, one loan for \$23.6 million was past due more than 90 days and still accruing; the loan is well-secured at a loan-to-value of approximately 60% and is in the process of collection.

The following table sets forth, as of the dates indicated, the amount of the Company's nonperforming assets:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)		(dollars in thousands)	
Nonaccrual loans	\$ 56,059	\$ 44,454	\$ 47,438	\$ 52,524
OREO	-	264	-	-
Total nonperforming assets (1)	\$ 56,059	\$ 44,718	\$ 47,438	\$ 52,524

(1) Nonperforming assets are defined as nonaccrual loans and OREO.

Nonaccrual loans to total loans receivable	0.69 %	0.55 %	0.57 %	0.63 %
Nonperforming assets to total assets	0.58 %	0.46 %	0.48	0.53

Investment Securities

As of September 30, 2023 March 31, 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 three months ended September 30, 2023 March 31, 2024, average securities, on an amortized cost basis, decreased by \$17.0 million \$12.6 million to approximately \$723.4 million, \$720.3 million, or 8.0% 7.7% of average total interest-earning assets, from approximately \$740.4 million, \$732.9 million, or 8.7% 8.0% of average interest-earning assets, as of September 30, 2022 for the three months ended March 31, 2023.

As of September 30, 2023 March 31, 2024, net unrealized losses on securities available-for-sale, which are carried as a component of accumulated other comprehensive loss and included in stockholders' equity, net of tax, amounted to \$87.7 \$66.7 million as compared with net unrealized losses of \$61.8 \$57.8 million as of December 31, 2022 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, 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. This also resulted in a \$10.1 million increase in deferred tax assets, attributable to the decline in fair value on securities available-for-sale since December 31, 2022. 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. The Company did not record an allowance for credit losses for available-for-sale securities as of September 30, 2023 March 31, 2024.

Interest Rate Sensitivity Analysis

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 Bank's Asset Liability Committee (the "ALCO"). The ALCO generally reviews our liquidity, cash flow needs, maturities of investments, deposits and borrowings, and current market conditions and interest rates.

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.

We currently utilize net interest income simulation and economic value of equity ("EVE") models to measure the potential impact to the Bank of future changes in interest rates. As of September 30, 2023 March 31, 2024 and December 31, 2022 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 Bank's management.

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 of March 31, 2024.

Based on our model, which was run as of **September 30, 2023** **March 31, 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 **8.20%** **6.38%**, while a 100 basis-point instantaneous and parallel decrease in interest rates would increase net interest income by **4.98%** **2.66%**. As of **December 31, 2022** **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 **2.22%** **9.25%**, while a 100 basis-point instantaneous and parallel decrease in interest rates would **decrease** **increase** net interest income by **2.01%** **5.34%**.

Based on our model, which was run as of **September 30, 2023** **March 31, 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 **5.89%** **3.56%**, while a 100 basis-point instantaneous and parallel decrease in interest rates would increase net interest income by **4.68%** **1.19%**. As of **December 31, 2022** **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 **2.66%** **5.68%**, while a 100 basis-point instantaneous and parallel decrease in interest rates would **decrease** **increase** net interest income by **3.99%** **4.29%**.

An **EVE** 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 **economic value of equity** **EVE** is likely to be different as interest rates change. Our **EVE** as of **September 30, 2023** **March 31, 2024**, would decrease by **16.49%** **12.46%** with an instantaneous and parallel rate shock of up 200 basis points, and increase by **8.66%** **4.44%** with an instantaneous and parallel rate shock of down 100 basis points. Our **EVE** as of **December 31, 2022** **December 31, 2023**, would decrease by **10.51%** **15.09%** with an instantaneous and parallel rate shock of up 200 basis points, and **decrease** **increase** by **1.13%** **5.75%** with an instantaneous and parallel rate shock of down 100 basis-points.

The change in interest rate sensitivity was impacted by changes 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.

The following table illustrates the most recent results for EVE and one-year NII sensitivity as of **September 30, 2023** **March 31, 2024**.

Interest Rates (basis points)	Estimated			Estimated Change in EVE			Interest Rates (basis points)	Estimated			Estimated Change in NII		
	Estimated		Estimated	Interest Rates (basis points)		Estimated		Estimated		Interest Rates (basis points)	Estimated		Interest Rates (basis points)
	EVE	Amount	%	NII	Amount	%		EVE	Amount	%	NII	Amount	%
+300	\$ 817,231	(270,740)	(24.88)	+300	\$ 228,618	\$ (33,287)	(12.71)	\$ 1,022,701	(236,296)	(18.77)	+300	\$ 232,637	\$ (25,878) (10.01)
+200	908,543	(179,428)	(16.49)	+200	240,419	(21,486)	(8.20)	1,102,148	(156,849)	(12.46)	+200	242,027	(16,488) (6.38)
+100	1,009,054	(78,917)	(7.25)	+100	252,499	(9,406)	(3.59)	1,189,141	(69,856)	(5.55)	+100	251,514	(7,001) (2.71)
0	1,087,971	-	-	0	261,905	-	-	1,258,997	-	-	0	258,515	-
-100	1,182,198	94,227	8.66	-100	274,945	13,040	4.98	1,314,947	55,950	4.44	-100	265,384	6,869 2.66
-200	1,218,810	130,839	12.03	-200	278,365	16,460	6.28	1,353,483	94,486	7.50	-200	269,020	10,505 4.06
-300	1,251,200	163,229	15.00	-300	281,872	19,967	7.62	1,382,650	123,653	9.82	-300	273,019	14,504 5.61

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 Company'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 Company'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 Company'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 unique nature of the post-pandemic interest rate environment, and the speed with which interest rates have been changing, the projections noted above on the Company's EVE and net interest income and can be expected to differ from actual results.

Estimates of Fair Value

The estimation of fair value is significant to a number of the Company'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.

Impact of Inflation and Changing Prices

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 Company'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.

Liquidity

Liquidity is a measure of a bank'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.

As of **September 30, 2023** **March 31, 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, depositors' withdrawal requirements, and other operational and client credit needs could be satisfied. As of **September 30, 2023** **March 31, 2024**, liquid assets (cash and due from banks, interest-bearing deposits with banks and unencumbered investment securities) were **\$515.6** **\$706.2** million, which represented **5.3%** **7.2%** of total assets and **6.2%** **8.3%** of total deposits and borrowings, compared to **\$760.0** **\$516.3** million as of **December 31, 2022** **December 31, 2023**, which represented **7.9%** **5.2%** of total assets and **9.3%** **6.1%** of total deposits and borrowings. As of **September 30, 2023** **March 31, 2024**, not included in the above liquid assets were securities with a market value of **\$231.6** **\$110.7** million which were pledged to the Federal Home Loan Bank, which support aggregate unutilized borrowing capacity of **\$105.2** million as of **March 31, 2024**. As of December 31, 2023, not included in the above liquid assets were securities with a market value of **\$276.0** million which were pledged to either the Federal Reserve Bank's Bank Term Funding Program ("BTFP"), or the Federal Home Loan Bank, which support aggregate unutilized borrowing capacity of **\$262.8** **\$300.5** million as of **September 30, 2023** **December 31, 2023**.

The Bank is a member of the Federal Home Loan Bank of New York and, based on available qualified collateral as of **September 30, 2023** **March 31, 2024**, had the ability to borrow \$2.9 billion. The Bank also has **two** **a** credit facilities established with the Federal Reserve Bank of New York for direct discount window borrowings **and BTFP capacity** based on pledged collateral and had the ability to borrow **\$1.5** **\$1.4** billion as of **September 30, 2023** **March 31, 2024**. In addition, as of **September 30, 2023** **March 31, 2024**, the Bank had in place borrowing capacity of **\$390** **\$325** million through correspondent banks and other unsecured borrowing lines. As of **September 30, 2023** **March 31, 2024**, the Bank had aggregate available and unused credit of approximately **\$3.3** **\$3.2** billion, which represents the aforementioned facilities totaling **\$4.8** **\$4.7** billion net of \$1.5 billion in outstanding borrowings and letters of credit. As of **September 30, 2023** **March 31, 2024**, outstanding commitments for the Bank to extend credit were approximately **\$1.2** **\$1.1** billion.

Cash **and** **and** cash equivalents totaled **\$253.3** **\$277.6** million as of **September 30, 2023** **March 31, 2024**, increasing by **\$15.0** **\$34.9** million from **\$268.3** **\$242.7** million as of **December 31, 2022** **December 31, 2023**. Operating activities provided **\$64.6** **\$20.5** million in net cash. Investing activities used **\$75.7** million in net cash, primarily reflecting an increase in loans and investment securities. Financing activities used **\$3.9** **\$33.1** million in net cash, primarily reflecting a decrease of **\$2.4** billion in repayment of borrowings and **\$75** million in repayment of subordinated debt, loans partially offset by **\$2.4** billion an increase in **advances** securities. Financing activities used **\$18.7** million in net cash, primarily reflecting a net decrease of **\$56.0** million in repayment of FHLB borrowings and partially offset by an increase of **\$52.5** million in deposits of **\$82.1** million deposits.

Deposits

Total Deposits are our primary source of funds. Noninterest bearing demand deposit products include "Totally Free Checking" and "Simply Better Checking" for consumer clients and "Small Business Checking" and "Analysis Checking" for commercial clients. Interest-bearing checking accounts require minimum balances for both consumer and commercial clients and include "Consumer Interest Checking" and "Business Interest Checking". Money market accounts consist of products that provide a market rate of interest to depositors. Our savings accounts offer 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 Bank's participation in the IntraFi Network LLC ("the network"). Clients, who are Federal Deposit Insurance Corporation ("FDIC") 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. The bank also utilizes internet listing services deposits which are obtained through the use of websites such as Rateline or QwickRate.

Average total deposits increased by ~~\$81.9~~ \$142 million, or ~~1.19%~~ 1.9%, to \$7.5 billion for the first quarter of 2024 from \$7.4 billion as for the first quarter of September 30, 2023 from December 31, 2022, 2023. The increase in total average deposits was primarily due to increases in time deposits of \$210 million, demand, interest-bearing and NOW of \$66 million and savings deposits and time deposits, of \$65 million, partially offset by a decrease in noninterest-bearing demand deposits of \$198 million.

The increase in average time deposits of \$210 million for the first quarter of 2024 was primarily attributed to increases of \$90 million in nonreciprocal brokered time deposits, \$54 million in CDARS, \$39 million in retail time deposits and \$27 million in internet listing services. The Bank continues to increase its utilization of nonreciprocal brokered time deposits to enhance balance sheet liquidity and because it served as a favorable alternative to other borrowings.

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 transaction deposits.

Average demand deposits (including interest-bearing and savings deposits, noninterest-bearing) for the first quarter of 2024 included \$1.1 billion in ICS reciprocal deposits, compared to \$376 million for the first quarter of 2023. Average time deposits for the first quarter of 2024 included \$92 million in CDARS, compared to \$38 million for the first quarter of 2023. The increases in ICS reciprocal deposits and CDARS resulted primarily from changes in customer and market sentiment related to the failure of three regional banks in March 2023 and the resulting migration of client deposits to the IntraFi Network in an effort to increase the level of FDIC deposit insurance for clients.

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 Bank's relationship with reciprocal deposit clients and are more driven by a desire for FDIC insurance coverage than market leading rates.

The following table sets forth the composition average balances and weighted average rates of our deposit base by deposits for the periods indicated.

						Amount	Year-to-Date		Year-to-Date		
	September 30, 2023		December 31, 2022		Increase/ (Decrease)		Average March 31, 2024		Average March 31, 2023		
	Amount	%	Amount	%			Balance	Rate	Balance	Rate	
(dollars in thousands)											
Demand, noninterest-bearing	\$ 1,224,125	16.5 %	\$ 1,501,614	20.4 %	\$ (277,489)	\$ 1,254,201	-	\$ 1,452,654	-		
Demand, interest-bearing and NOW	3,318,092	44.6	3,085,613	41.9	232,479						
Demand, interest-bearing & NOW						3,254,823	0.89 %	3,188,905	0.66 %		
Savings	374,067	5.0	375,205	5.1	(1,138)	441,551	0.77	376,999	0.50		
Time	2,522,211	33.9	2,394,190	32.6	128,021	2,567,767	1.09	2,357,332	0.73		
Total deposits	\$ 7,438,495	100.0 %	\$ 7,356,622	100.0 %	\$ 81,873						
Total average deposits						\$ 7,518,342	0.80 %	\$ 7,375,890	0.54 %		

The following table sets forth information related to the uninsured deposit balances of the Bank.

	March 31, 2024		December 31, 2023	
	Balance	Balance	Balance	Balance
(dollars in thousands)				
As stated in FFIEC 041-Consolidated Report of Condition, schedule RC-O:				
Total Bank unconsolidated deposits (including affiliate and subsidiary accounts)		\$ 11,397,143	\$ 11,243,254	
Estimated uninsured deposits		6,109,775	6,152,454	
The Company, on a consolidated basis:				
Total deposits		\$ 7,588,654	\$ 7,356,202	
Estimated uninsured deposits (excluding affiliate and subsidiary accounts)		2,295,121	2,388,545	

The following table sets forth the distribution of total actual deposit accounts, by account types for the periods indicated.

	March 31, 2024		December 31, 2023	
	Amount	Percent of total	Amount	Percent of total
(Account Types)				

(dollars in thousands)					
Demand, noninterest-bearing	\$ 1,290,523	17.0 %	\$ 1,259,364	16.7 %	
Demand, interest-bearing & NOW	3,215,646	42.4	3,326,989	44.1	
Savings	459,094	6.0	418,478	5.6	
Time	2,623,342	34.6	2,531,371	33.6	
Total deposits	\$ 7,588,605	100.0 %	\$ 7,536,202	100.0 %	

Total deposits increased by \$53 million, or 0.7%, to \$7.6 billion as of March 31, 2024 from \$7.5 billion as of December 31, 2023. The increase in total deposits was primarily attributed to increases in time deposits of \$92 million, savings deposits of \$41 million and noninterest-bearing demand deposits of \$31 million, partially offset by decreases in demand, interest-bearing & NOW of \$111 million.

Total demand, interest-bearing & NOW deposits as of March 31, 2024 include \$1.2 billion in ICS reciprocal deposits, compared to \$1.1 billion as of December 31, 2023. Total time deposits as of March 31, 2024 include \$68 million in CDARS, compared to \$96 million as of December 31, 2023.

Included in time deposits were nonreciprocal brokered deposits of \$920 million as of March 31, 2024, which were relatively flat when compared to \$917 million as of December 31, 2023.

As of March 31, 2024, we held \$648 million of time deposits with balances in excess of \$250,000. The following table provides information on the maturity distribution of the time deposits with balances in excess of \$250,000 as of March 31, 2024:

	March 31, 2024
	(dollars in thousands)
3 months or less	\$ 201,278
Over 3 to 6 months	128,589
Over 6 to 12 months	299,942
Over 12 months	18,086
Total	<u><u>\$ 647,895</u></u>

Subordinated Debentures

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 Corporation's subordinated debentures. The subordinated debentures are redeemable in whole or part. The floating interest rate on the subordinated debentures was three-month LIBOR plus 2.85% and re-prices quarterly, 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, applicable US Dollar LIBOR indexed instruments like the Company's outstanding \$5.0 million of 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. Effective for quarterly interest rate resets after July 3, 2023 the subordinated debentures' floating rate will be three-month CME Term SOFR plus 2.85% plus a tenor spread adjust of 0.26161%. The rate as of September 30, 2023 March 31, 2024 was 8.48% 8.43%.

During June 2020, the Parent Corporation issued \$75 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the "2020 Notes"). 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.

During January 2018, the Parent Corporation issued \$75 million in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") to certain accredited investors. The net proceeds from the sale of the Notes were used in the first quarter of 2018 for general corporate purposes, which included the Parent Corporation contributing \$65 million of the net proceeds to the Bank in the form of debt and common equity. The Notes were non-callable for five years, had a stated maturity of February 1, 2028 and bore interest at a rate that reset quarterly to the current three-month LIBOR rate plus 284 basis points. The 2018 Notes were redeemed in full on February 1, 2023.

Stockholders' Equity

The Company's stockholders' equity was remained relatively flat at approximately \$1.2 billion as of September 30, 2023 at both March 31, 2024, an increase of and December 31, 2023. Retained earnings increased by \$9 million, from December 31, 2022. The increase in stockholders' equity and was primarily attributable to an increase in retained earnings of \$44 million, partially offset by an increase in treasury stock of \$6 million and accumulated other comprehensive losses of \$21 million and an increase in treasury stock of \$15 million. The increase in accumulated other comprehensive losses during 2023 resulted from higher interest rates \$3 million. As of September 30,

2023 March 31, 2024, the Company's tangible common equity ratio and tangible book value per share were 9.11% 9.25% and \$22.34, \$23.26, respectively, which improved from 9.04% compared to 9.25% and \$21.71, \$23.14, respectively, as of December 31, 2022 December 31, 2023. Total goodwill and other intangible assets were \$214.6 million \$213.9 million as of September 30, 2023 March 31, 2024, and \$215.7 million \$214.2 million as of December 31, 2022 December 31, 2023.

The following table shows the reconciliation of common equity to tangible common equity and the tangible common equity ratio.

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands, except for share and per share data)		(dollars in thousands, except for share and per share data)	
Common equity	\$ 1,077,227	\$ 1,067,824	\$ 1,105,682	\$ 1,105,693
Less: intangible assets	(214,594)	(215,684)	(213,925)	(214,246)
Tangible common stockholders' equity	\$ 862,633	\$ 852,140	\$ 891,757	\$ 891,447
 Total assets	 \$ 9,678,885	 \$ 9,644,948	 \$ 9,853,964	 \$ 9,855,603
Less: intangible assets	(214,594)	(215,684)	(213,925)	(214,246)
Tangible assets	\$ 9,464,291	\$ 9,429,264	\$ 9,640,039	\$ 9,641,357
 Common stock outstanding at period end	 38,621,970	 39,243,123	 38,333,053	 38,519,770
 Tangible common equity ratio (1)	 9.11 %	 9.04 %	 9.25 %	 9.25 %
 Book value per common share	 \$ 27.89	 \$ 27.21	 \$ 28.84	 \$ 28.70
Less: intangible assets	5.55	5.50	5.58	5.56
Tangible book value per common share	\$ 22.34	\$ 21.71	\$ 23.26	\$ 23.14

(1) Tangible common equity ratio is a non-GAAP measure.

Regulatory Capital and Capital Adequacy

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 Company'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.

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.

The following is a summary of regulatory capital amounts and ratios as of September 30, 2023 March 31, 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).

	ConnectOne Bancorp, Inc.		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions		ConnectOne Bancorp, Inc.		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Company												
As of September 30, 2023												
(dollars in thousands)												
As of March 31, 2024												
(dollars in thousands)												
Tier 1 leverage capital	\$ 1,031,973	10.86 %	\$ 380,234	4.00 %	NA	NA	\$ 1,044,783	10.73 %	\$ 389,307	4.00 %	NA	NA
CET 1 risk-based ratio	915,891	10.64	387,539	4.50	NA	NA	928,701	10.70	390,690	4.50	NA	NA
Tier 1 risk-based capital	1,031,973	11.98	516,719	6.00	NA	NA	1,044,783	12.03	520,920	6.00	NA	NA
Total risk-based capital	1,197,285	13.90	688,959	8.00	NA	NA	1,205,174	13.88	694,560	8.00	NA	NA

N/A - not applicable

The Bank	ConnectOne Bank		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions		ConnectOne Bank		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2023		(dollars in thousands)										
As of March 31, 2024												
Tier 1 leverage capital	\$ 1,066,568	11.23%	\$ 379,965	4.00%	474,956	5.00%	\$ 1,079,059	11.10%	\$ 389,013	4.00%	482,266	5.00%
CET 1 risk-based ratio	1,066,568	12.38	387,532	4.50	559,769	6.50	1,079,059	12.43	390,683	4.50	564,320	6.50
Tier 1 risk-based capital	1,066,568	12.38	516,710	6.00	688,946	8.00	1,079,059	12.43	520,911	6.00	694,547	8.00
Total risk-based capital	1,156,880	13.43	688,946	8.00	861,183	10.00	1,164,450	13.41	694,547	8.00	868,184	10.00

As of **September 30, 2023** **March 31, 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 **3.40%** **3.38%** above the minimum buffer ratio and, at the Bank, the lowest ratio was the Total Risk Based Capital Ratio which was **2.93%** **2.91%** above the minimum buffer ratio.

Item 3. Qualitative and Quantitative Disclosures about Market Risks

Market Risk

Interest rate risk management is our primary market risk. See "Item 2- Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Sensitivity Analysis" herein for a discussion of our management of our interest rate risk.

Item 4. Controls and Procedures

a) *Disclosure controls and procedures.* As of the end of the Company's most recently completed fiscal quarter covered by this report, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company'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 SEC's rules and forms and are operating in an effective manner and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b) *Changes in internal controls over financial reporting.* There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not subject to any legal proceedings, which could have a materially adverse impact on its results of operations and financial condition.

Item 1a. Risk Factors

There have been no material changes to the risks inherent in our business from those described under Item 1A – Risk Factors of our Annual Report on Form 10-K for the year ended **December 31, 2022**, with the exception of:

Risks Related to Recent Events Impacting the Financial Services Industry:

Recent events impacting the financial services industry, including the failures of Silicon Valley Bank, Signature Bank and First Republic Bank, have resulted in increased volatility and reduced valuations of equity and other securities of banks in the capital markets. In addition, the Federal Reserve, in order to combat inflation, has employed quantitative tightening in order to reduce the size of its balance sheet, resulting in increased competition and costs for bank deposits and an increased risk of an economic recession. These recent events have, and could continue to, increase competition for deposits and adversely impact the market price and volatility of the Company's common stock.

These recent events may also result in potentially adverse changes to laws or regulations governing banks and bank holding companies or result in the impositions of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on our business. We may be impacted by concerns regarding the soundness or creditworthiness of other financial institutions, which can cause substantial disruption within the financial markets and increased expenses. The cost of resolving the recent bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue additional special assessments. **December 31, 2023.**

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchase Program

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. During the quarter ended **September 30, 2023** **March 31, 2024**, the Company repurchased a total of **316,789** **282,370** shares. As of **September 30, 2023** **March 31, 2024**, shares remaining for repurchase under the program were **1,025,688** **641,118**.

The following table details share repurchases for the three months ended **September 30, 2023** **March 31, 2024**:

	Total Number of Shares Purchased	Average Price Paid per Share	Cumulative Total	
			Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
			n/a	-
July 1, 2023 - July 31, 2023	-			1,342,477
August 1, 2023 - August 31, 2023	217,989	19.68	217,989	1,124,488
September 1, 2023 - September 30, 2023	98,800	18.74	316,789	1,025,688

	Total Number of Shares Purchased	Average Price Paid per Share	Cumulative Total	
			Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
			n/a	-
January 1, 2024 - January 31, 2024	-			923,488
February 1, 2024 - February 29, 2024	207,370	20.56	207,370	716,118
March 1, 2024 - March 31, 2024	75,000	19.66	282,370	641,118

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5 Other Information

Not applicable

Item 6. Exhibits

Exhibit No.	Description
10.1	Separation and Release Agreement by and between ConnectOne Bancorp, Inc., ConnectOne Bank and Christopher J. Ewing dated September 29, 2023. (1)
31.1	Certification of the Chief Executive Officer of the Parent Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of the Parent Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer of the Parent Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer of the Parent Corporation Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).
	(1) Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on September 29, 2023.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf, by the undersigned, thereunto duly authorized.

CONNECTONE BANCORP, INC.

(Registrant)

By: /s/ Frank Sorrentino III

Frank Sorrentino III

Chairman and Chief Executive Officer

By: /s/ William S. Burns

William S. Burns

Senior Executive Vice President and Chief Financial Officer

Date: November 3, 2023 May 3, 2024

Date: November 3, 2023 May 3, 2024

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EX-10.1.2 ex_575263.htm EXHIBIT 10.1

Exhibit 10.1

SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement ("Agreement") is made as of this 29th day of September, 2023 by and among Christopher J. Ewing ("Employee"), ConnectOne Bancorp, Inc., a New Jersey corporation ("CNOB") and ConnectOne Bank, a New Jersey chartered commercial bank ("Bank", and with CNOB, collectively the "Employer").

WHEREAS, Employee has dutifully served as an executive officer of Employer;

WHEREAS, Employer and Employee determined that the parties shall terminate the Employee Agreement, and Employee's employment with Employer, amicably;

WHEREAS, Employer and Employee wish to ensure an orderly transition of Employee's position with Employer;

WHEREAS, subject to the terms and conditions hereof, Employee's last day of employment with Employer will be December 31, 2023 (the "Separation Date");

WHEREAS, Employee and the Employer desire to enter into this Agreement to set forth their respective agreements regarding Employee's separation from employment; NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Employee and the Employer agree as follows:

1. Employment Until Separation Date. From the date hereof until the Separation Date, Employee will remain employed as an executive officer of Employer on the same terms and conditions, including base salary, as he is employed under as of the date of this Agreement, provided that Employee will at all times continue to comply with all of Employer's policies, procedures and requirements applicable to employees and the terms of this Agreement as well as the terms of that certain Employment Agreement dated as of June 1, 2017 by and among Employee, CNOB and the Bank (the "Employment Agreement"). Employer and employee agree and understand that Employee's duties, as defined in the Employment Agreement, shall be reasonably modified to reflect the spirit of this Agreement to effectuate an amicable and orderly transition of Employee's position with Employer.

2. 2023 Cash Incentive Plan Award. Provided Employee remains employed in good standing by the Employer through the Separation Date, Employee will remain eligible to receive a cash bonus under the Employer's Executive Incentive Plan for his performance in 2023, despite the fact that the Employee will not be an employee of the Employer on the date the bonus is paid, currently expected to be in the first quarter of 2024. Employee's performance in 2023 will be evaluated by the Employer's Board Compensation Committee under the terms of the Executive Incentive Plan, and Employee will be eligible to receive such bonus award as the Compensation Committee shall determine.

3. Payment Under Employment Agreement. For purposes of that certain Employment Agreement dated as of June 1, 2017 by and among Employee, CNOB and the Bank (the "Employment Agreement"), provided Employee remains employed in good standing by the Employer through the Separation Date, the termination of Employee's employment with Employer on the Separation Date shall be deemed a "termination without cause" under Section 6(d) of the Employment Agreement, and, provided that Employee complies with Section 11(g) of the Employment Agreement in accordance with its terms, Employer shall make the payments, and provide the benefits, provided for under Section 6(d) of the Employment Agreement to Employee under the terms provided for therein.

4. Equity Awards Outstanding as of Separation Date. Employer agrees that, provided Employee remains employed in good standing by the Employer through the Separation Date, those certain equity awards listed on Exhibit A hereto will be deemed vested as of the Separation Date, and Employee shall be entitled to settlement of the Performance Units noted on Exhibit A as and when determined by Employer's Compensation Committee in accordance with the terms of the Performance Units. Employee acknowledges that all unvested equity awards as of the Separation Date (other than those listed on Exhibit A) will terminate as of the Separation Date and be of no further force or effect.

5. Supplemental Executive Retirement Plan. Provided Employee remains employed in good standing by the Employer through the Separation Date, Employee shall continue to vest in that certain Supplemental Executive Retirement Plan between Employee and Employer and (the "SERP") until the Separation Date, and Employee's rights thereunder after the Separation Date shall be as set forth in the SERP.

6. Termination of Existing Agreement; Preservation of Certain Provisions. Effective as of the Separation Date, except as set forth herein, the Employment Agreement shall be deemed terminated, and provided that each party has until such date complied with all of its or his obligations under the Employment Agreement and this Agreement until such date, all obligations of the Employee and the Employer to one another shall be deemed satisfied. Notwithstanding the forgoing, Sections 8, 9, 10 and 11(f) and (g) of the Employment Agreement will remain in full force and effect in accordance with their terms, and are deemed incorporated herein.

7. Employer Property. As of the Separation Date, Employee shall turn over or return to Employer any and all property in Employee's possession, custody or control that belongs to the Employer.

8. Non-Disparagement. Employee agrees to forever refrain from making any disparaging remarks or other negative or derogatory statements, written or oral, to any third party relating to the Employer, or its parents, subsidiaries, officers, employees, members or agents or customers; Employer agrees to forever refrain from making any disparaging remarks or other negative or derogatory statements, written or oral, to any third party relating to the Employee; provided, however that the forgoing shall not prohibit Employee or Employer from providing truthful testimony in any judicial or administrative proceeding, if Employee or Employer, as appropriate, is legally compelled to so testify. For purposes hereof, only statements made by the Chief Executive Officer, President, Chief Financial Officer and Director of Human Resources of the Employer shall be deemed statements made by or on behalf of the Employer.

9. Resignation From All Employer Positions; No Obligation to Re-Hire.

(a) By executing this Agreement, Employee is resigning from any and all additional positions Employee may hold with Employer, its affiliates or subsidiaries, including but not limited to (i) any positions with any compensation or benefit plans for the benefit of employees or directors of the Employer or (ii) any positions with any subsidiary or joint venture of the Employer, effective as of the Separation Date, or, with regard to positions with affiliates or subsidiaries of Employer, sooner if requested by Employer.

(b) Employee agrees that the Employer shall have no obligation, contractual or otherwise to hire, re-hire or re-employ Employee in the future.

10. Employee's Release. Upon the Separation Date, as a condition to receiving the payments under Section 6(d) of the Employment Agreement, as well as the benefits provided for hereunder, Employee shall provide Employer with a general release as required by section 11(g) of the Employment Agreement.

11. Equitable and other Remedies. Employee agrees that the Employer will suffer irreparable harm in the event that Employee breaches any of Employee's obligations under this Agreement, and that it is impossible to measure in money the damages that will accrue to the Employer in the event of such a breach or threatened breach. Accordingly, if any action or proceeding is commenced by or on behalf of the Employer to enforce any of the provisions contained in this Agreement, Employee hereby waives the claim or defense that the Employer has an adequate remedy at law or has not been or is not being irreparably injured by such breach or threatened breach, and Employee agrees to not raise such claim or defense in any such action or proceeding. Employee further agrees that the Employer shall be entitled to temporary and permanent injunctive relief to restrain any breaches or further violations of this Agreement, without the posting of any bond, and that this right to injunctive relief shall be in addition to any and all of the Employer's other remedies and damages, including, but not limited to, costs and reasonable attorney's fees incurred as a result of said breach or threatened breach.

(a) The Employer, to the full extent permitted by law, shall indemnify Employee for any claims arising out of related to Employee's employment as an officer of Employer. Expenses (including reasonable attorneys' fees) incurred by Employee in defending any civil, criminal, administrative, or investigative action, suit or proceeding for which Employee may be entitled to indemnification shall be paid by the Employer in advance of the final disposition of such action, suit or proceeding (directly to counsel retained

by Employer to represent Employee) provided that Employee has provided an undertaking to repay such amount if it shall ultimately be determined that he is not entitled to indemnification under the New Jersey Business Corporation Act or the New Jersey Banking Act if 1948, as amended.

12. **Entire Agreement.** This Agreement and the exhibits hereto are the complete agreement of the parties with respect to the subject matter herein, and, except as otherwise provided for herein, supersedes all agreements previously made between the parties relating to its subject matter. This Agreement may not be amended or modified except by an agreement in writing signed by both parties.

13. **Liability for Breach of Agreement.** Any party found by a court of competent jurisdiction to be in breach of this Agreement shall be liable for all reasonable attorneys' fees and costs incurred by the non-breaching party in connection with any efforts to enforce this Agreement against the party found to be in breach.

14. **Voluntary Nature of Agreement.** Employee warrants, represents and acknowledges that this Agreement is entered into by Employee knowingly and voluntarily as an act of Employee's own free will; that Employee is of sound mind; and that Employee is laboring under no physical or mental infirmity that would affect either Employee's capacity to understand the terms of this Agreement or to freely enter into and be bound by the provisions of this Agreement. **Employee has been advised that Employee should have this Agreement reviewed by a legal representative of Employee's choice.**

15. **Governing Law/Forum Selection.** This Agreement shall be governed by the laws of the State of New Jersey. The parties agree that all disputes arising under this Agreement shall be resolved in the courts of the state of New Jersey sitting in Bergen County, or the federal district court for the District of New Jersey sitting on Newark, New Jersey.

16. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be considered an original and together which shall constitute one and the same instrument.

17. **409A.** The payments and benefits described herein are intended to either comply with, or be exempt from, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the parties intend that this Agreement will be administered and interpreted consistent with that intention.

I have read the foregoing Agreement and I accept and agree to its provisions and hereby execute it voluntarily with full understanding of its consequences.

[Signatures on Next Page]

[Signature Page to Separation and Release Agreement]

CONNECTONE BANCORP, INC.

By: /s/ Frank Sorrentino III

Name: Frank Sorrentino III

Title: Chairman & CEO

CONNECTONE BANK

By: /s/ Frank Sorrentino III

Name: Frank Sorrentino III

Title: Chairman & CEO

/s/ Christopher J. Ewing

Christopher J. Ewing

EXHIBIT A

6,356 Deferred Stock Units

4,457 Performance Units

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EXHIBIT 31.1

CERTIFICATION

I, Frank Sorrentino III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ConnectOne Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

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

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

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

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

Date: November ~~May~~ 3, 2024

/s/ Frank Sorrentino III

Frank Sorrentino III

Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, William S. Burns, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November May 3, 2023 2024

/s/ William S. Burns

William S. Burns

Senior Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

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

In connection with this Quarterly Report of ConnectOne Bancorp, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 filed with the Securities and Exchange Commission (the "Report"), 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:

1. The Report fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934; and

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.

Date: November May 3, 2023 2024

/s/ Frank Sorrentino III

Frank Sorrentino III

Chairman and Chief Executive Officer

EXHIBIT 32.2

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

In connection with this Quarterly Report of ConnectOne Bancorp, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 filed with the Securities and Exchange Commission (the "Report"), 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:

1. The Report fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934; and

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.

Date: November 3, 2023

/s/ William S. Burns

William S. Burns

Senior Executive Vice President and Chief Financial Officer

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