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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 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 001-41633

Burke & Herbert Financial Services Corp.

(Exact name of registrant as specified in its charter)

Virginia	**92-0289417**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 S. Fairfax Street, Alexandria, Virginia	**22314**
(Address of principal executive offices)	(Zip Code)

703-666-3555
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 Exchange on which registered
Common Stock, par value $0.50 per share	**BHRB**	**The Nasdaq Stock Market LLC**

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

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

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

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

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

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

As of November 11, 2024, there were 14,967,726 shares of the registrant's common stock outstanding.

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Part I - Financial Information

Item 1. Financial Statements

Burke & Herbert Financial Services Corp. Consolidated Financial Statements:

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Burke & Herbert Financial Services Corp.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Assets		
Cash and due from banks	$ 44,902	$ 8,896
Interest-earning deposits with banks	246,863	35,602
Cash and cash equivalents	291,765	44,498
Securities available-for-sale, at fair value	1,436,431	1,248,439
Restricted stock, at cost	16,832	5,964
Loans held-for-sale, at fair value	4,216	1,497
Loans	5,574,037	2,087,756
Allowance for credit losses	(67,817)	(25,301)
Net loans	5,506,220	2,062,455
Premises and equipment, net	134,770	61,128
Other real estate owned	2,576	—
Accrued interest receivable	32,791	15,895
Intangible assets	61,598	—
Goodwill	32,783	—
Company-owned life insurance	182,380	94,159
Other assets	162,551	83,544
Total Assets	$ 7,864,913	$ 3,617,579
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest-bearing deposits	$ 1,392,123	$ 830,320
Interest-bearing deposits	5,208,702	2,171,561
Total deposits	6,600,825	3,001,881
Short-term borrowings	320,163	272,000
Subordinated debentures, net	93,532	—
Subordinated debentures owed to unconsolidated subsidiary trusts	16,950	—
Accrued interest and other liabilities	95,384	28,948
Total Liabilities	7,126,854	3,302,829
Commitments and contingent liabilities (see Note 10)		
Shareholders' Equity		
Preferred stock and related surplus, $1.00 par value per share; 2,000,000 shares authorized; 1,500 shares issued and outstanding at September 30, 2024; no shares issued and outstanding at December 31, 2023	10,413	—
Common Stock	7,767	4,000
$0.50 par value; 40,000,000 shares authorized, 15,534,293 shares issued and 14,963,003 shares outstanding at September 30, 2024; 20,000,000 shares authorized, 8,000,000 shares issued and 7,428,710 shares outstanding at December 31, 2023		
Common stock, additional paid-in capital	400,377	14,495
Retained earnings	422,844	427,333
Accumulated other comprehensive income (loss)	(75,758)	(103,494)
Treasury stock	(27,584)	(27,584)
571,290 shares, at cost, at September 30, 2024, and 571,290 shares, at cost, at December 31, 2023		
Total Shareholders' Equity	738,059	314,750
Total Liabilities and Shareholders' Equity	$ 7,864,913	$ 3,617,579

See Notes to Consolidated Financial Statements.

Burke & Herbert Financial Services Corp.
Consolidated Statements of Income
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest income				
Taxable loans, including fees	$ 103,682	$ 26,425	$ 213,400	$ 74,485
Tax-exempt loans, including fees	48	—	81	—
Taxable securities	10,076	8,909	29,949	28,130
Tax-exempt securities	3,135	1,376	7,052	4,243
Other interest income	1,585	562	2,886	1,858
Total interest income	118,526	37,272	253,368	108,716
Interest expense				
Deposits	39,441	11,277	82,745	26,708
Short-term borrowings	3,080	3,078	10,806	10,495
Subordinated debt	2,798	—	4,658	—
Other interest expense	28	28	84	58
Total interest expense	45,347	14,383	98,293	37,261
Net interest income	73,179	22,889	155,075	71,455
Credit loss expense - loans	85	200	19,515	1,034
Credit loss expense (recapture) - off-balance sheet credit exposures	62	35	3,872	(70)
Total provision for credit losses	147	235	23,387	964
Net interest income after credit loss expense	73,032	22,654	131,688	70,491
Non-interest income				
Fiduciary and wealth management	2,352	1,354	5,982	3,996
Service charges and fees	5,453	1,583	11,147	4,959
Net gains (losses) on securities	—	(1)	613	(112)
Income from company-owned life insurance	1,330	589	2,799	1,720
Other non-interest income	1,481	764	3,834	2,565
Total non-interest income	10,616	4,289	24,375	13,128
Non-interest expense				
Salaries and wages	20,858	9,867	51,271	29,283
Pensions and other employee benefits	4,678	2,242	12,346	7,116
Occupancy	3,412	1,462	7,947	4,464
Equipment rentals, depreciation and maintenance	4,699	1,435	18,643	4,231
Other operating	17,179	7,417	46,216	19,042
Total non-interest expense	50,826	22,423	136,423	64,136
Income before income taxes	32,822	4,520	19,640	19,483
Income tax expense	5,200	464	3,725	1,869
Net income	27,622	4,056	15,915	17,614
Preferred stock dividends	225	—	450	—
Net income applicable to common shares	$ 27,397	$ 4,056	$ 15,465	$ 17,614
Earnings per common share:				
Basic	$ 1.83	$ 0.55	$ 1.34	$ 2.37
Diluted	1.82	0.55	1.33	2.35

See Notes to Consolidated Financial Statements.

Burke & Herbert Financial Services Corp.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	$ 27,622	$ 4,056	$ 15,915	$ 17,614
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities:				
Unrealized gain (loss) arising during period, net of tax of ($7,610) and $5,392 for the three months ended September 30, 2024, and September 30, 2023, respectively, net of tax of ($7,714) and $2,212 for the nine months ended September 30, 2024, and September 30, 2023, respectively	28,628	(20,285)	29,019	(8,322)
Reclassification adjustment for loss (gain) on securities, net of tax of $0 and $0 for the three months ended September 30, 2024, and September 30, 2023, respectively, net of tax of $129 and ($23) for the nine months ended September 30, 2024, and September 30, 2023, respectively	—	—	(484)	88
Reclassification adjustment for loss (gain) on fair value hedge, net of tax of $9 and $9 for the three months ended September 30, 2024, and September 30, 2023, respectively, net of tax of $25 and ($224) for the nine months ended September 30, 2024, and September 30, 2023, respectively	(32)	(32)	(95)	842
Unrealized gain (loss) on cash flow hedge:				
Unrealized holding gain (loss) on cash flow hedge, net of tax of $816 and $10 for the three months ended September 30, 2024, and September 30, 2023, respectively, net of tax of ($128) and $71 for the nine months ended September 30, 2024, and September 30, 2023, respectively	(3,071)	(38)	483	(267)
Reclassification adjustment for losses (gains) included in net income, net of tax $227 and ($99) for the three months ended September 30, 2024, and September 30, 2023, respectively, net of tax of $315 and ($264) for the nine months ended September 30, 2024, and September 30, 2023, respectively	(853)	373	(1,187)	995
Total other comprehensive income (loss)	24,672	(19,982)	27,736	(6,664)
Comprehensive income (loss)	$ 52,294	$ (15,926)	$ 43,651	$ 10,950

See Notes to Consolidated Financial Statements.

Burke & Herbert Financial Services Corp.
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended September 30, 2024, and 2023
(In thousands, except share and per share data)
(Unaudited)

	Preferred Stock and Surplus	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Shareholders' Equity
		Shares Outstanding	Amount					
Balance June 30, 2024	$ 10,413	14,932,169	$ 7,752	$ 399,553	$ 403,422	$ (100,430)	$ (27,584)	$ 693,126
Net income	—	—	—	—	27,622	—	—	27,622
Other comprehensive income (loss)	—	—	—	—	—	24,672	—	24,672
(Purchase) sale of treasury stock, net	—	—	—	—	—	—	—	—
Common stock cash dividends, declared	—	—	—	—	(7,921)	—	—	(7,921)
Preferred stock cash dividends, declared	—	—	—	—	(225)	—	—	(225)
Share-based compensation expense, net	—	30,834	15	824	(54)	—	—	785
Balance September 30, 2024	$ 10,413	14,963,003	$ 7,767	$ 400,377	$ 422,844	$ (75,758)	$ (27,584)	$ 738,059
Balance June 30, 2023	$ —	7,428,710	$ 4,000	$ 13,208	$ 426,625	$ (126,177)	$ (27,584)	$ 290,072
Net income	—	—	—	—	4,056	—	—	4,056
Other comprehensive income (loss)	—	—	—	—	—	(19,982)	—	(19,982)
(Purchase) sale of treasury stock, net	—	—	—	—	—	—	—	—
Common stock cash dividends, declared	—	—	—	—	(3,937)	—	—	(3,937)
Share-based compensation expense, net	—	—	—	610	—	—	—	610
Balance September 30, 2023	$ —	7,428,710	$ 4,000	$ 13,818	$ 426,744	$ (146,159)	$ (27,584)	$ 270,819

See Notes to Consolidated Financial Statements.

Burke & Herbert Financial Services Corp.
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2024, and 2023
(In thousands, except share and per share data)
(Unaudited)

	Preferred Stock and Surplus	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Shareholders' Equity
		Shares Outstanding	Amount					
Balance December 31, 2023	$ —	7,428,710	$ 4,000	$ 14,495	$ 427,333	$ (103,494)	$ (27,584)	$ 314,750
Acquisition of Summit Financial Group, Inc.	10,413	7,405,772	3,703	383,329	—	—	—	397,445
Net income	—	—	—	—	15,915	—	—	15,915
Other comprehensive income (loss)	—	—	—	—	—	27,736	—	27,736
(Purchase) sale of treasury stock, net	—	—	—	—	—	—	—	—
Common stock cash dividends, declared	—	—	—	—	(19,729)	—	—	(19,729)
Preferred stock cash dividends, declared	—	—	—	—	(450)	—	—	(450)
Share-based compensation expense, net	—	128,521	64	2,553	(225)	—	—	2,392
Balance September 30, 2024	$ 10,413	14,963,003	$ 7,767	$ 400,377	$ 422,844	$ (75,758)	$ (27,584)	$ 738,059
Balance December 31, 2022	$ —	7,425,760	$ 4,000	$ 12,282	$ 424,391	$ (139,495)	$ (27,725)	$ 273,453
Cumulative effect adjustment due to the adoption of CECL, net of tax	—	—	—	—	(3,439)	—	—	(3,439)
Net income	—	—	—	—	17,614	—	—	17,614
Other comprehensive income (loss)	—	—	—	—	—	(6,664)	—	(6,664)
(Purchase) sale of treasury stock, net	—	2,950	—	—	—	—	141	141
Common stock cash dividends, declared	—	—	—	—	(11,809)	—	—	(11,809)
Share-based compensation expense, net	—	—	—	1,536	(13)	—	—	1,523
Balance September 30, 2023	$ —	7,428,710	$ 4,000	$ 13,818	$ 426,744	$ (146,159)	$ (27,584)	$ 270,819

See Notes to Consolidated Financial Statements.

Burke & Herbert Financial Services Corp.
Consolidated Statements of Cash Flows
(In thousands, except share and per share data)
(Unaudited)

	Nine Months Ended September 30, 2024	2023
Cash Flows from Operating Activities		
Net Income	$ 15,915	$ 17,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	4,130	2,050
Amortization of other intangible assets	7,204	—
Amortization on assumed liabilities	6,324	—
Accretion income related to acquired loans	(28,836)	—
Amortization of housing tax credits	4,117	4,194
Realized (gain) loss on sales of available-for-sale securities	(613)	112
Realized (gain) on sales of OREO property	(172)	—
Provision for credit losses	23,387	964
Income from company-owned life insurance	(2,799)	(1,720)
Deferred tax (benefit)	(41,052)	(2,101)
Loss on disposal of fixed assets	1,167	—
Accretion of securities	(2,743)	(1,210)
Amortization of securities	7,072	6,922
Share-based compensation expense	2,184	1,798
Repayment of operating lease liabilities	(2,013)	(2,393)
(Gain) on loans held-for-sale	(297)	(79)
Proceeds from sale of loans held-for-sale	28,002	7,243
Change in fair value of loans held-for-sale	28	6
Originations of loans held-for-sale	(30,452)	(10,181)
(Increase) in accrued interest receivable	(104)	(117)
(Increase) decrease in other assets	(43,413)	2,904
Increase in accrued interest payable and other liabilities	61,882	6,329
Net cash flows provided by operating activities	$ 8,918	$ 32,335
Cash Flows from Investing Activities		
Proceeds from maturities, prepayments, and calls of securities available-for-sale, net	190,224	76,053
Proceeds from sale of securities available-for-sale, net	365,990	77,780
Purchases of securities available-for-sale, net	(530,863)	(23,321)
Cash (paid) from merger, net	(750)	—
Sales of restricted stock	24,914	27,447
Purchases of restricted stock	(35,781)	(18,250)
Purchases of property and equipment, net of disposals	(4,273)	(6,394)
(Purchase of) proceeds from company-owned life insurance	2,213	(6)
(Increase) decrease in loans made to customers, net	190,979	(183,395)
Net cash flows provided by (used in) investing activities	$ 202,653	$ (50,086)
Cash Flows from Financing Activities		
Net (decrease) in non-interest-bearing accounts	(19,833)	(107,307)
Net increase (decrease) in interest-bearing accounts	(85,295)	172,525
Net increase (decrease) in other short-term borrowings	158,485	(44,100)
Repayment of finance lease liabilities	(161)	(130)
Cash dividends paid	(20,179)	(11,809)
Proceeds from employee stock purchase program	62	—
Issuance of common stock	2,617	—

Burke & Herbert Financial Services Corp.
Consolidated Statements of Cash Flows
(In thousands, except share and per share data)
(Unaudited)

Sale of treasury stock	—	141
Net cash flows provided by financing activities	$ 35,696	$ 9,320
Increase (decrease) in cash and cash equivalents	247,267	(8,431)
Cash and cash equivalents		
Beginning of period	44,498	50,295
End of period	$ 291,765	$ 41,864
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$ 78,835	$ 25,454
Interest paid on short-term borrowings	19,157	6,860
Interest paid on subordinated debt and trust preferred securities	4,658	—
Interest paid on finance leases	83	58
Income taxes	775	445
Change in unrealized gains on available-for-sale securities	36,265	(10,422)
Lease liability arising from obtaining right-of-use assets	11,130	1,214
Common stock issued for merger, net	387,032	—
Preferred stock issued for merger, net	10,413	—

See Notes to Consolidated Financial Statements.

Note 1— Nature of Business Activities and Significant Accounting Policies

Nature of operations

Burke & Herbert Financial Services Corp. ("Burke & Herbert") was organized as a Virginia corporation on September 14, 2022, to serve as the holding company for Burke & Herbert Bank & Trust Company ("the Bank" and, together with Burke & Herbert, the "Company"). Burke & Herbert commenced operations as a bank holding company on October 1, 2022, following a reorganization transaction in which it became the Bank's holding company. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of Burke & Herbert. In September 2023, Burke & Herbert elected to be a financial holding company. As a financial holding company, Burke & Herbert is subject to regulation and supervision by the Federal Reserve. Burke & Herbert has no material operations and owns 100% of the Bank. The Bank is a Virginia chartered commercial bank that commenced operations in 1852. The Bank is supervised and regulated by the Federal Deposit Insurance Corporation (the "FDIC") and the Bureau of Financial Institutions of the Virginia State Corporation Commission (the "Virginia BFI").

Merger with Summit Financial Group, Inc.

Effective on May 3, 2024 (the "Closing Date"), Burke & Herbert completed its previously announced merger with Summit Financial Group, Inc., a West Virginia corporation ("Summit"), pursuant to the Agreement and Plan of Reorganization and accompanying Plan of Merger dated August 24, 2023, between Burke & Herbert and Summit (the "Merger Agreement"). Below is a description of the nature of the event as of the merger Closing Date.

Pursuant to the Merger Agreement, on the Closing Date, (i) Summit merged with and into Burke & Herbert, with Burke & Herbert continuing as the surviving corporation (the "Merger"), and (ii) immediately following the Merger, Summit Community Bank, Inc., a West Virginia chartered bank and a wholly-owned subsidiary of Summit ("SCB"), merged with and into the Bank, with the Bank as the surviving bank.

In the Merger, holders of Summit common stock outstanding at the effective time of the Merger received 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they owned, subject to the payment of cash in lieu of fractional shares. The total aggregate consideration payable in the Merger was approximately 7,405,772 shares of Burke & Herbert Common Stock. Additionally, each share of Summit's 6.0% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series 2021 (the "Summit Series 2021 Preferred Stock") issued and outstanding was converted into the right to receive a share of a newly created series of preferred stock, the Burke & Herbert Series 2021 Preferred Stock (the "Burke & Herbert Series 2021 Preferred Stock"). Summit's results of operations are included from the Closing Date.

The Bank's primary market area includes northern Virginia and West Virginia, and it has over 75 branches and commercial loan offices across Delaware, Kentucky, Maryland, Virginia, and West Virginia. The Company's branch locations accept business and consumer deposits from a diverse customer base. The Company's deposit products include checking, savings, and term certificate accounts. The Company's loan portfolio includes commercial and consumer loans, a substantial portion of which are secured by real estate.

Basis of Presentation

The accompanying consolidated financial statements include Burke & Herbert Financial Services Corp. and its wholly owned subsidiary Burke & Herbert Bank & Trust Company and have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial reporting and with applicable quarterly reporting regulations of the U.S. Securities and Exchange Commission ("SEC"). The accounting and reporting policies of the Company conform to GAAP and reflect practices of the banking industry. They do not include all of the information and notes required by GAAP for complete financial statements. As such, these unaudited financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ending December 31, 2023, included in the Company's Annual Report on Form 10-K filed with the SEC on March 22, 2024, and as amended on April 12, 2024.

The consolidated financial statements include the accounts of the Company and the Bank (as its wholly-owned subsidiary). All significant intercompany accounts and transactions between the Company and the Bank have been eliminated. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that

affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made. The results of operations for the three and nine months ended September 30, 2024, are not necessarily indicative of the results to be expected for any other interim period or for the full year. All December 31, 2023, amounts and disclosures included in this quarterly report were derived from the Company's audited consolidated financial statements. Certain items in the prior period have been reclassified to conform to the current presentation. These reclassifications had no effect on prior year net income or on shareholders' equity.

Purchased Credit Deteriorated (PCD) Loans

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are loans on nonaccrual status, are greater than 60 days past due at any time since loan origination or have a risk rating of special mention, substandard, doubtful, or loss. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense.

Goodwill and Other Intangible Assets

Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that an impairment test should be performed. The Company has selected September 30 as the date to perform the annual impairment test. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimated residual values. Amortized intangibles must be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable. An impairment loss related to intangible assets with finite useful lives is recognized if the carrying amount of the intangible asset is not recoverable and its carrying amount exceeds its fair value. After the impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consists of core deposit intangible assets arising from whole bank and branch acquisitions and is amortized using an accelerated method over their estimated useful lives of seven years.

Recently adopted accounting standards

In March 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* . These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU was effective for us January 1, 2024, and did not have a material impact on our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. 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. The ASU was effective for us January 1, 2024, and did not have a material impact on our consolidated financial statements.

Pending adoption of new accounting standards

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740)* : *Improvements to Income Tax Disclosures*. The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide

Note 1— Nature of Business Activities and Significant Accounting Policies (continued)

additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. We do not expect the adoption of ASU 2023-09 to have a material impact on our consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. This ASU incorporates certain SEC disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. We do not expect the adoption of ASU 2023-06 to have a material impact on our consolidated financial statements.

Note 2— Securities

The carrying amount of available-for-sale ("AFS") securities and their approximate fair values at September 30, 2024, and December 31, 2023, are summarized as follows (in thousands):

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 166,000	$ —	$ 13,383	$ 152,617
Obligations of states and municipalities	713,040	3,986	61,380	655,646
Residential mortgage backed - agency	57,563	793	3,590	54,766
Residential mortgage backed - non-agency	285,808	1,613	9,945	277,476
Commercial mortgage backed - agency	34,848	42	840	34,050
Commercial mortgage backed - non-agency	157,569	—	3,875	153,694
Asset-backed	71,073	229	667	70,635
Other	38,401	428	1,282	37,547
Total	$ 1,524,302	$ 7,091	$ 94,962	$ 1,436,431

Note 2— Securities (continued)

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 197,026	$ —	$ 17,955	$ 179,071
Obligations of states and municipalities	535,229	21	72,047	463,203
Residential mortgage backed - agency	47,074	—	4,836	42,238
Residential mortgage backed - non-agency	284,826	17	18,812	266,031
Commercial mortgage backed - agency	36,151	28	1,294	34,885
Commercial mortgage backed - non-agency	183,454	—	6,393	177,061
Asset-backed	79,315	23	1,402	77,936
Other	9,500	—	1,486	8,014
Total	$ 1,372,575	$ 89	$ 124,225	$ 1,248,439

At September 30, 2024, and December 31, 2023, AFS securities with amortized costs of $1.2 billion and $826.5 million, respectively, and with estimated fair values of $1.1 billion and $742.5 million, respectively, were pledged to serve as collateral for secured borrowings, derivative exposures, or to secure public deposits as required or permitted by law.

The proceeds from sales, calls, and maturities of debt securities available-for-sale, including principal payments received, and the related gross gains and losses realized, for the nine months ended September 30, 2024, and September 30, 2023, were as follows (in thousands):

	Proceeds from			Gross realized	
Nine months ended September 30,	Sales	Calls and maturities	Principal Payments	Gains	Losses
2024	$ 365,990	$ 38,137	$ 152,087	$ 2,637	$ 2,024
2023	77,780	1,427	76,187	772	884

The tax benefit (provision) related to these net realized gains and losses for September 30, 2024, and September 30, 2023, was ($128.7) thousand, and $23.5 thousand, respectively.

The maturities of AFS securities at September 30, 2024, were as follows (in thousands): (Expected maturities of securities not due at a single maturity date are based on average life at estimated prepayment speed. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay some obligations with or without call or prepayment penalties).

	September 30, 2024				
	Amortized Cost				
	One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ —	$ 166,000	$ —	$ —	$ 166,000
Obligations of states and municipalities	—	145,926	395,005	172,109	713,040
Residential mortgage backed - agency	490	19,427	28,117	9,529	57,563
Residential mortgage backed - non-agency	47,696	78,607	123,102	36,403	285,808
Commercial mortgage backed - agency	32	25,752	9,064	—	34,848
Commercial mortgage backed - non-agency	91,673	60,771	5,125	—	157,569
Asset-backed	5,551	39,747	25,775	—	71,073
Other	—	2,741	21,263	14,397	38,401
Total	$ 145,442	$ 538,971	$ 607,451	$ 232,438	$ 1,524,302

Note 2— Securities (continued)

	September 30, 2024				
	Fair Value				
	One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ —	$ 152,617	$ —	$ —	$ 152,617
Obligations of states and municipalities	—	141,900	362,826	150,920	655,646
Residential mortgage backed - agency	513	19,079	24,940	10,234	54,766
Residential mortgage backed - non-agency	47,513	75,542	117,237	37,184	277,476
Commercial mortgage backed - agency	32	25,182	8,836	—	34,050
Commercial mortgage backed - non-agency	90,456	58,876	4,362	—	153,694
Asset-backed	5,528	39,588	25,519	—	70,635
Other	—	2,850	20,355	14,342	37,547
Total	$ 144,042	$ 515,634	$ 564,075	$ 212,680	$ 1,436,431

At September 30, 2024, and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in any amount greater than 10% of shareholders' equity.

The following table shows the gross unrealized losses and fair value of the Company's securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2024, and December 31, 2023.

AFS securities in a continuous unrealized loss position for less than twelve months and more than twelve months are as follows (in thousands):

	September 30, 2024				
	Less Than Twelve Months		More Than Twelve Months		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ —	$ —	$ 152,618	$ 13,383	$ 13,383
Obligations of states and municipalities	14,635	863	456,489	60,517	61,380
Residential mortgage backed - agency	—	—	43,091	3,590	3,590
Residential mortgage backed - non-agency	11,589	55	163,733	9,890	9,945
Commercial mortgage backed - agency	1,361	32	29,576	808	840
Commercial mortgage backed - non-agency	10,798	105	142,896	3,770	3,875
Asset-backed	15,134	19	33,552	648	667
Other	21,808	131	8,349	1,151	1,282
Total	$ 75,325	$ 1,205	$ 1,030,304	$ 93,757	$ 94,962

Note 2— Securities (continued)

	December 31, 2023				
	Less Than Twelve Months		More Than Twelve Months		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ —	$ —	$ 179,071	$ 17,955	$ 17,955
Obligations of states and municipalities	501	14	458,113	72,033	72,047
Residential mortgage backed - agency	36	—	42,203	4,836	4,836
Residential mortgage backed - non-agency	632	2	263,184	18,810	18,812
Commercial mortgage backed - agency	—	—	34,080	1,294	1,294
Commercial mortgage backed - non-agency	23,437	254	153,625	6,139	6,393
Asset-backed	3,721	9	56,106	1,393	1,402
Other	—	—	8,014	1,486	1,486
Total	$ 28,327	$ 279	$ 1,194,396	$ 123,946	$ 124,225

The Company is required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. The Company also evaluates the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor.

This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an allowance for credit losses ("ACL") is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under the current expected credit loss ("CECL") standard, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in accumulated other comprehensive income, net of taxes, in the consolidated statements of financial condition. Prior to implementation of the CECL standard, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the other-than-temporary impairment approach.

The Company did not record an ACL on the AFS securities as of September 30, 2024, or December 31, 2023. The Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. The Company had 383 securities in an unrealized loss position as of September 30, 2024. The Company has evaluated AFS securities in an unrealized loss position for credit-related impairment at September 30, 2024, and concluded no impairment existed based on a combination of factors, which included: (1) the securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility and increases in market interest rates, (3) the contractual terms of the investments do not permit the issuer(s) to settle the securities at a price less than the par value of each investment, (4) issuers continue to make timely principal and interest payments, and (5) the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis. As such, there was no ACL on AFS securities at September 30, 2024.

Securities of U.S. Treasury and Federal Agencies and Federal Agency Mortgage (Residential and Commercial) Backed Securities

At September 30, 2024, the unrealized losses associated with 11 U.S. Treasuries and Government Agency securities, 14 Residential Mortgage Backed – Agency securities, and 14 Commercial Mortgage Backed – Agency securities were generally driven by changes in interest rates and not due to credit losses given the explicit or implicit guarantees provided

Note 2— Securities (continued)

by the U.S. government. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2024.

Securities of U.S. States and Municipalities

At September 30, 2024, the unrealized losses associated with 212 State and Municipal securities were primarily caused by changes in interest rates and not the credit quality of the securities. These securities are investment grade and were generally underwritten in accordance with our own investment standards prior to the decision to purchase, without relying on a bond insurer's guarantee in making the investment decision. These securities will continue to be monitored as part of our ongoing impairment analysis but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers. As a result, we expect to recover the entire amortized cost basis of these securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2024.

Residential & Commercial Mortgage Backed – Non-Agency Securities

At September 30, 2024, the unrealized losses associated with 69 Residential Mortgage Backed – Non-Agency securities and 30 Commercial Mortgage Backed – Non-Agency securities were generally driven by changes in interest rates, credit spreads, and projected collateral losses. We assess for credit impairment by estimating the present value of expected cash flows. The key assumptions for determining expected cash flows include default rates, loss severities, and/or prepayment rates. Based on our assessment of the expected credit losses and the credit enhancement level of the securities, we expect to recover the entire amortized cost of these securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2024.

Asset-Backed Securities

At September 30, 2024, the unrealized losses associated with 21 Asset-Backed securities were generally driven by changes in interest rates, credit spreads, and projected collateral losses. We assess for credit impairment by estimating the present value of expected cash flows. The key assumptions for determining expected cash flows include default rates, loss severities, and/or prepayment rates. Based on our assessment of the expected credit losses and the credit enhancement level of the securities, we expect to recover the entire amortized cost of these securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2024.

Other Securities

At September 30, 2024, the unrealized losses associated with 12 securities were primarily driven by interest rates and not the credit quality of the securities. These investments were underwritten in accordance with our own investment standards prior to the decision to purchase, without relying on a bond insurer's guarantee in making the investment decision. Based on our assessment of the expected credit losses, we expect to recover the entire amortized cost basis of the securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2024.

Restricted stock, at cost

The Company's investment in Federal Home Loan Bank ("FHLB") stock totaled $16.8 million and $5.9 million at September 30, 2024, and December 31, 2023, respectively. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider this investment to be impaired at September 30, 2024, and no impairment has been recognized. FHLB stock is included in a separate line item, Restricted stock, at cost on the Consolidated Balance Sheets and is not part of the Company's AFS securities portfolio. The Company's Restricted stock line item on the Consolidated Balance Sheets also includes an investment in Community Bankers' Bank, totaling $111 thousand at September 30, 2024, and $50 thousand at December 31, 2023, which is carried at cost and is not impaired at September 30, 2024.

Note 3— Loans

The Company's loan portfolio segments, as reported in the tables below, include (i) commercial real estate, (ii) owner-occupied commercial real estate, (iii) acquisition, construction & development, (iv) commercial & industrial, (v) single family residential (1-4 units), and (vi) consumer non-real estate and other. The risks associated with lending activities differ

Note 3— Loans (continued)

among the various loan segments and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions.

- Commercial real estate loans carry risk associated with either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral. Other risk factors include the credit-worthiness of the sponsor and the value of the collateral.
- Owner-occupied commercial real estate loans carry risk associated with the operations of the business that occupies the property and the value of the collateral.
- Acquisition, construction & development loans carry risk associated with the credit-worthiness of the borrower, project completion within budget, sale after completion, and the value of the collateral.
- Commercial & industrial loans carry the risk associated with the operations of the business and the value of the collateral, if any.
- Single family residential (1-4 units) loans for consumer purposes carry risk associated with the continued credit-worthiness of the borrower and the value of the collateral. Single family residential (1-4 units) loans for investment purpose carry risk associated with the continued credit-worthiness of the borrower, the value of the collateral, and either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral.
- Consumer non-real estate and other loans, which includes overdrafts, carry risk associated with the credit-worthiness of the borrower and the value of the collateral, if any.

Loan balances as of September 30, 2024, and December 31, 2023, by portfolio segment were as follows (in thousands):

	September 30, 2024	December 31, 2023
Commercial real estate	$ 2,526,945	$ 1,309,084
Owner-occupied commercial real estate	637,175	131,381
Acquisition, construction & development	447,449	49,091
Commercial & industrial	562,653	67,847
Single family residential (1-4 units)	1,197,245	527,980
Consumer non-real estate and other	202,570	2,373
Loans, gross	5,574,037	2,087,756
Allowance for credit losses	(67,817)	(25,301)
Loans, net	$ 5,506,220	$ 2,062,455

Net deferred loan fees included in the above loan categories totaled $3.4 million and $3.5 million at September 30, 2024, and December 31, 2023, respectively.

Note 4— Allowance for Credit Losses

On January 1, 2023, the Company adopted the CECL methodology as required under Accounting Standards Codification ("ASC") 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. All information presented as of September 30, 2024, is in accordance with ASC 326.

The Company's ACL is calculated quarterly, with any adjustment recorded to the provision for credit losses in the Consolidated Statement of Income. Management calculates the quantitative portion of collectively evaluated loans for all loan categories using the weighted average remaining maturity ("WARM") method. For purposes of estimating the Company's ACL, management generally evaluates collectively evaluated loans by federal call code in order to group loans with similar risk characteristics.

Loans that do not share similar risk characteristics are evaluated on an individual loan basis and are excluded from the collective evaluation for the ACL. Loans identified to be individually evaluated under CECL include loans on non-accrual status and may include accruing loans that do not share similar risk characteristics to other accruing loans that are

Note 4— Allowance for Credit Losses (continued)

collectively evaluated on a loan pool basis. A specific reserve analysis may be applied to the individually evaluated loans, which considers collateral value, an observable market price, or the present value of the expected future cash flows. A specific reserve is assigned if the measured value of the loan using one of the before mentioned methods is less than the carrying value of the loan.

Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond the information that is used to calculate a reasonable and supportable forecast and a reversion period forecast on collectively evaluated loans. Management may consider an additional or reduced reserve as warranted through qualitative risk factors based on the current and expected conditions as measured in supplemental information relative to the macroeconomic variable loss drivers used to calculate a reasonable and supportable forecast and a reversion period forecast. These qualitative risk factors considered by management are largely comparable to legacy factors prior to the adoption of CECL.

The following tables present the activity in the ACL for the three months and nine months ended September 30, 2024, and for the three months and nine months ended September 30, 2023, including the impact of the adoption of CECL for the nine months ended September 30, 2023, and the impact of the allowance established for PCD loans for the three months and nine months ended September 30, 2024, (in thousands).

	Commercial real estate	Owner-occupied commercial real estate	Acquisition, construction & development	Commercial & industrial	Single family residential (1-4 units)	Consumer non-real estate and other	Unallocated	Total
Three months ended								
September 30, 2024								
Balance, beginning of period	$ 27,304	$ 5,040	$ 18,639	$ 4,768	$ 11,648	$ 618	$ —	$ 68,017
Provision for (recapture of) credit losses	(1,516)	(1,073)	3,084	425	(1,006)	171	—	85
Charge-offs	—	—	—	(32)	(67)	(206)	—	(305)
Recoveries	3	—	—	9	1	7	—	20
Balance, end of period	$ 25,791	$ 3,967	$ 21,723	$ 5,170	$ 10,576	$ 590	$ —	$ 67,817
September 30, 2023								
Balance, beginning of period	$ 18,639	$ 719	$ 1,319	$ 612	$ 4,520	$ 110	$ —	$ 25,919
Provision for (recapture of) credit losses	969	66	446	(95)	(1,135)	(51)	—	200
Charge-offs	—	—	—	—	—	(13)	—	(13)
Recoveries	4	—	—	—	1	—	—	5
Balance, end of period	$ 19,612	$ 785	$ 1,765	$ 517	$ 3,386	$ 46	$ —	$ 26,111

	Commercial real estate	Owner-occupied commercial real estate	Acquisition, construction & development	Commercial & industrial	Single family residential (1-4 units)	Consumer non-real estate and other	Unallocated	Total
Nine months ended								
September 30, 2024								
Balance, beginning of period	$ 20,633	$ 783	$ 368	$ 645	$ 2,797	$ 75	$ —	$ 25,301
Allowance established for acquired PCD loans	7,503	1,931	5,968	5,684	2,608	216	—	23,910
Provision for (recapture of) credit losses	(2,145)	1,253	15,387	(990)	5,273	737	—	19,515
Charge-offs	(210)	—	—	(178)	(104)	(455)	—	(947)
Recoveries	10	—	—	9	2	17	—	38
Balance, end of period	$ 25,791	$ 3,967	$ 21,723	$ 5,170	$ 10,576	$ 590	$ —	$ 67,817
September 30, 2023								
Balance, beginning of period	$ 15,477	$ 635	$ 2,082	$ 438	$ 2,379	$ 28	$ —	$ 21,039
Impact of adoption CECL	2,686	(6)	(640)	237	1,661	187	—	4,125
Provision for (recapture of) credit losses	1,414	156	323	(129)	(661)	(70)	—	1,033
Charge-offs	—	—	—	(29)	—	(105)	—	(134)
Recoveries	35	—	—	—	7	6	—	48
Balance, end of period	$ 19,612	$ 785	$ 1,765	$ 517	$ 3,386	$ 46	$ —	$ 26,111

Note 4— Allowance for Credit Losses (continued)

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. The following table presents the aging of the recorded investment in past due loans as of September 30, 2024, and December 31, 2023, by portfolio segment (in thousands):

	September 30, 2024							
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	90 Days Past Due & Still Accruing	Non-accrual loans
Commercial real estate	$ 8,797	$ 86	$ 8,674	$ 17,557	$ 2,509,388	$ 2,526,945	$ —	$ 19,967
Owner-occupied commercial real estate	617	3,864	2,349	6,830	630,345	637,175	—	6,233
Acquisition, construction & development	2,812	672	95	3,579	443,870	447,449	—	434
Commercial & industrial	1,352	910	600	2,862	559,791	562,653	—	1,090
Single family residential (1-4 units)	4,633	3,021	1,307	8,961	1,188,284	1,197,245	—	7,392
Consumer non-real estate and other	516	188	659	1,363	201,207	202,570	—	756
Total	$ 18,727	$ 8,741	$ 13,684	$ 41,152	$ 5,532,885	$ 5,574,037	$ —	$ 35,872

	December 31, 2023							
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	90 Days Past Due & Still Accruing	Non-accrual loans
Commercial real estate	$ 10,496	$ —	$ —	$ 10,496	$ 1,298,588	$ 1,309,084	$ —	$ —
Owner-occupied commercial real estate	—	—	790	790	130,591	131,381	—	1,000
Acquisition, construction & development	—	—	—	—	49,091	49,091	—	—
Commercial & industrial	195	364	—	559	67,288	67,847	—	—
Single family residential (1-4 units)	1,657	289	1,532	3,478	524,502	527,980	—	2,744
Consumer non-real estate and other	3	—	—	3	2,370	2,373	—	—
Total	$ 12,351	$ 653	$ 2,322	$ 15,326	$ 2,072,430	$ 2,087,756	$ —	$ 3,744

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic information, and other factors. The Company analyzes loans individually by classifying the loans by credit risk. The Company internally grades all commercial loans at the time of origination. In addition, the Company performs an annual review on the top twenty-five non-homogenous commercial loan relationships as measured by total Company exposure to each borrower. The Company uses the following definitions for credit risk classifications:

Pass: These include satisfactory loans that have acceptable levels of risk.

Special Mention: Loans classified as special mention have a potential credit weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of debt. Loans classified as substandard are inadequately protected by sound net worth, payment capacity of the borrower, or of the collateral pledged. If weaknesses go uncorrected, there is potential for partial loss of principal and/or interest.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and unlikely.

Loss: Loans classified as a loss are considered to be uncollectible and cannot be justified to continue as viable assets. While there may be the possibility of some recovery in the future, it is not practical or desirable to defer writing off these loans at the present time.

Note 4— Allowance for Credit Losses (continued)

The Company has a portfolio of smaller homogenous loans that are not individually risk rated that are included within the single family residential and consumer non-real estate and other loan classes. Generally, these loan classes are rated as "Pass" unless these loans are on non-accrual and are then classified as substandard.

The following table presents the amortized cost basis of the loan portfolio, by year of origination, loan class, and credit quality, as of September 30, 2024, and December 31, 2023 (in thousands):

	September 30, 2024							
	Term Loans							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Commercial real estate								
Pass	$ 91,379	$ 354,858	$ 518,552	$ 344,738	$ 156,431	$ 674,628	$ 57,653	$ 2,198,239
Special Mention	—	28,998	37,579	43,964	17,127	41,560	7,369	176,597
Substandard	—	2,224	29,827	38,493	9,854	71,530	181	152,109
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 91,379	$ 386,080	$ 585,958	$ 427,195	$ 183,412	$ 787,718	$ 65,203	$ 2,526,945
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 210	$ —	$ 210
Owner-occupied commercial real estate								
Pass	$ 47,364	$ 74,592	$ 93,346	$ 141,148	$ 38,464	$ 192,686	$ 17,155	$ 604,755
Special Mention	—	—	—	11,245	2,754	1,288	—	15,287
Substandard	—	—	5,268	1,496	6,123	3,925	—	16,812
Doubtful	—	—	—	—	—	321	—	321
Loss	—	—	—	—	—	—	—	—
Total	$ 47,364	$ 74,592	$ 98,614	$ 153,889	$ 47,341	$ 198,220	$ 17,155	$ 637,175
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Acquisition, construction & development								
Pass	$ 23,785	$ 95,048	$ 92,504	$ 149,581	$ 4,137	$ 17,807	$ 11,445	$ 394,307
Special Mention	—	13,014	—	—	144	—	—	13,158
Substandard	—	79	15,893	3,148	20,458	67	—	39,645
Doubtful	—	—	—	—	—	339	—	339
Loss	—	—	—	—	—	—	—	—
Total	$ 23,785	$ 108,141	$ 108,397	$ 152,729	$ 24,739	$ 18,213	$ 11,445	$ 447,449
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial & industrial								
Pass	$ 88,084	$ 60,177	$ 58,895	$ 31,648	$ 11,848	$ 13,975	$ 245,869	$ 510,496
Special Mention	388	—	18,601	12,603	—	—	868	32,460
Substandard	40	296	4,673	1,748	543	1,801	10,596	19,697
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 88,512	$ 60,473	$ 82,169	$ 45,999	$ 12,391	$ 15,776	$ 257,333	$ 562,653
Year to date gross charge-offs	$ —	$ 10	$ 72	$ 87	$ —	$ 9	$ —	$ 178
Single family residential (1-4 units)								
Pass	$ 75,618	$ 161,352	$ 218,954	$ 154,757	$ 80,328	$ 360,343	$ 138,285	$ 1,189,637
Special Mention	—	—	—	—	—	216	—	216
Substandard	—	603	899	612	614	4,601	63	7,392
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 75,618	$ 161,955	$ 219,853	$ 155,369	$ 80,942	$ 365,160	$ 138,348	$ 1,197,245

Note 4— Allowance for Credit Losses (continued)

Year to date gross charge-offs	$ —	$ 39	$ 28	$ —	$ —	$ 37	$ —	$ 104
Consumer non-real estate and other								
Pass	$ 23,496	$ 15,588	$ 15,710	$ 8,832	$ 8,294	$ 19,369	$ 107,598	$ 198,887
Special Mention	—	—	1,149	—	—	—	—	1,149
Substandard	275	157	1,410	11	—	647	24	2,524
Doubtful	—	—	—	6	4	—	—	10
Loss	—	—	—	—	—	—	—	—
Total	$ 23,771	$ 15,745	$ 18,269	$ 8,849	$ 8,298	$ 20,016	$ 107,622	$ 202,570
Year to date gross charge-offs	$ 378	$ 39	$ 17	$ 1	$ —	$ 20	$ —	$ 455
Totals	$ 350,429	$ 806,986	$ 1,113,260	$ 944,030	$ 357,123	$ 1,405,103	$ 597,106	$ 5,574,037

	December 31, 2023							
	Term Loans							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Commercial real estate								
Pass	$ 195,857	$ 261,817	$ 166,253	$ 22,791	$ 75,170	$ 416,774	$ 36,761	$ 1,175,423
Special Mention	—	12,235	35,449	—	4,876	—	—	52,560
Substandard	—	15,420	12,847	—	2,209	50,625	—	81,101
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 195,857	$ 289,472	$ 214,549	$ 22,791	$ 82,255	$ 467,399	$ 36,761	$ 1,309,084
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate								
Pass	$ 9,309	$ 31,725	$ 11,229	$ 14,103	$ 10,279	$ 43,616	$ 6,184	$ 126,445
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	532	—	—	—	4,404	—	4,936
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 9,309	$ 32,257	$ 11,229	$ 14,103	$ 10,279	$ 48,020	$ 6,184	$ 131,381
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Acquisition, construction & development								
Pass	$ 8,535	$ 24,286	$ 13,698	$ —	$ 728	$ 241	$ 1,603	$ 49,091
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 8,535	$ 24,286	$ 13,698	$ —	$ 728	$ 241	$ 1,603	$ 49,091
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial & industrial								
Pass	$ 29,111	$ 15,204	$ 4,344	$ 162	$ 15	$ 1,335	$ 16,854	$ 67,025
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	822	—	—	—	—	822
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 29,111	$ 15,204	$ 5,166	$ 162	$ 15	$ 1,335	$ 16,854	$ 67,847
Year to date gross charge-offs	$ —	$ —	$ —	$ 29	$ —	$ —	$ —	$ 29
Single family residential (1-4 units)								

Note 4— Allowance for Credit Losses (continued)

Pass	$ 78,222	$ 122,067	$ 60,202	$ 32,158	$ 40,938	$ 137,376	$ 54,273	$ 525,236
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	291	243	—	2,171	39	2,744
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 78,222	$ 122,067	$ 60,493	$ 32,401	$ 40,938	$ 139,547	$ 54,312	$ 527,980
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer non-real estate and other								
Pass	$ 334	$ 150	$ 43	$ 151	$ 386	$ 325	$ 984	$ 2,373
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 334	$ 150	$ 43	$ 151	$ 386	$ 325	$ 984	$ 2,373
Year to date gross charge-offs	$ —	$ 165	$ —	$ —	$ —	$ —	$ —	$ 165
Totals	$ 321,368	$ 483,436	$ 305,178	$ 69,608	$ 134,601	$ 656,867	$ 116,698	$ 2,087,756

Note 4— Allowance for Credit Losses (continued)

The following tables present information about collateral-dependent loans that were individually evaluated for purposes of determining the ACL as of September 30, 2024, and December 31, 2023 (in thousands):

	September 30, 2024				
	With Allowance		With No Related Allowance	Total	
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
September 30, 2024					
Commercial real estate	$ 7,994	$ 5,326	$ 12,745	$ 20,739	$ 5,326
Owner-occupied commercial real estate	321	244	2,142	2,463	244
Acquisition, construction & development	576	343	—	576	343
Commercial & industrial	—	—	356	356	—
Single family residential (1-4 units)	907	36	3,453	4,360	36
Consumer non-real estate and other	—	—	—	—	—
Total	$ 9,798	$ 5,949	$ 18,696	$ 28,494	$ 5,949

	December 31, 2023				
	With Allowance		With No Related Allowance	Total	
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
December 31, 2023					
Commercial real estate	$ —	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate	—	—	1,000	1,000	—
Acquisition, construction & development	—	—	—	—	—
Commercial & industrial	—	—	—	—	—
Single family residential (1-4 units)	—	—	2,744	2,744	—
Consumer non-real estate and other	—	—	—	—	—
Total	$ —	$ —	$ 3,744	$ 3,744	$ —

Purchased Credit Deteriorated Loans

The Company has purchased loans for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of those loans, at acquisition, is as follows (in thousands):

	Amounts
Purchase price of loans at acquisition	$ 380,795
Allowance for credit losses at acquisition	23,910
Non-credit discount/(premium) at acquisition	37,640
Par value of acquired loans at acquisition	$ 442,344

Loan Modifications

On January 1, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the troubled debt restructuring ("TDR") accounting model and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty, and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables — Nonrefundable Fees and Other Costs, and subjects entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty.

The Company may modify loans to borrowers experiencing financial difficulty by providing principal forgiveness, term extension, interest rate reduction, or an other-than-insignificant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged off against the ACL. The Company may also provide multiple types of modifications on

Note 4— Allowance for Credit Losses (continued)

an individual loan. For the three and nine months ended September 30, 2024, and for the year ended, December 31, 2023, the Company did not extend any modifications to borrowers experiencing financial difficulty that had a more-than-insignificant direct change in the contractual cash flows of the loan.

Other Real Estate Owned

Real estate owned activity was as follows for the nine months ended September 30, 2024, and for the year ended, December 31, 2023 (in thousands):

	September 30, 2024	December 31, 2023
Beginning balance	$ —	$ —
Loans acquired/transferred to real estate owned	3,334	—
Capital expenditures	—	—
Direct write-downs	—	—
Sales of real estate owned	(758)	—
End of period balance	$ 2,576	$ —

Note 5— Deposits

The aggregate amount of time deposits that meet or exceed the FDIC Insurance Limit of $250,000, was approximately $265.1 million and $92.3 million on September 30, 2024, and December 31, 2023, respectively. Brokered time deposits, which are fully insured, totaled $345.3 million and $389.0 million as of September 30, 2024, and December 31, 2023, respectively. Time deposits through the Certificate of Deposit Account Registry Service ("CDARS") program totaled $36.5 million at September 30, 2024, compared to $24.2 million at December 31, 2023.

At September 30, 2024, the scheduled maturities of time deposits for the remaining three months ending December 31, 2024, the following five years, and for the years thereafter, were as follows (in thousands):

As of September 30, 2024	
Remaining three months ending, December 31, 2024	$ 450,696
2025	598,419
2026	112,524
2027	60,348
2028	85,382
2029	4,923
Thereafter	4,307
Total	$ 1,316,599

At September 30, 2024, and December 31, 2023, amounts included in time deposits for individual retirement accounts totaled $121.0 million and $28.5 million, respectively.

Overdrafts of $1.3 million and $110 thousand were reclassified to loans as of September 30, 2024, and the year ended December 31, 2023, respectively.

Note 6— Borrowed Funds

Short-term borrowings

The Company had borrowings of $320.2 million and $272.0 million at September 30, 2024, and December 31, 2023, respectively. At September 30, 2024, the interest rate on this debt ranged from 4.87% to 4.90%. At December 31, 2023, the interest rate on this debt ranged from 4.38% to 5.57%. The average balance outstanding during the nine months ending September 30, 2024, and the year ending December 31, 2023, was $323.5 million and $293.9 million, respectively. The Company has a finance lease liability that is not included in these balances - see Note 7 - Leased Property for a discussion of this liability that is included in the accrued interest and other liabilities line in the Consolidated Balance Sheets.

Note 6— Borrowed Funds (continued)

The Company has available secured lines of credit with the Federal Reserve Bank of Richmond, such as the Borrower-In-Custody program, the FHLB of Atlanta, and unsecured federal funds lines of credit from correspondent banking relationships. Through these sources, the Company has unused capacity of $2.4 billion in remaining borrowing capacity as of September 30, 2024. The advances on credit lines are secured by both securities and loans. The lendable collateral value of securities and loans pledged against available lines of credit as of September 30, 2024, and December 31, 2023, was $1.1 billion and $797.8 million, respectively. As of September 30, 2024, all of the Company's borrowings will mature within one calendar year.

The contractual maturities of these borrowings, which all occur within one year of the reporting date, are as follows as of September 30, 2024, (in thousands):

Due in 2024	$	300,163
Due in 2025		20,000
Total	$	320,163

Long-term borrowings

Subordinated Debentures

As part of the Merger, Burke & Herbert assumed $75 million of subordinated debentures, that were fair valued at $61.5 million with a $13.5 million discount being amortized into interest expense over the stated maturity. As of September 30, 2024, the net balance was $63.7 million. The subordinated debt qualifies as Tier 2 capital under Federal Reserve Board guidelines, until the debt is within 5 years of its maturity; thereafter, the amount qualifying as Tier 2 capital is reduced 20% each year until maturity. The subordinated debentures were issued in the fourth quarter of 2021. This subordinated debt bears interest at a fixed rate of 3.25% per year, from acquisition date to, but excluding, December 1, 2026, payable semi-annually in arrears. From and including, December 1, 2026 to, but excluding, the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term Secured Overnight Financing Rate ("SOFR"), as published by the Federal Reserve Bank of New York, plus 230 basis points, payable quarterly in arrears. This debt has a 10-year term, and generally, is not prepayable by us within the first 5 years from issuance, which was fourth quarter 2021.

Through the Merger, Burke & Herbert also assumed $30 million of subordinated debentures that were fair valued at $29.8 million with a $0.2 million discount being amortized into interest expense over the stated maturity. As of September 30, 2024, the net balance was $29.8 million. The subordinated debt qualifies as Tier 2 capital under Federal Reserve Board guidelines, until the debt is within 5 years of its maturity; thereafter, the amount qualifying as Tier 2 capital is reduced by 20% each year until its maturity. The subordinated debentures were issued in the third quarter of 2020. This subordinated debt bears interest at a fixed rate of 5.00% per year from the date of assumption to, but excluding, September 30, 2025, payable quarterly in arrears. From and including September 30, 2025, to, but excluding, the maturity date or earlier redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR plus 487 basis points, payable quarterly in arrears. This debt has a 10-year term, and generally, is not prepayable by us within the first 5 years from issuance, which was third quarter 2020.

Subordinated Debentures Owed to Unconsolidated Subsidiary Trusts

As part of the Merger, Burke & Herbert became the sponsor for SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III. For each of these trusts, 100% of the common equity is owned by us. SFG Capital Trust I issued $3.5 million in capital securities and $109 thousand in common securities and invested the proceeds in $3.61 million of debentures, which were assumed by Burke & Herbert in the Merger. SFG Capital Trust II issued $7.5 million in capital securities and $232 thousand in common securities and invested the proceeds in $7.73 million of debentures, which were assumed by Burke & Herbert in the Merger. SFG Capital Trust III issued $8.0 million in capital securities and $248 thousand in common securities and invested the proceeds in $8.25 million of debentures, which were assumed by Burke & Herbert in the Merger. Distributions on the capital securities issued by the trusts are payable quarterly at a variable rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I, 3 months of LIBOR plus 280 basis points for SFG Capital Trust II, and 3 month LIBOR plus 145 basis points for SFG Capital Trust III, and equals the interest rate earned on the debentures held by the trusts and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole, or in part, upon repayment of the debentures. We have entered into agreements which, taken

Note 6— Borrowed Funds (continued)

collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of each Capital Trust are redeemable by us quarterly.

The capital securities issued by SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III qualify as Tier 1 capital under the Federal Reserve guidelines. In accordance with these Guidelines, trust preferred securities are limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital.

The remaining maturities of subordinated debentures as of September 30, 2024, are as follows (in thousands):

	Subordinated debentures	Subordinated debentures owed to unconsolidated subsidiary trusts
Remaining three months ending, December 31, 2024	$ —	$ —
2025	—	—
2026	—	—
2027	—	—
2028	—	—
Thereafter	105,000	19,589
Total	$ 105,000	$ 19,589

Note 7— Leased Property

Lessor Arrangements

The Company enters into operating leases with customers to lease vacant space in certain owned premises that is not being used by the Company. These operating leases are typically payable in monthly installments with terms ranging from around two years to around sixteen years and may contain renewal options. The components of lease income, which was included in non-interest expense on the Consolidated Statements of Income, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease income	$ 565	$ 576	$ 1,696	$ 1,726
Total lease income	$ 565	$ 576	$ 1,696	$ 1,726

The remaining maturities of operating lease receivables as of September 30, 2024, are as follows (in thousands):

	Operating Leases
Remaining three months ending, December 31, 2024	$ 543
2025	2,182
2026	1,936
2027	1,836
2028	1,862
Thereafter	4,732
Total lease receivables	$ 13,091

Lessee Arrangements

The Company has entered into leases for branches and office space. The leases are evaluated for whether the lease will be classified as either a finance or operating lease. Certain leases offer the option to extend the lease term, and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. Including renewal options, the terms of the Company's leases range from less than one year to around thirteen years. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

Note 7— Leased Property (continued)

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. These cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

Right-of-use assets and liabilities by lease type, and the associated balance sheet classifications are as follows (in thousands):

	Balance Sheet Classification	September 30, 2024	December 31, 2023
Right-of-use assets:			
Operating leases	Other assets	$ 13,826	$ 5,110
Finance leases	Other assets	3,383	3,590
Total right-of-use assets		$ 17,209	$ 8,700
Lease liabilities:			
Operating leases	Other liabilities	$ 14,291	$ 5,327
Finance leases	Other liabilities	3,675	3,840
Total lease liabilities		$ 17,966	$ 9,167

The components of total lease cost were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Finance lease cost				
Right-of-use asset amortization	$ 71	$ 71	$ 214	$ 173
Interest expense	27	28	83	58
Operating lease cost	781	770	2,068	2,437
Total lease cost	$ 879	$ 869	$ 2,365	$ 2,668

The Company's future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of September 30, 2024, are as follows (in thousands):

	Operating Leases	Finance Leases
Remaining three months ending, December 31, 2024	$ 855	$ 83
2025	2,766	333
2026	2,407	340
2027	2,226	347
2028	1,917	354
Thereafter	7,458	2,990
Total undiscounted lease payments	17,629	4,447
Less: discount	(3,338)	(772)
Net lease liabilities	$ 14,291	$ 3,675

Note 7— Leased Property (continued)

The following table presents additional information about the Company's leases as of September 30, 2024, and December 31, 2023.

Supplemental lease information (dollars in thousands)	September 30, 2024	December 31, 2023
Finance lease weighted average remaining lease term (years)	12.00	12.66
Finance lease weighted average discount rate	3.06 %	2.96 %
Operating lease weighted average remaining lease term (years)	7.57	3.71
Operating lease weighted average discount rate	4.62 %	3.33 %

	Nine Months Ended September 30,	
Cash paid for amounts included in the measurement of lease liabilities	**2024**	**2023**
Operating cash flows from operating leases	$ 2,230	$ 2,545
Operating cash flows from finance leases	83	58
Financing cash flows from finance leases	161	130
Right-of-use assets obtained in exchange for new finance lease liabilities	—	1,214
Right-of-use assets obtained in exchange for new operating lease liabilities	11,130	—

Note 8— Regulatory Capital Matters

Banks and financial holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, "prompt corrective action" regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on AFS securities is not included in computing regulatory capital. Management believes as of September 30, 2024, the Company and the Bank meet all capital adequacy requirements to which they are subject.

"Prompt corrective action" regulations provide five classifications: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized", although these terms are not used to represent overall financial condition. If "adequately capitalized", regulatory approval is required to accept brokered deposits. If "undercapitalized", capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of September 30, 2024, and December 31, 2023, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for "prompt corrective action".

Note 8— Regulatory Capital Matters (continued)

The following table presents the actual and required capital amounts and ratios for the Company and the Bank at September 30, 2024, and December 31, 2023 (in thousands except for ratios):

	Actual		Minimum Required Capital - Basel III		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2024						
Total Capital to risk weighted assets						
Consolidated	$ 913,775	14.45 %	$ 663,933	≥ 10.5%	$ 632,318	N/A
Burke & Herbert Bank & Trust	898,158	14.21	663,431	≥ 10.5	631,840	≥ 10.0
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	748,299	11.83	537,470	≥ 8.5	505,854	N/A
Burke & Herbert Bank & Trust	826,214	13.08	537,064	≥ 8.5	505,472	≥ 8.0
Common Tier 1 (CET 1) to risk-weighted assets						
Consolidated	720,936	11.40	442,622	≥ 7.0	411,006	N/A
Burke & Herbert Bank & Trust	826,214	13.08	442,288	≥ 7.0	410,696	≥ 6.5
Tier 1 (Core) Capital to average assets (leverage ratio)						
Consolidated	748,299	9.66	309,940	≥ 4.0	387,425	N/A
Burke & Herbert Bank & Trust	826,214	10.67	309,602	≥ 4.0	387,003	≥ 5.0
As of December 31, 2023						
Total Capital to risk weighted assets						
Consolidated	$ 443,799	17.88 %	$ 260,694	≥ 10.5%	$ 248,280	N/A
Burke & Herbert Bank & Trust	442,414	17.82	260,626	≥ 10.5	248,215	≥ 10.0
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	418,244	16.85	211,038	≥ 8.5	198,624	N/A
Burke & Herbert Bank & Trust	416,859	16.79	210,983	≥ 8.5	198,572	≥ 8.0
Common Tier 1 (CET 1) to risk-weighted assets						
Consolidated	418,244	16.85	173,796	≥ 7.0	161,382	N/A
Burke & Herbert Bank & Trust	416,859	16.79	173,751	≥ 7.0	161,340	≥ 6.5
Tier 1 (Core) Capital to average assets (leverage ratio)						
Consolidated	418,244	11.31	147,965	≥ 4.0	184,957	N/A
Burke & Herbert Bank & Trust	416,859	11.27	147,986	≥ 4.0	184,982	≥ 5.0

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of September 30, 2024, approximately $234.7 million of retained earnings was available for dividend declaration consistent with the Company's capital plan.

Note 9— Derivatives

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps 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 interest rate swap agreements.

Cash flow hedges of interest rate risk

The Company's objective in using interest rate derivatives is to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps, caps, and floors as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Other interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments

over the life of the agreements without exchange of the underlying notional amount. During 2024, such derivatives were used to hedge the variable cash flows associated with variable-rate assets.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest expense or interest income in the same period(s) during which the hedged transaction affects earnings. During the next twelve months, the Company estimates that an additional $76.4 thousand will be reclassified as an increase to interest expense.

Derivatives not designated as hedges

The Company enters into interest rate swaps with its loan customers to facilitate their financing requests. Upon entering into swaps with our loan customers, the Company will enter into corresponding offsetting derivatives with third parties. These derivatives represent economic hedges and do not qualify as hedges for accounting. These back-to-back interest rate swaps are reported at fair value in "other assets" and "other liabilities" in the Company's Consolidated Balance Sheets. Changes in the fair value of interest rate swaps are recorded in other non-interest expense and sum to zero because of offsetting terms of swaps with borrowers and swaps with dealer counterparties.

The table below presents the fair value of the Company's derivative financial instruments, which includes accrued interest, as well as their classification on the Consolidated Balance Sheets as of September 30, 2024, and December 31, 2023 (in thousands):

	September 30, 2024		
	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedges:			
Interest rate swaps related to fair value hedges	Other liabilities	$ 300,000	$ 1,502
Derivatives not designated as hedges:			
Interest rate swaps related to customer loans	Other assets	$ 100,096	$ 2,558
Interest rate swaps related to customer loans	Other liabilities	100,096	2,558

	December 31, 2023		
	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedges:			
Interest rate swaps related to cash flow hedges	Other assets	$ 100,000	$ 65
Interest rate swaps related to cash flow hedges	Other liabilities	150,000	1,047
Derivatives not designated as hedges:			
Interest rate swaps related to customer loans	Other assets	$ 72,572	$ 998
Interest rate swaps related to customer loans	Other liabilities	72,572	998

The table below presents the effect of cash flow hedge accounting on AOCI for the three months ended September 30, 2024, and September 30, 2024 (in thousands):

	September 30, 2024				September 30, 2024		
Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	$ —	$ —	$ —	Interest Income	$ —	$ —	$ —
Interest Rate Products	(3,887)	(3,887)	—	Interest Expense	1,080	1,080	—
Total	$ (3,887)	$ (3,887)	$ —		$ 1,080	$ 1,080	$ —

Note 9— Derivatives (continued)

	September 30, 2023				September 30, 2023		
Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	$ (48)	$ (48)	$ —	Interest Income	$ (473)	$ (473)	$ —
Total	$ (48)	$ (48)	$ —		$ (473)	$ (473)	$ —

The table below presents the effect of cash flow hedge accounting on AOCI for the nine months ended September 30, 2024, and September 30, 2023 (in thousands):

	September 30, 2024				September 30, 2024		
Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	$ (19)	$ (19)	$ —	Interest Income	$ (611)	$ (611)	$ —
Interest Rate Products	631	631	—	Interest Expense	2,113	2,113	—
Total	$ 612	$ 612	$ —		$ 1,502	$ 1,502	$ —

	September 30, 2023				September 30, 2023		
Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	$ (337)	$ (337)	$ —	Interest Income	$ (1,259)	$ (1,259)	$ —
Total	$ (337)	$ (337)	$ —		$ (1,259)	$ (1,259)	$ —

The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the three and nine months ended September 30, 2024, and September 30, 2023 (in thousands).

Note 9— Derivatives (continued)

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships			
	Three months ended			
	September 30, 2024		September 30, 2023	
	Interest Income	Interest Expense	Interest Income	Interest Expense
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded.	$ 40	$ 1,080	$ (433)	$ —
The effects of fair value and cash flow hedging:				
Gain or (loss) on fair value hedging relationships in Subtopic 815-20				
Interest contracts				
Hedged items [1]	40	—	40	—
Derivatives designated as hedging instruments	—	—	—	—
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20				
Interest contracts				
Amount of gain or (loss) reclassified from AOCI into income	—	1,080	(473)	—
Amount of gain or (loss) reclassified from AOCI into income as a result that a forecasted transaction is no longer probable of occurring	—	—	—	—
Amount of gain or (loss) reclassified from AOCI into income - included component	—	1,080	(473)	—
Amount of gain or (loss) reclassified from AOCI into income - excluded component	—	—	—	—

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships			
	Nine months ended			
	September 30, 2024		September 30, 2023	
	Interest Income	Interest Expense	Interest Income	Interest Expense
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded.	$ (491)	$ 2,113	$ (1,549)	$ —
The effects of fair value and cash flow hedging:				
Gain or (loss) on fair value hedging relationships in Subtopic 815-20				
Interest contracts				
Hedged items [1]	120	—	(1,066)	—
Derivatives designated as hedging instruments	—	—	776	—
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20				
Interest contracts				
Amount of gain or (loss) reclassified from AOCI into income	(611)	2,113	(1,259)	—
Amount of gain or (loss) reclassified from AOCI into income as a result that a forecasted transaction is no longer probable of occurring	—	—	—	—
Amount of gain or (loss) reclassified from AOCI into income - included component	(611)	2,113	(1,259)	—
Amount of gain or (loss) reclassified from AOCI into income - excluded component	—	—	—	—

(1) The Company voluntarily discontinued a fair value hedging relationship and these amounts include the gain or (loss) and the hedging adjustment on a voluntary discontinued hedging relationship. The Company has allocated the basis adjustment to the remaining individual assets in the closed portfolio and will amortize the basis adjustment over a period consistent with amortization of other discounts or premiums on the assets.

Note 9— Derivatives (continued)

Credit-risk-related Contingent Features

As of September 30, 2024, the Company has no derivatives in a net liability position that would require the posting of collateral.

Note 10— Commitments and Contingencies

Credit extension commitments

The Company's financial statements do not reflect various financial instruments which arise in the normal course of business and which involve elements of credit risk, interest rate risk, and liquidity risk. These financial instruments include commitments to extend credit (e.g., revolving lines of credit) and commercial letters of credit.

Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of our commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the contractual amounts of the Company's financial instruments outstanding at September 30, 2024, and December 31, 2023, is as follows (in thousands):

	September 30, 2024	December 31, 2023
Commitments to extend credit	$ 995,782	$ 278,923
Commercial letters of credit	62,474	10,718

Commitments to extend credit and commercial letters of credit both include exposure to some credit loss in the event of non-performance of the customer. The Company's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Consolidated Balance Sheets. Many of these instruments have fixed maturity dates, and many of them will expire without being drawn upon; accordingly, they do not generally present any significant liquidity risk to the Company.

Allowance for credit losses - off-balance-sheet credit exposures

The Company recorded a provision for credit losses on unfunded commitments of $62.0 thousand and $3.9 million for the three and nine months ended September 30, 2024. The Company recorded a provision for credit losses on unfunded commitments of $35.0 thousand and a recapture of $69.8 thousand for the three and nine months ended September 30, 2023. The ACL on off-balance-sheet credit totaled $4.1 million and $254.2 thousand as of September 30, 2024 and December 31, 2023, and is included in accrued interest and other liabilities on the accompanying Consolidated Balance Sheets.

Litigation

The Company is a party to litigation, claims, and proceedings arising in the normal course of business that are ordinary and routine to the nature of the Company's business and operations. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from any currently pending or threatened litigation, claims, or proceedings will not be material to the Company's financial position.

Note 11— Fair Value Measurements

Determination of Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an 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. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Note 11— Fair Value Measurements (continued)

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect our own assumptions that market participants would use in pricing an asset or liability.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Investment securities

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Equity Investments

Equity investments are recorded at fair value on a recurring basis, with changes in fair value reported in net income. Through the Merger, at September 30, 2024, we acquired an investment in an S&P 500 index mutual fund that is actively traded on an exchange, and we classify it as Level 1.

Through the Merger, we acquired perpetual preferred stock of a bank holding company issued in October 2022 in a private offering. The perpetual preferred stock does not trade on an exchange or in an active over-the-counter market; therefore, we estimate its fair value using the present value of its future cash flows using observed discount rates of similar publicly-traded securities, adjusted for a liquidity premium. We classify the perpetual preferred stock as Level 2.

Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment. Such equity securities are included in Equity Investments on the accompanying consolidated balance sheets.

Derivatives

The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The Company has contracted with a third-party vendor to provide valuations for interest rate swaps using standard swap valuation techniques. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities. The Company recognizes interest rate lock commitments at fair value. Fair value of interest rate lock commitments is based on the price of underlying loans obtained from an investor for loans that will be delivered on a best effort basis (Level 2).

Loans held-for-sale, at fair value

The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2). These loans currently consist of one-to-four family residential loans originated for sale in the secondary market.

Note 11— Fair Value Measurements (continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements at September 30, 2024, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets				
Investment Securities				
U.S. Treasuries and government agencies	$ 152,617	$ —	$ —	$ 152,617
Obligations of states and municipalities	—	655,646	—	655,646
Residential mortgage backed - agency	—	54,766	—	54,766
Residential mortgage backed - non-agency	—	277,476	—	277,476
Commercial mortgage backed - agency	—	34,050	—	34,050
Commercial mortgage backed - non-agency	—	153,694	—	153,694
Asset-backed	—	70,635	—	70,635
Other	—	37,547	—	37,547
Total investment securities available-for-sale	$ 152,617	$ 1,283,814	$ —	$ 1,436,431
Loans held-for-sale, at fair value	$ —	$ 4,216	$ —	$ 4,216
Equity investments	$ 7,827	$ 6,902	$ —	$ 14,729
Derivatives	$ —	$ 2,558	$ —	$ 2,558
Financial liabilities				
Derivatives	$ —	$ 4,060	$ —	$ 4,060

	Fair Value Measurements at December 31, 2023, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets				
Investment Securities				
U.S. Treasuries and government agencies	$ 179,071	$ —	$ —	$ 179,071
Obligations of states and municipalities	—	463,203	—	463,203
Residential mortgage backed - agency	—	42,238	—	42,238
Residential mortgage backed - non-agency	—	266,031	—	266,031
Commercial mortgage backed - agency	—	34,885	—	34,885
Commercial mortgage backed - non-agency	—	177,061	—	177,061
Asset-backed	—	77,936	—	77,936
Other	—	8,014	—	8,014
Total investment securities available-for-sale	$ 179,071	$ 1,069,368	$ —	$ 1,248,439
Loans held-for-sale, at fair value	$ —	$ 1,497	$ —	$ 1,497
Derivatives	$ —	$ 1,063	$ —	$ 1,063
Financial liabilities				
Derivatives	$ —	$ 2,045	$ —	$ 2,045

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a non-recurring basis in the financial statements:

Collateral dependent loans

Loans for which the borrower is experiencing financial difficulty and repayment is dependent upon the operation or sale of collateral, are considered collateral-dependent. For collateral-dependent loans, the fair value is measured based on the value

of the collateral securing the loans, less estimated costs of disposal. Collateral may be in the form of real estate or business assets, including equipment, inventory, and accounts receivable. The vast majority of the collateral underlying collateral-dependent loans is real estate, the fair value of which is measured through an appraisal. The appraisals of the collateral supporting collateral-dependent loans may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

Other real estate owned

Assets acquired through foreclosure or other proceedings are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The fair value of foreclosed properties is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data. Updated appraisals of foreclosed properties are generally obtained if the existing appraisal is more than 18 months old or more frequently if there is a known deterioration in value. However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends. Upon foreclosure, any fair value adjustment is charged against the allowance for credit losses on loans. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

Assets that were measured at fair value on a non-recurring basis during the period are summarized below (in thousands):

	Fair Value Measurements at September 30, 2024, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ 2,668	$ 2,668
Owner-occupied commercial real estate	—	—	77	77
Acquisition, construction & development	—	—	233	233
Commercial & industrial	—	—	—	—
Single family residential	—	—	871	871
Consumer non-real estate and other	—	—	—	—
Other real estate owned	—	—	2,576	2,576

	Fair Value Measurements at December 31, 2023, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate	—	—	—	—
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	—	—
Single family residential	—	—	—	—
Consumer non-real estate and other	—	—	—	—
Other real estate owned	—	—	—	—

Note 11— Fair Value Measurements (continued)

The following table presents quantitative information about Level 3 Fair Value Measurements for assets measured at fair value on a non-recurring basis at September 30, 2024, and December 31, 2023 (in thousands except for percentages):

Description	Fair Value	Valuation Techniques	Unobservable Inputs	Range
September 30, 2024				
Collateral dependent loans	$ 3,850	Appraisal of collateral	Management adjustments (e.g., liquidity, selling costs, etc.)	5.0% to 20.0% for liquidity, 6.0% to 8.0% for selling costs
Other real estate owned	2,576	Appraisal of collateral	Management adjustments (e.g., liquidity, selling costs, etc.)	5.0% to 20.0% for liquidity, 6.0% to 8.0% for selling costs
December 31, 2023				
Collateral dependent loans	$ —	Appraisal of collateral	Management adjustments (e.g., liquidity, selling costs, etc.)	5.0% to 20.0% for liquidity, 6.0% to 8.0% for selling costs

Fair value of financial instruments

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

		Fair Value Measurements at September 30, 2024, Using:			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets					
Cash and due from banks	$ 44,902	$ 44,902	$ —	$ —	$ 44,902
Interest-earning deposits with banks	246,863	246,863	—	—	246,863
Loans, net	5,506,220	—	5,412,064	—	5,412,064
Accrued interest	32,791	—	32,791	—	32,791
Financial Liabilities					
Non-interest-bearing deposits	$ 1,392,123	$ —	$ 1,392,123	$ —	$ 1,392,123
Interest-bearing deposits	5,208,702	—	5,196,728	—	5,196,728
Short-term borrowings	320,163	—	320,203	—	320,203
Subordinated debentures, net	93,532	—	93,532	—	93,532
Subordinated debentures owed to unconsolidated subsidiary trusts	16,950	—	16,950	—	16,950
Accrued interest	6,719	—	6,719	—	6,719

		Fair Value Measurements at December 31, 2023, Using:			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets					
Cash and due from banks	$ 8,896	$ 8,896	$ —	$ —	$ 8,896
Interest-bearing deposits with banks	35,602	35,602	—	—	35,602
Loans, net	2,062,455	—	—	1,897,459	1,897,459
Accrued interest	15,895	—	15,895	—	15,895
Financial Liabilities					
Non-interest-bearing deposits	$ 830,320	$ —	$ 830,320	$ —	$ 830,320
Interest-bearing deposits	2,171,561	—	2,167,218	—	2,167,218
Short-term borrowings	272,000	—	271,716	—	271,716
Accrued interest	8,954	—	8,954	—	8,954

Note 12— Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the three and nine months ended September 30, 2024, and September 30, 2023 (in thousands):

	Three months ended September 30, 2024			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	$ 2,730	$ (97,415)	$ (5,745)	$ (100,430)
Net unrealized gains (losses)	(3,071)	28,628	—	25,557
Less: net realized (gains) losses reclassified to earnings	(853)	(32)	—	(885)
Net change in pension plan benefits	—	—	—	—
Ending Balance	$ (1,194)	$ (68,819)	$ (5,745)	$ (75,758)

	Three months ended September 30, 2023			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	$ (1,196)	$ (117,950)	$ (7,031)	$ (126,177)
Net unrealized gains (losses)	(38)	(20,285)	—	(20,323)
Less: net realized (gains) losses reclassified to earnings	373	(32)	—	341
Net change in pension plan benefits	—	—	—	—
Ending Balance	$ (861)	$ (138,267)	$ (7,031)	$ (146,159)

	Nine months ended September 30, 2024			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	$ (490)	$ (97,259)	$ (5,745)	$ (103,494)
Net unrealized gains (losses)	483	29,019	—	29,502
Less: net realized (gains) losses reclassified to earnings	(1,187)	(579)	—	(1,766)
Net change in pension plan benefits	—	—	—	—
Ending Balance	$ (1,194)	$ (68,819)	$ (5,745)	$ (75,758)

	Nine months ended September 30, 2023			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	$ (1,589)	$ (130,875)	$ (7,031)	$ (139,495)
Net unrealized gains (losses)	(267)	(8,322)	—	(8,589)
Less: net realized (gains) losses reclassified to earnings	995	930	—	1,925
Net change in pension plan benefits	—	—	—	—
Ending Balance	$ (861)	$ (138,267)	$ (7,031)	$ (146,159)

Note 12— Accumulated Other Comprehensive Income (Loss) (continued)

The following table presents amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2024, and September 30, 2023 (in thousands).

	Amount Reclassified From Accumulated Other Comprehensive Income				
	Three months ended		Nine months ended		
Details about Accumulated Other Comprehensive Income Components	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023	Affected Line Item in the Statements of Income
Cash flow hedges:					
Interest rate contracts	$ —	$ (472)	$ (611)	$ (1,259)	Interest income
Interest rate contracts	1,080	—	2,113	—	Interest expense
Tax effect	(227)	99	(315)	264	Income tax expense (benefit)
Net of tax	$ 853	$ (373)	$ 1,187	$ (995)	
Available-for-sale securities:					
Realized gains (losses) on securities	$ —	$ —	$ 613	$ (111)	Net gains/(losses) on securities
Realized gains (losses) on basis adjustment for fair value hedges	41	41	120	(1,066)	Interest income
Tax effect	(9)	(9)	(154)	247	Income tax expense (benefit)
Net of tax	$ 32	$ 32	$ 579	$ (930)	
Total reclassifications, net of tax	$ 885	$ (341)	$ 1,766	$ (1,925)	Net income

Note 13— Other Operating Expense

Other operating expense from the Consolidated Statements of Income for the three and nine months ended September 30, 2024, and September 30, 2023, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
FDIC assessment	$ 1,037	$ 463	$ 2,500	$ 1,496
Historic tax credit amortization	632	632	1,895	1,895
IT related	1,003	532	2,257	1,489
Consultant fees	1,585	1,322	5,865	2,300
ATM, card, & network expense	1,640	474	3,299	1,386
Directors' fees	124	556	1,578	1,400
Audit expense	541	167	1,145	687
Legal expense	445	920	1,660	1,553
Virginia franchise tax	675	671	2,025	1,931
Marketing expense	427	116	1,134	454
Donation expense	26	—	5,145	—
Core deposit intangible amortization	4,297	—	7,162	—
Other	4,747	1,564	10,551	4,451
Total	$ 17,179	$ 7,417	$ 46,216	$ 19,042

The Company incurred Merger-related expenses of $11.3 million for the nine months ended September 30, 2024, including $1.8 million of which were incurred during the three months ended September 30, 2024. These expenses are included in the consultant fees, audit fees, legal expense, donation, and other line items detailed in other operating expenses.

Note 14— Share-Based Compensation

The Company has a share-based incentive plan described below that allows it to offer a variety of equity compensation awards subject to approval. Total compensation cost that has been charged against income for the share-based awards granted was $566.9 thousand and $610.1 thousand for the three months ended September 30, 2024, and September 30, 2023, respectively. The total income tax benefit was $119.0 thousand and $128.1 thousand for the three months ended September 30, 2024, and September 30, 2023, respectively.

Total compensation cost that has been charged against income for the share-based awards granted was $2.0 million and $1.8 million for the nine months ended September 30, 2024, and September 30, 2023, respectively. The total income tax benefit was $410.5 thousand and $377.6 thousand for the nine months ended September 30, 2024, and September 30, 2023, respectively.

2019 Stock Incentive Plan

In 2019, the Company's Stock Incentive Plan ("2019 SIP") was approved by the Bank's Board of Directors. The 2019 SIP provides for the issuance of share-based awards to directors and employees of the Company. The 2019 SIP authorized 240,000 units to be issued, and the Company's practice is using authorized unissued shares to satisfy these share-based awards. Each unit represents a contingent right to receive one common share or an equivalent amount of cash, or a combination of the two, at the discretion of the Company. Currently, we have a sufficient number of authorized unissued shares to satisfy all outstanding equity awards.

Under the 2019 SIP, the Company has issued restricted stock unit ("RSU") awards that are both time-based and performance-based. Each RSU award will indicate the number of shares, the conditions (e.g., service, performance, and/or a combination), and the grant date. Compensation expense is recognized over the vesting period of the awards based on the fair value of the award at grant date.

2023 Stock Incentive Plan

In 2023, a new stock incentive plan ("2023 SIP") was approved by the Company's Board of Directors and shareholders. Upon the 2023 SIP's shareholder approval date of March 30, 2023, no further share-based awards will be issued under the 2019 SIP. The 2023 SIP provides for the issuance of share-based awards to directors and employees of the Company. The 2023 SIP authorized the issuance of 250,000 shares, subject to an annual increase in available shares.

A total of 64,365 and 24,705 shares were issued during the nine months ended September 30, 2024, and September 30, 2023, respectively.

For time-based RSUs, the fair value was determined by using the closing stock price on the date prior to the grant date. These RSUs vest over three to five years.

The Board, from time to time, approves performance-based RSU awards that may be earned between a three to five year performance period. Whether or not units are earned at the end of the performance period will be determined based on the achievement of performance and/or market targets (e.g., market capitalization target) over the performance period. If the conditions are achieved, the grant recipient will receive 100% of the units granted as these awards do not provide for a multiplier effect. The performance/market targets are determined by the Board of Directors.

The fair value for performance-based RSU awards was determined by using a Monte Carlo simulation analysis to estimate the achievement of the market capitalization target determined by the Board of Directors. The Monte Carlo simulation analysis required the following inputs: (1) expected term, (2) expected volatility, (3) risk-free rate, and (4) dividend yield. The expected term was based on the stated performance period. Management used the expected volatility from a peer group. The risk-free interest rate is based on the U.S. Treasury yield curve over the performance period. The dividend yield assumption was based on historical and anticipated dividend payouts.

Note 14— Share-Based Compensation (continued)

The following is a summary of all the Company's RSU awards issued under both the 2019 SIP and 2023 SIP:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2023	143,585	$ 51.21
Granted	64,365	51.41
Vested	(107,520)	47.09
Forfeited	(600)	73
Non-vested at September 30, 2024	99,830	$ 55.65

As of September 30, 2024, there was $3.6 million of total unrecognized compensation costs related to non-vested shares granted under both the 2019 SIP and 2023 SIP. The cost is expected to be recognized over a weighted average period of 1.31 years.

2023 Employee Stock Purchase Plan

In 2023, a new employee stock purchase plan ("2023 ESPP") was approved by the Company's Board of Directors and shareholders. Upon the 2023 ESPP's shareholder approval date of March 30, 2023, the 2023 ESPP reserved 250,000 shares of common stock for issuance to employees. At September 30, 2024, 237,943 shares were available to be issued. Whole shares are sold to participants in the 2023 ESPP at 85% of the lower of the stock price at the beginning or end of each semi-annual offering period. The first semi-annual offering period began on September 1, 2023, and the current semi-annual offering period began on September 1, 2024. Eligible employees may purchase shares in an amount that does not exceed the lesser of the IRS limit of $25,000 or 15% of their annual salary.

The following table presents information for the 2023 ESPP at the end of September 30, 2024:

	September 30, 2024
Shares purchased	12,057
Weighted average price of shares purchased	$ 44.93
Compensation expense recognized (in 000's)	127.2

Stock Appreciation Rights ("SAR")

Upon completion of the Merger and as a part of the Merger Agreement, Burke & Herbert assumed SAR awards that had been issued to existing employees that would continue with the same terms and conditions adjusted for the exchange ratio of 0.5043. As part of the Merger, a significant portion of SAR awards accelerated their vesting and thus did not require any future service component. Management used the Black-Scholes option-pricing model to fair value these accelerated SAR awards and included this value as part of the purchase price consideration discussed in Note 16 - Business Combination.

The Company also used the Black-Scholes option-pricing model to fair value the non-accelerated SAR awards that were not fully vested. The SAR awards that have been assumed by the Company, were issued in 2019, 2021, and 2023, and these SAR awards become exercisable ratably over seven years (14.3% per year) and contractually expire ten years after the grant date.

Upon completion of the Merger, the Company determined the fair value per SAR using the following assumptions:

	2019 SAR	2021 SAR	2023 SAR
# of years to full vesting	7 years	7 years	7 years
Fair value	$ 14.89	$ 16.92	$ 14.56
Risk-free interest rate	4.51 %	4.32 %	4.14 %
Expected dividend yield	3.95 %	3.95 %	3.95 %
Expected common stock volatility	32.56 %	32.56 %	32.56 %
Expected contractual life (in years)	4.77	7.20	8.77

A summary of SAR and option activity during the nine months ended September 30, 2024, is as follows:

Note 14— Share-Based Compensation (continued)

Dollars in thousands, expect per share information	SARs	Aggregate Fair Value	Weighted Average Remaining Contractual Term (Yrs.)	Weighted Average Exercise Price
Outstanding, December 31, 2023	—	$ —	—	$ —
Granted (or acquired)	299,556	4,996	5.67	45.24
Exercised	60,894	1,147	—	40.72
Forfeited	5,642	86	—	47.96
Expired	—	—	—	—
Outstanding, September 30, 2024	233,020	$ 3,763	5.61	$ 46.34
Exercisable SARs:				
At September 30, 2024	193,613	$ 3,159	5.21	$ 45.79

The total fair value of SARs exercised was $1.1 million during the nine months ended September 30, 2024. The total fair value of SARs vested was $47.1 thousand during the nine months ended September 30, 2024. As of September 30, 2024, there was $583.2 thousand of total unrecognized compensation costs related to non-vested SARs acquired through the Merger. The cost is expected to be recognized over a weighted average period of 2.53 years.

Note 15— Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential impact of contingently issuable shares. The Company uses the treasury stock method as described by ASC 260 - *Earnings Per Share* for each dilutive instrument when computing diluted earnings per share.

The following shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares dilutive potential common stock. Dilutive potential common stock has no effect on income available to common shareholders.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income applicable to common shares (in thousands)	$ 27,397	$ 4,056	$ 15,465	$ 17,614
Weighted average number of shares	14,944,962	7,428,710	11,529,953	7,427,817
Options effect of dilutive shares	95,183	70,568	61,830	78,692
Weighted average dilutive shares	15,040,145	7,499,278	11,591,783	7,506,509
Basic earnings per common share	$ 1.83	$ 0.55	$ 1.34	$ 2.37
Diluted earnings per common share	1.82	0.55	1.33	2.35

For the three months ended September 30, 2024, and the nine months ended September 30, 2024, the options effect of dilutive shares is anti-dilutive and not considered in calculating diluted EPS. Stock awards equivalent to 27,418 and 1,368 shares of common stock were not considered in computing diluted earnings per common share for the three months ended September 30, 2024, and September 30, 2023, respectively, because they are antidilutive. Stock awards equivalent to 51,094 and zero shares of common stock are not considered in computing diluted earnings per share for the nine months ended September 30, 2024, and September 30, 2023, respectively, because they are antidilutive.

Note 16— Business Combination

Effective on May 3, 2024, Burke & Herbert completed the Merger with Summit, pursuant to the Merger Agreement.

Note 16— Business Combination (continued)

In the Merger, holders of Summit common stock outstanding at the effective time of the Merger received 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they owned, subject to the payment of cash in lieu of fractional shares. The total aggregate consideration payable in the Merger was approximately 7,405,772 shares of Burke & Herbert common stock. Additionally, each share of Summit's 6.0% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series 2021 issued and outstanding was converted into the right to receive a share of Burke & Herbert Series 2021 Preferred Stock.

Summit's results of operations from May 3, 2024, were included in the Company's results beginning with reporting as of June 30, 2024. Net interest income and pre-tax net income for Summit were estimated to be $63.0 million and $68.5 million, respectively, since the date of the acquisition through September 30, 2024, and are included in the Company's Consolidated Statement of Income. Pre-tax net income for Summit only includes income and expense that are still being recorded on Summit's core operating system. As the Company is merging data and processes, certain legacy Summit expenses, including occupancy and salaries, are now merged within the Company's core system. Merger-related costs of $27.5 million are included in non-interest expense in the Company's income statement for the nine months ended, September 30, 2024. A portion of these Merger-related costs is captured in Other Operating Non-Interest Expense as further description in Note 13 - Other Operating Expense and an additional $16.3 million of such Merger-related costs is captured in Salaries and Wages, Pensions and Other Employee Benefits, Occupancy, and Equipment rentals, depreciation and maintenance. These costs captured in those line items represent change-in-control payments, acceleration of benefit due to the change-in-control, software breakage, and other lease breakage fees. The fair value of the common shares issued as part of the consideration paid for Summit was determined in the basis of the closing price of the Company's common shares on the date of completion of the Merger.

We accounted for the Merger using the acquisition method of accounting in accordance with ASC 805, Business Combinations, and accordingly, the assets and liabilities of Summit were recorded at their respective fair values on the date of completion of the Merger. The fair values of assets and liabilities are preliminary and subject to refinement for up to one year after the acquisition date as additional information relative to the acquisition date fair values becomes available. We recognized preliminary goodwill of $32.8 million in connection with the acquisition, which is not amortized for financial reporting purposes, but is subject to annual impairment testing. The goodwill arising from the transaction is not deductible for tax purposes and consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies.

The core deposit intangible represents the value of long-term deposit relationships acquired in this transaction and will be amortized over an estimated weighted average life of 7 years using an accelerated method which approximates the estimated run-off of the acquired deposits. The fair value of intangible assets related to core deposits was $68.8 million on the date of acquisition.

The fair value of purchased financial assets with credit deterioration was $380.8 million on the date of the acquisition. The gross contractual amounts receivable relating to the purchased financial assets with credit deterioration was $442.3 million. The Company estimates, on the date of the acquisition, that $23.9 million of the contractual cash flows specific to the purchased financial assets with credit deterioration will not be collected.

The following table details the total consideration paid for Summit on May 3, 2024, the fair values of the assets acquired and liabilities assumed and the resulting preliminary goodwill at the acquisition date.

Note 16— Business Combination (continued)

($ in thousands, except share information)

Consideration		**May 3, 2024**
Common stock of Summit Financial Group, Inc.		14,686,738
Exchange ratio		0.5043
Expected Burke & Herbert common stock to be issued		7,406,522
Actual Burke & Herbert common stock issued		7,405,772
Fractional common stock to be paid in cash		750
Actual Burke & Herbert common stock issued		7,405,772
Price per share of Burke & Herbert common stock issued	$	51.67
Purchase price consideration for common stock issued		382,656
Fractional common stock to be paid in cash		750
Average 10 day closing price used to pay fractional common stock	$	53.66
Cash paid for fractional shares		40
Implied value of stock appreciation rights ("SARs") and restricted stock units		4,336
Fair value of preferred stock issued by Burke & Herbert		10,413
Fully diluted transaction value	$	397,445
Preliminary Goodwill	**$**	**32,783**

Note 16— Business Combination (continued)

($ in thousands)	As Recorded by Summit May 3, 2024	Estimated Fair Value Adjustments	Estimated Fair Value May 3, 2024
Total purchase price consideration			**$ 397,445**
Recognized amounts of identifiable assets acquired and liabilities assumed			
Cash and equivalents	$ 53,357	$ —	$ 53,357
Securities, available-for-sale, at fair value	491,608	—	491,608
Securities, held-to-maturity, at amortized cost	93,573	(7,430)	86,143
Equity and other investments	36,085	—	36,085
Loans, gross	3,707,940	(153,306)	3,554,634
Allowance for credit losses	(49,471)	25,991	(23,480)
Loans, net of allowance	3,658,469	(127,315)	3,531,154
Premises and equipment, net	62,255	13,276	75,531
Accrued interest receivable	19,610	—	19,610
Company-owned life insurance	86,363	—	86,363
Goodwill and intangibles	73,144	(4,384)	68,760
Other assets	83,381	11,322	94,703
Total identifiable assets acquired	**4,657,845**	**(114,531)**	**4,543,314**
Deposits	3,704,072	(7,136)	3,696,936
Borrowings	323,610	—	323,610
Subordinated debentures and trust preferred securities	123,533	(16,466)	107,067
Unfunded reserve liability	6,692	(3,190)	3,502
Accrued interest and other liabilities	47,537	—	47,537
Total liabilities	**4,205,444**	**(26,792)**	**4,178,652**
Total identifiable net assets	**$ 452,401**	**$ (87,739)**	**364,662**
Preliminary Goodwill			**$ 32,783**

Post Merger, all of the securities, held-to-maturity were reclassified as available-for-sale.

The following table presents supplemental pro forma information as if the Merger had occurred on January 1, 2023. The unaudited pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates.

($ in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Net Interest Income	$ 69,405	$ 74,905	$ 210,377	$ 219,460
Net Income	25,001	24,960	76,669	29,205

Note 17— Goodwill and Other Intangible Assets

The following table presents the change in goodwill for the three and nine months ended September 30, 2024, and September 30, 2023, (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning of period	$ 32,783	$ —	$ —	$ —
Acquired goodwill	—	—	32,783	—
Impairment	—	—	—	—
End of period	$ 32,783	$ —	$ 32,783	$ —

During the nine months ended, September 30, 2024, the Company recorded $32.8 million of preliminary goodwill associated with the acquisition of Summit. See Note 16 - Business Combination to the consolidated financial statements for additional detail regarding this transaction.

The Company performs the annual goodwill impairment test on September 30 every year.

Other intangible assets consist of the core deposit intangible which is being amortized on an accelerated basis over its estimated useful life of 7 years. During the nine months ended, September 30, 2024, the Company recorded $68.8 million of core deposit intangibles associated with the acquisition of Summit.

The gross carrying amounts and accumulated amortization of other intangible assets for the nine months ended September 30, 2024, were as follows (in thousands):

	Nine Months Ended September 30, 2024
Beginning of period	$ —
Core deposit intangible acquired	68,760
Accumulated amortization	(7,162)
Impairment	—
Total core deposit intangible	$ 61,598

The Company reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Total amortization expense associated with intangible assets was $7.2 million for the nine months ended September 30, 2024.

Estimated amortization expense for future years is as follows (in thousands):

	Estimated Amortization
Remaining three months ending, December 31, 2024	$ 4,298
2025	15,553
2026	13,097
2027	10,641
2028	8,186
Thereafter	9,823
Total	$ 61,598

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

The following discussion and analysis of our consolidated financial condition and results of operations of the Company should be read in conjunction with the preceding consolidated financial statements and notes presented in Item 1. Financial Statements of this Form 10-Q, as well as with the audited consolidated financial statements and notes for the year ended December 31, 2023, included in our Form 10-K filed with the SEC on March 22, 2024, and as amended on April 12, 2024 (the "Form 10-K"). Historical results of operations and the percentage relationships among any amounts included and any trends that may appear may not indicate trends in operations or results of operations for any future periods. We are a financial holding company, and we conduct all of our material business operations through the Bank. As a result, the discussion and analysis below primarily relate to activities conducted at the Bank.

Disclosure Regarding Forward-Looking Statements

This Form 10-Q contains statements that we believe are, or may be considered to be, "forward-looking statements". Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on current beliefs, expectations, or assumptions regarding the future of the business, future plans and strategies, operational results, and other future conditions of the Company. All statements other than statements of historical fact included in this Form 10-Q regarding the prospects of our industry or our prospects, plans, financial position, or business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "plans," "expects" or "does not expect," "is expected," "look forward to," "budget," "scheduled," "estimates," "forecasts," "will continue," "intends," "the intent of," "have the potential," "anticipates," "does not anticipate," "believes," "should," "should not," or variations of such words and phrases that indicate that certain actions, events, or results "may," "could," "would," "might," or "will," "be taken," "occur," or "be achieved," or the negative of these terms or variations of them or similar terms. Furthermore, forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections, and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, and intentions expressed in such forward-looking statements. Important risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company, as applicable, to be materially different from any expected future results, performance, or achievements expressed or implied by such forward-looking information and statements include, but are not limited to, the risks described in Item 1A, under the caption "Risk Factors" in our Form 10-K, and in Part II, Item 1A. Risk Factors in this Form 10-Q.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this Form 10-Q, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Form 10-Q.

We have made, and will continue to make, various forward-looking statements with respect to financial and business matters. Comments regarding our business that are not historical facts are considered forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements.

Overview

Burke & Herbert Financial Services Corp. was organized as a Virginia corporation on September 14, 2022, to serve as the holding company for the Bank. Burke & Herbert commenced operations as a bank holding company on October 1, 2022, following a reorganization transaction in which it became the Bank's holding company. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of Burke & Herbert. In September 2023, Burke

& Herbert elected financial holding company status. As a financial holding company, Burke & Herbert is subject to regulation and supervision by the Federal Reserve. Burke & Herbert has no material operations and owns 100% of the Bank. The Bank is a Virginia chartered commercial bank that commenced operations in 1852. The Bank is supervised and regulated by the FDIC and the Virginia BFI.

The Bank's primary market area includes northern Virginia and West Virginia, and it has over 75 branches and commercial loan offices across Delaware, Kentucky, Maryland, Virginia, and West Virginia. The Company's branch locations accept business and consumer deposits from a diverse customer base. The Company's deposit products include checking, savings, and term certificate accounts. The Company's loan portfolio includes commercial and consumer loans, a substantial portion of which are secured by real estate.

The Bank derives a significant portion of its income from interest received on loans and investments. The Bank's primary source of funding is deposits, both interest-bearing and non-interest-bearing. In order to maximize the Bank's net interest income, or the difference between the income on interest-earning assets and the expense of interest-bearing liabilities, the Bank must not only manage the volume of these balance sheet items, but also the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities. To account for credit risk inherent in all loans, the Bank maintains an ACL to absorb expected credit losses on existing loans that may become uncollectible. The Bank establishes and maintains this ACL by charging a provision for credit losses against operating earnings. In order to maintain its operations and branch locations, the Bank incurs various operating expenses which are further described within the "Results of Operations" later in this section.

As of September 30, 2024, we had total consolidated assets of $7.9 billion, gross loans of $5.6 billion, total deposits of $6.6 billion, and total shareholders' equity of $738.1 million. As of September 30, 2024, we had 857 full-time employees. None of our employees are covered by a collective bargaining agreement.

Merger with Summit Financial Group, Inc.

Effective on the Closing Date, Burke & Herbert completed the Merger with Summit, pursuant to the August 24, 2023 Merger Agreement.

Pursuant to the Merger Agreement, on the Closing Date, (i) Summit merged with and into Burke & Herbert through the Merger, and (ii) immediately following the Merger, SCB merged with and into the Bank, with the Bank as the surviving bank.

In the Merger, holders of Summit common stock outstanding at the effective time of the Merger received 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they owned, subject to the payment of cash in lieu of fractional shares. The total aggregate consideration payable in the Merger was approximately 7,405,772 shares of Burke & Herbert Common Stock. Additionally, each share of the Summit Series 2021 Preferred Stock issued and outstanding was converted into the right to receive a share of the new Burke & Herbert Series 2021 Preferred Stock. Summit results of operations are included from the Closing Date forward.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and conform to general practices within the industry in which we operate. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions, and judgments based on available information. These estimates, assumptions, and judgments affect the amounts reported in the financial statements and accompanying notes and are based on information available as of the date of the financial statements, and, as this information changes, actual results could differ from the estimates, assumptions, and judgments reflected in the financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions, and judgments inherent in those policies, are critical in understanding our financial statements.

Our most significant accounting policies are presented in the notes to the accompanying consolidated financial statements. These policies, along with the other disclosures presented in the financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, we have identified business combination and goodwill, the

determination of the allowance for credit losses, and income taxes to be the accounting areas that require the most subjective or complex judgments, and as such, could be most subject to revision as new information becomes available.

Business Combination and Goodwill

For acquisitions, we are required to record the assets acquired, including identified intangible assets such as core deposit intangibles, and the liabilities assumed at their respective fair values. The difference between consideration and the net fair value of assets acquired is recorded as goodwill. Management uses significant estimates and assumptions to value such items, including projected cash flows, repayment rates, default rates and losses assuming default, discount rates, and realizable collateral values. The allowance for credit losses for PCD loans is recognized within acquisition accounting. The allowance for credit losses for non-PCD assets is recognized as provision for credit losses in the same reporting period as the acquisition. Fair value adjustments are amortized or accreted into the income statement over the estimated life of the acquired assets or assumed liabilities. The purchase date valuations and any subsequent adjustments determine the amount of goodwill recognized in connection with the acquisition. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on our results of operations. The carrying value of goodwill recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill.

The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. In addition, we engage third party specialists to assist in the development of fair values. Preliminary estimates of fair values may be adjusted for a period of time subsequent to the acquisition date if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Adjustments recorded during this period are recognized in the current reporting period. Management uses various valuation methodologies to estimate the fair value of these assets and liabilities, and often involves a significant degree of judgment, particularly when liquid markets do not exist for the particular item being valued. Examples of such items include loans, deposits, identifiable intangible assets, and certain other assets and liabilities.

Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of assets, including goodwill and liabilities, which could result in impairment losses affecting our financial statements as a whole and our banking subsidiary in which the goodwill resides.

Allowance for Credit Losses

The allowance for credit losses represents our estimate of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and projections including reasonable and supportable forecasts, reversion, and post-reversion forecasts. It is a valuation account that is deducted from the financial assets' amortized cost basis to present the net amount expected to be collected on the financial asset. Financial assets are charged-off against the allowance when management believes the uncollectibility of a financial asset is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company's loan portfolio is the largest financial asset that is in scope of this critical accounting estimate. Determining the amount of the allowance for credit losses is considered a critical accounting estimate, because it is based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts, and prepayment experience as related to credit contractual terms. Management estimates the allowance balance using relevant available information from internal and external sources. Historical credit loss experience provides the basis for the estimation of expected credit losses; adjustments to historical loss information are made for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, and delinquency levels, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. The model methodology used for funded credits, along with taking into consideration the probability of drawdowns or funding on unfunded commitments and whether such commitments are irrevocable or not by the Company, is how the Company determines the allowance for credit losses for unfunded commitments. These evaluations are conducted at least quarterly and more frequently, if deemed necessary.

The Company is using an internally developed model that produces an estimate of the allowance for credit losses as the lifetime expected credit losses of the loan portfolio. This model uses a remaining useful life or WARM method within defined-contractual terms by federal call codes. The model forecasts net charge-off rates by call codes using ordinary least

squares ("OLS") regression models that use macroeconomic variables to forecast the Company's and peer banks' net charge-off rates. These models are used to produce reasonable and supportable forecasts of net charge-off rates. The macroeconomic variables utilized by the Company include variables that meet defined criteria in forecasting credit losses for our loan portfolio. These variables include, but are not limited to, unemployment rates, housing and commercial real estate prices, gross domestic product levels, equity market conditions or interest rates, as well as other variables that are portfolio-specific, such as those pertaining to commercial real estate or to residential loan portfolios. The Company sources the macroeconomic variables and the macroeconomic variable forecasts that it uses in its ACL model from the Standard & Poor's Global Market Intelligence and from CoStar Group.

The Company currently has set an initial reasonable and supportable period of two years with a subsequent straight-line loss-rate reversion for the following four quarters before then utilizing historical average loss rates in remaining periods of the modeled contractual terms. Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond information used to calculate reasonable and supportable, reversion and post-reversion period forecasts on collectively evaluated loans. As the reasonable and supportable and reversion period forecasts reflect the use of the macroeconomic variable loss drivers, management may consider that an additional or reduced reserve is warranted through qualitative risk factors based on current and expected conditions, including those that utilize supplemental information relative to the macroeconomic variable loss drivers. Qualitative adjustments considered by management include the following: (i) management's assessment of macroeconomic forecasts used in the model and how those forecasts align with management's overall evaluation of current expected credit conditions; (ii) organization specific risks such as credit concentrations, collateral specific risks, nature and size of the portfolio, and external factors that may ultimately impact credit quality; and (iii) underwriting and delinquency trends. The qualitative factors applied at September 30, 2024, and the importance and levels of the qualitative factors applied, may change in future periods depending on the level of changes to items such as the uncertainty of economic conditions and management's assessment of the level of credit risk within the loan portfolio as a result of such changes, compared to the amount of ACL calculated by the model. Management reviews supplemental data sources including historical net charge-off rates and data measuring other specific credit outcomes from its systems of record in supporting qualitative factors. However, qualitative factor evaluations are inherently imprecise and require significant management judgement.

Income Taxes

The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated taxes due. The calculation of each component of the Company's income tax provision is complex and requires the use of estimates and judgments in its determination. As part of the Company's evaluation and implementation of business strategies, consideration is given to the regulations and tax laws that apply to the specific facts and circumstances for any tax positions under evaluation. Management closely monitors tax developments on both the federal and state level in order to evaluate the effect they may have on the Company's overall tax position and the estimates and judgments used in determining the income tax provision and records adjustments, as necessary.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expenses. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company must consider all available evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and the results of recent operations. A valuation allowance is recognized for a deferred tax asset if, based on the available evidence, it is more likely than not that some portion or all of a deferred tax asset will not be realized. See Note 8 — Income Taxes, in Notes to the December 31, 2023, Consolidated Financial Statements of the Company for additional information.

Non-GAAP Financial Measures

We prepare our financial statements in accordance with U.S. GAAP and also present certain non-GAAP financial measures that exclude certain items or otherwise include components that differ from the most directly comparable measures calculated in accordance with U.S. GAAP. Non-GAAP measures are provided as additional useful information to assess our financial condition and results of operations (including period-to-period operating performance). These non-GAAP measures are not intended as a substitute for GAAP financial measures and may not be defined or calculated the same way as non-GAAP measures with similar names used by other companies. For more information, including the reconciliation of these non-GAAP financial measures to their corresponding GAAP financial measures, see the respective sections where the measures are presented.

Current Economic Environment in the Financial Services Industry

Commercial Real Estate Sector Concentration

The commercial real estate ("CRE") sector has been impacted significantly by rising interest rates and higher vacancies, increasing the prospect of default that borrowers may face due to the record amount of upcoming maturities. In addition, the office market continues to struggle with fewer employees in the office after the COVID-19 pandemic. The Bank continues to monitor its commercial real estate portfolio by reviewing various credit risk and concentration reports. The Bank's exposure to commercial real estate at September 30, 2024, was $2.5 billion, or 45.4%, of its gross loan portfolio, not including owner-occupied commercial real estate and acquisition, construction & development. Commercial real estate as a percent of total assets at September 30, 2024, was 32.1%, not including owner-occupied commercial real estate and acquisition, construction & development. Including owner-occupied commercial real estate and acquisition, construction & development, total exposure was at $3.6 billion, or 64.8%, of our total gross loans and 45.9% of total assets at September 30, 2024.

Loan balances by portfolio segment amortized cost (in thousands) and by percentage of our total gross loan portfolio at September 30, 2024, were as follows:

	September 30, 2024	
	Amortized Cost	Percentage
Commercial real estate	$ 2,526,945	45.4 %
Owner-occupied commercial real estate	637,175	11.4
Acquisition, construction & development	447,449	8.0
Commercial & industrial	562,653	10.1
Single family residential (1-4 units)	1,197,245	21.5
Consumer non-real estate and other	202,570	3.6
Total gross loans	$ 5,574,037	100.0 %

Monitoring of the CRE concentration is performed at both the loan level and at the portfolio level. The Credit Risk Management team provides management and the Board of Directors with periodic reports on the credit portfolio, which include the CRE portfolio (including owner-occupied CRE and acquisition, construction & development loans). These reports provide an assessment of asset quality and risk rating migration and monitor concentrations against the board approved concentration limits (including sub-limits). The tables below present the Bank's commercial real estate, owner-occupied commercial real estate, and acquisition, construction & development portfolios by collateral type and geographic location as of September 30, 2024 (in thousands).

	Commercial Real Estate by Collateral Type and Geographic Location						
	VA	WV	MD	DC	Other	Total	Percentage
Retail Real Estate	$ 284,474	$ 64,486	$ 125,825	$ 39,459	$ 48,422	$ 562,666	22.3 %
Multi-Family	234,966	110,142	43,335	81,050	26,764	496,257	19.6
Office Buildings/Condos	188,601	37,691	121,005	28,860	30,870	407,027	16.2
Hotels/Motels	134,199	53,917	65,881	51,941	77,458	383,396	15.2
Industrial/Warehouse	198,494	4,161	20,616	—	—	223,271	8.8
Self-Storage	67,339	29,720	1,486	—	27,763	126,308	5.0
Nursing-Assisted Living	43,798	—	6,107	—	21,826	71,731	2.8
Restaurants	17,072	1,805	7,639	7,012	6,004	39,532	1.6
Gas Stations	7,294	1,808	2,100	14,741	3,070	29,013	1.1
Other	106,878	4,171	20,104	43,594	12,997	187,744	7.4
Total	$ 1,283,115	$ 307,901	$ 414,098	$ 266,657	$ 255,174	$ 2,526,945	100.0 %

	Owner-Occupied Commercial Real Estate by Collateral Type and Geographic Location						
	VA	WV	MD	DC	Other	Total	Percentage
Office Buildings/Condos	$ 69,034	$ 29,585	$ 21,071	$ 635	$ 14,271	$ 134,596	21.1 %
Retail	44,945	50,305	14,413	—	23,546	133,209	20.9
Industrial/Warehouse	47,857	16,334	1,785	—	18,396	84,372	13.2
Gas Stations	26,670	10,653	10,018	—	28,482	75,823	11.9
Restaurants	6,394	8,169	3,715	—	14,078	32,356	5.1
Churches/Religious Organizations	22,041	8,718	1,567	238	3,421	35,985	5.6
Coal, oil, gas, and natural resource extraction	902	10,268	—	—	126	11,296	1.8
Private School	7,509	—	—	—	—	7,509	1.2
Other	49,546	19,881	8,536	554	43,512	122,029	19.2
Total	$ 274,898	$ 153,913	$ 61,105	$ 1,427	$ 145,832	$ 637,175	100.0 %

	Acquisition, Construction & Development by Collateral Type and Geographic Location						
	VA	WV	MD	DC	Other	Total	Percentage
Multi-Family	$ 286	$ 3,946	$ 27,424	$ 48,182	$ 40,799	$ 120,637	27.0 %
Land	63,515	29,281	10,998	58	8,004	111,856	25.0
Office Buildings/Condos	11,877	—	—	28,516	37,781	78,174	17.5
Self-Storage	9,140	569	22,621	—	22,544	54,874	12.3
Retail Real Estate	13,697	6,548	10,537	—	2,486	33,268	7.4
Residential For-Sale	4,597	5,092	1,059	3,254	337	14,339	3.2
Other	3,358	5,084	12,428	—	13,431	34,301	7.6
Total	$ 106,470	$ 50,520	$ 85,067	$ 80,010	$ 125,382	$ 447,449	100.0 %

CRE loans are monitored through various processes that include payment monitoring, financial reporting, and covenant compliance monitoring, and annual reviews for larger relationships. Furthermore, construction loans are monitored throughout the life of the project and the construction loan administration function is centralized within the Credit Risk Management team. Monitoring the market conditions is also an important component of prudent CRE risk management. Quarterly construction progress reviews are also completed on all acquisition, construction & development loans. For each loan, management reviews the adequacy of the construction budget, adequacy of the interest reserve, pace of construction, and review of any loan covenants.

The Bank believes its underwriting and monitoring standards for commercial real estate loans are sufficient to evaluate its loan portfolio and keep it from incurring significant losses. The largest concentration of the Bank's commercial real estate loans are in Virginia (approximately 46.1%), and the Bank does not have significant exposure to any economic areas of the country that are underperforming the national economy. Additionally, the Bank's overall exposure to the "Office Building / Condo" collateral type is 17.2% of total commercial real estate loans, including owner-occupied commercial real estate and acquisition, construction & development. The Bank believes that the combined loan portfolio is well-diversified, generally seasoned, manageable, and will outperform the industry in terms of performance through the economic cycle; however, our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans. For further discussion see Part II, Item 1A. "Risk Factors".

2023 Banking Failures and Ensuing Banking Industry Liquidity Concerns

In response to the bank failures that occurred during March and May 2023 and the attendant stress on economic agents, including various financial markets, the Company took multiple proactive measures to mitigate any potential financial and operational impacts. Such measures included, but were not limited to:

- dissemination of internal communication to inform the Board and employees of current events and the Company's condition and desired market response;

- testing of available liquidity sources;
- real-time analysis of our deposit composition and deposit concentrations;
- assessment of our investment securities portfolio; and
- stress testing of liquidity and capital metrics based on observed financial conditions with particular emphasis on the causes of such risk events.

For further discussion see Part II, Item 1A. "Risk Factors". The measures were taken following meetings convened by a subcommittee provided for in our Asset/Liability policy more fully described in Item 3. — Quantitative and Qualitative Disclosures About Market Risk.

The Company's key inputs and certain assumptions of the stress testing included, but were not limited to, uninsured deposits, deposit composition and deposit flows, borrowings and borrowing capacity, interest rate movements and sensitivity, unrealized losses in the investment securities portfolio, loan balances and loan demand, credit risks, and current allowances for credit losses. Results of the stress tests indicated capital levels that remained above the well capitalized regulatory ratios and liquidity metrics remained within internal policy guidelines. For additional information related to capital, see Notes to the Consolidated Financial Statements – Note 8 — Regulatory Capital Matters. The Company intends to continue conducting such stress tests on a periodic basis.

Liquidity Management

Liquidity is the ability of the Company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Company's ability to meet the day-to-day cash flow requirements of its customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves.

The Company assesses the need for liquidity in a variety of scenarios. Those scenarios may include projected growth, credit deterioration, deposit decay, interest rate changes, and a variety of other economic scenarios that can impact the liquidity position of the Company. These analyses are performed on a quarterly basis in conjunction with the Company's Asset/Liability meetings, and findings are reported to the Asset/Liability Committee (the "ALCO") and to the Board. From time to time, management may change the frequency of such testing or update certain inputs as a result of abnormal market conditions.

Findings, as a result of the Company's prudent liquidity modeling, may result in the change of certain products offered to customers or adjust the way the Company manages its balance sheet. Such changes could include adjusting interest rates offered on certain deposit products, changes to interest rates charged in lending activities, or the suspension of certain products and activities altogether. Times of significant economic stress may cause the mix of funding to shift and increase the likelihood of changes to certain products in order to manage the Company's overall liquidity and capital position.

The asset portion of the balance sheet provides liquidity primarily through unencumbered securities available-for-sale, loan principal and interest payments, maturities and prepayments of investment securities, and, to a lesser extent, sales of investment securities available-for-sale. Other short-term investments available to the Company that could act as potential sources of liquidity are federal funds sold, securities purchased under agreements to resell, and maturing interest-bearing deposits with other banks.

The liability portion of the balance sheet provides liquidity through interest-bearing and non-interest-bearing deposit accounts and through FHLB and other borrowings. Brokered deposits, federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings are additional sources of liquidity and basically represent the Company's incremental borrowing capacity. These sources of liquidity are used as necessary to fund asset growth and meet short-term liquidity needs.

In addition to the Company's financial performance and condition, liquidity may be impacted by the Company's structure as a financial holding company that is a separate legal entity from the Bank. The Company requires cash for various operating needs that could include payment of dividends to its shareholders, the servicing of debt, and the payment of general corporate expenses. The primary source of liquidity for the Company is dividends paid by the Bank. Applicable

federal and state statutes and regulations impose restrictions on the amount of dividends that may be paid by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits, and other such items. Any future dividends must be set forth in the Company's capital plans before any dividends can be paid.

Management believes that the current sources of liquidity are adequate to meet the Company's requirements and plans for continued growth. See Note 6 - Borrowed Funds and Note 10 - Commitments and Contingencies, in Notes to Consolidated Financial Statements for additional information regarding outstanding balances of sources of liquidity and contractual commitments and obligations.

Capital

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Applicable Basel III Capital Rules require the Company and the Bank to maintain minimum Common Equity Tier 1 ("CET 1"), Tier 1, and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and counter-cyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "counter-cyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or the Bank.

Under capital adequacy guidelines and the regulatory framework for "prompt corrective action", the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Additionally, federal banking laws require regulatory authorities to take "prompt corrective action" with respect to depository institutions that do not satisfy minimum capital requirements. The extent of these powers depends upon whether the institution in question is "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", or "critically undercapitalized", as such terms are defined under federal banking agency regulations. Depository institutions that do not meet minimum capital requirements will face constraints on payment of dividends, equity repurchases, and compensation based on the amount of shortfall. A depository institution that is not "well capitalized" is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, may be subject to asset growth limitations, and may be required to submit capital restoration plans.

As of September 30, 2024, and December 31, 2023, the Bank complied with all regulatory capital standards and qualifies as "well capitalized". Note 8 - Regulatory Capital Matters in Notes to Consolidated Financial Statements contains additional discussion and analysis regarding the Company and the Bank's regulatory capital requirements.

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature; therefore, a financial institution differs greatly from most commercial and industrial companies, which have significant investments in fixed assets or inventories that are greatly impacted by inflation. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher-than-normal rates in order to maintain an appropriate equity-to-assets ratio. Inflation also affects other expenses that tend to rise during periods of general inflation.

Management believes the most significant potential impact of inflation on financial results is a direct result of the Company's ability to manage the impact of changes in interest rates. Management attempts to maintain a balanced position between rate-sensitive assets and liabilities over an economic cycle in order to minimize the impact of interest rate

fluctuations on net interest income. However, this goal can be difficult to completely achieve in times of rapidly changing interest rates and is one of many factors considered in determining the Company's interest rate positioning.

Key Factors Affecting Financial Performance

We face a variety of risks that may impact various aspects of our financial performance from time to time. The extent of such impacts may vary depending on factors such as the current business and economic conditions, political and regulatory environment, and operational challenges. Many of these risks and our risk management strategies are described in more detail elsewhere in this Report as well as with the audited consolidated financial statements and notes for the year ended December 31, 2023, included in our Form 10-K.

Our success will depend upon, among other things, the following factors that we manage or control:

- Effectively managing capital and liquidity, including:
    - Continuing to maintain and, over time, grow our deposit base as a low-cost stable funding source,
    - Prudent liquidity and capital management to meet evolving regulatory capital, capital planning, stress testing, and liquidity standards, and
    - Actions we take within the capital and other financial markets,
- Our ability to manage any material costs related to the execution of our strategic priorities, including increased employees, infrastructure, compliance, and other costs in a profitable manner over the long term,
- Management of credit risk and interest rate risk in our portfolio,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- The impact of legal and regulatory-related contingencies,
- The appropriateness of critical accounting estimates and related contingencies,
- Our ability to manage operational risks related to new products and services, changes in processes and procedures, or the implementation of new technology,
- The ability to make investments to promote compliance with existing and evolving regulatory requirements that will increase as the Company grows and will result in increased administrative expenses that we did not previously incur, which costs may materially increase our general and administrative expenses, and
- The ability to execute our strategic objectives, including successfully integrating Summit's operations, people, and technology with ours, and continuing to efficiently satisfy the obligations associated with being a public company, all of which will require significant resources and management attention and may divert management's attention from our business operations.

Our financial performance is also substantially affected by a number of external factors outside of our control, including the following:

- Economic conditions, including the length and extent of the economic impacts of events affecting the financial services market generally as well as pandemics and political instability and conflicts, and any actions taken to mitigate and manage such impacts,
- The effect of climate change on our business and performance, including indirectly through impacts on our customers,
- The actions by the Federal Reserve, U.S. Treasury, and other government agencies, including those that impact money supply and market interest rates and inflation,
- The level of, and direction, timing, and magnitude of movement in interest rates and the shape of the interest rate yield curve,

- The functioning and other performance of and availability of liquidity in U.S. and global financial markets, including capital markets,
- The impact of tariffs and other trade policies of the U.S. and its global trading partners,
- Changes in the competitive landscape,
- Impacts of changes in federal, state, and local governmental policy, including on the regulatory landscape, capital markets, taxes, infrastructure spending, and social programs,
- The impact of market credit spreads on asset valuations,
- The ability of customers, counterparties, and issuers to perform in accordance with contractual terms and the resulting impact on our asset quality,
- Loan demand, utilization of credit commitments, and standby letters of credit,
- The impact on customers and changes in customer behavior due to changing business and economic conditions or regulatory or legislative initiatives,
- Our ability to successfully integrate into our operations Summit's assets, liabilities, and systems, as well as new management personnel and customers, and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto.

The impact of these items, where material, is discussed in the applicable sections of this Management's Discussion and Analysis of Financial Condition and Results of Operation. For additional information on the risks we face, see Part II, Item 1A. - Risk Factors.

Selected Financial Data

The following table contains selected historical consolidated financial data as of the dates and for the periods shown. The selected balance sheet data as of September 30, 2024, and September 30, 2023, and the selected income statement data for the three months and nine months ended September 30, 2024, and September 30, 2023, have been derived from our consolidated financial statements included elsewhere in this Form 10-Q and in other filings we have submitted with the SEC and should be read in conjunction with the other information contained in this Form 10-Q.

	As of the Three Months Ended September 30,		As of the Nine Months Ended September 30,	
(In thousands, except ratios, share and per share data)	**2024**	**2023**	**2024**	**2023**
Selected Financial Condition Data:				
Total assets	$ 7,864,913	$ 3,585,188	$ 7,864,913	$ 3,585,188
Total cash and cash equivalents	291,765	41,864	291,765	41,864
Total investment securities, at fair value	1,436,431	1,224,395	1,436,431	1,224,395
Net loans	5,506,220	2,044,505	5,506,220	2,044,505
Company-owned life insurance	182,380	94,213	182,380	94,213
Premises and equipment, net	134,770	57,514	134,770	57,514
Total deposits	6,600,825	2,985,618	6,600,825	2,985,618
Short-term borrowings	320,163	299,000	320,163	299,000
Total shareholders' equity	738,059	270,819	738,059	270,819
Common shareholders' equity	727,646	270,819	727,646	270,819

	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Selected Operating Data:				
Interest income	$ 118,526	$ 37,272	$ 253,368	$ 108,716
Interest expense	45,347	14,383	98,293	37,261
Net interest income	73,179	22,889	155,075	71,455
Provision for credit losses	147	235	23,387	964
Total non-interest income	10,616	4,289	24,375	13,128
Total non-interest expenses	50,826	22,423	136,423	64,136
Income before income taxes	32,822	4,520	19,640	19,483
Income tax expense	5,200	464	3,725	1,869
Preferred stock dividends	225	—	450	—
Net income applicable to common shares	27,397	4,056	15,465	17,614
Per Share Data:				
Average shares of common stock outstanding, basic	14,944,962	7,428,710	11,529,953	7,427,817
Average shares of common stock outstanding, diluted	15,040,145	7,499,278	11,591,783	7,506,509
Total shares of common stock outstanding	14,963,003	7,428,710	14,963,003	7,428,710
Basic net income per common share	$ 1.83	$ 0.55	$ 1.34	$ 2.37
Diluted net income per common share	1.82	0.55	1.33	2.35
Dividends declared per common share	0.53	0.53	1.59	1.59
Common stock dividend payout ratio [1]	29.12 %	96.36 %	119.55 %	67.66 %
Book value per common share (at period end)	$ 48.63	$ 36.46	$ 48.63	$ 36.46

	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2024	2023	2024	2023
Performance Ratios:				
Return on average assets	1.40 %	0.45 %	0.35 %	0.65 %
Return on average equity	15.20	5.60	3.90	8.22
Interest rate spread (2)	3.35	2.10	3.06	2.30
Net interest margin (3)	4.07	2.76	3.78	2.90
Efficiency ratio (4)	60.66	82.50	76.02	75.83
Capital Ratios:				
Common equity tier 1 (CET 1) capital to risk-weighted assets	11.40 %	16.44 %	11.40 %	16.44 %
Total risk-based capital to risk-weighted assets	14.45	17.48	14.45	17.48
Tier 1 capital to risk-weighted assets	11.83	16.44	11.83	16.44
Tier 1 capital to average assets (leverage ratio)	9.66	11.32	9.66	11.32
Asset Quality Ratios:				
Allowance coverage ratio	1.22 %	1.26 %	1.22 %	1.26 %
Allowance for credit losses as a percentage of non-performing loans	189.05	914.25	189.05	914.25
Net charge-offs to average outstanding loans during the period	0.01	0.00	0.02	0.00
Non-performing loans as a percentage of total loans	0.64	0.14	0.64	0.14
Non-performing assets as a percentage of total assets	0.49	0.08	0.49	0.08
Other Data:				
Number of full-service branches	75	23	75	23
Number of full-time equivalent employees	857	404	857	404

(1) The dividend payout ratio represents per share dividends declared divided by diluted earnings per share.

(2) The interest rate spread represents the difference between the fully taxable-equivalent weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.

(3) The net interest margin represents fully taxable-equivalent net interest income as a percent of average interest-earning assets for the period.

(4) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income.

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2024, and September 30, 2023

General

Net income applicable to common shares for the nine months ended September 30, 2024, was $15.5 million compared to net income applicable to common shares of $17.6 million for the nine months ended September 30, 2023. The $2.1 million decrease in net income applicable to common shares was primarily the result of merger related expenses and one-time CECL Day 2 provision for non-PCD assets acquired in the Merger for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023.

Net interest income increased by $83.6 million to $155.1 million for the nine months ended September 30, 2024, compared to $71.5 million for the nine months ended September 30, 2023. The main driver for this increase was the impact of the Merger.

For the nine months ended September 30, 2024, the Company recorded credit provision expense of $23.4 million compared to a provision of $1.0 million for the nine months ended September 30, 2023. For the nine months ended September 30, 2024, the Company recognized a one-time CECL Day 2 provision for non-PCD assets acquired in the Merger, which

resulted in a higher credit provision expense for the nine months ended September 30, 2024, compared to the nine months ended, September 30, 2023.

Non-interest income increased by $11.2 million, or 85.7%, to $24.4 million for the nine months ended September 30, 2024, as compared to $13.1 million for the nine months ended September 30, 2023, as a result of the Merger. In addition, the Company liquidated the majority of the acquired securities portfolio that resulted in a gain on sale of securities of $0.6 million.

Non-interest expense increased by $72.3 million, or 112.7%, to $136.4 million for the nine months ended September 30, 2024, compared to $64.1 million for the nine months ended September 30, 2023. The increase was primarily due to effect of the Merger and also included higher legal fees, consulting fees, audit fees, investment banking fees, software contract terminations, change-in-control salary and benefit payments, funding a charitable donation (as part of the Merger Agreement), and other expenses related to the Merger. For the nine months ended September 30, 2024, the Company incurred $27.5 million of expenses related to the Merger with Summit.

Net Interest Income and Net Interest Margin

Net interest income is the principal component of the Company's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Net interest margin, stated as a percentage, is the yield obtained by dividing the difference between interest income generated on earning assets and the interest expense paid on all funding sources by average earning assets.

Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest-bearing liabilities can impact net interest income and net interest margin. Management closely monitors both total net interest income and the net interest margin and seeks to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities.

Net interest income totaled $155.1 million for the nine months ended September 30, 2024, compared to $71.5 million for the nine months ended September 30, 2023. The increase in net interest income was primarily driven by higher interest earning assets, higher rates, and higher accretion income, as a result of the Merger. Accretion income associated with acquired loans and borrowings totaled $28.8 million for the nine months ended September 30, 2024. Amortization expense associated with fair value marks for time deposits, subordinated debt, and trust preferred securities totaled $6.3 million for the nine months ended September 30, 2024.

The tax-adjusted net interest margin was 3.78% for the nine months ended September 30, 2024, compared to 2.90% for the nine months ended September 30, 2023. The increase in tax-adjusted net interest margin was primarily driven by the effect of the Merger and the acquisition of additional, higher-yielding interest-earning assets.

The yield for the taxable loan portfolio was 7.01% for the nine months ended September 30, 2024, compared to 5.01% for the nine months ended September 30, 2023. The increase was primarily the result of the effect of the Merger which resulted in the acquisition of additional, higher-yielding loans.

The tax-adjusted yield on the total investment securities portfolio was 3.81% for the nine months ended September 30, 2024, compared to 3.42% for the nine months ended September 30, 2023. The increase was partly due to higher yields in our investment portfolio in addition to the Merger, which resulted in the acquisition of additional securities with higher tax-adjusted yields.

The yield on interest-bearing deposits increased to 2.86% during the nine months ended September 30, 2024, from 1.70% during the nine months ended September 30, 2023. The increase was a result of the Merger which resulted in the assumption of additional interest-bearing deposits with higher interest rates and to a lesser extent by higher market interest rates.

The yield on our short-term borrowings for the nine months ended September 30, 2024, was 4.42%, compared to 4.67% for the nine months ended September 30, 2023. The decrease was due to decreases in the Federal Funds Rate and other short-term market rates. The yield on our subordinated debt acquired in the Merger was 10.21%.

The following table sets forth the major components of net interest income and the related yields and rates for the nine months ended September 30, 2024, and September 30, 2023, for comparison (dollars in thousands).

	For the Nine Months Ended September 30,					
	2024			2023		
	Average Outstanding Balance	Interest Income/Expense	Average Yield / Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield / Rate
Assets:						
Taxable loans [1][2]	$ 4,068,804	$ 213,400	7.01 %	$ 1,985,898	$ 74,485	5.01 %
Tax-exempt loans [1][2]	2,457	103	5.60	—	—	N/A
Total loans	4,071,261	213,503	7.00 %	1,985,898	74,485	5.01 %
Interest-earning deposits and fed funds sold	104,168	2,738	3.51	55,870	1,858	4.45
Taxable securities	991,723	30,096	4.05	1,040,695	28,130	3.61
Tax-exempt securities [3]	375,762	8,928	3.17	267,135	5,371	2.69
Total securities	1,367,485	39,024	3.81	1,307,830	33,501	3.42
Total interest-earning assets	5,542,914	255,265	6.15	3,349,598	109,844	4.38
Non-interest-earning assets	430,892			248,292		
Total assets	$ 5,973,806			$ 3,597,890		
Liabilities and shareholders' equity:						
Deposits:						
Non-interest-bearing demand	$ 1,137,182			$ 887,711		
Interest-bearing demand	1,410,111	29,770	2.82 %	554,724	1,520	0.37 %
Savings	1,377,642	16,336	1.58	983,046	11,242	1.53
Time	1,072,861	36,639	4.56	559,453	13,946	3.33
Total interest-bearing deposits	3,860,614	82,745	2.86	2,097,223	26,708	1.70
Total deposits	4,997,796	82,745	2.21	2,984,934	26,708	1.20
Borrowings:						
Short-term borrowings	329,363	10,890	4.42	302,060	10,553	4.67
Subordinated debt borrowings	60,912	4,658	10.21	—	—	N/A
Total interest-bearing liabilities	4,250,889	98,293	3.09	2,399,283	37,261	2.08
Non-interest-bearing liabilities	56,361			24,485		
Equity	529,374			286,411		
Total liabilities and equity	$ 5,973,806			$ 3,597,890		
Taxable-equivalent net interest income /net interest spread [4]		156,972	3.06 %		72,583	2.30 %
Taxable-equivalent net interest margin [5]			3.78 %			2.90 %
Taxable-equivalent net adjustment		(1,897)			(1,128)	
Net interest income		$ 155,075			$ 71,455	
Net interest-earning assets	$ 1,292,025			$ 950,315		

(1) Non-accrual loans are included in average loan balances.

(2) Loan fees are included in the calculation of interest income.

(3) Yields and interest income on tax-exempt assets are computed on a taxable-equivalent basis assuming a 21% tax rate.

(4) The interest rate spread represents the difference between the fully taxable-equivalent weighted-average yield on interest-earning assets and the weighted-average yield of interest-bearing liabilities for the period.

(5) The net interest margin represents fully taxable-equivalent net interest income as a percent of average interest-earning assets for the period.

Taxable-equivalent net interest margin, as presented above, is calculated by dividing fully-taxable equivalent ("FTE") net interest income by total average earning assets. Net interest income, on an FTE basis, is a non-GAAP financial measure that the Company believes to provide a more accurate picture of the interest margin for comparative purposes. Management believes FTE net interest income is a standard practice in the banking industry, and when net interest income is adjusted on an FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to an FTE basis has no impact on net income. FTE net interest income is calculated by adding the tax benefit on certain financial interest-earning assets, whose interest is tax-exempt, to total interest income then subtracting total interest expense. As a non-GAAP measure, FTE net interest income should not be considered as a substitute for the nearest comparable GAAP measure, net interest income. Net interest income shown elsewhere in this presentation is GAAP net interest income. The following table reconciles GAAP net interest income to FTE net interest income (in thousands).

	Nine Months Ended	
	September 30, 2024	September 30, 2023
GAAP Financial Measurements		
Interest Income - Loans	$ 213,400	$ 74,485
Interest Income - Tax-exempt loans	81	—
Interest Income - Securities taxable	29,949	28,130
Interest Income - Securities tax-exempt	7,052	4,243
Interest Income - Other interest income	2,886	1,858
Interest Expense - Deposits	82,745	26,708
Interest Expense - Borrowed funds	10,806	10,495
Interest Expense - Subordinated debt	4,658	—
Interest Expense - Other	84	58
Total Net Interest Income	$ 155,075	$ 71,455
Non-GAAP Financial Measurements		
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	$ 1,897	$ 1,128
Total Tax Benefit on Tax-Exempt Interest Income [1]	1,897	1,128
Tax-Equivalent Net Interest Income	$ 156,972	$ 72,583

(1) Tax benefit was calculated using the federal statutory tax rate of 21%.

Yield/Rate and Volume Analysis

The following table sets forth the dollar difference in interest earned and paid for each major category of interest-earning assets and interest-bearing liabilities for the noted periods and the amount of such change attributable to changes in average balances (volume) or changes in average interest rates. Interest income and interest expense for the nine months ended September 30, 2024, and September 30, 2023, are annualized using an actual days over calendar year method. The volume variances are equal to the increase or decrease in average balance multiplied by current period rates, and rate variances are equal to the increase or decrease in rate times prior period average balances. Variances attributable to both rate and volume changes are calculated by multiplying the change in rate by the change in average balance and are allocated to the volume variance. See table below (in thousands).

	Nine Months Ended September 30, 2024, compared to September 30, 2023 Dollar Increase (Decrease) Due to Change in:		
	Average Volume	Average Yield / Rate	Net Change
Income from the interest-earning assets:			
Loans [1], gross	$ 175,785	$ 7,605	$ 183,390
Securities [1]	3,094	4,745	7,839
Interest-bearing deposits and fed funds sold	1,832	(475)	1,357
Total interest income on interest-earning assets	180,711	11,875	192,586
Expense from the interest-bearing liabilities:			
Interest-bearing demand deposits	24,406	13,047	37,453
Savings deposits	6,500	(497)	6,003
Time deposits	22,377	5,500	27,877
Total interest expense on interest-bearing deposits	53,283	18,050	71,333
Borrowings	7,647	(821)	6,826
Total interest expense on interest-bearing liabilities	60,930	17,229	78,159
Taxable-equivalent net interest income	$ 119,781	$ (5,354)	$ 114,427

(1) Yields and interest income on tax-exempt securities have been computed on a taxable-equivalent basis.

Interest Income

Total interest income was $253.4 million for the nine months ended September 30, 2024, compared to $108.7 million for the nine months ended September 30, 2023, an increase of 133.1%. The increase in interest income was due to the effect of the Merger and the acquisition of additional interest-earning assets. Interest income on loans increased by $139.0 million and interest income on securities increased $4.6 million, for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023.

Interest Expense

Total interest expense was $98.3 million for the nine months ended September 30, 2024, compared to $37.3 million for the nine months ended September 30, 2023. The increase in interest expense was a result of the Merger and the assumption of additional interest-bearing liabilities. Interest expense on interest-bearing deposits and borrowed funds increased by $56.0 million and $0.3 million, respectively, for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. Interest on subordinated debt assumed in the Merger was $4.7 million for the nine months ended September 30, 2024.

Provision for (Recapture of) Credit Losses

The provision for credit losses was $23.4 million for the nine months ended September 30, 2024, compared to a provision of $1.0 million for the nine months ended September 30, 2023. The increased provision expense was due to a one-time CECL Day 2 provision for non-PCD assets acquired in the Merger and acquired commitments for unfunded commitments for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. See Note 4 - Allowance for Credit Losses in Notes to Consolidated Financial Statements for further information.

Non-interest Income

The following table sets forth the various components of our non-interest income for the periods indicated (in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2024	2023	Amount	Percent
Fiduciary and wealth management	$ 5,982	$ 3,996	$ 1,986	49.7 %
Service charges and fees	11,147	4,959	6,188	124.8
Net gains (losses) on securities	613	(112)	725	647.3
Income from company-owned life insurance	2,799	1,720	1,079	62.7
Other non-interest income	3,834	2,565	1,269	49.5
Total	$ 24,375	$ 13,128	$ 11,247	85.7 %

Non-interest income increased 85.7% for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. The increase was primarily driven by the Merger. The largest increase was a $6.2 million increase in service charges and fees for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. A majority of the securities acquired in the Merger were sold, resulting in gains of $0.6 million for the nine months ended September 30, 2024, compared to losses of $0.1 million during the nine months ended September 30, 2023. Loan swap fees included in other non-interest income increased $0.1 million for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023. Other categories of non-interest income also increased due to the Merger, for the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023.

Non-interest Expense

The following table sets forth the various components of our non-interest expense for the periods indicated (in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2024	2023	Amount	Percent
Salaries and wages	$ 51,271	$ 29,283	$ 21,988	75.1 %
Pensions and other employee benefits	12,346	7,116	5,230	73.5
Occupancy	7,947	4,464	3,483	78.0
Equipment rentals, depreciation and maintenance	18,643	4,231	14,412	340.6
Other	46,216	19,042	27,174	142.7
Total	$ 136,423	$ 64,136	$ 72,287	112.7 %

Non-interest expense increased $72.3 million, or 112.7%, for the nine months ended September 30, 2024, compared to September 30, 2023. The increase was primarily due to effect of the Merger and also included higher legal fees, consulting fees, audit fees, investment banking fees, software contract terminations, change-in-control salary and benefit payments, funding a charitable donation (as contemplated by the Merger Agreement), and other expenses related to the Merger. For the nine months ended September 30, 2024, the Company incurred $27.5 million of merger-related expenses within non-interest expense for the nine months ended September 30, 2024. Other non-interest expense included $11.3 million of these costs, while the remaining amount of the total is included in the other line items of non-interest expense. See Note 16 — Business Combination in Notes to Consolidated Financial Statements for further information on merger-related expenses and Note 13 — Other Operating Expenses in Notes to Consolidated Financial Statements for further information on “Other” non-interest expense.

Income Tax Expense

Income tax expense was $3.7 million for the nine months ended September 30, 2024, an increase of $1.9 million from the tax provision for the nine months ended September 30, 2023. The increase was due to changes in estimated tax rates, additional estimated state tax liability, and tax credits resulting from the Merger for the nine months ended September 30, 2024, when compared to the nine months ended September 30, 2023. For the nine months ended September 30, 2024, the effective tax rate was 19.0%, while the effective tax rate was 9.6% for the nine months ended September 30, 2023.

Results of Operations for the Three Months Ended September 30, 2024, and September 30, 2023

General

Net income applicable to common shares for the three months ended September 30, 2024, was $27.4 million, compared to net income applicable to common shares of $4.1 million during the three months ended September 30, 2023. The $23.3 million increase was primarily due to results that reflect combined income after the Merger completion for the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

Net interest income increased by $50.3 million to $73.2 million for the three months ended September 30, 2024, compared to $22.9 million for the three months ended September 30, 2023. The main driver for this increase was the impact of the Merger.

For the three months ended September 30, 2024, the Company recorded credit provision expense of $0.1 million compared to a provision of $0.2 million for the three months ended September 30, 2023. For the three months ended September 30, 2024, the Company recognized less credit loss expense on loans and off-balance sheet credit exposures which led to a decrease in credit provision expense for the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

Non-interest income increased by $6.3 million, or 147.5%, to $10.6 million for the three months ended September 30, 2024, as compared to $4.3 million for the three months ended September 30, 2023, as a result of the Merger. All categories of non-interest income increased as a result of the combined operations for the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

Non-interest expense increased by $28.4 million, or 126.7%, to $50.8 million for the three months ended September 30, 2024, as compared to $22.4 million for the three months ended September 30, 2023. The increase was primarily due to effect of the Merger and also included higher legal fees, consulting fees, audit fees, investment banking fees, software contract terminations, and other expenses related to the Merger. For the three months ended September 30, 2024, the Company incurred $3.1 million of expenses related to the Merger with Summit.

Net Interest Income and Net Interest Margin

Net interest income is the principal component of the Company's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Net interest margin, stated as a percentage, is the yield obtained by dividing the difference between interest income generated on earning assets and the interest expense paid on all funding sources by average earning assets.

Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest-bearing liabilities can impact net interest income and net interest margin. Management closely monitors both total net interest income and the net interest margin and seeks to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities.

Net interest income totaled $73.2 million for the three months ended September 30, 2024, compared to $22.9 million for the three months ended September 30, 2023. The increase in net interest income was primarily driven by higher interest earning assets, higher rates, and higher accretion income, as a result of the Merger. Accretion income associated with acquired loans and borrowings totaled $15.4 million for the three months ended September 30, 2024. Amortization expense associated with fair value marks for time deposits, subordinated debt, and trust preferred securities totaled $3.8 million for the three months ended September 30, 2024.

The tax-adjusted net interest margin was 4.07% for the three months ended September 30, 2024, compared to 2.76% for the three months ended September 30, 2023. The increase in tax-adjusted net interest margin was primarily driven by the effect of the Merger and the acquisition of additional, higher-yielding interest-earning assets.

The yield for the taxable loan portfolio was 7.34% for the three months ended September 30, 2024, compared to 5.15% for the three months ended September 30, 2023. The increase was primarily the result of the effect of the Merger, which resulted in the acquisition of additional, higher-yielding loans.

The tax-adjusted yield on the total investment securities portfolio was 3.91% for the three months ended September 30, 2024, compared to 3.37% for the three months ended September 30, 2023. The increase was partly due to higher yields in our investment portfolio in addition to the Merger, which resulted in the acquisition of additional securities with higher tax-adjusted yields.

The yield on interest-bearing deposits increased to 3.02% during the three months ended September 30, 2024, from 2.09% during the three months ended September 30, 2023. The increase was a result of the Merger, which resulted in the assumption of additional interest-bearing deposits with higher interest rates, and to a lesser extent, by higher market interest rates compared to the prior year quarter.

The yield on our short-term borrowings for the three months ended September 30, 2024, was 4.06%, compared to 4.69% for the three months ended September 30, 2023. The decrease was due to decreases in the Federal Funds Rate and other short-term market rates. The yield on our subordinated debt assumed in the Merger was 10.16%.

The following table sets forth the major components of net interest income and the related yields and rates for the three months ended September 30, 2024, and September 30, 2023, for comparison (dollars in thousands).

	For the Three Months Ended September 30,					
	2024			2023		
	Average Outstanding Balance	Interest Income/Expense	Average Yield / Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield / Rate
Assets:						
Loans, gross [1][2]	$ 5,621,531	$ 103,682	7.34 %	$ 2,034,275	$ 26,425	5.15 %
Tax-exempt loans [1][2]	4,310	61	5.63	—	—	N/A
Total loans	5,625,841	103,743	7.34 %	2,034,275	26,425	5.17 %
Interest-earning deposits and fed funds sold	175,265	1,509	3.43	49,501	562	4.50
Taxable securities	996,749	10,151	4.05	991,170	8,909	3.57
Tax-exempt securities [3]	440,781	3,970	3.58	262,336	1,742	2.63
Total securities	1,437,530	14,121	3.91	1,253,506	10,651	3.37
Total interest-earning assets	7,238,636	119,373	6.56	3,337,282	37,638	4.47
Non-interest-earning assets	564,528			244,488		
Total assets	$ 7,803,164			$ 3,581,770		
Liabilities and shareholders' equity:						
Deposits:						
Non-interest-bearing demand	$ 1,389,134			$ 860,983		
Interest-bearing demand	2,144,567	17,171	3.19 %	537,644	757	0.56 %
Savings	1,725,387	6,191	1.43	952,001	4,370	1.82
Time	1,328,076	16,079	4.82	654,952	6,150	3.73
Total interest-bearing deposits	5,198,030	39,441	3.02	2,144,597	11,277	2.09
Total deposits	6,587,164	39,441	2.38	3,005,580	11,277	1.49
Borrowings:						
Short-term borrowings	304,849	3,108	4.06	262,521	3,106	4.69
Subordinated debt borrowings	109,557	2,798	10.16	—	—	N/A
Total interest-bearing liabilities	5,612,436	45,347	3.21	2,407,118	14,383	2.37
Non-interest-bearing liabilities	84,437			26,442		
Equity	717,157			287,227		
Total liabilities and equity	$ 7,803,164			$ 3,581,770		
Taxable-equivalent net interest income /net interest spread [4]		74,026	3.35 %		23,255	2.10 %
Taxable-equivalent net interest margin [5]			4.07 %			2.76 %
Taxable-equivalent net adjustment		(847)			(366)	
Net interest income		$ 73,179			$ 22,889	
Net interest-earning assets	$ 1,626,200			$ 930,164		

(1) Non-accrual loans are included in average loan balances.

(2) Loan fees are included in the calculation of interest income.

(3) Yields and interest income on tax-exempt assets are computed on a taxable-equivalent basis assuming a 21% tax rate.

(4) The interest rate spread represents the difference between the fully taxable-equivalent weighted-average yield on interest-earning assets and the weighted-average yield of interest-bearing liabilities for the period.

(5) The net interest margin represents FTE net interest income as a percent of average interest-earning assets for the period.

Taxable-equivalent net interest margin, as presented above, is calculated by dividing FTE net interest income by total average earning assets. Net interest income, on an FTE basis, is a non-GAAP financial measure that the Company believes to provide a more accurate picture of the interest margin for comparative purposes. Management believes FTE net interest income is a standard practice in the banking industry, and when net interest income is adjusted on an FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to an FTE basis has no impact on net income. FTE net interest income is calculated by adding the tax benefit on certain financial interest-earning assets, whose interest is tax-exempt, to total interest income then subtracting total interest expense. As a non-GAAP measure, FTE net interest income should not be considered as a substitute for the nearest comparable GAAP measure, net interest income. Net interest income shown elsewhere in this presentation is GAAP net interest income. The following table reconciles GAAP net interest income to FTE net interest income (in thousands).

	Three Months Ended	
	September 30, 2024	September 30, 2023
GAAP Financial Measurements		
Interest Income - Loans	$ 103,682	$ 26,425
Interest Income - Tax-exempt loans	48	—
Interest Income - Securities taxable	10,076	8,909
Interest Income - Securities tax-exempt	3,135	1,376
Interest Income - Other interest income	1,585	562
Interest Expense - Deposits	39,441	11,277
Interest Expense - Borrowed funds	3,080	3,078
Interest Expense - Subordinated debt	2,798	—
Interest Expense - Other	28	28
Total Net Interest Income	$ 73,179	$ 22,889
Non-GAAP Financial Measurements		
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	$ 847	$ 366
Total Tax Benefit on Tax-Exempt Interest Income [1]	847	366
Tax-Equivalent Net Interest Income	$ 74,026	$ 23,255

(1) Tax benefit was calculated using the federal statutory tax rate of 21%.

Yield/Rate and Volume Analysis

The following table sets forth the dollar difference in interest earned and paid for each major category of interest-earning assets and interest-bearing liabilities for the noted periods and the amount of such change attributable to changes in average balances (volume) or changes in average interest rates. Interest income and interest expense for the three months ended September 30, 2024, and September 30, 2023, are annualized using an actual days over calendar year method. Volume variances are equal to the increase or decrease in average balance multiplied by current period rates, and rate variances are equal to the increase or decrease in rate times prior period average balances. Variances attributable to both rate and volume changes are calculated by multiplying the change in rate by the change in average balance and are allocated to the volume variance. See table below (in thousands).

	Three Months Ended September 30, 2024, compared to September 30, 2023		
	Dollar Increase (Decrease) Due to Change in:		
	Average Volume	Average Yield / Rate	Net Change
Income from the interest-earning assets:			
Loans [1], gross	$ 302,286	$ 8,628	$ 310,914
Securities [1]	5,909	5,980	11,889
Interest-bearing deposits and fed funds sold	4,223	(520)	3,703
Total interest income on interest-earning assets	312,418	14,088	326,506
Expense from the interest-bearing liabilities:			
Interest-bearing demand deposits	50,962	15,037	65,999
Savings deposits	10,822	(2,010)	8,812
Time deposits	36,057	6,846	42,903
Total interest expense on interest-bearing deposits	97,841	19,873	117,714
Borrowings	11,447	(1,892)	9,555
Total interest expense on interest-bearing liabilities	109,288	17,981	127,269
Taxable-equivalent net interest income	$ 203,130	$ (3,893)	$ 199,237

(1) Yields and interest income on tax-exempt securities have been computed on a taxable-equivalent basis.

Interest Income

Total interest income was $118.5 million for the three months ended September 30, 2024, compared to $37.3 million for the three months ended September 30, 2023, an increase of 218.0%. The increase in interest income was due to the effect of the Merger and the acquisition of additional interest-earning assets. Interest income on loans increased by $77.3 million and interest income on securities increased $2.9 million, for the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

Interest Expense

Total interest expense was $45.3 million for the three months ended September 30, 2024, compared to $14.4 million for the three months ended September 30, 2023. The increase in interest expense was a result of the Merger and the assumption of additional interest-bearing liabilities. Interest expense on interest-bearing deposits increased by $28.2 million for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. Interest on subordinated debt acquired in the Merger was $2.8 million for the three months ended September 30, 2024, while interest expense on short-term borrowings amounted to $3.1 million for the three months ended September 30, 2024.

Provision for (Recapture of) Credit Losses

The provision for credit losses was $0.1 million for the three months ended September 30, 2024, compared to a provision of $0.2 million for the three months ended September 30, 2023. The decreased provision expense is a function of the Merger closing last quarter and the Day 2 non-PCD provision expense captured for the acquired portfolio, resulting in a lower credit loss expense on loans and off-balance sheet credit exposures, compared to the three months ended September 30, 2023. See Note 4 - Allowance for Credit Losses in Notes to Consolidated Financial Statements for further information.

Non-interest Income

The following table sets forth the various components of our non-interest income for the periods indicated (in thousands):

	Three months ended September 30,		Increase (Decrease)	
	2024	2023	Amount	Percent
Fiduciary and wealth management	$ 2,352	$ 1,354	$ 998	73.7 %
Service charges and fees	5,453	1,583	3,870	244.5
Net gains (losses) on securities	—	(1)	1	100.0
Income from company-owned life insurance	1,330	589	741	125.8
Other non-interest income	1,481	764	717	93.8
Total	$ 10,616	$ 4,289	$ 6,327	147.5 %

Non-interest income increased 147.5% for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. The increase was primarily driven by the Merger. The largest increase was a $3.9 million increase in service charges and fees for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. All other categories of non-interest income also increased due to the Merger for the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

Non-interest Expense

The following table sets forth the various components of our non-interest expense for the periods indicated (in thousands):

	Three months ended September 30,		Increase (Decrease)	
	2024	2023	Amount	Percent
Salaries and wages	$ 20,858	$ 9,867	$ 10,991	111.4 %
Pensions and other employee benefits	4,678	2,242	2,436	108.7
Occupancy	3,412	1,462	1,950	133.4
Equipment rentals, depreciation and maintenance	4,699	1,435	3,264	227.5
Other	17,179	7,417	9,762	131.6
Total	$ 50,826	$ 22,423	$ 28,403	126.7 %

Non-interest expense increased $28.4 million, or 126.7%, for the three months ended September 30, 2024, compared to September 30, 2023. The increase was primarily due to effect of the Merger and also included higher legal fees, consulting fees, audit fees, investment banking fees, software contract terminations and other merger-related expenses. For the three months ended September 30, 2024, the Company incurred $3.1 million of merger-related expenses within non-interest expense for the three months ended September 30, 2024. See Note 16 — Business Combination in Notes to Consolidated Financial Statements for further information on merger-related expenses and Note 13 — Other Operating Expenses in Notes to Consolidated Financial Statements for further information on “Other” non-interest expense.

Income Tax Expense

Income tax expense was $5.2 million for the three months ended September 30, 2024, an increase of $4.7 million from the tax provision for the three months ended September 30, 2023. The increase was due to the increase in net income for the three months ended September 30, 2024, when compared to the three months ended September 30, 2023. For the three months ended September 30, 2024, the effective tax rate was 15.8%, while the effective tax rate was 10.3% for September 30, 2023.

Analysis of Financial Condition for the Period Ended September 30, 2024, and December 31, 2023

Due mostly to the Merger, assets increased by $4.25 billion to $7.86 billion as of September 30, 2024, compared to $3.62 billion as of December 31, 2023. Loans, net of ACL, increased by $3.44 billion from $2.06 billion as of December 31, 2023, to $5.51 billion as of September 30, 2024. Deposits increased by $3.60 billion and amounted to $6.60 billion at September 30, 2024, compared to $3.00 billion at December 31, 2023. Short-term borrowings increased by $48.2 million to $320.2 million as of September 30, 2024, compared to $272.0 million at December 31, 2023. Subordinated debt and

subordinated debt owed to unconsolidated subsidiary trusts, which were assumed in the Merger, totaled $110.5 million at September 30, 2024, compared to zero at December 31, 2023.

Investment Securities

Our investment policy is established and reviewed annually by the Board. We are permitted under federal law to invest in various types of liquid assets, including United States Government obligations, securities of various federal agencies and of state and municipal governments, mortgage-backed securities, time deposits of federally insured institutions, certain bankers' acceptances, and federal funds. Our securities are all classified as AFS.

Our investments provide a source of liquidity because we can pledge them to support borrowed funds or can liquidate them to generate cash proceeds. Our investment portfolio is also a resource in managing interest rate risk because the maturity and interest rate characteristics of this asset class can be modified to match changes in the loan and deposit portfolios. The majority of our AFS investment portfolio is comprised of obligations of states and municipalities and residential mortgage-backed securities. During the nine months ended September 30, 2024, the unrealized losses on our holdings decreased $36.3 million from December 31, 2023.

The Company determined that the declines in market value were due to increases in interest rates and market movements and not due to credit factors. Therefore, the Company has concluded that the unrealized losses for the AFS securities do not require an ACL at September 30, 2024, or at December 31, 2023.

The Company has sufficient access to liquidity such that management does not believe it would be necessary to sell any of its investment securities at a loss to offset any unexpected deposit outflows. Management believes the structure of the Bank's investment portfolio is appropriately aligned with the rest of the balance sheet to protect against significant and unexpected charges against earnings and capital.

The following tables reflect the amortized cost and fair market values for the total portfolio for each category of investment for September 30, 2024, and December 31, 2023 (in thousands):

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 166,000	$ —	$ 13,383	$ 152,617
Obligations of states and municipalities	713,040	3,986	61,380	655,646
Residential mortgage backed - agency	57,563	793	3,590	54,766
Residential mortgage backed - non-agency	285,808	1,613	9,945	277,476
Commercial mortgage backed - agency	34,848	42	840	34,050
Commercial mortgage backed - non-agency	157,569	—	3,875	153,694
Asset-backed	71,073	229	667	70,635
Other	38,401	428	1,282	37,547
Total	$ 1,524,302	$ 7,091	$ 94,962	$ 1,436,431

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 197,026	$ —	$ 17,955	$ 179,071
Obligations of states and municipalities	535,229	21	72,047	463,203
Residential mortgage backed - agency	47,074	—	4,836	42,238
Residential mortgage backed - non-agency	284,826	17	18,812	266,031
Commercial mortgage backed - agency	36,151	28	1,294	34,885
Commercial mortgage backed - non-agency	183,454	—	6,393	177,061
Asset-backed	79,315	23	1,402	77,936
Other	9,500	—	1,486	8,014
Total	$ 1,372,575	$ 89	$ 124,225	$ 1,248,439

The investment maturity table below summarizes contractual maturities for our investment securities at September 30, 2024. The actual timing of principal payments may differ from remaining contractual maturities because obligors may have the right to repay certain obligations with or without penalties. The overall weighted average duration of the Company's investment portfolio is 4.3 years at September 30, 2024. The weighted-average yield below represents the effective yield for the investment securities and is calculated based on the amortized cost of each security (dollars in thousands). Interest on securities below excludes tax-equivalent adjustments.

	September 30, 2024									
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Securities Available-for-Sale										
U.S. Treasuries and government agencies	$ —	—%	$ 166,000	1.31 %	$ —	— %	$ —	— %	$ 166,000	1.31 %
Obligations of states and municipalities	—	—	145,926	2.87	395,005	2.39	172,109	2.76	713,040	2.58
Residential mortgage backed - agency	490	20.94	19,427	4.94	28,117	2.65	9,529	4.45	57,563	3.88
Residential mortgage backed - non-agency	47,696	4.55	78,607	3.67	123,102	4.24	36,403	5.00	285,808	4.23
Commercial mortgage backed - agency	32	4.58	25,752	5.21	9,064	5.16	—	—	34,848	5.20
Commercial mortgage backed - non-agency	91,673	4.03	60,771	4.96	5,125	1.43	—	—	157,569	4.30
Asset-backed	5,551	5.95	39,747	6.54	25,775	6.38	—	—	71,073	6.44
Other	—	—	2,741	8.29	21,263	5.89	14,397	9.15	38,401	7.28
Total	$ 145,442	4.33 %	$ 538,971	3.23 %	$ 607,451	3.10 %	$ 232,438	3.58 %	$ 1,524,302	3.40 %

Lending Activities

Our loan portfolio consists primarily of commercial real estate loans, but we offer a variety of products to meet the credit needs of our borrowers. The risks associated with lending activities differ among loan classes and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions. Any of these factors may adversely impact a borrower's ability to repay loans and also impact the associated collateral. Additional discussion on the classes of loans the Company makes and related risks is included in Note 3 — Loans in Notes to Consolidated Financial Statements.

The following tables set forth the composition of our loan portfolio as of the dates indicated (in thousands):

	September 30, 2024	December 31, 2023
Commercial real estate	$ 2,526,945	$ 1,309,084
Owner-occupied commercial real estate	637,175	131,381
Acquisition, construction & development	447,449	49,091
Commercial & industrial	562,653	67,847
Single family residential (1-4 units)	1,197,245	527,980
Consumer non-real estate and other	202,570	2,373
Loans, gross	5,574,037	2,087,756
Allowance for credit losses	(67,817)	(25,301)
Loans, net	$ 5,506,220	$ 2,062,455

The loan portfolio, excluding ACL, at September 30, 2024, increased by $3.49 billion primarily due to the Merger.

The following table shows the maturity distribution for total loans outstanding as of September 30, 2024. The maturity distribution is grouped by remaining scheduled principal payments that are due in the following periods. The principal balance of loans is indicated by both fixed and floating rate categories in the table below (in thousands).

	September 30, 2024								
	Within One Year		One Year to Five Years		Five Years to 15 Years		After 15 Years		
	Fixed Rates	Adjustable Rates	Fixed Rates	Adjustable Rates	Fixed Rates	Adjustable Rates	Fixed Rates	Adjustable Rates	Total
Loans:									
Commercial real estate	$ 148,782	$ 111,818	$ 980,465	$ 248,464	$ 305,104	$ 357,339	$ 43,533	$ 331,440	$ 2,526,945
Owner-occupied commercial real estate	40,229	25,780	131,092	37,958	108,057	144,278	16,656	133,125	637,175
Acquisition, construction & development	33,328	101,949	39,298	133,777	26,703	23,317	5,709	83,368	447,449
Commercial & industrial	8,613	159,355	108,487	186,489	28,506	46,017	7,148	18,038	562,653
Total commercial loans	230,952	398,902	1,259,342	606,688	468,370	570,951	73,046	565,971	4,174,222
Single family residential (1-4 units)	18,082	13,903	36,159	18,225	78,611	78,146	464,597	489,522	1,197,245
Consumer non-real estate and other	12,019	108,089	44,278	1,303	15,728	6,912	5,794	8,447	202,570
Total loans	$ 261,053	$ 520,894	$ 1,339,779	$ 626,216	$ 562,709	$ 656,009	$ 543,437	$ 1,063,940	$ 5,574,037

Asset Quality

The Company maintains policies and procedures to promote sound underwriting and mitigate credit risk. The Chief Credit Officer is responsible for establishing credit risk policies and procedures, including underwriting guidelines and credit approval authority, and monitoring credit exposure and performance of the Company's lending-related transactions.

A loan is placed on non-accrual status when (i) the Company is advised by the borrower that scheduled principal or interest payments cannot be met, (ii) when management's best judgment indicates that payment in full of principal and interest can no longer be expected, or (iii) when any such loan or obligation becomes delinquent for 90 days, unless it is both well-secured and in the process of collection.

The Company's asset quality remained stable through the third quarter of 2024, but the nonaccrual loan balance increased $32.1 million from December 31, 2023. As a result of the Merger, the nonaccrual loan balance increased due to the acquired loan portfolio. The Company's non-performing assets, which includes non-performing loans consisting of non-accrual loans, loans that are more than 90 days past due and still accruing, and other real estate owned as of September 30, 2024, totaled $38.4 million.

The following table summarizes the Company's non-performing assets as of September 30, 2024, and December 31, 2023 (in thousands):

	September 30, 2024	December 31, 2023
Non-accrual loans	$ 35,872	$ 3,744
90 days past due and still accruing	—	—
Total non-performing loans	35,872	3,744
Other real estate owned	2,576	—
Total non-performing assets	$ 38,448	$ 3,744

Allowance for Credit Losses

Refer to the discussion in Note 1. Nature of Business Activities and Significant Accounting Policies in Notes to Consolidated Financial Statements for management's approach to estimating the ACL.

The Company maintains the ACL at a level deemed adequate by management for expected credit losses. On January 1, 2023, the Company implemented CECL and increased the ACL, previously the allowance for loan losses, with a cumulative-effect adjustment to the ACL for credit losses of $4.4 million, which included a cumulative-effect adjustment to the ACL for off-balance sheet exposures of $274.8 thousand. The Company's ACL is calculated quarterly with any adjustment recorded to the provision for credit losses in the consolidated Statement of Income. Management evaluates the adequacy of the ACL utilizing a defined methodology to determine if it properly addresses the current and expected risks in the loan portfolio, which considers the performance of borrowers and specific evaluation of individually evaluated loans, including historical loss experiences, trends in delinquencies, non-performing loans and other risk assets, and qualitative factors. Risk factors are continuously reviewed and adjusted, as needed, by management when conditions support a change. Management believes its approach properly addresses relevant accounting and bank regulatory guidance for loans both collectively and individually evaluated.

The Company recorded a provision expense of $0.1 million and a provision expense of $0.2 million on loans for the three months ended September 30, 2024, and September 30, 2023, respectively, and a provision expense of $19.5 million and a provision expense of $1.0 million on loans for the nine months ended September 30, 2024, and September 30, 2023, respectively. The increase in provision expense for the nine months ended was due to the Merger and the requirement to record a provision expense for loans classified as non-PCD. The Company also recorded a $23.9 million provision directly to the allowance for credit losses as required for acquired PCD loans for the nine months ended September 30, 2024. This allowance for acquired PCD loans did not result in an additional provision expense for the nine months ended September 30, 2024.

Gross charged-off loans were $305.0 thousand and $13.0 thousand for the three months ended September 30, 2024, and September 30, 2023, respectively, and $947.0 thousand and $134.0 thousand for the nine months ended September 30, 2024, and September 30, 2023, respectively. Gross recoveries totaled $20.0 thousand and $5.0 thousand for the three months ended September 30, 2024, and September 30, 2023, respectively, and $38.0 thousand and $48.0 thousand for the nine months ended September 30, 2024, and September 30, 2023, respectively. The ACL as a percentage of gross loans, net of unearned income, was 1.22% and 1.26% as of September 30, 2024, and September 30, 2023, respectively.

The following table summarizes the changes in the Company's credit loss experience by portfolio for the three and nine months ended September 30, 2024, and 2023 (dollars in thousands):

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Loans outstanding at end of period	$ 5,574,037	$ 2,070,616	$ 5,574,037	$ 2,070,616
Balance of allowance at beginning of period	(68,017)	(25,919)	(25,301)	(21,039)
Impact of the adoption of CECL	—	—	—	(4,125)
Allowance established for acquired PCD Loans	—	—	(23,910)	—
Loans charged-off:				
Commercial real estate	—	—	210	—
Owner-occupied commercial real estate	—	—	—	—
Acquisition, construction & development	—	—	—	—
Commercial & industrial	32	—	178	29
Residential	67	—	104	—
Consumer non-real estate and other	206	13	455	105
Total loans charged-off	305	13	947	134
Recoveries of loans charged-off:				
Commercial real estate	(3)	(4)	(10)	(35)
Owner-occupied commercial real estate	—	—	—	—
Acquisition, construction & development	—	—	—	—
Commercial & industrial	(9)	—	(9)	—
Residential	(1)	(1)	(2)	(7)
Consumer non-real estate and other	(7)	—	(17)	(6)
Total recoveries of loans charged-off	(20)	(5)	(38)	(48)
Net loan charge-offs (recoveries)	285	8	909	86
Provision for (recapture of) credit losses for the period	85	200	19,515	1,033
Ending allowance	$ (67,817)	$ (26,111)	$ (67,817)	$ (26,111)
Average loans outstanding during the period	$ 5,621,531	$ 2,034,275	$ 4,068,804	$ 1,985,898
Allowance coverage ratio [1]	1.22 %	1.26 %	1.22 %	1.26 %
Net charge-offs to average outstanding loans during the period [2]	0.01	0.00	0.02	0.00
Allowance for credit losses as a percentage of non-performing loans [3]	189.05	914.25	189.05	914.25

(1) The allowance coverage ratio is calculated by dividing the ACL at the end of the period by gross loans, net of unearned income at the end of the period.

(2) The Net charge-offs to average outstanding loans during the period is calculated by dividing total net loan charge-offs (recoveries) during the year by average gross loans outstanding during the year.

(3) The Allowance for credit losses as a percentage of non-performing loans ratio is calculated by dividing the ACL at the end of the period by non-accrual loans at the end of the period.

The following table summarizes the ACL by portfolio with a comparison of the percentage composition in relation to total ACL and allowance for credit losses and total loans as of September 30, 2024, and December 31, 2023 (dollars in thousands).

	September 30, 2024		
	Allowance for credit losses	Percent of Allowance in Each Category to Total Allocated ACL	Percent of Loans in Each Category to Total Loans
Commercial real estate	$ 25,791	38.04 %	45.34 %
Owner-occupied commercial real estate	3,967	5.85	11.43
Acquisition, construction & development	21,723	32.03	8.03
Commercial & industrial	5,170	7.62	10.09
Residential	10,576	15.59	21.48
Consumer non-real estate and other	590	0.87	3.63
Total	$ 67,817	100.00 %	100.00 %

	December 31, 2023		
	Allowance for credit losses	Percent of Allowance in Each Category to Total Allocated Allowance	Percent of Loans in Each Category to Total Loans
Commercial real estate	$ 20,633	81.56 %	62.71 %
Owner-occupied commercial real estate	783	3.09	6.29
Acquisition, construction & development	368	1.45	2.35
Commercial & industrial	645	2.55	3.25
Residential	2,797	11.05	25.29
Consumer non-real estate and other	75	0.30	0.11
Total	$ 25,301	100.00 %	100.00 %

Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. The Company recognizes derivative financial instruments at fair value as either other assets or other liabilities on the Consolidated Balance Sheets. The Company's use of derivative financial instruments is described more fully in Note 9 — Derivatives in Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company enters into certain off-balance sheet arrangements in the normal course of business to meet the financing needs of its customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit, and financial guarantees which would impact the Company's liquidity and capital resources to the extent customers accept and/or use these commitments. See Note 10 — Commitments and Contingencies in Notes to Consolidated Financial Statements for a discussion of credit extension commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. With the exception of these off-balance sheet arrangements, the Company has no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Funding Activities

The Company's funding activities are monitored and governed through the Company's asset/liability management process. Deposits are the primary source of funds for lending and investing activities; however, the Company will use borrowings to meet liquidity needs and for temporary funding. The Company has available secured lines of credit with the Federal Reserve Bank of Richmond, such as the Borrower-In-Custody program, the FHLB of Atlanta, and unsecured federal funds

lines of credit from correspondent banking relationships. The Company also utilizes brokered time deposits. For more discussion of brokered time deposits, see the Deposits heading below this section.

As of September 30, 2024, the Company has available unused borrowing capacity of $2.4 billion through its available lines of credit with the FHLB of Atlanta, the Federal Reserve Borrower-In-Custody Program line, and unsecured federal fund lines of credit from correspondent banking relationships. Advances on credit lines are secured by both securities and loans.

The following table shows certain information regarding short-term borrowings as of the three months ended September 30, 2024, and December 31, 2023, respectively (dollars in thousands):

Balance at end of period	September 30, 2024	December 31, 2023
Short-term borrowings	$ 320,163	$ 272,000
Weighted average interest yield at end of period	4.06%	4.75%

The following table shows certain information regarding long-term debt as of the three months ended September 30, 2024, and December 31, 2023, respectively (dollars in thousands):

Balance at end of period	September 30, 2024	December 31, 2023
Subordinated debentures, net	$ 93,532	$ —
Subordinated debentures owed to unconsolidated subsidiary trusts	16,950	—
Total long-term debt	$ 110,482	$ —
Weighted average interest yield at end of period	10.16%	N/A

Deposits

Total deposits increased by $3.6 billion from December 31, 2023, to September 30, 2024, primarily due to the completion of the Merger with Summit. The Company has brokered time deposits that amounted to $345.3 million as of September 30, 2024, and $389.0 million at December 31, 2023. The following table sets forth the balance of each category of deposits as of the dates indicated (in thousands):

	September 30, 2024	December 31, 2023
	Balance	Balance
Demand, non-interest-bearing	$ 1,392,123	$ 830,320
Demand, interest-bearing	2,182,632	509,646
Money market and savings	1,709,471	925,853
Brokered deposits	345,328	389,011
Time deposits, other	971,271	347,051
Total interest-bearing	5,208,702	2,171,561
Total deposits	$ 6,600,825	$ 3,001,881

The Company continues to seek organic growth in both interest-bearing and non-interest-bearing deposits consistent with our relationship-based strategy. Management evaluates its utilization of brokered deposits, taking into consideration the interest rate curve and regulatory views on non-core funding sources, and balances this funding source with its funding needs based on growth initiatives.

The Company has deposits that meet or exceed the FDIC insurance limit of $250,000 in the amounts of $2.0 billion and $677.3 million at September 30, 2024, and December 31, 2023, respectively, with the increase being primarily attributable to the Merger.

The following table sets forth maturity ranges of time deposits as of September 30, 2024, that meet or exceed the FDIC insurance limit (in thousands).

	September 30, 2024
Due within 3 months or less	$ 129,343
Due after 3 months and within 6 months	97,587
Due after 6 months and within 12 months	26,583
Due after 12 months	11,552
Total uninsured, time deposits	$ 265,065

Shareholders' Equity

Total shareholders' equity at September 30, 2024, was $738.1 million, compared to $314.8 million at December 31, 2023. Shareholders' equity increased by $423.3 million mostly due to the Merger since December 31, 2023. Accumulated other comprehensive income/(loss) decreased $27.7 million from December 31, 2023, to September 30, 2024, from $(103.5) million to $(75.8) million.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in lending, investment, and deposit-taking activities. To that end, management actively monitors and manages its interest rate risk exposure, and on at least a quarterly basis, in conjunction with the Company's Asset/Liability meetings, reports its findings to the ALCO and to the Board. From time to time, management may change the frequency of such testing or update certain inputs as a result of abnormal market conditions. Our profitability is affected by fluctuations in interest rates; a sudden and substantial change in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. We monitor the impact of changes in interest rates on net interest income using several tools. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Recent Events in the Financial Services Industry.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while configuring our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest rate risk.

In addition, the Company's Asset/Liability policy provides for a subcommittee of the ALCO, comprised of executive and senior management that, upon the determination that abnormal market risks are occurring or may be forthcoming, will convene with the responsibility of making all decisions related to mitigation of potential negative impacts to the Company. This subcommittee acts as a clearinghouse for information on Company earnings, credit risk, lending and deposit activities, and liquidity management necessary for internal communications, including to the Board, and external communications.

Interest Rate Sensitivity

Interest rate risk is the risk to earnings and fair value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricing and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time, depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve, where interest rates increase or decrease in a non-parallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and SOFR (basis risk).

The rates on some interest-bearing financial instruments may adjust promptly with changes in market rates, while others adjust only periodically or are fixed for a predefined term. Such instances can cause a mismatch between the sensitivity and behavior of financial assets and liabilities. Interest rate fluctuations and economic factors, coupled with repricing mismatches and embedded options inherent in these financial assets and liabilities, may impact the Company's interest expense, interest income, and the value of certain financial assets and liabilities. Through the ALCO, we attempt to manage the balance sheet in a manner that increases the benefit or reduces the negative impacts from such events.

The overall impact of changes in interest rates, including, but not limited to, the impact to our net interest income and to our securities portfolio, can be enhanced or diluted depending on the variability of interest rates. From time to time, the Company may hedge its interest rate risk position, which can impact earnings. We generally do not hedge all of our interest rate risk, nor can we guarantee that any attempts to do so will be successful. See Note 9 - Derivatives in Notes to Consolidated Financial Statements for a discussion of our hedging activity.

The Company actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. The ALCO, using policies and procedures approved by the Company's Board, is responsible for the management of the Company's interest rate sensitivity position. The Company manages interest rate sensitivity by changing the mix, pricing and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms, and through wholesale funding. Wholesale funding consists of, but is not limited to, borrowings with the FHLB, federal funds purchased, and brokered time deposits.

The Company uses several tools to manage its interest rate risk, including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate scenarios, and net interest margin

reports. The results of these reports are compared to limits established by the Company's ALCO policies, and appropriate adjustments are made if the results are outside the established limits.

There are an infinite number of potential interest rate scenarios, each of which can be accompanied by differing economic/political/regulatory climates; can generate multiple differing behavior patterns by markets, borrowers, depositors, etc.; and, can last for varying degrees of time. Therefore, by definition, interest rate risk sensitivity cannot be predicted with certainty. Accordingly, the Company's interest rate risk measurement philosophy focuses on maintaining an appropriate balance between theoretical and practical scenarios; especially given the primary objective of the Company's overall asset/liability management process, which is to facilitate meaningful strategy development and implementation.

Therefore, we model a set of interest rate scenarios capturing the financial effects of a range of plausible rate scenarios; the collective impact of which will enable the Company to clearly understand the nature and extent of its sensitivity to interest rate changes. Doing so necessitates an assessment of rate changes over varying time horizons and of varying/sufficient degrees such that the impact of embedded options within the balance sheet are sufficiently examined.

The following tables demonstrate the annualized result of an interest rate simulation and the estimated effect that a parallel interest rate shift, or "shock", in the yield curve and subjective adjustments in deposit pricing might have on the Company's projected income over the next 12 months. This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next 12 months.

Change in Interest Rates (in Basis Points)	As of September 30, 2024 Percentage Change in Earnings	As of December 31, 2023 Percentage Change in Earnings
200	(0.3) %	0.9 %
100	0.2	1.2
(100)	(0.2)	(1.0)
(200)	(0.9)	(0.8)
(300)	(0.9)	(0.3)

Economic Value of Equity Analysis ("EVE"). We analyze the sensitivity of our financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between predicted changes in the fair value of our assets and predicted changes in the present value of our liabilities, assuming various changes in current interest rates. The table below represents an analysis of our interest rate risk as measured by the estimated changes in our economic value of equity, resulting from an instantaneous and sustained parallel shift in the yield curve at September 30, 2024, and December 31, 2023.

Change in Interest Rates (in Basis Points)	As of September 30, 2024 Percentage Change in EVE	As of December 31, 2023 Percentage Change in EVE
200	(2.7) %	(12.1) %
100	(0.6)	(5.8)
(100)	(2.2)	2.3
(200)	(8.7)	1.7
(300)	(18.2)	(1.8)

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2024. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and regulations are designed and operating in an effective manner.

Effective on May 3, 2024, Burke & Herbert completed its Merger with Summit. During the second and third quarter of 2024, management commenced an evaluation of the design and operating effectiveness of internal controls over financial reporting related to the Summit acquired business. The evaluation of changes to processes, technology systems, and other components of internal control over financial reporting related to the Summit acquired business is ongoing. Except for the changes made in connection with the Merger, there were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

Legal Proceedings

In the ordinary course of our operations, and from time to time, the Company and its subsidiary are parties to various legal claims, lawsuits, and proceedings incidental to the ordinary nature of the Company's business. Currently, we are not party to any material legal proceedings, and no such proceedings are, to management's knowledge, threatened against us. Although the ultimate outcome of any pending legal proceedings cannot be ascertained at this time, it is the opinion of management that the liabilities (if any) resulting from such legal proceedings will not have a material adverse effect on the Company's business, including its consolidated financial position, results of operations, or cash flows, or otherwise require disclosure under the federal securities laws.

Item 1A. Risk Factors

There have been no material changes in the risk factors that were disclosed in Item 1A, under the caption "Risk Factors" in our Form 10-K for the year ended December 31, 2023.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

(c) Insider Trading Arrangements

During the three months ended September 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933, as amended).

Item 6. Exhibits

Exhibit No.	Description
2.1*	Agreement and Plan of Reorganization between Burke & Herbert Financial Services Corp. and Summit Financial Group, Inc., dated as of August 24, 2023 (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-4 filed October 2, 2023)
3.1*	Articles of Incorporation Burke & Herbert Financial Services Corp. as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-Q filed August 13, 2024)
3.2*	Bylaws of Burke & Herbert Financial Services Corp. as amended (incorporated by reference to Exhibit 3.4 to the Registrant's Form 10-Q filed May 10, 2024)
4.1*	Form of 5.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (included as Exhibit A to the Form of Subordinated Note Purchase Agreement dated as of September 22, 2020, by and between Summit Financial Group, Inc. and each of the Purchasers) (incorporated by reference to Exhibit 10.1 to Summit Financial Group, Inc.'s Form 8-K filed on September 23, 2020 (File No. 000-16587))
4.2*	Form of 3.25% Fixed-to-Floating Rate Subordinated Note due 2031 (included as Exhibit A-1 and Exhibit A-2 to the Indenture, dated as of November 16, 2021, by and between Summit Financial Group, Inc. and UMB Bank, N.A., as Trustee) (incorporated by reference to Exhibit 4.1 to Summit Financial Group, Inc.'s Form 8-K filed on November 17, 2021 (File No. 000-16587))
31.1#	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101#	The following materials from the registrant's Form 10-Q Report for the quarterly period ended September 30, 2024, formatted in Inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
104#	The cover page of the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024, formatted in Inline XBRL (contained in Exhibit 101).

* Previously filed
\# Filed herewith

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.

Date: November 13, 2024

Burke & Herbert Financial Services Corp.

By:	/s/ David P. Boyle
Name:	David P. Boyle
Title:	Chief Executive Officer

By:	/s/ Roy E. Halyama
Name:	Roy E. Halyama
Title:	Executive Vice President, Chief Financial Officer