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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

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: 001-39085

HBT Financial, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**37-1117216** **(I.R.S. Employer Identification No.)**
401 North Hershey Rd **Bloomington, Illinois 61704** **(Address of principal executive offices, including zip code)**	**(888) 897-2276** **(Registrant's telephone number, including area code)**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	HBT	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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of July 31, 2020, there were 27,457,306 shares outstanding of the registrant's common stock, $0.01 par value.

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HBT Financial, Inc.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this quarterly report are forward-looking statements. Forward-looking statements may include statements relating to our plans, strategies and expectations, the economic impact of the COVID-19 pandemic and our future financial results, near-term loan growth, net interest margin, mortgage banking profits, wealth management fees, expenses, asset quality, capital levels, continued earnings and liquidity. Forward looking statements are generally identifiable by use of the words "believe," "may," "will," "should," "could," "expect," "estimate," "intend," "anticipate," "project," "plan" or similar expressions. Forward looking statements are frequently based on assumptions that may or may not materialize and are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that could cause actual results to differ materially from the results anticipated or projected and which could materially and adversely affect our operating results, financial condition or prospects include, but are not limited to:

- our asset quality and any loan charge-offs;
- the composition of our loan portfolio;
- time and effort necessary to resolve nonperforming assets and the loans modified or deferred as a result of the impact of the COVID-19 pandemic;
- the length and severity of the COVID-19 pandemic, and the effects of the COVID-19 pandemic, including the impact of the pandemic on our operations and the operations of our customers and the communities that we serve;
- environmental liability associated with our lending activities;
- the effects of the current low interest rate environment or changes in interest rates on our net interest income, net interest margin, our investments, and our loan originations, and our modeling estimates relating to interest rate changes;
- our access to sources of liquidity and capital to address our liquidity needs;
- our inability to receive dividends from our Banks, pay dividends to our common stockholders or satisfy obligations as they become due;
- the effects of problems encountered by other financial institutions;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- our ability to attract and retain skilled employees or changes in our management personnel;
- any failure or interruption of our information and communications systems;
- our ability to identify and address cybersecurity risks;
- the effects of the failure of any component of our business infrastructure provided by a third party;
- our ability to keep pace with technological changes;
- our ability to successfully develop and commercialize new or enhanced products and services;
- current and future business, economic and market conditions in the United States generally or in Illinois in particular;
- the geographic concentration of our operations in the State of Illinois;
- our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business;
- our ability to attract and retain customer deposits;
- our ability to maintain our Banks' reputations;
- severe weather, natural disasters, pandemics, acts of war or terrorism or other external events;
- possible impairment of our goodwill and other intangible assets;
- the impact of, and changes in applicable laws, regulations and accounting standards and policies;
- our prior status as an S Corp;
- possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations;
- the effectiveness of our risk management and internal disclosure controls and procedures;
- market perceptions associated with certain aspects of our business;
- the one-time and incremental costs of operating as a standalone public company;
- our ability to meet our obligations as a public company, including our obligations under Section 404 of Sarbanes-Oxley;
- damage to our reputation from any of the factors described above; and

- the factors discussed in “Risk Factors”, "Management's Discussion and Analysis of Financial Condition and Results of Operations" or elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2019.

These risks and uncertainties, as well as the factors discussed under "Risk Factors," should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Forward-looking statements speak only as of the date they are made. We do not undertake any obligation to update any forward-looking statement in the future, or to reflect circumstances and events that occur after the date on which the forward-looking statement was made.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2020	December 31, 2019
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 21,789	$ 22,112
Interest-bearing deposits with banks	292,576	261,859
Cash and cash equivalents	314,365	283,971
Interest-bearing time deposits with banks	—	248
Debt securities available-for-sale, at fair value	701,353	592,404
Debt securities held-to-maturity (fair value of $78,317 in 2020 and $90,529 in 2019)	73,823	88,477
Equity securities	4,815	4,389
Restricted stock, at cost	2,498	2,425
Loans held for sale	25,934	4,531
Loans, net of allowance for loan losses of $29,723 in 2020 and $22,299 in 2019	2,246,072	2,141,527
Bank premises and equipment, net	53,883	53,987
Bank premises held for sale	121	121
Foreclosed assets	4,450	5,099
Goodwill	23,620	23,620
Core deposit intangible assets, net	3,408	4,030
Mortgage servicing rights, at fair value	5,839	8,518
Investments in unconsolidated subsidiaries	1,165	1,165
Accrued interest receivable	12,661	13,951
Other assets	27,405	16,640
Total assets	$ 3,501,412	$ 3,245,103
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 856,030	$ 689,116
Interest-bearing	2,159,083	2,087,739
Total deposits	3,015,113	2,776,855
Securities sold under agreements to repurchase	51,354	44,433
Subordinated debentures	37,616	37,583
Other liabilities	49,489	53,314
Total liabilities	3,153,572	2,912,185
COMMITMENTS AND CONTINGENCIES (Notes 7 and 17)		
Stockholders' Equity		
Preferred stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value; 125,000,000 shares authorized; 27,457,306 shares issued and outstanding	275	275
Surplus	190,687	190,524
Retained earnings	139,667	134,287
Accumulated other comprehensive income	17,211	7,832
Total stockholders’ equity	347,840	332,918
Total liabilities and stockholders’ equity	$ 3,501,412	$ 3,245,103

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands, except per share amounts)			
INTEREST AND DIVIDEND INCOME				
Loans, including fees:				
Taxable	$ 25,337	$ 29,886	$ 52,278	$ 59,949
Federally tax exempt	532	736	1,206	1,446
Securities:				
Taxable	3,172	3,801	6,506	7,723
Federally tax exempt	1,227	1,512	2,255	3,064
Interest-bearing deposits in bank	79	599	808	1,286
Other interest and dividend income	14	16	28	31
Total interest and dividend income	30,361	36,550	63,081	73,499
INTEREST EXPENSE				
Deposits	1,042	2,111	2,637	4,094
Securities sold under agreements to repurchase	11	17	31	31
Borrowings	1	4	1	7
Subordinated debentures	399	487	842	984
Total interest expense	1,453	2,619	3,511	5,116
Net interest income	28,908	33,931	59,570	68,383
PROVISION FOR LOAN LOSSES	3,573	1,806	7,928	2,582
Net interest income after provision for loan losses	25,335	32,125	51,642	65,801
NONINTEREST INCOME				
Card income	1,998	1,996	3,790	3,828
Service charges on deposit accounts	1,133	1,931	2,967	3,694
Wealth management fees	1,507	1,493	3,321	3,240
Mortgage servicing	727	818	1,451	1,547
Mortgage servicing rights fair value adjustment	(508)	(1,120)	(2,679)	(2,122)
Gains on sale of mortgage loans	2,135	660	2,671	1,185
Gains (losses) on securities	57	36	5	115
Gains (losses) on foreclosed assets	58	169	93	152
Gains (losses) on other assets	(69)	368	(72)	1,273
Title insurance activity	—	38	—	167
Other noninterest income	1,022	957	1,765	1,754
Total noninterest income	8,060	7,346	13,312	14,833
NONINTEREST EXPENSE				
Salaries	12,674	11,597	25,428	24,119
Employee benefits	2,455	4,723	4,889	5,967
Occupancy of bank premises	1,642	1,638	3,470	3,475
Furniture and equipment	609	716	1,212	1,505
Data processing	1,672	1,390	3,258	2,552
Marketing and customer relations	817	1,103	1,861	2,036
Amortization of intangible assets	305	376	622	752
FDIC insurance	218	208	254	427
Loan collection and servicing	494	612	842	1,354
Foreclosed assets	88	165	177	329
Other noninterest expense	2,525	2,033	4,793	4,257
Total noninterest expense	23,499	24,561	46,806	46,773
INCOME BEFORE INCOME TAX EXPENSE	9,896	14,910	18,148	33,861
INCOME TAX EXPENSE	2,477	305	4,508	520
NET INCOME	$ 7,419	$ 14,605	$ 13,640	$ 33,341
EARNINGS PER SHARE - BASIC	$ 0.27	$ 0.81	$ 0.50	$ 1.85
EARNINGS PER SHARE - DILUTED	$ 0.27	$ 0.81	$ 0.50	$ 1.85
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	27,457,306	18,027,512	27,457,306	18,027,512
UNAUDITED PRO FORMA C CORP EQUIVALENT INFORMATION (Note 1)				
Historical income before income tax expense		$ 14,910		$ 33,861
Pro forma C Corp equivalent income tax expense		3,784		8,699
Pro forma C Corp equivalent net income		$ 11,126		$ 25,162
PRO FORMA C CORP EQUIVALENT EARNINGS PER SHARE - BASIC		$ 0.62		$ 1.40
PRO FORMA C CORP EQUIVALENT EARNINGS PER SHARE - DILUTED		$ 0.62		$ 1.40

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
NET INCOME	$ 7,419	$ 14,605	$ 13,640	$ 33,341
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gains (losses) on debt securities available-for-sale	6,590	6,968	14,192	12,624
Reclassification adjustment for accretion of net unrealized gain on debt securities transferred to held-to-maturity	6	(77)	(3)	(159)
Unrealized losses on derivative instruments	(133)	(445)	(1,103)	(689)
Reclassification adjustment for net settlements on derivative instruments	39	(22)	41	(52)
Total other comprehensive income (loss), before tax	6,502	6,424	13,127	11,724
Income tax expense	1,860	—	3,748	—
Total other comprehensive income (loss)	4,642	6,424	9,379	11,724
TOTAL COMPREHENSIVE INCOME	$ 12,061	$ 21,029	$ 23,019	$ 45,065

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Voting	Common Stock Series A	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	(dollars in thousands, except per share data)						
Balance, March 31, 2020	$ 275	$ —	$ 190,591	$ 136,378	$ 12,569	$ —	$ 339,813
Net income	—	—	—	7,419	—	—	7,419
Other comprehensive income	—	—	—	—	4,642	—	4,642
Stock-based compensation	—	—	96	—	—	—	96
Cash dividends ($0.15 per share)	—	—	—	(4,130)	—	—	(4,130)
Balance, June 30, 2020	$ 275	$ —	$ 190,687	$ 139,667	$ 17,211	$ —	$ 347,840
Balance, March 31, 2019	$ 3	$ 178	$ 32,288	$ 298,131	$ 1,012	$ (3,019)	$ 328,593
Net income	—	—	—	14,605	—	—	14,605
Other comprehensive income	—	—	—	—	6,424	—	6,424
Cash dividends ($0.54 per share)	—	—	—	(9,752)	—	—	(9,752)
Balance, June 30, 2019	$ 3	$ 178	$ 32,288	$ 302,984	$ 7,436	$ (3,019)	$ 339,870

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)
(Unaudited)

	Common Stock Voting	Common Stock Series A	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	(dollars in thousands, except per share data)						
Balance, December 31, 2019	$ 275	$ —	$ 190,524	$ 134,287	$ 7,832	$ —	$ 332,918
Net income	—	—	—	13,640	—	—	13,640
Other comprehensive income	—	—	—	—	9,379	—	9,379
Stock-based compensation	—	—	163	—	—	—	163
Cash dividends ($0.30 per share)	—	—	—	(8,260)	—	—	(8,260)
Balance, June 30, 2020	$ 275	$ —	$ 190,687	$ 139,667	$ 17,211	$ —	$ 347,840
Balance, December 31, 2018	$ 3	$ 178	$ 32,288	$ 315,234	$ (4,288)	$ (3,019)	$ 340,396
Net income	—	—	—	33,341	—	—	33,341
Other comprehensive income	—	—	—	—	11,724	—	11,724
Cash dividends ($2.53 per share)	—	—	—	(45,591)	—	—	(45,591)
Balance, June 30, 2019	$ 3	$ 178	$ 32,288	$ 302,984	$ 7,436	$ (3,019)	$ 339,870

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,640	$ 33,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,406	1,381
Provision for loan losses	7,928	2,582
Net amortization of debt securities	1,825	1,868
Amortization of unrealized gain on dedesignated cash flow hedge	(64)	(20)
Deferred income tax benefit	185	—
Stock-based compensation	163	—
Net accretion of discount and deferred loan fees on loans	(1,313)	(2,450)
Net unrealized gain on equity securities	(5)	(115)
Net loss (gain) on sales of bank premises and equipment	3	(30)
Net gain on sales of bank premises held for sale	—	(448)
Impairment losses on bank premises held for sale	—	9
Net gain on sales of foreclosed assets	(144)	(105)
Write-down of foreclosed assets	58	389
Amortization of intangibles	622	752
Decrease in mortgage servicing rights	2,679	2,122
Amortization of subordinated debt purchase accounting adjustment	33	33
Mortgage loans originated for sale	(152,706)	(54,948)
Proceeds from sale of mortgage loans	133,974	53,630
Net gain on sale of mortgage loans	(2,671)	(1,185)
Gain on sale of First Community Title Services, Inc.	—	(498)
Decrease in accrued interest receivable	1,290	691
Increase in other assets	(375)	(541)
(Decrease) increase in other liabilities	(19,146)	2,490
Net cash (used in) provided by operating activities	(12,618)	38,948
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing time deposits with banks	248	—
Proceeds from paydowns, maturities, and calls of debt securities	97,066	91,196
Purchase of securities	(179,418)	(40,424)
Net increase in loans	(111,420)	(58,339)
Purchase of restricted stock	(73)	—
Proceeds from redemption of restricted stock	—	294
Purchases of bank premises and equipment	(1,305)	(784)
Proceeds from sales of bank premises and equipment	—	176
Proceeds from sales of bank premises held for sale	—	1,039
Proceeds from sales of foreclosed assets	1,001	969
Capital improvements to foreclosed assets	(6)	—
Cash received from sale of First Community Title Services, Inc.	—	114
Net cash used in investing activities	(193,907)	(5,759)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	238,258	(22,202)
Net increase (decrease) in repurchase agreements	6,921	(10,549)
Cash dividends paid	(8,260)	(45,591)
Net cash provided by (used in) financing activities	236,919	(78,342)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,394	(45,153)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	283,971	186,879
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 314,365	$ 141,726

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 3,822	$ 4,976
Cash paid for income taxes	$ 2,935	$ 880
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES		
Transfers of loans to foreclosed assets	$ 327	$ 1,761
Sales of foreclosed assets through loan origination	$ 67	$ 360

See accompanying Notes to Consolidated Financial Statements (Unaudited)

HBT FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – ACCOUNTING POLICIES

Basis of Presentation

HBT Financial, Inc. (the Company) is headquartered in Bloomington, Illinois and is the holding company for Heartland Bank and Trust Company (Heartland Bank) and State Bank of Lincoln. Heartland Bank and State Bank of Lincoln are collectively referred to as “the Banks”. The Banks provide a comprehensive suite of business, commercial, wealth management and retail banking products and services to individuals, businesses, and municipal entities throughout Central and Northeastern Illinois.

The unaudited consolidated financial statements, including the notes thereto, have been prepared in accordance with generally accepted accounting principles (GAAP) interim reporting requirements. Certain information in footnote disclosures normally included in financial statements prepared in accordance with GAAP has been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. These interim unaudited consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 27, 2020.

The unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results for interim periods are not necessarily indicative of results for a full year.

The Company qualifies as an "emerging growth company" as defined by the Jumpstart Our Business Startups Act (JOBS Act). The JOBS Act permits emerging growth companies an extended transition period for complying with new or revised accounting standards affecting public companies. The Company has elected to use the extended transition period until the Company is no longer an emerging growth company or until the Company chooses to affirmatively and irrevocably opt out of the extended transition period. As a result, the Company’s financial statements may not be comparable to companies that comply with new or revised accounting pronouncements applicable to public companies.

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, 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 the reported results of operations for the periods then ended.

Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and income taxes.

Income Taxes

Through October 10, 2019, the Company, with the consent of its then current stockholders, elected to be taxed under sections of federal and state income tax law as an "S Corporation" which provides that, in lieu of Company income taxes, except for state replacement taxes, the stockholders separately account for their pro rata shares of the Company’s items of income, deductions, losses and credits. As a result of this election, no income taxes, other than state replacement taxes, have been recognized in the accompanying consolidated financial statements. No provision has been made for any amounts which were advanced or paid as dividends to the stockholders to assist them in paying their personal taxes on the income from the Company.

HBT FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Effective October 11, 2019, the Company voluntarily revoked its S Corporation status and became a taxable entity (C Corporation). As such, any periods prior to October 11, 2019 only reflect an effective state replacement tax rate.

The Company files consolidated federal and state income tax returns. The Company is no longer subject to federal income tax examinations for years prior to 2017 or state income tax examinations for years prior to 2016.

Unaudited Pro Forma Income Statement Information

The unaudited pro forma C Corp equivalent income tax expense information gives effect to the income tax expense had the Company been a C Corporation during the three and six months ended June 30, 2019. The unaudited pro forma C Corp equivalent net income information, therefore, includes an adjustment for income tax expense as if the Company had been a C Corporation during the three and six months ended June 30, 2019.

The unaudited pro forma basic and diluted earnings per share information is computed using the unaudited pro forma C Corp equivalent net income and weighted average shares of common stock outstanding. There were no dilutive instruments outstanding during 2019, therefore, the unaudited pro forma C Corp equivalent basic and diluted earnings per share amounts are the same.

Segment Reporting

The Company's operations consist of one reportable segment called community banking. While the Company's management monitors both bank subsidiaries' operations and profitability separately, these subsidiaries have been aggregated into one reportable segment due to the similarities in products and services, customer base, operations, profitability measures, and economic characteristics.

Goodwill

Goodwill represents the excess of the original cost over the fair value of assets acquired and liabilities assumed. Goodwill is not amortized but instead is subject to an annual impairment evaluation. The Company has selected December 31 as the date to perform the annual impairment test, and at December 31, 2019, the Company's evaluation of goodwill indicated that goodwill was not impaired.

Due to the economic weakness resulting from the COVID-19 pandemic, the Company completed an evaluation of goodwill as of March 31, 2020 which indicated that goodwill was not impaired as of March 31, 2020. Further goodwill impairment evaluations, which may result in goodwill impairment, may be necessary if events or circumstance changes would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation without any impact on the reported amounts of net income or stockholders' equity.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential of recognition or disclosure through the date the financial statements were issued.

HBT FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities available-for-sale and purchased financial assets with credit deterioration. ASU 2016-13 is effective for years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for years beginning after December 31, 2018, including interim periods within those years. The Company is currently evaluating the effect that this standard will have on the consolidated results of operations and financial position.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU simplifies measurement of goodwill and eliminates Step 2 from the goodwill impairment test. Under the ASU, a company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this update are effective for annual or any interim goodwill impairment tests in years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. This standard is not expected to have a material impact on the Company’s consolidated results of operations or financial position.

NOTE 2 – SECURITIES

The carrying balances of the securities were as follows:

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Debt securities available-for-sale	$ 701,353	$ 592,404
Debt securities held-to-maturity	73,823	88,477
Equity securities:		
Readily determinable fair value	3,263	3,241
No readily determinable fair value	1,552	1,148
Total securities	$ 779,991	$ 685,270

The Company has elected to measure the equity securities with no readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes for identical or similar securities of the same issuer. During the three and six months ended June 30, 2020 and 2019, there were no adjustments to the carrying balance of equity securities with no readily determinable fair value based on an observable price change of an identical investment. As of June 30, 2020 and December 31, 2019, the carrying balance of equity securities with no readily determinable fair value reflect cumulative downward adjustments based on observable price changes of $165,000. There have been no impairments or upward adjustments based on observable price changes to equity securities with no readily determinable fair value.

HBT FINANCIAL, INC. AND SUBSIDIARIES
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The amortized cost and fair values of debt securities, with gross unrealized gains and losses, are as follows:

June 30, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:		(dollars in thousands)		
U.S. government agency	$ 75,881	$ 3,061	$ (7)	$ 78,935
Municipal	191,453	6,885	(28)	198,310
Mortgage-backed:				
Agency residential	211,577	5,393	(101)	216,869
Agency commercial	133,149	5,022	(22)	138,149
Corporate	67,204	1,962	(76)	69,090
Total available-for-sale	679,264	22,323	(234)	701,353
Held-to-maturity:				
Municipal	28,528	1,507	—	30,035
Mortgage-backed:				
Agency residential	16,516	567	—	17,083
Agency commercial	28,779	2,420	—	31,199
Total held-to-maturity	73,823	4,494	—	78,317
Total debt securities	$ 753,087	$ 26,817	$ (234)	$ 779,670

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:		(dollars in thousands)		
U.S. government agency	$ 49,113	$ 529	$ (27)	$ 49,615
Municipal	131,241	2,503	(6)	133,738
Mortgage-backed:				
Agency residential	198,184	2,780	(286)	200,678
Agency commercial	133,730	1,516	(292)	134,954
Corporate	72,239	1,180	—	73,419
Total available-for-sale	584,507	8,508	(611)	592,404
Held-to-maturity:				
Municipal	45,239	1,340	—	46,579
Mortgage-backed:				
Agency residential	19,072	161	(170)	19,063
Agency commercial	24,166	775	(54)	24,887
Total held-to-maturity	88,477	2,276	(224)	90,529
Total debt securities	$ 672,984	$ 10,784	$ (835)	$ 682,933

As of June 30, 2020 and December 31, 2019, the Banks had debt securities with a carrying value of $342,031,000 and $284,895,000, respectively, which were pledged to secure public and trust deposits, securities sold under agreements to repurchase, and for other purposes required or permitted by law.

The Company has no direct exposure to the State of Illinois, but approximately 43% of the obligations of local municipalities portfolio consists of debt securities issued by municipalities located in Illinois as of June 30, 2020. Approximately 89% of such debt securities were general obligation issues as of June 30, 2020.

HBT FINANCIAL, INC. AND SUBSIDIARIES
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The amortized cost and fair value of debt securities by contractual maturity, as of June 30, 2020, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Due in 1 year or less	$ 32,518	$ 32,748	$ 748	$ 754
Due after 1 year through 5 years	92,615	95,593	14,963	15,733
Due after 5 years through 10 years	151,731	158,201	11,926	12,620
Due after 10 years	57,674	59,793	891	928
Mortgage-backed:				
Agency residential	211,577	216,869	16,516	17,083
Agency commercial	133,149	138,149	28,779	31,199
Total	$ 679,264	$ 701,353	$ 73,823	$ 78,317

There were no sales of securities during the three and six months ended June 30, 2020 and 2019. Gains (losses) on securities were as follows during the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net realized gains (losses) on sales	$ —	$ —	$ —	$ —
Net unrealized gains (losses) on equities:				
Readily determinable fair value	57	36	5	115
No readily determinable fair value	—	—	—	—
Gains (losses) on securities	$ 57	$ 36	$ 5	$ 115

HBT FINANCIAL, INC. AND SUBSIDIARIES
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The following tables present gross unrealized losses and fair value of debt securities, aggregated by category and length of time that individual debt securities have been in a continuous unrealized loss position, as of June 30, 2020 and December 31, 2019:

	Investments in a Continuous Unrealized Loss Position					
	Less than 12 Months		12 Months or More		Total	
June 30, 2020	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Available-for-sale:	(dollars in thousands)					
U.S. government agency	$ (7)	$ 3,605	$ —	$ —	$ (7)	$ 3,605
Municipal	(28)	4,989	—	—	(28)	4,989
Mortgage-backed:						
Agency residential	(77)	15,955	(24)	7,194	(101)	23,149
Agency commercial	—	—	(22)	6,038	(22)	6,038
Corporate	(76)	9,924	—	—	(76)	9,924
Total available-for-sale	(188)	34,473	(46)	13,232	(234)	47,705
Total debt securities	$ (188)	$ 34,473	$ (46)	$ 13,232	$ (234)	$ 47,705

	Investments in a Continuous Unrealized Loss Position					
	Less than 12 Months		12 Months or More		Total	
December 31, 2019	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Available-for-sale:	(dollars in thousands)					
U.S. government agency	$ (26)	$ 18,865	$ (1)	$ 1,998	$ (27)	$ 20,863
Municipal	(6)	894	—	—	(6)	894
Mortgage-backed:						
Agency residential	(108)	25,563	(178)	27,296	(286)	52,859
Agency commercial	(100)	20,056	(192)	15,704	(292)	35,760
Total available-for-sale	(240)	65,378	(371)	44,998	(611)	110,376
Held-to-maturity:						
Mortgage-backed:						
Agency residential	(30)	2,516	(140)	9,002	(170)	11,518
Agency commercial	(47)	7,016	(7)	599	(54)	7,615
Total held-to-maturity	(77)	9,532	(147)	9,601	(224)	19,133
Total debt securities	$ (317)	$ 74,910	$ (518)	$ 54,599	$ (835)	$ 129,509

As of June 30, 2020, there were 9 debt securities in an unrealized loss position for a period of twelve months or more, and 28 debt securities in an unrealized loss position for a period of less than twelve months. These unrealized losses are primarily a result of fluctuations in market interest rates. In analyzing an issuer's financial condition, management considers whether the debt securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management believes that all declines in value of these debt securities are deemed to be temporary.

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NOTE 3 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major categories of loans are summarized as follows:

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Commercial and industrial	$ 408,230	$ 307,175
Agricultural and farmland	239,101	207,776
Commercial real estate - owner occupied	228,506	231,162
Commercial real estate - non-owner occupied	535,339	579,757
Multi-family	186,440	179,073
Construction and land development	247,640	224,887
One-to-four family residential	308,133	313,580
Municipal, consumer, and other	122,406	120,416
Loans, before allowance for loan losses	2,275,795	2,163,826
Allowance for loan losses	(29,723)	(22,299)
Loans, net of allowance for loan losses	$ 2,246,072	$ 2,141,527
Paycheck Protection Program (PPP) Loans (included above)		
Commercial and industrial	$ 166,868	$ —
Agricultural and farmland	4,027	—
Municipal, consumer, and other	7,063	—
Total PPP loans	$ 177,958	$ —

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The following tables detail activity in the allowance for loan losses for the three and six months ended June 30:

Three Months Ended June 30, 2020	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Allowance for loan losses:	(dollars in thousands)								
Balance, March 31, 2020	$ 4,224	$ 2,993	$ 2,122	$ 4,432	$ 1,474	$ 3,223	$ 3,284	$ 4,335	$ 26,087
Provision for loan losses	125	(103)	1,135	2,275	107	135	(317)	216	3,573
Charge-offs	—	—	—	—	—	—	(8)	(152)	(160)
Recoveries	7	—	—	60	—	8	51	97	223
Balance, June 30, 2020	$ 4,356	$ 2,890	$ 3,257	$ 6,767	$ 1,581	$ 3,366	$ 3,010	$ 4,496	$ 29,723

Three Months Ended June 30, 2019	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Allowance for loan losses:	(dollars in thousands)								
Balance, March 31, 2019	$ 3,762	$ 3,248	$ 2,353	$ 2,722	$ 972	$ 3,897	$ 3,067	$ 992	$ 21,013
Provision for loan losses	1,393	(356)	233	(7)	181	(587)	1,022	(73)	1,806
Charge-offs	(27)	(30)	(101)	—	—	(9)	(602)	(197)	(966)
Recoveries	59	—	2	6	—	422	82	118	689
Balance, June 30, 2019	$ 5,187	$ 2,862	$ 2,487	$ 2,721	$ 1,153	$ 3,723	$ 3,569	$ 840	$ 22,542

Six Months Ended June 30, 2020	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Allowance for loan losses:	(dollars in thousands)								
Balance, December 31, 2019	$ 4,441	$ 2,766	$ 1,779	$ 3,663	$ 1,024	$ 2,977	$ 2,540	$ 3,109	$ 22,299
Provision for loan losses	663	151	1,038	3,095	557	372	460	1,592	7,928
Charge-offs	(809)	(27)	—	(56)	—	(1)	(112)	(376)	(1,381)
Recoveries	61	—	440	65	—	18	122	171	877
Balance, June 30, 2020	$ 4,356	$ 2,890	$ 3,257	$ 6,767	$ 1,581	$ 3,366	$ 3,010	$ 4,496	$ 29,723

Six Months Ended June 30, 2019	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land	Residential Real Estate	Consumer and Other	Total
Allowance for loan losses:	(dollars in thousands)								
Balance, December 31, 2018	$ 3,748	$ 2,650	$ 2,506	$ 2,644	$ 912	$ 4,176	$ 2,782	$ 1,091	$ 20,509
Provision for loan losses	1,615	242	126	67	241	(877)	1,233	(65)	2,582
Charge-offs	(283)	(30)	(166)	—	—	(9)	(639)	(372)	(1,499)
Recoveries	107	—	21	10	—	433	193	186	950
Balance, June 30, 2019	$ 5,187	$ 2,862	$ 2,487	$ 2,721	$ 1,153	$ 3,723	$ 3,569	$ 840	$ 22,542

HBT FINANCIAL, INC. AND SUBSIDIARIES
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The following tables present the recorded investments in loans and the allowance for loan losses by category as of June 30, 2020 and December 31, 2019:

June 30, 2020	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Loan balances:					(dollars in thousands)				
Collectively evaluated for impairment	$ 398,730	$ 220,915	$ 207,606	$ 500,354	$ 185,152	$ 241,694	$ 286,969	$ 108,677	$ 2,150,097
Individually evaluated for impairment	7,704	17,216	12,737	20,095	—	2,661	11,344	13,651	85,408
Acquired with deteriorated credit quality	1,796	970	8,163	14,890	1,288	3,285	9,820	78	40,290
Total	$ 408,230	$ 239,101	$ 228,506	$ 535,339	$ 186,440	$ 247,640	$ 308,133	$ 122,406	$ 2,275,795
Allowance for loan losses:									
Collectively evaluated for impairment	$ 2,514	$ 2,854	$ 2,527	$ 6,152	$ 1,571	$ 2,975	$ 2,306	$ 1,005	$ 21,904
Individually evaluated for impairment	1,732	34	437	91	—	259	668	3,490	6,711
Acquired with deteriorated credit quality	110	2	293	524	10	132	36	1	1,108
Total	$ 4,356	$ 2,890	$ 3,257	$ 6,767	$ 1,581	$ 3,366	$ 3,010	$ 4,496	$ 29,723

December 31, 2019	Commercial and Industrial	Agricultural and Farmland	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied	Multi-Family	Construction and Land Development	One-to-four Family Residential	Municipal, Consumer, and Other	Total
Loan balances:					(dollars in thousands)				
Collectively evaluated for impairment	$ 294,006	$ 192,722	$ 211,744	$ 561,277	$ 176,273	$ 217,708	$ 291,624	$ 106,448	$ 2,051,802
Individually evaluated for impairment	10,733	13,966	10,927	3,398	1,324	3,782	11,349	13,872	69,351
Acquired with deteriorated credit quality	2,436	1,088	8,491	15,082	1,476	3,397	10,607	96	42,673
Total	$ 307,175	$ 207,776	$ 231,162	$ 579,757	$ 179,073	$ 224,887	$ 313,580	$ 120,416	$ 2,163,826
Allowance for loan losses:									
Collectively evaluated for impairment	$ 1,926	$ 2,576	$ 1,486	$ 3,591	$ 1,019	$ 2,283	$ 1,684	$ 931	$ 15,496
Individually evaluated for impairment	2,170	105	270	70	—	567	822	2,176	6,180
Acquired with deteriorated credit quality	345	85	23	2	5	127	34	2	623
Total	$ 4,441	$ 2,766	$ 1,779	$ 3,663	$ 1,024	$ 2,977	$ 2,540	$ 3,109	$ 22,299

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The following tables present loans individually evaluated for impairment by category of loans as of June 30, 2020 and December 31, 2019:

June 30, 2020	Unpaid Principal Balance	Recorded Investment	Related Allowance
With an allowance recorded:	(dollars in thousands)		
Commercial and industrial	$ 3,052	$ 3,052	$ 1,732
Agricultural and farmland	174	174	34
Commercial real estate - owner occupied	1,303	1,303	437
Commercial real estate - non-owner occupied	166	166	91
Multi-family	—	—	—
Construction and land development	2,564	2,563	259
One-to-four family residential	2,821	2,803	668
Municipal, consumer, and other	8,881	8,854	3,490
Total	$ 18,961	$ 18,915	$ 6,711
With no related allowance:			
Commercial and industrial	$ 4,656	$ 4,652	$ —
Agricultural and farmland	17,040	17,042	—
Commercial real estate - owner occupied	11,436	11,434	—
Commercial real estate - non-owner occupied	19,973	19,929	—
Multi-family	—	—	—
Construction and land development	100	98	—
One-to-four family residential	8,593	8,541	—
Municipal, consumer, and other	4,809	4,797	—
Total	$ 66,607	$ 66,493	$ —
Total			
Commercial and industrial	$ 7,708	$ 7,704	$ 1,732
Agricultural and farmland	17,214	17,216	34
Commercial real estate - owner occupied	12,739	12,737	437
Commercial real estate - non-owner occupied	20,139	20,095	91
Multi-family	—	—	—
Construction and land development	2,664	2,661	259
One-to-four family residential	11,414	11,344	668
Municipal, consumer, and other	13,690	13,651	3,490
Total	$ 85,568	$ 85,408	$ 6,711

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December 31, 2019	Unpaid Principal Balance	Recorded Investment	Related Allowance
With an allowance recorded:	(dollars in thousands)		
Commercial and industrial	$ 4,292	$ 4,292	$ 2,170
Agricultural and farmland	590	590	105
Commercial real estate - owner occupied	830	830	270
Commercial real estate - non-owner occupied	99	99	70
Multi-family	—	—	—
Construction and land development	3,679	3,679	567
One-to-four family residential	3,401	3,390	822
Municipal, consumer, and other	9,138	9,111	2,176
Total	$ 22,029	$ 21,991	$ 6,180
With no related allowance:			
Commercial and industrial	$ 6,438	$ 6,441	$ —
Agricultural and farmland	13,369	13,376	—
Commercial real estate - owner occupied	10,089	10,097	—
Commercial real estate - non-owner occupied	3,297	3,299	—
Multi-family	1,328	1,324	—
Construction and land development	104	103	—
One-to-four family residential	7,986	7,959	—
Municipal, consumer, and other	4,775	4,761	—
Total	$ 47,386	$ 47,360	$ —
Total			
Commercial and industrial	$ 10,730	$ 10,733	$ 2,170
Agricultural and farmland	13,959	13,966	105
Commercial real estate - owner occupied	10,919	10,927	270
Commercial real estate - non-owner occupied	3,396	3,398	70
Multi-family	1,328	1,324	—
Construction and land development	3,783	3,782	567
One-to-four family residential	11,387	11,349	822
Municipal, consumer, and other	13,913	13,872	2,176
Total	$ 69,415	$ 69,351	$ 6,180

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The following table presents the average recorded investment and interest income recognized for loans individually evaluated for impairment by category of loans during the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:	(dollars in thousands)			
Commercial and industrial	$ 3,126	$ 39	$ 5,864	$ 54
Agricultural and farmland	177	—	997	—
Commercial real estate - owner occupied	1,312	27	3,415	10
Commercial real estate - non-owner occupied	167	3	102	—
Multi-family	—	—	1,349	—
Construction and land development	2,573	25	2,882	45
One-to-four family residential	2,868	31	3,818	27
Municipal, consumer, and other	8,911	105	224	2
Total	$ 19,134	$ 230	$ 18,651	$ 138
With no related allowance:				
Commercial and industrial	$ 5,095	$ 94	$ 10,490	$ 103
Agricultural and farmland	16,853	195	20,280	228
Commercial real estate - owner occupied	11,899	120	14,427	197
Commercial real estate - non-owner occupied	20,067	65	3,938	—
Multi-family	—	—	2,400	81
Construction and land development	101	—	107	1
One-to-four family residential	8,666	141	10,406	51
Municipal, consumer, and other	4,835	1	17,369	109
Total	$ 67,516	$ 616	$ 79,417	$ 770
Total				
Commercial and industrial	$ 8,221	$ 133	$ 16,354	$ 157
Agricultural and farmland	17,030	195	21,277	228
Commercial real estate - owner occupied	13,211	147	17,842	207
Commercial real estate - non-owner occupied	20,234	68	4,040	—
Multi-family	—	—	3,749	81
Construction and land development	2,674	25	2,989	46
One-to-four family residential	11,534	172	14,224	78
Municipal, consumer, and other	13,746	106	17,593	111
Total	$ 86,650	$ 846	$ 98,068	$ 908

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	Six Months Ended June 30,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:	(dollars in thousands)			
Commercial and industrial	$ 3,306	$ 88	$ 5,940	$ 89
Agricultural and farmland	374	4	877	7
Commercial real estate - owner occupied	1,070	38	3,434	79
Commercial real estate - non-owner occupied	133	5	102	—
Multi-family	—	—	1,354	—
Construction and land development	2,819	66	2,887	89
One-to-four family residential	3,065	60	3,832	49
Municipal, consumer, and other	10,699	188	236	4
Total	$ 21,466	$ 449	$ 18,662	$ 317
With no related allowance:				
Commercial and industrial	$ 5,518	$ 152	$ 10,461	$ 196
Agricultural and farmland	14,687	356	20,417	342
Commercial real estate - owner occupied	11,166	251	14,656	332
Commercial real estate - non-owner occupied	11,704	106	3,958	54
Multi-family	—	—	2,431	81
Construction and land development	213	2	108	2
One-to-four family residential	8,505	203	10,488	120
Municipal, consumer, and other	3,102	57	17,417	110
Total	$ 54,895	$ 1,127	$ 79,936	$ 1,237
Total				
Commercial and industrial	$ 8,824	$ 240	$ 16,401	$ 285
Agricultural and farmland	15,061	360	21,294	349
Commercial real estate - owner occupied	12,236	289	18,090	411
Commercial real estate - non-owner occupied	11,837	111	4,060	54
Multi-family	—	—	3,785	81
Construction and land development	3,032	68	2,995	91
One-to-four family residential	11,570	263	14,320	169
Municipal, consumer, and other	13,801	245	17,653	114
Total	$ 76,361	$ 1,576	$ 98,598	$ 1,554

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The following tables present the recorded investment in loans by category based on current payment and accrual status as of June 30, 2020 and December 31, 2019:

		Accruing Interest			
June 30, 2020	**Current**	**30 - 89 Days Past Due**	**90+ Days Past Due**	**Nonaccrual**	**Total Loans**
	(dollars in thousands)				
Commercial and industrial	$ 404,768	$ 109	$ —	$ 3,353	$ 408,230
Agricultural and farmland	233,928	242	—	4,931	239,101
Commercial real estate - owner occupied	227,345	360	—	801	228,506
Commercial real estate - non-owner occupied	535,127	—	—	212	535,339
Multi-family	186,440	—	—	—	186,440
Construction and land development	247,472	—	—	168	247,640
One-to-four family residential	302,665	998	149	4,321	308,133
Municipal, consumer, and other	122,092	148	7	159	122,406
Total	$ 2,259,837	$ 1,857	$ 156	$ 13,945	$ 2,275,795

		Accruing Interest			
December 31, 2019	**Current**	**30 - 89 Days Past Due**	**90+ Days Past Due**	**Nonaccrual**	**Total Loans**
	(dollars in thousands)				
Commercial and industrial	$ 301,975	$ 558	$ —	$ 4,642	$ 307,175
Agricultural and farmland	201,519	—	—	6,257	207,776
Commercial real estate - owner occupied	228,218	941	—	2,003	231,162
Commercial real estate - non-owner occupied	579,626	131	—	—	579,757
Multi-family	177,696	—	—	1,377	179,073
Construction and land development	224,716	140	—	31	224,887
One-to-four family residential	307,712	1,329	75	4,464	313,580
Municipal, consumer, and other	119,898	247	26	245	120,416
Total	$ 2,141,360	$ 3,346	$ 101	$ 19,019	$ 2,163,826

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The following tables present total loans by category based on their assigned risk ratings determined by management as of June 30, 2020 and December 31, 2019:

June 30, 2020	Pass	Pass-Watch	Substandard	Doubtful	Total
			(dollars in thousands)		
Commercial and industrial	$ 376,348	$ 22,442	$ 9,440	$ —	$ 408,230
Agricultural and farmland	206,481	14,638	17,982	—	239,101
Commercial real estate - owner occupied	192,278	23,058	13,170	—	228,506
Commercial real estate - non-owner occupied	455,660	56,607	23,072	—	535,339
Multi-family	175,543	10,897	—	—	186,440
Construction and land development	234,415	10,159	3,066	—	247,640
One-to-four family residential	283,601	12,073	12,459	—	308,133
Municipal, consumer, and other	108,508	256	13,642	—	122,406
Total	$ 2,032,834	$ 150,130	$ 92,831	$ —	$ 2,275,795

December 31, 2019	Pass	Pass-Watch	Substandard	Doubtful	Total
			(dollars in thousands)		
Commercial and industrial	$ 267,645	$ 27,114	$ 12,416	$ —	$ 307,175
Agricultural and farmland	180,735	12,267	14,774	—	207,776
Commercial real estate - owner occupied	198,710	21,745	10,707	—	231,162
Commercial real estate - non-owner occupied	531,694	46,092	1,971	—	579,757
Multi-family	175,807	1,771	1,495	—	179,073
Construction and land development	217,120	3,582	4,185	—	224,887
One-to-four family residential	287,036	13,546	12,998	—	313,580
Municipal, consumer, and other	106,063	479	13,874	—	120,416
Total	$ 1,964,810	$ 126,596	$ 72,420	$ —	$ 2,163,826

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There were no troubled debt restructurings during the three and six months ended June 30, 2020. The following tables present the financial effect of troubled debt restructurings for the three and six months ended June 30, 2019:

Three Months Ended June 30, 2019	Number	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Charge-offs and Specific Reserves
		(dollars in thousands)		
Commercial and industrial	3	$ 516	$ 516	$ —
Agricultural and farmland	1	107	107	—
Commercial real estate - owner occupied	1	170	170	—
Total	5	$ 793	$ 793	$ —

Six Months Ended June 30, 2019	Number	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Charge-offs and Specific Reserves
		(dollars in thousands)		
Commercial and industrial	3	$ 516	$ 516	$ —
Agricultural and farmland	2	392	392	—
Commercial real estate - owner occupied	1	170	170	—
Total	6	$ 1,078	$ 1,078	$ —

During the three and six months ended June 30, 2019, all troubled debt restructurings were the result of a payment concession.

Of the troubled debt restructurings entered into during the last 12 months, there were none which had subsequent payment defaults during the three and six months ended June 30, 2020 and 2019. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal or were on nonaccrual status subsequent to restructuring.

As of June 30, 2020 and December 31, 2019, the Company had $8,387,000 and $9,315,000 of troubled debt restructurings, respectively. Restructured loans are evaluated for impairment quarterly as part of the Company's determination of the allowance for loan losses. There were no material commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings.

Changes in the accretable yield for loans acquired with deteriorated credit quality were as follows for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands)			
Beginning balance	$ 1,510	$ 1,710	$ 1,662	$ 2,101
Reclassification from non-accretable difference	38	271	46	407
Accretion income	(170)	(348)	(330)	(875)
Ending balance	$ 1,378	$ 1,633	$ 1,378	$ 1,633

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NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others, which are not included in the accompanying consolidated balance sheets, amounted to $1,085,926,000 and $1,152,535,000 as of June 30, 2020 and December 31, 2019, respectively. Activity in mortgage servicing rights is as follows for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Beginning balance	$ 6,347	$ 9,916	$ 8,518	$ 10,918
Capitalized servicing rights	560	216	774	376
Fair value adjustment:				
Attributable to payments and principal reductions	(791)	(438)	(1,194)	(744)
Attributable to changes in valuation inputs and assumptions	(277)	(898)	(2,259)	(1,754)
Total fair value adjustment	(1,068)	(1,336)	(3,453)	(2,498)
Ending balance	$ 5,839	$ 8,796	$ 5,839	$ 8,796

NOTE 5 – FORECLOSED ASSETS

Foreclosed assets activity is as follows for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Beginning balance	$ 4,469	$ 10,151	$ 5,099	$ 9,559
Transfers from loans	308	353	327	1,761
Capitalized improvements	6	—	6	—
Proceeds from sales	(324)	(458)	(1,001)	(969)
Sales through loan origination	(67)	(91)	(67)	(360)
Net gain (loss) on sales	69	16	144	105
Direct write-downs	(11)	(264)	(58)	(389)
Ending balance	$ 4,450	$ 9,707	$ 4,450	$ 9,707

Gains (losses) on foreclosed assets includes the following for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Direct write-downs	$ (11)	$ (264)	$ (58)	$ (389)
Net gain (loss) on sales	69	16	144	105
Guarantee reimbursements	—	42	7	61
Gain on settlement	—	375	—	375
Gains (losses) on foreclosed assets	$ 58	$ 169	$ 93	$ 152

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The carrying value of foreclosed one-to-four family residential real estate property as of June 30, 2020 and December 31, 2019, was $1,034,000 and $1,037,000, respectively. As of June 30, 2020, there were 9 one-to-four family residential real estate loans in the process of foreclosure totaling approximately $594,000. As of December 31, 2019, there were 10 residential real estate loans in the process of foreclosure totaling approximately $588,000.

NOTE 6 – DEPOSITS

The Company's deposits are summarized below:

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Noninterest-bearing deposits	$ 856,030	$ 689,116
Interest-bearing deposits:		
Interest-bearing demand	880,007	814,639
Money market	480,497	477,765
Savings	487,761	438,927
Time	310,818	356,408
Total interest-bearing deposits	2,159,083	2,087,739
Total deposits	$ 3,015,113	$ 2,776,855

Money market deposits include $7,798,000 and $14,309,000 of reciprocal transaction deposits as of June 30, 2020 and December 31, 2019, respectively. Time deposits include $3,679,000 and $3,538,000 of reciprocal time deposits as of June 30, 2020 and December 31, 2019, respectively.

The aggregate amounts of time deposits in denominations of $250,000 or more amounted to $24,602,000 and $44,754,000 as of June 30, 2020 and December 31, 2019, respectively. The aggregate amounts of time deposits in denominations of $100,000 or more amounted to $101,136,000 and $130,293,000 as of June 30, 2020 and December 31, 2019, respectively.

The components of interest expense on deposits for the three and six months ended June 30, 2020 and 2019 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Interest-bearing demand	$ 162	$ 411	$ 413	$ 828
Money market	118	489	512	859
Savings	50	69	120	137
Time	712	1,142	1,592	2,270
Total interest expense on deposits	$ 1,042	$ 2,111	$ 2,637	$ 4,094

NOTE 7 – BORROWINGS

There were no Federal Home Loan Bank of Chicago (FHLB) borrowings outstanding as of June 30, 2020 and December 31, 2019. Available borrowings from the FHLB are secured by FHLB stock held by the Company and pledged security in the form of qualifying loans. The total amount of loans pledged as of June 30, 2020 and December 31, 2019 was $535,798,000 and $548,229,000, respectively. As of June 30, 2020 and December 31, 2019, loans pledged also served as collateral for credit exposure of approximately $355,000 associated with the Banks' participation in the FHLB's Mortgage Partnership Finance Program.

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The Banks also have available a line of credit from the Federal Reserve Bank of Chicago (FRB) with available borrowings based on the collateral pledged. As of June 30, 2020 and December 31, 2019, the carrying value of debt securities pledged amounted to $515,000 and $515,000, respectively. There was no outstanding balance under the line of credit as of June 30, 2020 and December 31, 2019. The line, when drawn upon, is due on demand and bears interest at a variable rate.

NOTE 8 – SUBORDINATED DEBENTURES

Five subsidiary business trusts of the Company have issued floating rate capital securities ("capital securities") which are guaranteed by the Company.

The Company owns all of the outstanding stock of the five subsidiary business trusts. The trusts used the proceeds from the issuance of their capital securities to buy floating rate junior subordinated deferrable interest debentures ("debentures") issued by the Company. These debentures are the only assets of the trusts and the interest payments from the debentures finance the distributions paid on the capital securities. The debentures are unsecured and rank junior and subordinate in the right of payment to all senior debt of the Company.

The trusts are not consolidated in the Company's financial statements.

The carrying value of subordinated debentures are summarized as follows:

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Heartland Bancorp, Inc. Capital Trust B	$ 10,310	$ 10,310
Heartland Bancorp, Inc. Capital Trust C	10,310	10,310
Heartland Bancorp, Inc. Capital Trust D	5,155	5,155
FFBI Capital Trust I	7,217	7,217
National Bancorp Statutory Trust I	4,624	4,591
Total	$ 37,616	$ 37,583

The National Bancorp Statutory Trust I debenture was assumed through a business combination and has a contractual obligation of $5,773,000.

The interest rates on the subordinated debentures are variable, reset quarterly, and are equal to the three-month LIBOR, as determined on the LIBOR Determination Date immediately preceding each Distribution Payment Date specific to each subordinated debenture, plus a fixed percentage. The interest rates and maturities of the subordinated debentures are summarized as follows:

	Variable Interest Rate	Interest Rate at June 30, 2020	Interest Rate at December 31, 2019	Maturity Date
Heartland Bancorp, Inc. Capital Trust B	LIBOR plus 2.75 %	3.97 %	4.74 %	April 6, 2034
Heartland Bancorp, Inc. Capital Trust C	LIBOR plus 1.53	1.84	3.42	June 15, 2037
Heartland Bancorp, Inc. Capital Trust D	LIBOR plus 1.35	1.66	3.24	September 15, 2037
FFBI Capital Trust I	LIBOR plus 2.80	4.02	4.79	April 6, 2034
National Bancorp Statutory Trust I	LIBOR plus 2.90	3.21	4.79	December 31, 2037

The distribution rate payable on the debentures is cumulative and payable quarterly in arrears. The Company has the right, subject to events in default, to defer payments of interest on the debentures at any time by extending the interest payment period for a period not exceeding 10 quarterly periods with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the debentures. The capital securities are subject to mandatory redemption upon payment of the debentures and carry an interest rate identical to that of the related debenture. The debentures maturity dates may be shortened if certain conditions are met, or at any time within 90 days following the occurrence and continuation of certain changes in either tax treatment or the capital treatment of the debentures or the capital securities. If the debentures are redeemed before they mature, the redemption price will be the principal amount plus any accrued but unpaid interest. The Company has the right to terminate each Capital Trust and cause the debentures to be distributed to the holders of the capital securities in liquidation of such trusts.

Under current banking regulations, bank holding companies are allowed to include qualifying trust preferred securities in their Tier 1 Capital for regulatory capital purposes, subject to a 25% limitation to all core (Tier 1) capital elements, net of goodwill and other intangible assets less any associated deferred tax liability. As of June 30, 2020 and December 31, 2019, 100% of the trust preferred securities qualified as Tier 1 capital under the final rule adopted in March 2005.

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are negotiated contracts entered into by two issuing counterparties containing specific agreement terms, including the underlying instrument, amount, exercise price, and maturities. The derivatives accounting guidance requires that the Company recognize all derivative financial instruments as either assets or liabilities at fair value in the consolidated balance sheets. The Company may utilize interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position.

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Interest Rate Swaps Designated as Cash Flow Hedges

The Company designated certain interest rate swap agreements as cash flow hedges on variable-rate borrowings. For derivative instruments that are designated and qualify as a cash flow hedge, the gain or loss on interest rate swaps designated as cash flow hedging instruments are reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

The interest rate swap agreements designated as cash flow hedges are summarized as follows:

	June 30, 2020		December 31, 2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Designated as cash flow hedges:	(dollars in thousands)			
Fair value recorded in other liabilities	$ 17,000	$ (1,674)	$ 17,000	$ (676)

As of June 30, 2020, the interest rate swap agreements designated as cash flow hedges had contractual maturities between 2024 and 2025. As of June 30, 2020 and December 31, 2019, the Company had cash pledged of $1,630,000 and $710,000, respectively, held on deposit at counterparties.

During the three months ended March 31, 2019, the Company had an interest rate swap contract with a notional amount of $10,000,000 designated as a cash flow hedge on variable-rate loans. Beginning April 1, 2019, this hedging relationship was no longer considered highly effective, and the Company discontinued hedge accounting. In accordance with hedge accounting guidance, the net unrealized gain associated with the discontinued hedging relationship, recorded within accumulated other comprehensive income, was reclassified into earnings through April 7, 2020, the period the hedged forecasted transactions affect earnings.

For the three and six months ended June 30, 2020 and 2019, the effect of interest rate swap agreements designated as cash flow hedges on the consolidated statements of income are summarized as follows:

Location of gross gain (loss) reclassified from accumulated other comprehensive income to income	Amounts of gross gain (loss) reclassified from accumulated other comprehensive income			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Designated as cash flow hedges:	(dollars in thousands)			
Taxable loan interest income	$ 32	$ 20	$ 64	$ 50
Subordinated debentures interest expense	(71)	2	(105)	2
Total	$ (39)	$ 22	$ (41)	$ 52

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Interest Rate Swaps Not Designated as Hedging Instruments

The Company may offer interest rate swap agreements to its commercial borrowers in connection with their risk management needs. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party financial institution. While these interest rate swap agreements generally worked together as an economic interest rate hedge, the Company did not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred.

The interest rate swap agreements not designated as hedging instruments are summarized as follows:

	June 30, 2020		December 31, 2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Not designated as hedging instruments:	(dollars in thousands)			
Fair value recorded in other assets:				
Interest rate swaps with commercial borrower counterparties	$ 142,062	$ 22,965	$ 114,140	$ 8,532
Interest rate swaps with financial institution counterparty	—	—	24,216	110
Total fair value recorded in other assets	$ 142,062	$ 22,965	$ 138,356	$ 8,642
Fair value recorded in other liabilities:				
Interest rate swaps with commercial borrower counterparties	$ —	$ —	$ 24,216	$ (110)
Interest rate swaps with financial institution counterparty	142,062	(22,965)	114,140	(8,532)
Total fair value recorded in other liabilities	$ 142,062	$ (22,965)	$ 138,356	$ (8,642)

As of June 30, 2020, the interest rate swap agreements not designated as hedging instruments had contractual maturities between 2022 and 2042. As of June 30, 2020 and December 31, 2019, the Company had $23,804,000 and $8,713,000, respectively, of debt securities pledged and held in safekeeping at the financial institution counterparty.

For the three and six months ended June 30, 2020 and 2019, the effect of interest rate contracts not designated as hedging instruments recognized in other noninterest income on the consolidated statements of income are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Not designated as hedging instruments:	(dollars in thousands)			
Gross gains	$ 1,610	$ 4,876	$ 15,181	$ 6,045
Gross losses	(1,610)	(4,839)	(15,181)	(6,008)
Net gains (losses)	$ —	$ 37	$ —	$ 37

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NOTE 10 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the activity and accumulated balances for components of other comprehensive income (loss) for the three and six months ended June 30, 2020 and 2019:

	Unrealized Gains (Losses) on Debt Securities			
	Available-for-Sale	Held-to-Maturity	Derivatives	Total
	(dollars in thousands)			
Three Months Ended June 30, 2020				
Balance, March 31, 2020	$ 14,095	$ (138)	$ (1,388)	$ 12,569
Other comprehensive income (loss) before reclassifications	6,590	—	(133)	6,457
Reclassifications	—	6	39	45
Other comprehensive income (loss), before tax	6,590	6	(94)	6,502
Income tax expense (benefit)	1,879	1	(20)	1,860
Other comprehensive income (loss), after tax	4,711	5	(74)	4,642
Balance, June 30, 2020	$ 18,806	$ (133)	$ (1,462)	$ 17,211
Three Months Ended June 30, 2019				
Balance, March 31, 2019	$ 1,095	$ 40	$ (123)	$ 1,012
Other comprehensive income (loss) before reclassifications	6,968	—	(445)	6,523
Reclassifications	—	(77)	(22)	(99)
Other comprehensive loss	6,968	(77)	(467)	6,424
Balance, June 30, 2019	$ 8,063	$ (37)	$ (590)	$ 7,436
Six Months Ended June 30, 2020				
Balance, December 31, 2019	$ 8,659	$ (131)	$ (696)	$ 7,832
Other comprehensive income (loss) before reclassifications	14,192	—	(1,103)	13,089
Reclassifications	—	(3)	41	38
Other comprehensive income (loss), before tax	14,192	(3)	(1,062)	13,127
Income tax expense (benefit)	4,045	(1)	(296)	3,748
Other comprehensive income (loss), after tax	10,147	(2)	(766)	9,379
Balance, June 30, 2020	$ 18,806	$ (133)	$ (1,462)	$ 17,211
Six Months Ended June 30, 2019				
Balance, December 31, 2018	$ (4,561)	$ 122	$ 151	$ (4,288)
Other comprehensive income (loss) before reclassifications	12,624	—	(689)	11,935
Reclassifications	—	(159)	(52)	(211)
Other comprehensive loss	12,624	(159)	(741)	11,724
Balance, June 30, 2019	$ 8,063	$ (37)	$ (590)	$ 7,436

The amounts reclassified from accumulated other comprehensive income (loss) for unrealized gains (losses) on debt securities available-for-sale are included in gain (loss) on securities in the accompanying consolidated statements of income.

The amounts reclassified from accumulated other comprehensive income (loss) for unrealized gains on debt securities held-to-maturity are included in securities interest income in the accompanying consolidated statements of income.

The amounts reclassified from accumulated other comprehensive income (loss) for the fair value of derivative financial instruments represent net interest payments received or made on derivatives designated as cash flow hedges. See Note 9 for additional information.

NOTE 11 – INCOME TAXES

Effective October 11, 2019, the Company voluntarily revoked its S Corporation status and became a taxable entity (C Corporation). As such, any periods prior to October 11, 2019 will only reflect an effective state replacement tax rate. The consolidated statements of income present unaudited pro forma C Corp equivalent information for the three and six months ended June 30, 2019.

Allocation of income tax expense between current and deferred portions for the three and six months ended June 30 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Current				
Federal	$ 977	$ —	$ 2,698	$ —
State	637	305	1,625	520
Total current	1,614	305	4,323	520
Deferred				
Federal	580	—	123	—
State	283	—	62	—
Total deferred	863	—	185	—
Income tax expense	$ 2,477	$ 305	$ 4,508	$ 520

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Income tax expense differs from the statutory federal rate for the three and six months ended June 30 due to the following:

	Three Months Ended June 30,			
	2020		2019	
	Amount	Percentage	Amount	Percentage
	(dollars in thousands)			
Federal income tax, at statutory rate	$ 2,078	21.0 %	$ —	— %
Increase (decrease) resulting from:				
Federally tax exempt interest income	(370)	(3.7)	—	—
State taxes, net of federal benefit	727	7.3	305	2.0
Other	42	0.4	—	—
Income tax expense	$ 2,477	25.0 %	$ 305	2.0 %

	Six Months Ended June 30,			
	2020		2019	
	Amount	Percentage	Amount	Percentage
	(dollars in thousands)			
Federal income tax, at statutory rate	$ 3,811	21.0 %	$ —	— %
Increase (decrease) resulting from:				
Federally tax exempt interest income	(727)	(4.0)	—	—
State taxes, net of federal benefit	1,358	7.5	520	1.5
Other	66	0.3	—	—
Income tax expense	$ 4,508	24.8 %	$ 520	1.5 %

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The components of the net deferred tax asset as of June 30, 2020 and December 31, 2019 are as follows:

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 8,398	$ 6,309
Compensation related	2,035	5,859
Deferred loan fees	2,156	497
Nonaccrual interest	668	858
Foreclosed assets	65	574
Goodwill	434	531
Other	1,099	785
Total deferred tax assets	14,855	15,413
Deferred tax liabilities		
Fixed asset depreciation	4,380	4,201
Mortgage servicing rights	1,665	2,428
Other purchase accounting adjustments	1,273	1,356
Intangible assets	709	841
Prepaid assets	678	504
Net unrealized gain on debt securities available-for-sale	6,296	2,251
Other	381	426
Total deferred tax liabilities	15,382	12,007
Net deferred tax asset (liability)	$ (527)	3,406

NOTE 12 – EARNINGS PER SHARE

ASC 260, *Earnings Per Share*, requires unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. The Company has granted restricted stock units that contain non-forfeitable rights to dividend equivalents. Such restricted stock units are considered participating securities. As such, we have included these restricted stock units in the calculation of basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

Diluted earnings per share is computed using the treasury stock method and reflects the potential dilution that could occur if the Company's outstanding restricted stock units were vested. For the three and six months end June 30, 2020, the restricted stock units were considered anti-dilutive and excluded from the calculation of common stock equivalents. There were no restricted stock units outstanding during the three and six months ended June 30, 2019.

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The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Numerator:				
Net income	$ 7,419	$ 14,605	$ 13,640	$ 33,341
Earnings allocated to unvested restricted stock units	(19)	—	(34)	—
Numerator for earnings per share - basic and diluted	$ 7,400	$ 14,605	$ 13,606	$ 33,341
Denominator:				
Weighted average common shares outstanding	27,457,306	18,027,512	27,457,306	18,027,512
Dilutive effect of outstanding restricted stock units	—	—	—	—
Weighted average common shares outstanding, including all dilutive potential shares	27,457,306	18,027,512	27,457,306	18,027,512
Earnings per share - Basic	$ 0.27	$ 0.81	$ 0.50	$ 1.85
Earnings per share - Diluted	$ 0.27	$ 0.81	$ 0.50	$ 1.85

NOTE 13 – DEFERRED COMPENSATION

The Company maintained a supplemental executive retirement plan (the SERP) for certain key executive officers. The SERP benefit payments were scheduled to be paid in equal monthly installments over 30 years. In June 2019, the Company approved termination of the SERP agreements, and a lump sum payment was made in June 2020 to each participant equal to the present value of any remaining installment payments. As of June 30, 2020, there was no remaining deferred compensation liability for the SERP. As of December 31, 2019, the deferred compensation liability for the SERP was $12,789,000. During the three months ended June 30, 2020 and 2019, the Company recognized deferred compensation expense for the SERP of $690,000 and $3,440,000, respectively. During the six months ended June 30, 2020 and 2019, the Company recognized deferred compensation expense for the SERP of $1,660,000 and $3,565,000, respectively.

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NOTE 14 – STOCK-BASED COMPENSATION PLANS

The Company has adopted the HBT Financial, Inc. Omnibus Incentive Plan (the “Omnibus Incentive Plan”). The Omnibus Incentive Plan provides for grants of (i) stock options, (ii) stock appreciation rights, (iii) restricted shares, (iv) restricted stock units, (v) performance awards, (vi) other share-based awards and (vi) other cash-based awards to eligible employees, non-employee directors and consultants of the Company. The maximum number of shares of common stock available for issuance under the Omnibus Incentive Plan is 1,820,000 shares.

The following is a summary of stock-based compensation expense (benefit) during the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Restricted stock units	$ 96	$ —	$ 163	$ —
Stock appreciation rights	107	—	(228)	(115)
Total stock-based compensation expense (benefit)	$ 203	$ —	$ (65)	$ (115)

Restricted Stock Units

A restricted stock unit grants a participant the right to receive one share of common stock, following the completion of the requisite service period. Restricted stock units are classified as equity. Compensation cost is based on the Company’s stock price on the grant date and is recognized on a straight-line basis over the vesting period for the entire award. Non-forfeitable dividend equivalents are paid on non-vested restricted stock units and are classified as dividends charged to retained earnings. If restricted stock units are subsequently forfeited, the non-forfeitable dividends related to the forfeited restricted stock units are reclassified to compensation cost in the period the forfeiture occurs.

On January 28, 2020, the Company granted 70,400 restricted stock units to certain key employees which vest in four equal annual installments beginning on February 1, 2021. On January 28, 2020, the Company also granted 2,750 restricted stock units to non-employee directors which vest on February 1, 2021. The total fair value of the restricted stock units granted on January 28, 2020 was $1,392,000, based on the grant date closing price of $19.03 per share.

On June 24, 2020, the Company also granted 550 restricted stock units to a non-employee director which vest on February 1, 2021. The total fair value of the restricted stock units granted on June 24, 2020 was $7,000, based on the grant date closing price of $12.71 per share.

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The following is a summary of outstanding restricted stock unit activity:

	Three Months Ended June 30,			
	2020		2019	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Beginning balance	73,150	$ 19.03	—	$ —
Granted	550	12.71	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Ending balance	73,700	$ 18.98	—	$ —

	Six Months Ended June 30,			
	2020		2019	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Beginning balance	—	$ —	—	$ —
Granted	73,700	18.98	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Ending balance	73,700	$ 18.98	—	$ —

A further summary of outstanding restricted stock units as of June 30, 2020, is as follows:

Range of Grant Date Fair Values	Outstanding	Weighted Average Remaining Contractual Term
$ 12.71	550	0.6 years
$ 19.03	73,150	3.5 years

As of June 30, 2020, unrecognized compensation cost related to non-vested restricted stock units was $1,236,000.

Stock Appreciation Rights

A stock appreciation right grants a participant the right to receive an amount of cash, the value of which equals the appreciation in the Company’s stock price between the grant date and the exercise date. Stock appreciation rights units are classified as liabilities. Prior to becoming a public entity, the liability was based on the intrinsic value of the stock appreciation rights, calculated using the grant date assigned value and an independent appraisal of the Company’s stock price that was subject to approval by the Board of Directors. Since becoming a public entity on October 11, 2019, the liability was based on an option-pricing model used to estimate the fair value of the stock appreciation rights. Compensation cost for unvested stock appreciation rights is recognized on a straight line basis over the vesting period of the entire award. The unvested stock appreciation rights vest in four equal annual installments beginning on the first anniversary of the grant date.

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The following is a summary of outstanding stock appreciation rights activity:

	Three Months Ended June 30,			
	2020		2019	
	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value
Beginning balance	110,160	$ 16.32	91,800	$ 5.73
Granted	—	—	—	—
Exercised	—	—	(48,960)	4.21
Forfeited	—	—	—	—
Ending balance	110,160	$ 16.32	42,840	$ 7.46

	Six Months Ended June 30,			
	2020		2019	
	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value
Beginning balance	110,160	$ 16.32	91,800	$ 5.73
Granted	—	—	—	—
Exercised	—	—	(48,960)	4.21
Forfeited	—	—	—	—
Ending balance	110,160	$ 16.32	42,840	$ 7.46

A further summary of outstanding stock appreciation rights as of June 30, 2020, is as follows:

Range of Grant Date Assigned Values	Outstanding	Exercisable	Weighted Average Remaining Contractual Term
$ 16.32	110,160	79,560	9.2 years

As of June 30, 2020, unrecognized compensation cost related to non-vested stock appreciation rights was $51,000.

As of June 30, 2020 and December 31, 2019, the liability recorded for outstanding stock appreciation rights was $181,000 and $409,000, respectively. As of June 30, 2020 and December 31, 2019, the Company used an option pricing model to value the stock appreciation rights, using the assumptions in the following table. Expected volatility is derived from the historical volatility of the Company's stock price and a selected peer group of industry-related companies.

	June 30, 2020	December 31, 2019
Risk-free interest rate	0.61 %	1.90 %
Expected volatility	34.32 %	28.83 %
Expected life (in years)	9.2	9.7
Expected dividend yield	4.50 %	3.16 %

As of June 30, 2020, the liability recorded for previously exercised stock appreciation rights was $1,206,000, which will be paid in four remaining equal annual installments. As of December 31, 2019, the liability recorded for previously exercised units was $1,512,000.

NOTE 15 – REGULATORY MATTERS

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As allowed under the Basel III rules, the Banks and Company elected to exclude accumulated other comprehensive income, including unrealized gains and losses on debt securities, in the computation of regulatory capital.

The ability of the Company to pay dividends to its stockholders is dependent upon the ability of the Banks to pay dividends to the Company. The Banks are subject to certain statutory and regulatory restrictions on the amount it may pay in dividends. Under the Basel III regulations, a capital conservation buffer calculation will phase in over five years which limits allowable bank dividends if regulatory capital ratios fall below specific thresholds. As of June 30, 2020 and December 31, 2019, the capital conservation buffer was 2.5%.

HBT Financial, Inc. (on a consolidated basis) and the Banks are each subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the financial statements of HBT Financial, Inc. and the Banks. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, HBT Financial, Inc. (on a consolidated basis) and the Banks must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Management believes, as of June 30, 2020 and December 31, 2019, that HBT Financial, Inc. and the Banks each met all capital adequacy requirements to which they are subject.

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The actual and required capital amounts and ratios of HBT Financial, Inc. (on a consolidated basis) and the Banks are as follows:

June 30, 2020	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 370,484	15.13 %	$ 195,840	8.00 %	N/A	N/A
Heartland Bank	327,109	14.52	180,224	8.00	$ 225,280	10.00 %
State Bank of Lincoln	35,891	18.59	15,444	8.00	19,305	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 340,761	13.92 %	$ 146,880	6.00 %	N/A	N/A
Heartland Bank	299,935	13.31	135,168	6.00	$ 180,224	8.00 %
State Bank of Lincoln	33,477	17.34	11,583	6.00	15,444	8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 304,310	12.43 %	$ 110,160	4.50 %	N/A	N/A
Heartland Bank	299,935	13.31	101,376	4.50	$ 146,432	6.50 %
State Bank of Lincoln	33,477	17.34	8,687	4.50	12,548	6.50
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 340,761	10.00 %	$ 136,357	4.00 %	N/A	N/A
Heartland Bank	299,935	9.77	122,741	4.00	$ 153,426	5.00 %
State Bank of Lincoln	33,477	9.93	13,488	4.00	16,861	5.00

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December 31, 2019	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 356,994	14.54 %	$ 196,358	8.00 %	N/A	N/A
Heartland Bank	315,516	14.02	180,071	8.00	$ 225,088	10.00 %
State Bank of Lincoln	35,390	17.58	16,104	8.00	20,130	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 334,695	13.64 %	$ 147,268	6.00 %	N/A	N/A
Heartland Bank	295,385	13.12	135,053	6.00	$ 180,071	8.00 %
State Bank of Lincoln	33,222	16.50	12,078	6.00	16,104	8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 298,277	12.15 %	$ 110,451	4.50 %	N/A	N/A
Heartland Bank	295,385	13.12	101,290	4.50	$ 146,307	6.50 %
State Bank of Lincoln	33,222	16.50	9,058	4.50	13,084	6.50
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 334,695	10.38 %	$ 129,027	4.00 %	N/A	N/A
Heartland Bank	295,385	10.25	115,281	4.00	$ 144,102	5.00 %
State Bank of Lincoln	33,222	9.82	13,531	4.00	16,914	5.00

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Additional information on fair value measurements are summarized in Note 1 to the Company's annual consolidated financial statements included in the Annual Report on Form 10-K filed with the SEC on March 27, 2020. There were no transfers between levels during the three and six months ended June 30, 2020 and 2019. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

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The following tables present the balances of the assets measured at fair value on a recurring basis:

June 30, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Debt securities available-for-sale:				
U.S. government agency	$ —	$ 78,935	$ —	$ 78,935
Municipal	—	198,310	—	198,310
Mortgage-backed:				
Agency residential	—	216,869	—	216,869
Agency commercial	—	138,149	—	138,149
Corporate	—	69,090	—	69,090
Equity securities with readily determinable fair values	3,263	—	—	3,263
Mortgage servicing rights	—	—	5,839	5,839
Derivative financial assets	—	22,965	—	22,965
Derivative financial liabilities	—	24,639	—	24,639

December 31, 2019	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Debt securities available-for-sale:				
U.S. government agency	$ —	$ 49,615	$ —	$ 49,615
Municipal	—	133,738	—	133,738
Mortgage-backed:				
Agency residential	—	200,678	—	200,678
Agency commercial	—	134,954	—	134,954
Corporate	—	73,419	—	73,419
Equity securities with readily determinable fair values	3,241	—	—	3,241
Mortgage servicing rights	—	—	8,518	8,518
Derivative financial assets	—	8,642	—	8,642
Derivative financial liabilities	—	9,318	—	9,318

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy. There were no changes to the valuation techniques from December 31, 2019 to June 30, 2020.

Investment Securities

When available, the Company uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's securities where quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3. The change in fair value of debt securities available-for-sale is recorded through an adjustment to the consolidated statement of comprehensive income. The change in fair value of equity securities with readily determinable fair values is recorded through an adjustment to the consolidated statement of income.

Derivative Financial Instruments

Interest rate swap agreements are carried at fair value as determined by dealer valuation models. Based on the inputs used, the derivative financial instruments subjected to recurring fair value adjustments are classified as Level 2. For derivative financial instruments designated as a hedging instruments, the change in fair value is recorded through an adjustment to the consolidated statement of comprehensive income. For derivative financial instruments not designated as a hedging instruments, the change in fair value is recorded through an adjustment to the consolidated statement of income.

Mortgage Servicing Rights

The Company has elected to record its mortgage servicing rights at fair value. Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights by estimating the fair value of the future cash flows associated with the mortgage loans being serviced as calculated by an independent third party. Key economic assumptions used in measuring the fair value of mortgage servicing rights include, but are not limited to, prepayment speeds and discount rates. Due to the nature of the valuation inputs, mortgage servicing rights are classified as Level 3. The change in fair value is recorded through an adjustment to the consolidated statement of income.

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The following tables present additional information about the unobservable inputs used in the fair value measurement of the mortgage servicing rights (dollars in thousands):

June 30, 2020	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 5,839	Discounted cash flows	Constant pre-payment rates (CPR)	7.0% to 77.3% (16.5%)
			Discount rate	9.0% to 11.0% (9.0%)

December 31, 2019	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 8,518	Discounted cash flows	Constant pre-payment rates (CPR)	7.0% to 68.5% (12.3%)
			Discount rate	9.0% to 11.0% (9.0%)

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

The following tables present the balances of the assets measured at fair value on a nonrecurring basis:

June 30, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Loans held for sale	$ —	$ 25,934	$ —	$ 25,934
Collateral-dependent impaired loans	—	—	12,204	12,204
Bank premises held for sale	—	—	121	121
Foreclosed assets	—	—	4,450	4,450

December 31, 2019	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Loans held for sale	$ —	$ 4,531	$ —	$ 4,531
Collateral-dependent impaired loans	—	—	15,811	15,811
Bank premises held for sale	—	—	121	121
Foreclosed assets	—	—	5,099	5,099

Loans Held for Sale

Mortgage loans originated and held for sale are carried at the lower of cost or estimated fair value. The Company obtains quotes or bids on these loans directly from purchasing financial institutions. Typically, these quotes include a premium on the sale and thus these quotes indicate fair value of the held for sale loans is greater than cost.

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Collateral-Dependent Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for loans which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of collateral-dependent impaired loans is estimated based on the fair value of the underlying collateral supporting the loan. Collateral-dependent impaired loans require classification in the fair value hierarchy. Impaired loans include loans acquired with deteriorated credit quality. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Bank Premises Held for Sale

Bank premises held for sale are recorded at the lower of cost or fair value, less estimated selling costs, at the date classified as held for sale. Values are estimated using Level 3 inputs based on appraisals and customized discounting criteria. The carrying value of bank premises held for sale is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Foreclosed Assets

Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs. Values are estimated using Level 3 inputs based on appraisals and customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Collateral-Dependent Impaired Loans, Bank Premises Held for Sale, and Foreclosed Assets

The estimated fair value of collateral-dependent impaired loans, bank premises held for sale, and foreclosed assets is based on the appraised fair value of the collateral, less estimated costs to sell. Collateral-dependent impaired loans, bank premises held for sale, and foreclosed assets are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or a similar evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals or a similar evaluation of the collateral underlying collateral-dependent loans and foreclosed assets are obtained at the time a loan is first considered impaired or a loan is transferred to foreclosed assets. Appraisals or a similar evaluation of bank premises held for sale are obtained when first classified as held for sale. Appraisals or similar evaluations are obtained subsequently as deemed necessary by management but at least annually on foreclosed assets and bank premises held for sale. Appraisals are reviewed for accuracy and consistency by management. Appraisals are performed by individuals selected from the list of approved appraisers maintained by management. The appraised values are reduced by estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results.

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The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements (dollars in thousands):

June 30, 2020	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 12,204	Appraisal of collateral	Appraisal adjustments	Not meaningful
Bank premises held for sale	121	Appraisal	Appraisal adjustments	7% (7%)
Foreclosed assets	4,450	Appraisal	Appraisal adjustments	7% (7%)

December 31, 2019	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 15,811	Appraisal of collateral	Appraisal adjustments	Not meaningful
Bank premises held for sale	121	Appraisal	Appraisal adjustments	7% (7%)
Foreclosed assets	5,099	Appraisal	Appraisal adjustments	7% (7%)

Other Fair Value Methods

The following methods and assumptions were used by the Company in estimating fair value disclosures of its other financial instruments. There were no changes in the methods and significant assumptions used to estimate the fair value of these financial instruments.

Cash and Cash Equivalents

The carrying amounts of these financial instruments approximate their fair values.

Interest-bearing Time Deposits with Banks

The carrying values of interest-bearing time deposits with banks approximate their fair values.

Restricted Stock

The carrying amount of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans

The fair value estimation process for the loan portfolio uses an exit price concept and reflects discounts the Company believes are consistent with discounts in the market place. Fair values are estimated for portfolios of loans with similar characteristics. Loans are segregated by type such as commercial and industrial, agricultural and farmland, commercial real estate - owner occupied, commercial real estate - non-owner occupied, multi-family, construction and land development, one-to-four family residential, and municipal, consumer, and other. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar maturities. The fair value analysis also includes other assumptions to estimate fair value, intended to approximate those a market participant would use in an orderly transaction, with adjustments for discount rates, interest rates, liquidity, and credit spreads, as appropriate.

Investments in Unconsolidated Subsidiaries

The fair values of the Company's investments in unconsolidated subsidiaries are presumed to approximate carrying amounts.

Time Deposits

Fair values of certificates of deposit with stated maturities have been estimated using the present value of estimated future cash flows discounted at rates currently offered for similar instruments. Time deposits also include public funds time deposits.

Securities Sold Under Agreements to Repurchase

The fair values of repurchase agreements with variable interest rates are presumed to approximate their recorded carrying amounts.

Subordinated Debentures

The fair values of subordinated debentures are estimated using discounted cash flow analyses based on rates observed on recent debt issuances by other financial institutions.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair values have been estimated using data which management considered the best available and estimation methodologies deemed suitable for the pertinent category of financial instrument.

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The following table provides summary information on the carrying amounts and estimated fair values of the Company's financial instruments:

	Fair Value Hierarchy Level	June 30, 2020 Carrying Amount	June 30, 2020 Estimated Fair Value	December 31, 2019 Carrying Amount	December 31, 2019 Estimated Fair Value
		(dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 314,365	$ 314,365	$ 283,971	$ 283,971
Interest-bearing time deposits with banks	Level 1	—	—	248	248
Debt securities held-to-maturity	Level 2	73,823	78,317	88,477	90,529
Restricted stock	Level 3	2,498	2,498	2,425	2,425
Loans, net	Level 3	2,246,072	2,259,411	2,141,527	2,181,103
Investments in unconsolidated subsidiaries	Level 3	1,165	1,165	1,165	1,165
Accrued interest receivable	Level 2	12,661	12,661	13,951	13,951
Financial liabilities:					
Time deposits	Level 3	310,818	312,873	356,408	355,340
Securities sold under agreements to repurchase	Level 2	51,354	51,354	44,433	44,433
Subordinated debentures	Level 3	37,616	31,507	37,583	31,959
Accrued interest payable	Level 2	821	821	1,132	1,132

The Company estimated the fair value of lending related commitments as described in Note 17 to be immaterial based on limited interest rate exposure due to their variable nature, short-term commitment periods and termination clauses provided in the agreements.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Financial Instruments

The Banks are party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Banks' exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Banks use the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

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Such commitments and conditional obligations were as follows:

	Contractual Amount	
	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Commitments to extend credit	$ 536,489	$ 542,705
Standby letters of credit	9,649	8,991

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Banks upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include real estate, accounts receivable, inventory, property, plant, and equipment, and income-producing properties.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. Those standby letters of credit are primarily issued to support extensions of credit. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Banks secure the standby letters of credit with the same collateral used to secure the related loan.

Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references in this report to the "Company," "we," "us" and "our" refer to HBT Financial, Inc. and its consolidated subsidiaries.

The following is management's discussion and analysis of the financial condition as of June 30, 2020 (unaudited), as compared with December 31, 2019, and the results of operations for the three and six months ended June 30, 2020 and 2019 (unaudited). Management's discussion and analysis should be read in conjunction with the Company's unaudited consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q, as well as the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of results to be attained for any other period.

OVERVIEW

HBT Financial, Inc. is headquartered in Bloomington, Illinois and is the holding company for Heartland Bank and State Bank of Lincoln. The Banks provide a comprehensive suite of business, commercial, wealth management, and retail banking products and services to individuals, businesses, and municipal entities throughout Central and Northeastern Illinois through 63 branches. As of June 30, 2020, the Company had total assets of $3.5 billion, total loans of $2.3 billion, and total deposits of $3.0 billion. HBT Financial, Inc. is a longstanding Central Illinois company, with banking roots that can be traced back 100 years.

Market Area

We currently operate 60 full-service and three limited-service branch locations across 18 counties in Central and Northeastern Illinois. We hold a leading deposit share in many of our markets in Central Illinois, which we define as a top three deposit share rank, providing the foundation for our strong deposit base. The stability provided by this low-cost funding is a key driver of our strong track record of financial performance.

Below is a summary of the loan and deposit balances by the metropolitan and micropolitan statistical areas in which we operate:

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Loans, before allowance for loan losses		
Bloomington-Normal	$ 515,763	$ 552,787
Champaign-Urbana	223,979	209,317
Chicago	1,130,534	1,020,524
Lincoln	118,152	107,162
Ottawa-Peru	108,045	103,665
Peoria	179,322	170,371
Loans, before allowance for loan losses	$ 2,275,795	$ 2,163,826
Total deposits		
Bloomington-Normal	$ 748,597	$ 694,519
Champaign-Urbana	166,656	152,108
Chicago	1,032,187	911,916
Lincoln	196,826	194,784
Ottawa-Peru	325,724	290,138
Peoria	545,123	533,390
Total deposits	$ 3,015,113	$ 2,776,855

The Bloomington-Normal metropolitan statistical area includes our branches within McLean and De Witt counties. The Champaign-Urbana metropolitan statistical area includes our branches within Champaign and Ford counties. The Chicago metropolitan statistical area includes our branches within Cook, DeKalb, Grundy, Kane, Kendall, Lake, and Will counties. The Lincoln micropolitan statistical area includes our branches within Logan county. The Ottawa-Peru micropolitan statistical area includes our branches within Bureau and LaSalle counties. The Peoria metropolitan statistical area includes our branches within Peoria, Marshall, Tazewell, and Woodford counties.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Conditions

The Company's business and financial performance are affected by economic conditions generally in the United States and more directly in the Illinois markets where we primarily operate. The significant economic factors that are most relevant to our business and our financial performance include the general economic conditions in the U.S. and in the Company's markets, unemployment rates, real estate markets, and interest rates.

COVID-19 Response and Impact Overview

The Company has taken a number of steps to support our employees and customers while maintaining the health and safety of all involved, including, but not limited to:

- Enabling work from home for many employees and social distancing for employees who need to report to the office;
- Maintaining regular business hours at branches for drive-up services and the call center to serve customers while branch lobby service was closed;
- Branch lobby service was reopened for all locations by July 13, 2020, except one location which was permanently closed and consolidated with an existing branch on June 30, 2020;
- Offering loan payment modifications to customers experiencing financial hardship due to COVID-19;
- Waiving or refunding overdraft and ATM fees, as well as time deposit early withdrawal penalties, to customers experiencing financial hardship due to COVID-19;
- Participating in the Small Business Administration’s (SBA) Paycheck Protection Program (PPP) with $184.2 million of PPP loans approved and funded to 2,245 businesses supporting approximately 24,000 employees in our communities during the three months ended June 30, 2020.

The Company operates primarily in Illinois which has established a five-phase reopening plan. Illinois entered Phase 4 of its reopening plan on June 26, 2020 which allows gatherings of 50 people or fewer, restaurants and bars to reopen for indoor dining at reduced capacity, and child care and schools to reopen under guidance from the Illinois Department of Public Health. Illinois is only likely to transition to Phase 5 of its reopening plan, a full reopening, when a vaccine or highly effective COVID-19 treatment is available. Illinois may return to Phase 3 if there is a resurgence in COVID-19 cases.

Although the Company has maintained business operations with appropriate social distancing procedures since the beginning of the COVID-19 pandemic, it has caused significant economic disruption throughout the United States and the communities that we serve. While the length, duration and ultimate impact of the COVID-19 pandemic is unknown at this time, it may adversely impact the businesses we serve and impair the ability of our customers to fulfill their contractual obligations to us. This could adversely affect our asset valuations, financial condition, liquidity and results of operations, and the impacts may be material. In the second quarter of 2020, we experienced, and we may continue to experience, the following adverse impacts of the COVID-19 pandemic:

- Decrease in net interest income and net interest margin, as a result of the lower interest rate environment;
- Increase in provision for loan losses due to deterioration in the loan portfolio's credit quality, as a result of the economic slow-down caused by the COVID-19 pandemic;
- Decrease in debit and credit card interchange income, as a result of a lower level of consumer activity and lower associated volume of debit and credit card transactions;
- Decrease in service charge income on deposit accounts, such as overdraft fees, as a result of an increase in waived or refunded fees and federal economic stimulus payments received by customers;
- Decrease in demand for loans, as a result of the economic slow-down caused by the COVID-19 pandemic.

Adverse impacts may also include valuation impairments on our goodwill, intangible assets, investment securities, loans, mortgage servicing rights, deferred tax assets or counter-party risk derivatives.

The Company's executive management continues to closely monitor the COVID-19 pandemic. As of the date of this filing, we anticipate we will continue to take actions to support our customers in a manner consistent with the current guidance provided by federal banking regulatory authorities.

Interest Rates

Net interest income is our primary source of revenue. Net interest income equals the excess of interest income earned on interest earning assets (including discount accretion on purchased loans plus certain loan fees) over interest expense incurred on interest-bearing liabilities. The level of interest rates as well as the volume of interest-earning assets and interest-bearing liabilities both impact net interest income. Net interest income is also influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the Federal Reserve Board and market interest rates.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, which are primarily driven by the Federal Reserve Board's actions. The yields generated by our loans and securities are typically driven by short-term and long-term interest rates, which are set by the market and, to some degree, by the Federal Reserve Board's actions. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. During 2019, overall market interest rates started to decline. The Federal Open Markets Committee lowered Federal Funds target rates for the first time in 11 years on July 31, 2019 and then again in September 2019 and October 2019, for a combined decrease of 75 basis points during 2019. In March 2020, the Federal Open Markets Committee lowered Federal Funds target rates twice, for a combined decrease of 150 basis points in response to the economic downturn related to the COVID-19 pandemic.

We expect these rate cuts and potential increases in nonperforming loans as a result of the economic downturn related to the COVID-19 pandemic to continue to put downward pressure on our net interest margin. In general, we believe that rate increases will lead to improved net interest margins while rate decreases will result in lower net interest margins.

Credit Trends

We focus on originating loans with appropriate risk / reward profiles. We have a detailed loan policy that guides our overall loan origination philosophy and a well-established loan approval process that requires experienced credit officers to approve larger loan relationships. Although we believe our loan approval process and credit review process is a strength that allows us to maintain a high quality loan portfolio, we recognize that credit trends in the markets in which we operate and in our loan portfolio can materially impact our financial condition and performance and that these trends are primarily driven by the economic conditions in our markets. In addition, the economic slow-down caused by the COVID-19 pandemic may result in decreases in loan demand and increases in provision for loan losses due to increased net charge-offs and deterioration in the loan portfolio's credit quality.

Competition

Our profitability and growth are affected by the highly competitive nature of the financial services industry. We compete with community banks in all our markets and, to a lesser extent, with money center banks, primarily in the Chicago MSA. Additionally, we compete with non-bank financial services companies and other financial institutions operating within the areas we serve. We compete by emphasizing personalized service and efficient decision-making tailored to individual needs. We do not rely on any individual, group, or entity for a material portion of our loans or our deposits. We continue to see increased competitive pressures on loan rates and terms and increased competition for deposits. Continued loan and deposit pricing pressure may affect our financial results in the future.

Regulatory Environment / Trends

We are subject to federal and state regulation and supervision, which continue to evolve as the legal and regulatory framework governing our operations continues to change. The current operating environment includes extensive regulation and supervision in areas such as consumer compliance, the BSA and anti-money laundering compliance, risk management and internal audit. We anticipate that this environment of extensive regulation and supervision will continue for the industry. As a result, changes in the regulatory environment may result in additional costs for additional compliance, risk management and audit personnel or professional fees associated with advisors and consultants.

FACTORS AFFECTING COMPARABILITY OF FINANCIAL RESULTS

S Corp Status

Prior to the initial public offering, the Company, with the consent of its then current stockholders, elected to be taxed under sections of federal and state income tax law as an "S Corporation" which provides that, in lieu of Company income taxes, except for state replacement taxes, the stockholders separately account for their pro rata shares of the Company's items of income, deductions, losses and credits. As a result of this election, no income taxes, other than state replacement taxes, had been recognized in the accompanying consolidated financial statements prior to October 11, 2019.

Effective October 11, 2019, the Company voluntarily revoked its S Corporation status and became a taxable entity (C Corporation). As such, any periods prior to October 11, 2019 will only reflect an effective state replacement tax rate.

The following table illustrates the impact of being taxed as a C Corporation for the three and six months ended June 30, 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands, except per share amounts)			
As Reported				
Income before income tax expense	$ 9,896	$ 14,910	$ 18,148	$ 33,861
Income tax expense	2,477	305	4,508	520
Net income	$ 7,419	$ 14,605	$ 13,640	$ 33,341
Earnings per share - Basic	$ 0.27	$ 0.81	$ 0.50	$ 1.85
Earnings per share - Diluted	$ 0.27	$ 0.81	$ 0.50	$ 1.85
Effective tax rate	25.0 %	2.0 %	24.8 %	1.5 %
Unaudited Pro Forma C Corp Equivalent				
Historical income before income tax expense	N/A	$ 14,910	N/A	$ 33,861
C Corp equivalent income tax expense	N/A	3,784	N/A	8,699
C Corp equivalent net income	N/A	$ 11,126	N/A	$ 25,162
C Corp equivalent earnings per share - Basic	N/A	$ 0.62	N/A	$ 1.40
C Corp equivalent earnings per share - Diluted	N/A	$ 0.62	N/A	$ 1.40
Effective tax rate	N/A	25.4 %	N/A	25.7 %

N/A Not applicable.

The C Corp equivalent effective tax rate reflects a federal income tax rate of 21% and state income tax rate of 9.5% for the three and six months ended June 30, 2019.

Public Company Costs

Following the completion of the initial public offering, the Company has incurred, and expects to continue to incur, additional costs associated with operating as a public company, hiring additional personnel, enhancing technology and expanding capabilities. The Company expects that these costs will include legal, regulatory, accounting, investor relations and other expenses that were not incurred as a private company. Sarbanes-Oxley and rules adopted by the SEC, the FDIC and national securities exchanges require public companies to implement specified corporate governance practices that were inapplicable as a private company.

RESULTS OF OPERATIONS

Overview of Recent Financial Results

The following table presents selected financial results and measures for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands, except per share amounts)			
Statement of Income Information				
Total interest and dividend income	$ 30,361	$ 36,550	$ 63,081	$ 73,499
Total interest expense	1,453	2,619	3,511	5,116
Net interest income	28,908	33,931	59,570	68,383
Provision for loan losses	3,573	1,806	7,928	2,582
Net income after provision for loan losses	25,335	32,125	51,642	65,801
Total noninterest income	8,060	7,346	13,312	14,833
Total noninterest expense	23,499	24,561	46,806	46,773
Income before income tax expense	9,896	14,910	18,148	33,861
Income tax expense	2,477	305	4,508	520
Net income	$ 7,419	$ 14,605	$ 13,640	$ 33,341
C Corp equivalent net income (1)	N/A	$ 11,126	N/A	$ 25,162
Adjusted net income (2)	$ 8,218	14,308	$ 16,597	28,667
Net interest income (tax-equivalent basis) (2) (3)	$ 29,391	$ 34,537	$ 60,516	$ 69,599
Share and Per Share Information				
Earnings per share - Diluted	$ 0.27	$ 0.81	$ 0.50	$ 1.85
C Corp equivalent earnings per share - Diluted (1)	N/A	0.62	N/A	1.40
Adjusted earnings per share - Diluted (2)	0.30	0.79	0.60	1.59
Weighted average number shares of common stock outstanding	27,457,306	18,027,512	27,457,306	18,027,512
Summary Ratios				
Net interest margin *	3.49 %	4.36 %	3.74 %	4.40 %
Net interest margin (tax-equivalent basis) * (2) (3)	3.55	4.44	3.79	4.48
Yield on loans *	4.57	5.58	4.86	5.63
Yield on interest-earning assets *	3.66	4.70	3.96	4.73
Cost of interest-bearing liabilities *	0.26	0.47	0.32	0.46
Cost of total deposits *	0.14	0.30	0.19	0.29
Efficiency ratio	62.74 %	58.59 %	63.37 %	55.30 %
Efficiency ratio (tax-equivalent basis) (2) (3)	61.93	57.74	62.56	54.51
Return on average assets *	0.86 %	1.81 %	0.82 %	2.06 %
Return on average stockholders' equity *	8.56	17.25	7.93	19.45
Return on average tangible common equity * (2)	9.29	18.84	8.61	21.23
C Corp equivalent return on average assets * (1)	N/A	1.38 %	N/A	1.56 %
C Corp equivalent return on average stockholders' equity * (1)	N/A	13.14	N/A	14.68
C Corp equivalent return on average tangible common equity * (1) (2)	N/A	14.35	N/A	16.02
Adjusted return on average assets * (2)	0.95 %	1.77 %	1.00 %	1.77 %
Adjusted return on average stockholders' equity * (2)	9.49	16.90	9.65	16.72
Adjusted return on average tangible common equity * (2)	10.29	18.46	10.48	18.25

* Annualized measure.
(1) Reflects adjustment to our historical net income for each period to give effect to the C Corp equivalent provision for income tax for such period. No such adjustment is necessary for periods subsequent to 2019.
(2) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.
(3) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.
N/A Not applicable.

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

For the three months ended June 30, 2020, net income was $7.4 million decreasing by $7.2 million, or 49.2%, when compared to net income for the three months ended June 30, 2019, or a decrease of $3.7 million, or 33.3%, when compared to C Corp equivalent net income for the three months ended June 30, 2019. Net income declined primarily due to lower net interest income and higher provision for loan losses. Net interest income declined by $5.0 million, primarily as a result of a lower interest rate environment. Provision for loan losses increased by $1.8 million, primarily due to the economic weakness resulting from the COVID-19 pandemic. Partially offsetting these declines was a $1.5 million increase in gains on sale of mortgage loans attributable to a strong mortgage refinancing environment.

Comparison of the Six Months Ended June 30, 2020 to the six Months Ended June 30, 2019

For the six months ended June 30, 2020, net income was $13.6 million decreasing by $19.7 million, or 59.1%, when compared to net income for the six months ended June 30, 2019, or a decrease of $11.5 million, or 45.8%, when compared to C Corp equivalent net income for the six months ended June 30, 2019. Net income declined primarily due to lower net interest income and higher provision for loan losses. Net interest income declined by $8.8 million, primarily as a result of a lower interest rate environment. Provision for loan losses increased by $5.3 million, primarily due to the economic weakness resulting from the COVID-19 pandemic.

Net Interest Income

Net interest income equals the excess of interest income (including discount accretion on acquired loans) plus fees earned on interest earning assets over interest expense incurred on interest-bearing liabilities. Interest rate spread and net interest margin are utilized to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest margin is expressed as the percentage of net interest income to average interest-earning assets. The net interest margin exceeds the interest rate spread because noninterest-bearing sources of funds, principally noninterest-bearing demand deposits and stockholders' equity, also support interest-earning assets.

The following tables sets forth average balances, average yields and costs, and certain other information for the three and six months ended June 30, 2020 and 2019. Average balances are daily average balances. Nonaccrual loans are included in the computation of average balances but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and costs, discounts and premiums, as well as purchase accounting adjustments that are accreted or amortized to interest income or expense.

	Three Months Ended					
	June 30, 2020			June 30, 2019		
	Average Balance	Interest	Yield/Cost *	Average Balance	Interest	Yield/Cost *
	(dollars in thousands)					
ASSETS						
Loans	$ 2,265,032	$ 25,869	4.57 %	$ 2,196,934	$ 30,622	5.58 %
Securities	721,817	4,399	2.44	786,759	5,313	2.70
Deposits with banks	326,216	79	0.10	125,263	599	1.91
Other	2,496	14	2.19	2,439	16	2.64
Total interest-earning assets	3,315,561	$ 30,361	3.66 %	3,111,395	$ 36,550	4.70 %
Allowance for loan losses	(26,125)			(21,250)		
Noninterest-earning assets	163,713			146,208		
Total assets	$ 3,453,149			$ 3,236,353		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest-bearing deposits:						
Interest-bearing demand	$ 860,131	$ 162	0.08 %	$ 826,715	$ 411	0.20 %
Money market	477,441	118	0.10	455,454	489	0.43
Savings	474,609	50	0.04	433,125	69	0.06
Time	317,965	712	0.90	411,514	1,142	1.11
Total interest-bearing deposits	2,130,146	1,042	0.20	2,126,808	2,111	0.40
Securities sold under agreements to repurchase	53,867	11	0.08	40,851	17	0.17
Borrowings	2,582	1	0.03	549	4	2.62
Subordinated debentures	37,605	399	4.24	37,544	487	5.19
Total interest-bearing liabilities	2,224,200	$ 1,453	0.26 %	2,205,752	$ 2,619	0.47 %
Noninterest-bearing deposits	824,232			662,731		
Noninterest-bearing liabilities	58,177			29,257		
Total liabilities	3,106,609			2,897,740		
Stockholders' Equity	346,540			338,613		
Total liabilities and stockholders' equity	$ 3,453,149			$ 3,236,353		
Net interest income/Net interest margin (3)		$ 28,908	3.49 %		$ 33,931	4.36 %
Tax-equivalent adjustment (2)		483	0.06		606	0.08
Net interest income (tax-equivalent basis)/ Net interest margin (tax-equivalent basis) (1) (2)		$ 29,391	3.55 %		$ 34,537	4.44 %
Net interest rate spread (4)			3.40 %			4.23 %
Net interest-earning assets (5)	$ 1,091,361			$ 905,643		
Ratio of interest-earning assets to interest-bearing liabilities	1.49			1.41		
Cost of total deposits			0.14 %			0.30 %

* Annualized measure.
(1) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.
(2) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.
(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

	Six Months Ended					
	June 30, 2020			June 30, 2019		
	Average Balance	Interest	Yield/Cost *	Average Balance	Interest	Yield/Cost *
	(dollars in thousands)					
ASSETS						
Loans	$ 2,203,031	$ 53,484	4.86 %	$ 2,180,722	$ 61,395	5.63 %
Securities	695,194	8,761	2.52	796,577	10,787	2.70
Deposits with banks	288,637	808	0.56	128,445	1,286	2.00
Other	2,461	28	2.28	2,578	31	2.43
Total interest-earning assets	3,189,323	$ 63,081	3.96 %	3,108,322	$ 73,499	4.73 %
Allowance for loan losses	(24,300)			(20,848)		
Noninterest-earning assets	155,923			147,357		
Total assets	$ 3,320,946			$ 3,234,831		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest-bearing deposits:						
Interest-bearing demand	$ 835,999	$ 413	0.10 %	$ 826,586	$ 828	0.20 %
Money market	470,782	512	0.22	449,021	859	0.38
Savings	454,442	120	0.05	429,078	137	0.06
Time	329,867	1,592	0.97	422,137	2,270	1.08
Total interest-bearing deposits	2,091,090	2,637	0.25	2,126,822	4,094	0.38
Securities sold under agreements to repurchase	47,917	31	0.13	41,466	31	0.15
Borrowings	1,402	1	0.07	553	7	2.59
Subordinated debentures	37,597	842	4.48	37,536	984	5.24
Total interest-bearing liabilities	2,178,006	$ 3,511	0.32 %	2,206,377	$ 5,116	0.46 %
Noninterest-bearing deposits	747,473			656,714		
Noninterest-bearing liabilities	51,437			28,879		
Total liabilities	2,976,916			2,891,970		
Stockholders' Equity	344,030			342,861		
Total liabilities and stockholders' equity	$ 3,320,946			3,234,831		
Net interest income/Net interest margin (3)		$ 59,570	3.74 %		$ 68,383	4.40 %
Tax-equivalent adjustment (2)		946	0.05		1,216	0.08
Net interest income (tax-equivalent basis)/ Net interest margin (tax-equivalent basis) (1) (2)		$ 60,516	3.79 %		$ 69,599	4.48 %
Net interest rate spread (4)			3.64 %			4.27 %
Net interest-earning assets (5)	$ 1,011,317			$ 901,945		
Ratio of interest-earning assets to interest-bearing liabilities	1.46			1.41		
Cost of total deposits			0.19 %			0.29 %

* Annualized measure.
(1) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.
(2) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.
(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

The following tables set forth the components of loan interest income, which includes contractual interest on loans, loan fees, accretion of acquired loan discounts and net earnings on cash flow hedges:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Interest	Yield Contribution *	Interest	Yield Contribution *	Interest	Yield Contribution *	Interest	Yield Contribution *
	(dollars in thousands)							
Contractual interest	$ 24,202	4.27 %	$ 29,391	5.36 %	$ 50,224	4.56 %	$ 57,972	5.33 %
Loan fees	1,630	0.29	778	0.14	2,794	0.25	1,577	0.14
Accretion of acquired loan discounts	5	—	433	0.08	402	0.04	1,796	0.16
Net cash flow hedge earnings	32	0.01	20	—	64	0.01	50	—
Total loan interest income	$ 25,869	4.57 %	$ 30,622	5.58 %	$ 53,484	4.86 %	$ 61,395	5.63 %

* Annualized measure.

The following tables set forth the components of net interest income, which includes contractual interest on loans, contractual interest on securities, contractual interest on interest-bearing deposits in banks, loan fees, accretion of acquired loan discounts, securities amortization, net and other interest and dividend income. Total interest expense consists of contractual interest on deposits, contractual interest on other interest-bearing liabilities and other.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Interest	Net Interest Margin Contribution *	Interest	Net Interest Margin Contribution *	Interest	Net Interest Margin Contribution *	Interest	Net Interest Margin Contribution *
	(dollars in thousands)							
Interest income:								
Contractual interest on loans	$ 24,202	2.92 %	$ 29,391	3.78 %	$ 50,224	3.15 %	$ 57,972	3.73 %
Contractual interest on securities	5,435	0.66	6,249	0.80	10,586	0.66	12,655	0.81
Contractual interest on deposits with banks	79	0.01	599	0.08	808	0.05	1,286	0.08
Loan fees	1,630	0.20	778	0.10	2,794	0.18	1,577	0.10
Accretion of loan discounts	5	—	433	0.06	402	0.03	1,796	0.12
Securities amortization, net	(1,035)	(0.14)	(936)	(0.12)	(1,825)	(0.12)	(1,868)	(0.12)
Other	45	0.01	36	—	92	0.01	81	0.01
Total interest income	30,361	3.66	36,550	4.70	63,081	3.96	73,499	4.73
Interest expense:								
Contractual interest on deposits	1,035	0.12	2,108	0.28	2,623	0.16	4,109	0.27
Contractual interest on other interest-bearing liabilities	323	0.04	494	0.06	736	0.05	992	0.06
Other	95	0.01	17	—	152	0.01	15	—
Total interest expense	1,453	0.17	2,619	0.34	3,511	0.22	5,116	0.33
Net interest income	28,908	3.49	33,931	4.36	59,570	3.74	68,383	4.40
Tax equivalent adjustment (1)	483	0.06	606	0.08	946	0.05	1,216	0.08
Net interest income (tax equivalent) (1) (2)	$ 29,391	3.55 %	$ 34,537	4.44 %	$ 60,516	3.79 %	$ 69,599	4.48 %

* Annualized measure.

(1) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.

(2) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Rate/Volume Analysis

The following table sets forth the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to changes attributable to changes in volume (*i.e.*, changes in average balances multiplied by the prior-period average rate), and changes attributable to rate (*i.e.*, changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both volume and rate that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended June 30, 2020 vs. Three Months Ended June 30, 2019			Six Months Ended June 30, 2020 vs. Six Months Ended June 30, 2019		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)					
Interest-earning assets:						
Loans	$ 924	$ (5,677)	$ (4,753)	$ 622	$ (8,533)	$ (7,911)
Securities	(427)	(487)	(914)	(1,326)	(700)	(2,026)
Deposits with banks	390	(910)	(520)	873	(1,351)	(478)
Other	—	(2)	(2)	(1)	(2)	(3)
Total interest-earning assets	887	(7,076)	(6,189)	168	(10,586)	(10,418)
Interest-earning liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	16	(265)	(249)	9	(424)	(415)
Money market	23	(394)	(371)	40	(387)	(347)
Savings	7	(26)	(19)	8	(25)	(17)
Time	(233)	(197)	(430)	(461)	(217)	(678)
Total interest-bearing deposits	(187)	(882)	(1,069)	(404)	(1,053)	(1,457)
Securities sold under agreements to repurchase	5	(11)	(6)	4	(4)	—
Borrowings	4	(7)	(3)	5	(11)	(6)
Subordinated debentures	1	(89)	(88)	2	(144)	(142)
Total interest-bearing liabilities	(177)	(989)	(1,166)	(393)	(1,212)	(1,605)
Change in net interest income	$ 1,064	$ (6,087)	$ (5,023)	$ 561	$ (9,374)	$ (8,813)

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

Net interest income for the three months ended June 30, 2020 decreased $5.0 million, or 14.8%, to $28.9 million from $33.9 million for the three months ended June 30, 2019. The decrease is primarily attributable to declines in benchmark interest rates, which drove lower yields on interest-earning assets. Partially offsetting this decline was an increase in loan balances and lower costs on deposit.

Net interest margin decreased as well to 3.49% for the three months ended June 30, 2020 compared to 4.36% for the three months ended June 30, 2019. The decrease was primarily attributable to the decline in the average yield on earnings assets, including approximately 15 basis points due to excess liquidity that was used to fund PPP loans and held in overnight funds at the Federal Reserve. The contribution of acquired loan discount accretion to net interest income declined to less than $0.1 million or less than 1 basis points of the net interest margin, for the three months ended June 30, 2020 from $0.4 million or 6 basis points of the net interest margin, for the three months ended June 30, 2019.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

Net interest income for the six months ended June 30, 2020 decreased $8.8 million, or 12.9%, to $59.6 million from $68.4 million for the six months ended June 30, 2019. The decrease is primarily attributable to declines in benchmark interest rates, which drove lower yields on interest-earning assets. Partially offsetting this decline was a lower cost on deposits and an increase in balances of deposits with banks and loans.

Net interest margin decreased as well to 3.74% for the six months ended June 30, 2020 compared to 4.40% for the six months ended June 30, 2019. The decrease was primarily attributable to the decline in the average yield on earnings assets, including approximately 11 basis points due to excess liquidity that was used to fund PPP loans and held in overnight funds at the Federal Reserve, partially offset by an improvement in the cost and mix of deposits. The contribution of acquired loan discount accretion to net interest income declined to $0.4 million or 3 basis points of the net interest margin, for the six months ended June 30, 2020 from $1.8 million or 12 basis points of the net interest margin, for the six months ended June 30, 2019.

The quarterly net interest margins were as follows:

	2020	2019
Three months ended		
March 31,	4.00 %	4.44 %
June 30,	3.49	4.36
September 30,	—	4.31
December 31,	—	4.12

During 2019, overall market interest rates started to decline. The Federal Open Markets Committee lowered Federal Funds target rates for the first time in 11 years on July 31, 2019 and then again in September 2019 and October 2019, for a combined decrease of 75 basis points during 2019. In March 2020, the Federal Open Markets Committee lowered Federal Funds target rates twice, for a combined decrease of 150 basis points in response to recent economic downturn related to the COVID-19 pandemic.

We expect these rate cuts and potential increases in nonperforming loans as a result of the economic downturn related to the COVID-19 pandemic to continue to put downward pressure on our net interest margin. In general, we believe that rate increases will lead to improved net interest margins while rate decreases will result in lower net interest margins.

Provision for Loan Losses

Provisions for loan losses are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable incurred credit losses in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluations of collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of nonperforming and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or events change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the allowance. The provision for loan losses is a function of the allowance for loan loss methodology we use to determine the appropriate level of the allowance for inherent loan losses after net charge-offs have been deducted.

The deterioration of economic conditions related to the COVID-19 pandemic has adversely affected, and may continue to adversely affect, the communities that we serve. As a result, our provision for loan losses may increase, possibly materially, and adversely affect our financial condition, results of operations, and cash flows.

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

The provision for loan losses was $3.6 million and $1.8 million for the three months ended June 30, 2020 and 2019, respectively. The increase in provision for loan losses was primarily due to reserve build during the three months ended June 30, 2020 related to adjustments to qualitative factors to reflect the economic weakness resulting from the COVID-19 pandemic.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

The provision for loan losses was $7.9 million and $2.6 million for the six months ended June 30, 2020 and 2019, respectively. The increase in provision for loan losses was primarily due to $7.0 million of reserve build during the six months ended June 30, 2020 related to adjustments to qualitative factors to reflect the economic weakness resulting from the COVID-19 pandemic. The remaining $0.9 million of the provision was primarily due to a $1.3 million increase in a specific reserve related to one credit offset by a decrease in specific reserves related to several other credits.

Noninterest Income

The following table sets forth the major categories of noninterest income for the periods indicated:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	$ Change	2020	2019	$ Change
	(dollars in thousands)					
Card income	$ 1,998	$ 1,996	$ 2	$ 3,790	$ 3,828	$ (38)
Service charges on deposit accounts	1,133	1,931	(798)	2,967	3,694	(727)
Wealth management fees	1,507	1,493	14	3,321	3,240	81
Mortgage servicing	727	818	(91)	1,451	1,547	(96)
Mortgage servicing rights fair value adjustment	(508)	(1,120)	612	(2,679)	(2,122)	(557)
Gains on sale of mortgage loans	2,135	660	1,475	2,671	1,185	1,486
Gains (losses) on securities	57	36	21	5	115	(110)
Gains (losses) on foreclosed assets	58	169	(111)	93	152	(59)
Gains (losses) on other assets	(69)	368	(437)	(72)	1,273	(1,345)
Title insurance activity	—	38	(38)	—	167	(167)
Other noninterest income	1,022	957	65	1,765	1,754	11
Total noninterest income	$ 8,060	$ 7,346	$ 714	$ 13,312	$ 14,833	$ (1,521)

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

Total noninterest income for the three months ended June 30, 2020 increased by $0.7 million, or 9.7%, to $8.1 million from $7.3 million for the three months ended June 30, 2019. The increase is primarily attributable to higher a $1.5 million increase in gains on sale of mortgage loans attributable to a strong mortgage refinancing environment and a less negative mortgage servicing rights fair value adjustment. Partially offsetting these increases were a $0.8 million decrease in service charges on deposit accounts associated with lower overdraft incidences due to federal stimulus payments received by customers, and fee waivers offered to customers experiencing a financial hardship due to COVID-19.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

Total noninterest income for the six months ended June 30, 2020 decreased by $1.5 million, or 10.3%, to $13.3 million from $14.8 million for the six months ended June 30, 2019. The decrease is primarily attributable to nonrecurring gains on sales of First Community Title Services, Inc. and HBT Insurance of $0.8 million and nonrecurring gains on sales of bank premises held for sale of $0.4 million during the six months ended June 30, 2019. Also contributing to lower noninterest income was a $0.7 million decrease in service charges on deposit accounts associated with lower overdraft incidences and fee waivers and a $0.6 million larger negative mortgage servicing rights fair value adjustment. Partially offsetting these decreases was a $1.5 million increase in gains on sale of mortgage loans attributable to a strong mortgage refinancing environment.

Noninterest Expense

The following table sets forth the major categories of noninterest expense for the periods indicated:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	$ Change	2020	2019	$ Change
	(dollars in thousands)					
Salaries	$ 12,674	$ 11,597	$ 1,077	$ 25,428	$ 24,119	$ 1,309
Employee benefits	2,455	4,723	(2,268)	4,889	5,967	(1,078)
Occupancy of bank premises	1,642	1,638	4	3,470	3,475	(5)
Furniture and equipment	609	716	(107)	1,212	1,505	(293)
Data processing	1,672	1,390	282	3,258	2,552	706
Marketing and customer relations	817	1,103	(286)	1,861	2,036	(175)
Amortization of intangible assets	305	376	(71)	622	752	(130)
FDIC insurance	218	208	10	254	427	(173)
Loan collection and servicing	494	612	(118)	842	1,354	(512)
Foreclosed assets	88	165	(77)	177	329	(152)
Other noninterest expense	2,525	2,033	492	4,793	4,257	536
Total noninterest expense	$ 23,499	$ 24,561	$ (1,062)	$ 46,806	$ 46,773	$ 33

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

Total noninterest expense for the three months ended June 30, 2020 decreased by $1.1 million, or 4.3%, to $23.5 million from $24.6 million for the three months ended June 30, 2019. The decrease is primarily due to lower employee benefits expense driven by a lower charge related to the supplemental executive retirement plan (SERP). The SERP was terminated in June 2019 and liquidated in June 2020. During the period between termination and liquidation of the SERP, the SERP liability varied inversely with interest rates and resulted in charges of $0.6 million and $3.3 million during the three months ended June 30, 2020 and 2019, respectively. The SERP liability will no longer affect earnings in periods subsequent to June 30, 2020. Partially offsetting this decrease were higher salaries and higher medical benefit expenses. Increased other noninterest expenses include higher legal and professional fees associated with public company costs not incurred during the three months ended June 30, 2019.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

Total noninterest expense for the six months ended June 30, 2020 was $46.8 million, remaining relatively unchanged when compared to the six months ended June 30, 2019. The increase in salaries expense was mostly offset by a smaller charge related to the SERP which was terminated. The charge related to the termination of the SERP was $1.5 million and $3.3 million during the six months ended June 30, 2020 and 2019, respectively. Net of the effect of charges related to the termination of the SERP, the remaining $0.8 million increase in employee benefits expense was primarily related to higher medical benefit expenses.

Additionally, a reduction in employee count occurred as a result of the sale of First Community Title Services, Inc. and HBT Insurance during the first quarter of 2019. Salaries and employee benefits expenses for First Community Title Services, Inc. and HBT Insurance was $0.3 million for the three months ended March 31, 2019. There was no salaries and employee benefits expenses for First Community Title Services, Inc. or HBT Insurance subsequent to March 31, 2019.

Income Taxes

Effective October 11, 2019, the Company voluntarily revoked its S Corporation status and became a taxable entity (C Corporation). As such, any periods prior to October 11, 2019 will only reflect an effective state replacement tax rate. For additional information, see “Factors Affecting Comparability of Financial Results: S Corp Status”.

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

We recorded income tax expense of $2.5 million, or 25.0% effective tax rate, during the three months ended June 30, 2020 compared to $0.3 million, or 2.0% effective tax rate, on a historical basis and $3.8 million, or 25.4% effective tax rate, on a pro forma C Corp equivalent basis during the three months ended June 30, 2019. The effective income tax rate was lower than the combined federal and state statutory rate of approximately 28.5% primarily due to tax exempt interest income. Relative to the pro forma C Corp equivalent effective tax rate, the effective income tax rate decreased primarily due to tax exempt interest income making up a larger portion of pre-tax net income during the three months ended June 30, 2020 compared to the three months ended June 30, 2019.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

We recorded income tax expense of $4.5 million, or 24.8% effective tax rate, during the six months ended June 30, 2020 compared to $0.5 million, or 1.5% effective tax rate, on a historical basis and $8.7 million, or 25.7% effective tax rate, on a pro forma C Corp equivalent basis during the six months ended June 30, 2019. The effective income tax rate was lower than the combined federal and state statutory rate of approximately 28.5% primarily due to tax exempt interest income. Relative to the pro forma C Corp equivalent effective tax rate, the effective income tax rate decreased primarily due to tax exempt interest income making up a larger portion of pre-tax net income during the six months ended June 30, 2020 compared to the six months ended June 30, 2019.

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FINANCIAL CONDITION

	June 30, 2020	December 31, 2019	$ Change	% Change
	(dollars in thousands, except per share amounts)			
Balance Sheet Information				
Cash and cash equivalents	$ 314,365	$ 283,971	$ 30,394	10.7 %
Securities available-for-sale, at fair value	701,353	592,404	108,949	18.4
Securities held-to-maturity	73,823	88,477	(14,654)	(16.6)
Equity securities	4,815	4,389	426	9.7
Loans held for sale	25,934	4,531	21,403	472.4
Loans, before allowance for loan losses	2,275,795	2,163,826	111,969	5.2
Less: allowance for loan losses	29,723	22,299	7,424	33.3
Loans, net of allowance for loan losses	2,246,072	2,141,527	104,545	4.9
Goodwill	23,620	23,620	—	—
Core deposit intangible assets, net	3,408	4,030	(622)	(15.4)
Other assets	108,022	102,154	5,868	5.7
Total assets	$ 3,501,412	$ 3,245,103	256,309	7.9
Total deposits	$ 3,015,113	$ 2,776,855	$ 238,258	8.6 %
Securities sold under agreements to repurchase	51,354	44,433	6,921	15.6
Subordinated debentures	37,616	37,583	33	0.1
Other liabilities	49,489	53,314	(3,825)	(7.2)
Total liabilities	3,153,572	2,912,185	241,387	8.3
Total stockholders' equity	347,840	332,918	14,922	4.5
Total liabilities and stockholders' equity	$ 3,501,412	$ 3,245,103	256,309	7.9
Tangible assets (1)	$ 3,474,384	$ 3,217,453	$ 256,931	8.0 %
Tangible common equity (1)	320,812	305,268	15,544	5.1
Core deposits (1)	$ 2,990,511	$ 2,732,101	$ 258,410	9.5 %
Share and Per Share Information				
Book value per share	$ 12.67	$ 12.12		
Tangible book value per share (1)	11.68	11.12		
Ending number shares of common stock outstanding	27,457,306	27,457,306		
Balance Sheet Ratios				
Loan to deposit ratio	75.48 %	77.92 %		
Core deposits to total deposits (1)	99.18	98.39		
Stockholders' equity to total assets	9.93	10.26		
Tangible common equity to tangible assets (1)	9.23	9.49		

(1) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Total assets were $3.50 billion at June 30, 2020, an increase of $256.6 million, or 7.9%, from December 31, 2019, which was primarily a result of an increase in total deposits. Loans, before allowance for loan losses increased $112.0 million, primarily due to the origination of PPP loans which totaled $178.0 million as of June 30, 2020. Debt securities increased $94.3 million, or 13.8%, from December 31, 2019, as a result of increased purchase activity to manage the increased balance of lower-yielding interest-bearing deposits with banks which increased $30.4 million, or 10.7%, from December 31, 2019. Loans held for sale increased $21.4 million, primarily due to a strong mortgage refinancing environment.

Total deposits were $3.02 billion at June 30, 2020, an increase of $238.3 million, or 8.6%, from December 31, 2019. This increase is primarily due to PPP loan proceeds received by commercial customers and federal economic stimulus received by retail customers.

Core deposits to total deposits remained very high at 99.2% at June 30, 2020 compared to 98.4% at December 31, 2019, as we managed our deposit portfolio to retain higher value core deposit relationships and maintain the lowest practicable cost of funds. The loan to deposit ratio was 75.5% at June 30, 2020, decreasing from 77.9% at December 31, 2019.

Loan Portfolio

The following table sets forth the composition of the loan portfolio, excluding loans held-for-sale, by type of loan as of June 30, 2020 and December 31, 2019.

	June 30, 2020		December 31, 2019	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Commercial and industrial	$ 408,230	17.9 %	$ 307,175	14.2 %
Agricultural and farmland	239,101	10.5	207,776	9.6
Commercial real estate - owner occupied	228,506	10.1	231,162	10.7
Commercial real estate - non-owner occupied	535,339	23.5	579,757	26.8
Multi-family	186,440	8.2	179,073	8.3
Construction and land development	247,640	10.9	224,887	10.4
One-to-four family residential	308,133	13.5	313,580	14.5
Municipal, consumer, and other	122,406	5.4	120,416	5.5
Loans, before allowance for loan losses	2,275,795	100.0 %	2,163,826	100.0 %
Allowance for loan losses	(29,723)		(22,299)	
Loans, net of allowance for loan losses	$ 2,246,072		$ 2,141,527	
Loans, before allowance for loan losses (originated) [1]	$ 2,132,189	93.7 %	$ 1,998,496	92.4 %
Loans, before allowance for loan losses (acquired) [1]	143,606	6.3	165,330	7.6
Loans, before allowance for loan losses	$ 2,275,795	100.0 %	$ 2,163,826	100.0 %
PPP loans (included above)				
Commercial and industrial	$ 166,868			
Agricultural and farmland	4,027			
Municipal, consumer, and other	7,063			
Total PPP loans	$ 177,958			

(1) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Loans, before allowance for loan losses increased by $112.0 million, or 5.2%, to $2.28 billion as of June 30, 2020 from $2.16 billion as of December 31, 2019. The increase was primarily due to PPP loan originations during the three months ended June 30, 2020. Partially offsetting this increase was a $21.5 million reduction in participation loan balances and a $39.8 million reduction in balances on existing business lines of credit.

Paycheck Protection Program Loans

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) established the Paycheck Protection Program (PPP) which provides small businesses with funds to pay payroll costs, including benefits, and certain non-payroll costs such as mortgage interest, rent, and utilities. Administered by the SBA, program funds are provided to eligible businesses in the form of loans which may be fully forgiven when loan proceeds are used for payroll costs and allowable non-payroll costs. PPP loans are unsecured, have a two-year or five-year term, bear a fixed contractual interest rate of 1.00%, and are 100% guaranteed by the SBA.

Additionally, the SBA pays lenders fees for processing PPP loans, based on a set percentage of the loan amount. In accordance with ASC 310-20, *Receivables: Nonrefundable Fees and Other Costs*, these fees, along with direct origination costs are deferred and recognized over the life of the loan as an adjustment of yield (included in taxable loan interest income). Recognition of net deferred origination fees are expected to be accelerated upon loan forgiveness or repayment prior to contractual maturity.

The following table summarizes PPP loans originated during the three months ended June 30, 2020, along with the origination fees received or expected from the SBA:

Range of Loan Amounts	Number	Loan Amount	Fee Percentage	Origination Fee
		(dollars in thousands)		
Less than $350,000	2,149	$ 107,833	5.0%	$ 5,392
Over $350,000, but less than $2,000,000	94	69,254	3.0%	2,077
Over $2,000,000	2	7,085	1.0%	71
Total	2,245	$ 184,172		$ 7,540

As of June 30, 2020, PPP loans, net of deferred origination fees, were $178.0 million or 7.8% of loans, before allowance for loan losses. Net deferred origination fees on PPP loans totaled $6.2 million as of June 30, 2020. The deferred origination fees were reduced by $0.5 million of direct origination costs, primarily salaries and benefits costs, during the three months ended June 30, 2020. Net deferred origination fees on PPP loans of $0.9 million were recognized as taxable loan interest income during the three months ended June 30, 2020.

Loan Portfolio Maturities

The following table summarizes the scheduled maturities of the loan portfolio as of June 30, 2020. Demand loans (loans having no stated repayment schedule or maturity) and overdraft loans are reported as being due in one year or less.

As of June 30, 2020	One Year or Less	One Year Through Five Years	After Five Years	Total
	(dollars in thousands)			
Scheduled Maturities of Loans:				
Commercial and industrial	$ 151,852	$ 230,739	$ 25,639	$ 408,230
Agricultural and farmland	119,258	91,713	28,130	239,101
Commercial real estate - owner occupied	37,080	124,802	66,624	228,506
Commercial real estate - non-owner occupied	73,631	347,773	113,935	535,339
Multi-family	20,738	130,303	35,399	186,440
Construction and land development	150,007	92,751	4,882	247,640
One-to-four family residential	73,475	102,891	131,767	308,133
Municipal, consumer, and other	20,077	29,950	72,379	122,406
Total	$ 646,118	$ 1,150,922	$ 478,755	$ 2,275,795
Loans Maturing After One Year:				
Floating interest rates:				
Repricing within one year or less				$ 369,370
Repricing in more than one year				90,572
Total floating interest rates				459,942
Predetermined (fixed) interest rates				1,169,735
Total loans maturing after one year				$ 1,629,677

Nonperforming Assets

Nonperforming loans consist of all loans past due 90 days or more or on nonaccrual. Nonperforming assets consist of all nonperforming loans and foreclosed assets. Typically, loans are placed on nonaccrual when they reach 90 days past due, or when, in management's opinion, there is reasonable doubt regarding the collection of the amounts due through the normal means of the borrower. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is reversed from interest income. Interest payments received on nonaccrual loans are recognized in accordance with our significant accounting policies. Once a loan is placed on nonaccrual status, the borrower must generally demonstrate at least six months of payment performance and we must believe that all remaining principal and interest is fully collectible, before the loan is eligible to return to accrual status. Management believes the Company's lending practices and active approach to managing nonperforming assets has resulted in timely resolution of problem assets.

Loans acquired with deteriorated credit quality are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans may be considered performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or future period yield adjustments. The accrual of interest is discontinued on loans acquired with deteriorated credit quality if management can no longer estimate future cash flows on the loan. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all loans acquired with deteriorated credit quality, except those management can no longer estimate future cash flows.

The following table below sets forth information concerning nonperforming loans and nonperforming assets as of each of the dates indicated.

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
NONPERFORMING ASSETS		
Nonaccrual	$ 13,945	$ 19,019
Past due 90 days or more, still accruing (1)	7	30
Total nonperforming loans	13,952	19,049
Foreclosed assets	4,450	5,099
Total nonperforming assets	$ 18,402	$ 24,148
NONPERFORMING ASSETS (Originated) (2)		
Nonaccrual	$ 9,059	$ 10,811
Past due 90 days or more, still accruing	7	30
Total nonperforming loans (originated)	9,066	10,841
Foreclosed assets	1,092	1,022
Total nonperforming (originated)	$ 10,158	$ 11,863
NONPERFORMING ASSETS (Acquired) (2)		
Nonaccrual	$ 4,886	$ 8,208
Past due 90 days or more, still accruing (1)	—	—
Total nonperforming loans (acquired)	4,886	8,208
Foreclosed assets	3,358	4,077
Total nonperforming assets (acquired)	$ 8,244	$ 12,285
Allowance for loan losses	$ 29,723	$ 22,299
Loans, before allowance for loan losses	$ 2,275,795	$ 2,163,826
Loans, before allowance for loan losses (originated) (2)	2,132,189	1,998,496
Loans, before allowance for loan losses (acquired) (2)	143,606	165,330
CREDIT QUALITY RATIOS		
Allowance for loan losses to loans, before allowance for loan losses	1.31 %	1.03 %
Allowance for loan losses to nonperforming loans	213.04	117.06
Nonperforming loans to loans, before allowance for loan losses	0.61	0.88
Nonperforming assets to total assets	0.53	0.74
Nonperforming assets to loans, before allowance for loan losses and foreclosed assets	0.81	1.11
CREDIT QUALITY RATIOS (Originated) (2)		
Nonperforming loans to loans, before allowance for loan losses	0.43 %	0.54 %
Nonperforming assets to loans, before allowance for loan losses and foreclosed assets	0.48	0.59
CREDIT QUALITY RATIOS (Acquired) (2)		
Nonperforming loans to loans, before allowance for loan losses	3.40 %	4.96 %
Nonperforming assets to loans, before allowance for loan losses and foreclosed assets	5.61	7.25

(1) Excludes loans acquired with deteriorated credit quality that are past due 90 or more days totaling $0.1 million and $0.1 million as of June 30, 2020 and December 31, 2019, respectively.
(2) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Total nonperforming assets decreased by $5.7 million, or 23.8%, to $18.4 million as of June 30, 2020 from $24.1 million as of December 31, 2019. The decline in nonperforming loans was primarily attributable to the pay-down or pay-off of several loans, and to a lesser extent, the transfer of a few loans to foreclosed assets.

Troubled Debt Restructurings

In general, if the Company grants a troubled debt restructuring (TDR) that involves either the absence of principal amortization or a material extension of an existing loan amortization period in excess of our underwriting standards, the loan will be placed on nonaccrual status. However, if a TDR is well secured by an abundance of collateral and the collectability of both interest and principal is probable, the loan may remain on accrual status. A nonaccrual TDR in full compliance with the payment requirements specified in the loan modification for at least six months may return to accrual status, if the collectability of both principal and interest is probable. All TDRs are individually evaluated for impairment.

The following table presents TDRs by loan category.

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Commercial and industrial	$ 340	$ 867
Agricultural and farmland	—	—
Commercial real estate - owner occupied	5,667	5,746
Commercial real estate - non-owner occupied	1,391	1,427
Multi-family	—	—
Construction and land development	—	—
One-to-four family residential	479	517
Municipal, consumer, and other	—	—
Total accrual troubled debt restructurings	7,877	8,557
Commercial and industrial	218	135
Agricultural and farmland	—	283
Commercial real estate - owner occupied	149	149
Commercial real estate - non-owner occupied	—	—
Multi-family	—	—
Construction and land development	—	—
One-to-four family residential	143	191
Municipal, consumer, and other	—	—
Total nonaccrual troubled debt restructurings	510	758
Total troubled debt restructurings	$ 8,387	$ 9,315

TDRs have remained a small portion of our loan portfolio as loan modifications to borrowers with deteriorating financial condition are generally offered only as part of an overall workout strategy to minimize losses to the Company. The $0.9 million reduction in TDR balances from December 31, 2019 to June 30, 2020 is primarily due to payments received and foreclosure on one TDR with a carrying balance of $0.3 million during the three months ended June 30, 2020.

Payment Modifications Related to COVID-19

Loan payment modifications have been made for borrowers experiencing financial hardship due to COVID-19, with substantially all modifications in the form of a three-month interest-only period or a one-month payment deferral. Consistent with the applicable accounting and regulatory guidance, short-term loan payment modifications such as these are generally not considered a TDR. The following table presents the number and balances of loans with payment modifications granted to customers experiencing financial hardship due to COVID-19 as of July 17, 2020, June 30, 2020, and March 31, 2020.

	As of July 17, 2020		As of June 30, 2020		As of March 31, 2020	
	Number	Balance	Number	Balance	Number	Balance
			(dollars in thousands)			
Commercial and industrial	98	$ 26,747	96	$ 26,600	55	$ 21,529
Agricultural and farmland	7	4,173	7	4,174	1	143
Commercial real estate - owner occupied	85	58,256	85	58,737	43	38,648
Commercial real estate - non-owner occupied	124	138,433	122	136,770	48	61,353
Multi-family	29	31,882	29	31,863	8	2,981
Construction and land development	8	5,237	8	5,224	2	612
One-to-four family residential	168	19,616	167	19,540	29	3,806
Municipal, consumer, and other	31	598	31	678	5	69
Total	550	$ 284,942	545	$ 283,586	191	$ 129,141
Secondary market one-to-four family residential	182	$ 21,696	179	$ 22,359	47	$ 6,758

Coinciding with the phased reopening of Illinois businesses and federal economic stimulus received by commercial and retail customers during second quarter of 2020, the volume of loan modification requests related to a COVID-19 financial hardship has slowed significantly in recent months. The following table presents the number and balance of loans with payment modifications related to a COVID-19 financial hardship as of July 17, 2020 by original modification month.

	March	April	May	June	July 17	Total
			(dollars in thousands)			
Commercial and industrial	$ 21,164	$ 4,464	$ 111	$ 706	302	$ 26,747
Agricultural and farmland	143	3,475	—	555	—	4,173
Commercial real estate - owner occupied	38,397	15,834	1,971	2,054	—	58,256
Commercial real estate - non-owner occupied	61,597	64,908	6,471	3,895	1,562	138,433
Multi-family	2,674	23,784	804	4,620	—	31,882
Construction and land development	516	4,721	—	—	—	5,237
One-to-four family residential	3,759	10,340	3,217	2,276	24	19,616
Municipal, consumer, and other	61	261	222	54	—	598
Total	$ 128,311	$ 127,787	$ 12,796	$ 14,160	1,888	$ 284,942
Number of loans	191	247	58	49	5	550

As the original payment modification period expired, many loans returned to their regular payment schedule with some customers requesting an additional modification. The following summarizes the status of loans with payment modifications granted to customers experiencing financial hardship due to COVID-19:

	As of July 17, 2020		As of June 30, 2020	
	Number	Balance	Number	Balance
	(dollars in thousands)			
Returned to regular payments	317	$ 172,751	150	$ 80,354
Received additional modification	31	29,227	26	27,961
Still in original modification	202	82,964	369	175,271
Total	550	$ 284,942	545	$ 283,586

Risk Classification of Loans

Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as pass-watch, substandard, doubtful, or loss.

A pass-watch loan is still considered a "pass" credit and is not a classified asset, but is a reflection of a borrower who exhibits credit weaknesses or downward trends warranting close attention and increased monitoring. These potential weaknesses may result in deterioration of the repayment prospects for the loan. No loss of principal or interest is expected, and the borrower does not pose sufficient risk to warrant classification.

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized as probable that the borrower will not pay principal and interest in accordance with the contractual terms.

An asset classified as doubtful has all the weaknesses inherent in one 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 improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted; such balances are promptly charged-off as required by applicable federal regulations.

As of June 30, 2020 and December 31, 2019, our risk classifications of loans were as follows:

June 30, 2020	Pass	Pass-Watch	Substandard	Doubtful	Total
	(dollars in thousands)				
Commercial and industrial	$ 376,348	$ 22,442	$ 9,440	$ —	$ 408,230
Agricultural and farmland	206,481	14,638	17,982	—	239,101
Commercial real estate - owner occupied	192,278	23,058	13,170	—	228,506
Commercial real estate - non-owner occupied	455,660	56,607	23,072	—	535,339
Multi-family	175,543	10,897	—	—	186,440
Construction and land development	234,415	10,159	3,066	—	247,640
One-to-four family residential	283,601	12,073	12,459	—	308,133
Municipal, consumer, and other	108,508	256	13,642	—	122,406
Total	$ 2,032,834	$ 150,130	$ 92,831	$ —	$ 2,275,795

December 31, 2019	Pass	Pass-Watch	Substandard	Doubtful	Total
	(dollars in thousands)				
Commercial and industrial	$ 267,645	$ 27,114	$ 12,416	$ —	$ 307,175
Agricultural and farmland	180,735	12,267	14,774	—	207,776
Commercial real estate - owner occupied	198,710	21,745	10,707	—	231,162
Commercial real estate - non-owner occupied	531,694	46,092	1,971	—	579,757
Multi-family	175,807	1,771	1,495	—	179,073
Construction and land development	217,120	3,582	4,185	—	224,887
One-to-four family residential	287,036	13,546	12,998	—	313,580
Municipal, consumer, and other	106,063	479	13,874	—	120,416
Total	$ 1,964,810	$ 126,596	$ 72,420	$ —	$ 2,163,826

Pass-watch loans increased $23.5 million, or 18.6% from December 31, 2019 to June 30, 2020. Additionally, substandard loans increased $20.4 million, or 28.2%, from December 31, 2019 to June 30, 2020. This downward credit migration was primarily due to current or emerging credit weaknesses exhibited by borrowers negatively impacted by the economic downturn caused by the COVID-19 pandemic. Of the loans downgraded to pass-watch since December 31, 2019, loans with carrying balances of $32.2 million as of June 30, 2020 had received a short-term payment modification related to a COVID-19 financial hardship. Similarly, of the loans downgraded to substandard since December 31, 2019, loans with carrying balances of $9.4 million as of June 30, 2020 had received a short-term payment modification related to a COVID-19 financial hardship.

Net Charge-offs and Recoveries

The following table sets forth activity in the allowance for loan losses.

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands)			
Balance, beginning of period	$ 26,087	$ 21,013	$ 22,299	$ 20,509
Charge-offs:				
Commercial and industrial	—	(27)	(809)	(283)
Agricultural and farmland	—	(30)	(27)	(30)
Commercial real estate - owner occupied	—	(101)	—	(166)
Commercial real estate - non-owner occupied	—	—	(56)	—
Multi-family	—	—	—	—
Construction and land development	—	(9)	(1)	(9)
One-to-four family residential	(8)	(602)	(112)	(639)
Municipal, consumer, and other	(152)	(197)	(376)	(372)
Total charge-offs	(160)	(966)	(1,381)	(1,499)
Recoveries:				
Commercial and industrial	7	59	61	107
Agricultural and farmland	—	—	—	—
Commercial real estate - owner occupied	—	2	440	21
Commercial real estate - non-owner occupied	60	6	65	10
Multi-family	—	—	—	—
Construction and land development	8	422	18	433
One-to-four family residential	51	82	122	193
Municipal, consumer, and other	97	118	171	186
Total recoveries	223	689	877	950
Net (charge-offs) recoveries	63	(277)	(504)	(549)
Provision for loan losses	3,573	1,806	7,928	2,582
Balance, end of period	$ 29,723	$ 22,542	$ 29,723	$ 22,542
Net charge-offs (recoveries)	$ (63)	$ 277	$ 504	$ 549
Net charge-offs (recoveries) - (originated) (1)	3	(238)	175	(42)
Net charge-offs (recoveries) - (acquired) (1)	(66)	515	329	591
Average loans, before allowance for loan losses	$ 2,265,032	$ 2,196,934	$ 2,203,031	$ 2,180,722
Average loans, before allowance for loan losses (originated) (1)	2,117,131	1,990,015	2,050,377	1,968,147
Average loans, before allowance for loan losses (acquired) (1)	147,901	206,919	152,654	212,575
Net charge-offs (recoveries) to average loans, before allowance for loan losses *	(0.01)%	0.05 %	0.05 %	0.05 %
Net charge-offs (recoveries) to average loans, before allowance for loan losses (originated) * (1)	—	(0.05)	0.02	—
Net charge-offs (recoveries) to average loans, before allowance for loan losses (acquired) * (1)	(0.18)	1.00	0.43	0.56

* Annualized measure.
(1) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most comparable GAAP measures.

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

Net charge-offs to average total loans before allowance for loan losses have remained low during each of the three months ended June 30, 2020 and 2019. This ratio has remained low for several years, due primarily to the favorable economic conditions prior to the economic weakness resulting from the COVID-19 pandemic and our continuous credit monitoring and collection efforts.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

Net charge-offs to average total loans before allowance for loan losses have remained low during each of the six months ended June 30, 2020 and 2019. This ratio has remained low for several years, due primarily to the favorable economic conditions prior to the economic weakness resulting from the COVID-19 pandemic and our continuous credit monitoring and collection efforts.

Allocation of Allowance for Loan Losses

The following table sets forth the allocation of allowance for loan losses by major loan categories:

	June 30, 2020		December 31, 2019	
	Allowance for Loan Losses	Loan Balances	Allowance for Loan Losses	Loan Balances
	(dollars in thousands)			
Commercial and industrial	$ 4,356	$ 408,230	$ 4,441	$ 307,175
Agricultural and farmland	2,890	239,101	2,766	207,776
Commercial real estate - owner occupied	3,257	228,506	1,779	231,162
Commercial real estate - non-owner occupied	6,767	535,339	3,663	579,757
Multi-family	1,581	186,440	1,024	179,073
Construction and land development	3,366	247,640	2,977	224,887
One-to-four family residential	3,010	308,133	2,540	313,580
Municipal, consumer, and other	4,496	122,406	3,109	120,416
Total	$ 29,723	$ 2,275,795	$ 22,299	$ 2,163,826

Securities

The Company's investment policy is established by management and approved by the board of directors. The policy emphasizes safety of the investment, liquidity requirements, potential returns, cash flow targets and consistency with our interest rate risk management strategy. As of June 30, 2020, the Company did not have any non-U.S. Treasury or non-U.S. government agency debt securities that exceeded 10% of the Company's total stockholders' equity.

The following table sets forth the composition, amortized cost, and fair values of debt securities:

	June 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Available-for-sale:				
U.S. government agency	$ 75,881	$ 78,935	$ 49,113	$ 49,615
Municipal	191,453	198,310	131,241	133,738
Mortgage-backed:				
Agency residential	211,577	216,869	198,184	200,678
Agency commercial	133,149	138,149	133,730	134,954
Corporate	67,204	69,090	72,239	73,419
Total available-for-sale	679,264	701,353	584,507	592,404
Held-to-maturity:				
Municipal	28,528	30,035	45,239	46,579
Mortgage-backed:				
Agency residential	16,516	17,083	19,072	19,063
Agency commercial	28,779	31,199	24,166	24,887
Total held-to-maturity	73,823	78,317	88,477	90,529
Total debt securities	$ 753,087	$ 779,670	$ 672,984	$ 682,933

We evaluate securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired. There were no other-than-temporary impairments during the three and six months ended June 30, 2020 and 2019.

Portfolio Maturities and Yields

The composition and maturities of the debt securities portfolio as of June 30, 2020 are summarized in the following tables. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Security yields have not been adjusted to a tax-equivalent basis.

	June 30, 2020									
	One Year or Less		More Than One Year through Five Years		More than Five Years through Ten Years		More than 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
					(dollars in thousands)					
Available-for-sale:										
U.S. government agency	$ —	— %	$ 4,549	2.20 %	$ 63,049	2.04 %	$ 8,284	1.52 %	$ 75,881	1.99 %
Municipal	24,651	2.47	53,201	2.63	68,210	2.32	45,390	2.23	191,453	2.41
Mortgage-backed:										
Agency residential	—	—	5,195	2.14	73,683	2.42	132,699	1.56	211,577	1.88
Agency commercial	7,615	2.39	60,191	2.61	36,672	2.12	28,671	2.68	133,149	2.48
Corporate	7,867	3.16	34,865	2.71	20,472	4.88	4,000	6.00	67,204	3.62
Total available-for-sale	40,133	2.59	158,001	2.61	262,086	2.46	219,044	1.93	679,264	2.33
Held-to-maturity:										
Municipal	748	2.34	14,963	3.36	11,926	3.73	891	3.76	28,528	3.50
Mortgage-backed:										
Agency residential	—	—	—	—	—	—	16,516	2.33	16,516	2.33
Agency commercial	—	—	5,357	2.51	12,166	2.93	11,256	2.87	28,779	2.83
Total held-to-maturity	748	2.34	20,320	3.14	24,092	3.32	28,663	2.59	73,823	2.98
Total debt securities	$ 40,881	2.59 %	$ 178,321	2.67 %	$ 286,178	2.53 %	$ 247,707	2.00 %	$ 753,087	2.39 %

Deposits

Management continues to focus on growing non-maturity deposits, through the Company's relationship driven banking philosophy and community-focused marketing programs, and to deemphasize higher cost deposit categories, such as time deposits. Additionally, the Banks continue to add and improve ancillary convenience services tied to deposit accounts, such as mobile, remote deposits and peer-to-peer payments, to solidify deposit relationships.

The following tables set forth the distribution of average deposits, by account type:

	Three Months Ended June 30,						Percent Change in Average Balance
	2020			2019			
	Average Balance	Percent of Total Deposits	Weighted Average Cost *	Average Balance	Percent of Total Deposits	Weighted Average Cost *	
	(dollars in thousands)						
Noninterest-bearing	$ 824,232	27.9 %	— %	$ 662,731	23.8 %	— %	24.4 %
Interest-bearing demand	860,131	29.1	0.08	826,715	29.6	0.20	4.0
Money market	477,441	16.1	0.10	455,454	16.3	0.43	4.8
Savings	474,609	16.1	0.04	433,125	15.5	0.06	9.6
Total non-maturity deposits	2,636,413	89.2	0.05	2,378,025	85.2	0.16	10.9
Time	317,965	10.8	0.90	411,514	14.8	1.11	(22.7)
Total deposits	$ 2,954,378	100.0 %	0.14 %	$ 2,789,539	100.0 %	0.30 %	5.9 %

	Six Months Ended June 30,						Percent Change in Average Balance
	2020			2019			
	Average Balance	Percent of Total Deposits	Weighted Average Cost *	Average Balance	Percent of Total Deposits	Weighted Average Cost *	
	(dollars in thousands)						
Noninterest-bearing	$ 747,473	26.3 %	— %	$ 656,714	23.6 %	— %	13.8 %
Interest-bearing demand	835,999	29.5	0.10	826,586	29.7	0.20	1.1
Money market	470,782	16.6	0.22	449,021	16.1	0.38	4.8
Savings	454,442	16.0	0.05	429,078	15.4	0.06	5.9
Total non-maturity deposits	2,508,696	88.4	0.08	2,361,399	84.8	0.15	6.2
Time	329,867	11.6	0.97	422,137	15.2	1.08	(21.9)
Total deposits	$ 2,838,563	100.0 %	0.19 %	$ 2,783,536	100.0 %	0.29 %	2.0 %

* Annualized measure.

Comparison of the Three Months Ended June 30, 2020 to the Three Months Ended June 30, 2019

The average balances of non-maturity deposits increased 10.9% from the three months ended June 30, 2019 to the three months ended June 30, 2020, with the increase primarily attributable to PPP loan proceeds received by commercial customers and federal economic stimulus received by retail customers. Partially offsetting the increase in non-maturity deposits was a 22.7% decline in the average balances of time deposits, which resulted in a 5.9% increase in average balances of total deposits from the three months ended June 30, 2019 to the three months ended June 30, 2020.

Comparison of the Six Months Ended June 30, 2020 to the Six Months Ended June 30, 2019

The average balances of non-maturity deposits increased 6.2% from the six months ended June 30, 2019 to the six months ended June 30, 2020, with the increase primarily attributable to PPP loan proceeds received by commercial customers and federal economic stimulus received by retail customers. Partially offsetting the increase in non-maturity deposits was a 21.9% decline in the average balances of time deposits, which resulted in a 2.0% increase in average balances of total deposits from the six months ended June 30, 2019 to the six months ended June 30, 2020.

The following table sets forth time deposits by remaining maturity as of June 30, 2020:

	3 Months or Less	Over 3 through 6 Months	Over 6 through 12 Months	Over 12 Months	Total
			(dollars in thousands)		
Time deposits:					
Amounts less than $100,000	$ 42,161	$ 38,257	$ 65,146	$ 64,118	$ 209,682
Amounts of $100,000 but less than $250,000	16,961	15,189	20,577	23,807	76,534
Amounts of $250,000 or more	6,777	7,620	5,864	4,341	24,602
Total time deposits	$ 65,899	$ 61,066	$ 91,587	$ 92,266	$ 310,818

IMPACT OF INFLATION

The consolidated financial statements and the related notes have been prepared in conformity with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The impact of inflation, if any, is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

LIQUIDITY

Bank Liquidity

The overall objective of bank liquidity management is to ensure the availability of sufficient cash funds to meet all financial commitments and to take advantage of investment opportunities. The Banks manage liquidity in order to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise.

The Banks continuously monitor their liquidity positions to ensure that assets and liabilities are managed in a manner that will meet all of our short-term and long-term cash requirements. The Banks manage their liquidity position to meet the daily cash flow needs of clients, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives. The Banks also monitor liquidity requirements in light of interest rate trends, changes in the economy and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

As part of the Banks' liquidity management strategy, the Banks are also focused on minimizing costs of liquidity and attempt to decrease these costs by promoting noninterest bearing and low-cost deposits and replacing higher cost funding including time deposits and borrowed funds. While the Banks do not control the types of deposit instruments our clients choose, those choices can be influenced with the rates and the deposit specials offered.

Additional sources of liquidity include unpledged securities, federal funds purchased, and borrowings from the Federal Home Loan Bank of Chicago (FHLB). Unpledged securities may be sold or pledged as collateral for borrowings to meet liquidity needs. Interest is charged at the prevailing market rate on federal funds purchased and FHLB borrowings. There were no outstanding federal funds purchased or FHLB borrowings at June 30, 2020 and December 31, 2019. Funds obtained from federal funds purchased and FHLB borrowings are used primarily to meet daily liquidity needs. The total amount of the remaining credit available to the Banks from the FHLB at June 30, 2020 and December 31, 2019 was $335.7 million and $343.8 million, respectively.

As of June 30, 2020, management believed adequate liquidity existed to meet all projected cash flow obligations of the Banks. As of June 30, 2020, the Banks had no material commitments for capital expenditures.

Holding Company Liquidity

The Company is a corporation separate and apart from the Banks and, therefore, it must provide for its own liquidity. The Company's main source of funding is dividends declared and paid to it by the Banks. Statutory and regulatory limitations exist that affect the ability of the Banks to pay dividends to the Company. Management believes that these limitations will not impact the Company's ability to meet its ongoing short-term cash obligations.

Due to state banking laws, neither Bank may declare dividends in any calendar year in an amount that would exceed the accumulated retained earnings of such Bank after giving effect to any unrecognized losses and bad debts without the prior approval of the Illinois Department of Financial and Professional Regulation. In addition, dividends paid by a Bank to the Company would be prohibited if the effect thereof would cause a Bank's capital to be reduced below applicable minimum capital requirements. During the three months ended June 30, 2020 and 2019, the Banks paid $6.5 million and $11.7 million, in dividends to the Company, respectively. During the six months ended June 30, 2020 and 2019, the Banks paid $10.9 million and $49.1 million, in dividends to the Company, respectively.

The liquidity needs of the Company on an unconsolidated basis consist primarily of operating expenses, dividends to stockholders and interest payments on the subordinated debentures. During the three months ended June 30, 2020 and 2019, holding company operating expenses consisted of interest expense of $0.4 million and $0.5 million, respectively, and other operating expenses of $0.8 million and $0.3 million, respectively, respectively. During the six months ended June 30, 2020 and 2019, holding company operating expenses consisted of interest expense of $0.8 million and $1.0 million, respectively, and other operating expenses of $1.4 million and $0.6 million, respectively, respectively. As of June 30, 2020, management was not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material impact on the Company's liquidity.

As of June 30, 2020, management believed adequate liquidity existed to meet all projected cash flow obligations of the Company. As of June 30, 2020, the Company had no material commitments for capital expenditures.

CAPITAL RESOURCES

The overall objectives of capital management are to ensure the availability of sufficient capital to support loan, deposit and other asset and liability growth opportunities and to maintain capital to absorb unforeseen losses or write-downs that are inherent in the business risks associated with the banking industry. The Company seeks to balance the need for higher capital levels to address such unforeseen risks and the goal to achieve an adequate return on the capital invested by our stockholders.

Regulatory Capital Requirements

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

In addition to meeting minimum capital requirements, the Company and the Banks must also maintain a "capital conservation buffer" to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The capital conservation buffer requirement began phasing in on January 1, 2016 and became fully implemented on January 1, 2019 at 2.5% of risk-weighted assets.

As of June 30, 2020 and December 31, 2019, the Company and the Banks met all capital adequacy requirements to which they were subject. As of those dates, the Banks were "well capitalized" under the regulatory prompt corrective action provisions.

The following table sets forth actual capital ratios of the Company and the Banks for the dates indicated, the minimum ratios for capital adequacy purposes with the capital conservation buffer, and the minimum ratios to be well capitalized under regulatory prompt corrective action provisions.

	June 30, 2020	December 31, 2019	For Capital Adequacy Purposes With Capital Conversation Buffer (1)	To Be Well Capitalized Under Prompt Corrective Action Provisions (2)
Total Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	15.13 %	14.54 %	10.50 %	N/A
Heartland Bank	14.52	14.02	10.50	10.00 %
State Bank of Lincoln	18.59	17.58	10.50	10.00
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	13.92 %	13.64 %	8.50 %	N/A
Heartland Bank	13.31	13.12	8.50	8.00 %
State Bank of Lincoln	17.34	16.50	8.50	8.00
Common Equity Tier 1 Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	12.43 %	12.15 %	7.00 %	N/A
Heartland Bank	13.31	13.12	7.00	6.50 %
State Bank of Lincoln	17.34	16.50	7.00	6.50
Tier 1 Capital (to Average Assets)				
Consolidated HBT Financial, Inc.	10.00 %	10.38 %	4.00	N/A
Heartland Bank	9.77	10.25	4.00	5.00 %
State Bank of Lincoln	9.93	9.82	4.00	5.00

(1) The Tier 1 capital to average assets ratio (known as the "leverage ratio") is not impacted by the capital conservation buffer.
(2) The prompt corrective action provisions are not applicable to bank holding companies.

Cash Dividends

The below table summarizes the cash dividends paid by quarter for six months ended June 30, 2020 and the year ended December 31, 2019.

	2020				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(dollars in thousands)				
Regular	$ 4,119	$ 4,119	$ —	$ —	$ 8,238
Restricted stock unit dividend equivalent	11	11	—	—	22
Total cash dividends	$ 4,130	$ 4,130	$ —	$ —	$ 8,260

	2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(dollars in thousands)				
Regular	$ 2,704	$ 2,704	$ 2,704	$ —	$ 8,112
Tax	6,094	7,048	6,662	—	19,804
Special	27,041	—	—	169,999	197,040
Total cash dividends	$ 35,839	$ 9,752	$ 9,366	$ 169,999	$ 224,956

On October 1, 2019, the Company's board of directors declared a special dividend payable to the Company's stockholders of record as of October 2, 2019, in the aggregate amount of approximately $170.0 million. The special dividend was paid on October 22, 2019 using net proceeds from the Company's initial public offering and the proceeds of dividends received from Heartland Bank and State Bank of Lincoln.

During the first and second quarters of 2020, the Company announced quarterly cash dividends of $0.15 per share.

OFF-BALANCE SHEET ARRANGEMENTS

As financial services providers, the Banks routinely are a party to various financial instruments with off-balance sheet risks, such as commitments to extend credit, standby letters of credit, unused lines of credit and commitments to sell loans. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process afforded to loans originated by the Banks. Although commitments to extend credit are considered while evaluating our allowance for loan losses, as of June 30, 2020 and December 31, 2019, there were no reserves for unfunded commitments. For additional information, see “Note 17 – Commitments and Contingencies” to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations and other funding needs as disclosed in our Annual Report on Form 10-K filed with the SEC on March 27, 2020.

JOBS ACT ACCOUNTING ELECTION

We qualify as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). The JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies. We have elected to use the extended transition period until we are no longer an emerging growth company or until we choose to affirmatively and irrevocably opt out of the extended transition period. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements applicable to public companies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has established various accounting policies that govern the application of accounting principles generally accepted in the United State of America in the preparation of its consolidated financial statements.

Critical accounting estimates are those that are critical to the portrayal and understanding of the Company's financial condition and results of operations and require management to make assumptions that are difficult, subjective or complex. These estimates involve judgments, assumptions and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending on the severity of such changes, the possibility of a materially different financial condition or materially different results of operations is a reasonable likelihood. Further, changes in accounting standards could impact the Company's critical accounting estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in the Company's Annual Report on Form 10-K filed with the SEC on March 27, 2020. For more information, please refer to “Note 1 – Summary of Significant Accounting Policies” to our consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC on March 27, 2020.

NON-GAAP FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q contains certain financial information determined by methods other than in accordance with GAAP. These measures include net interest income (tax-equivalent basis), net interest margin (tax-equivalent basis), efficiency ratio (tax-equivalent basis), tangible common equity, tangible assets, tangible common equity to tangible assets, tangible book value per share, originated loans and acquired loans and any ratios derived therefrom, core deposits, core deposits to total deposits, return on tangible common equity, adjusted net income, adjusted earnings per share – basic and diluted, adjusted return on average assets, adjusted return on average stockholders' equity, and adjusted return on average tangible common equity. Our management uses these non-GAAP financial measures, together with the related GAAP financial measures, in its analysis of our performance and in making business decisions. The tax equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a federal tax rate of 21% and state income tax rate of 9.5%.

Originated loans and acquired loans along with the related credit quality ratios such as net charge-offs to average loans, before allowance for loan losses (originated and acquired), nonperforming loans to loans, before allowance for loan losses (originated and acquired), and nonperforming assets to loans, before allowance for loan losses and foreclosed assets (originated and acquired) are non-GAAP financial measures. Originated loans represent loans initially originated by the Company and acquired loans that were refinanced using the Company's underwriting criteria. Acquired loans represent loans originated under the underwriting criteria used by a bank that was acquired by Heartland Bank or State Bank of Lincoln. We believe these non-GAAP financial measures provide investors with information regarding the credit quality of loans underwritten using the Company's policies and procedures.

Management believes that it is a standard practice in the banking industry to present these non-GAAP financial measures, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP; nor are they necessarily comparable to non-GAAP financial measures that may be presented by other companies. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures appear below.

Reconciliation of Non-GAAP Financial Measure - Adjusted Net Income and Adjusted Return on Average Assets

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net income	$ 7,419	$ 14,605	$ 13,640	$ 33,341
C Corp equivalent adjustment (2)	—	(3,479)	—	(8,179)
C Corp equivalent net income (2)	7,419	11,126	13,640	25,162
Adjustments:				
Net earnings (losses) from closed or sold operations, including gains on sale (1)	—	(14)	—	536
Charges related to termination of certain employee benefit plans	(609)	(3,316)	(1,457)	(3,316)
Mortgage servicing rights fair value adjustment	(508)	(1,120)	(2,679)	(2,122)
Total adjustments	(1,117)	(4,450)	(4,136)	(4,902)
Tax effect of adjustments	318	1,268	1,179	1,397
Less adjustments after tax effect	(799)	(3,182)	(2,957)	(3,505)
Adjusted net income	$ 8,218	$ 14,308	$ 16,597	$ 28,667
Average assets	$ 3,453,149	$ 3,236,353	$ 3,320,946	$ 3,234,831
Return on average assets *	0.86 %	1.81 %	0.82 %	2.06 %
C Corp equivalent return on average assets * (2)	N/A	1.38	N/A	1.56
Adjusted return on average assets *	0.95	1.77	1.00	1.77

* Annualized measure.

(1) Closed or sold operations include HB Credit Company, HBT Insurance, and First Community Title Services, Inc.

(2) Reflects adjustment to our historical net income for each period to give effect to the C Corp equivalent provision for income tax for such period. No such adjustment is necessary for periods subsequent to 2019.

N/A Not applicable.

Adjusted net income adjusts for the additional C Corp equivalent tax expense for the periods prior to October 11, 2019, net earnings (losses) from closed or sold operations, charges related to termination of certain employee benefit plans, realized gains (losses) on sales of securities, and mortgage servicing rights fair value adjustment. Adjusted return on average assets is calculated by dividing adjusted net income for a period by average assets for the period. We believe these non-GAAP financial measures provide investors additional insights into operational performance of the Company.

Reconciliation of Non-GAAP Financial Measure - Adjusted Earnings Per Share

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
	(dollars in thousands, except per share amounts)			
Numerator:				
Net income	$ 7,419	$ 14,605	$ 13,640	$ 33,341
Earnings allocated to unvested restricted stock units (1)	(19)	—	(34)	—
Numerator for earnings per share - basic and diluted	$ 7,400	$ 14,605	$ 13,606	$ 33,341
C Corp equivalent net income (3)	N/A	$ 11,126	N/A	$ 25,162
Earnings allocated to unvested restricted stock units (1)(3)	N/A	—	N/A	—
Numerator for C Corp equivalent earnings per share - basic and diluted (3)	N/A	$ 11,126	N/A	$ 25,162
Adjusted net income	$ 8,218	$ 14,308	$ 16,597	$ 28,667
Earnings allocated to unvested restricted stock units (1)	(22)	—	(41)	—
Numerator for adjusted earnings per share - basic and diluted	$ 8,196	$ 14,308	$ 16,556	$ 28,667
Denominator:				
Weighted average common shares outstanding	27,457,306	18,027,512	27,457,306	18,027,512
Dilutive effect of outstanding restricted stock units (2)	—	—	—	—
Weighted average common shares outstanding, including all dilutive potential shares	27,457,306	18,027,512	27,457,306	18,027,512
Earnings per share - Basic	$ 0.27	$ 0.81	$ 0.50	$ 1.85
Earnings per share - Diluted	$ 0.27	$ 0.81	$ 0.50	$ 1.85
C Corp equivalent earnings per share - Basic (3)	N/A	$ 0.62	N/A	$ 1.40
C Corp equivalent earnings per share - Diluted (3)	N/A	$ 0.62	N/A	$ 1.40
Adjusted earnings per share - Basic	$ 0.30	$ 0.79	$ 0.60	$ 1.59
Adjusted earnings per share - Diluted	$ 0.30	$ 0.79	$ 0.60	$ 1.59

(1) The Company has granted restricted stock units that contain non-forfeitable rights to dividend equivalents. Such restricted stock units are considered participating securities. As such, we have included these restricted stock units in the calculation of basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.
(2) Restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents during the three and six months ended June 30, 2020. There were no restricted stock units outstanding during the three and six months ended June 30, 2019.
(3) Reflects adjustment to our historical net income for each period to give effect to the C Corp equivalent provision for income tax for such period. No such adjustment is necessary for periods subsequent to 2019.
N/A Not applicable.

Adjusted earnings per share – basic is a non-GAAP financial measure that is calculated dividing the previously described adjusted net income allocated to common shares by the weighted average common shares outstanding. Adjusted earnings per share – diluted is a non-GAAP financial measure that is calculated dividing the previously described adjusted net income allocated to common shares by the weighted average common shares outstanding, including all dilutive potential shares. We believe these non-GAAP financial measures provide investors additional insights into operational performance of the Company.

Reconciliation of Non-GAAP Financial Measure - Net Interest Margin (Tax Equivalent Basis)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net interest income (tax equivalent basis)				
Net interest income	$ 28,908	$ 33,931	$ 59,570	$ 68,383
Tax-equivalent adjustment (1)	483	606	946	1,216
Net interest income (tax equivalent basis) (1)	$ 29,391	$ 34,537	$ 60,516	$ 69,599
Net interest margin (tax equivalent basis)				
Net interest margin *	3.49 %	4.36 %	3.74 %	4.40 %
Tax-equivalent adjustment * (1)	0.06	0.08	0.05	0.08
Net interest margin (tax equivalent basis) * (1)	3.55 %	4.44 %	3.79 %	4.48 %
Average interest-earning assets	$ 3,315,561	$ 3,111,395	$ 3,189,323	$ 3,108,322

* Annualized measure.
(1) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state tax rate of 9.5%.

Net interest income (tax-equivalent basis) and net interest margin (tax-equivalent basis) are non-GAAP financial measures that adjust for the tax-favored status of net interest income from loans and investments. We believe net interest income (tax-equivalent basis) and net interest margin (tax-equivalent basis) are the preferred industry measurement of net interest income, and these non-GAAP financial measures enhance comparability of net interest income arising from taxable and tax-exempt sources. The most directly comparable financial measure calculated in accordance with GAAP is our net interest income and net interest margin.

Reconciliation of Non-GAAP Financial Measure - Efficiency Ratio (Tax Equivalent Basis)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Efficiency ratio (tax equivalent basis)				
Total noninterest expense	$ 23,499	$ 24,561	$ 46,806	$ 46,773
Less: amortization of intangible assets	305	376	622	752
Adjusted noninterest expense	$ 23,194	$ 24,185	$ 46,184	$ 46,021
Net interest income	$ 28,908	$ 33,931	$ 59,570	$ 68,383
Total noninterest income	8,060	7,346	13,312	14,833
Operating revenue	36,968	41,277	72,882	83,216
Tax-equivalent adjustment (1)	483	606	946	1,216
Operating revenue (tax-equivalent basis) (1)	$ 37,451	$ 41,883	$ 73,828	$ 84,432
Efficiency ratio	62.74 %	58.59 %	63.37 %	55.30 %
Efficiency ratio (tax equivalent basis) (1)	61.93	57.74	62.56	54.51

(1) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state tax rate of 9.5%.

Efficiency ratio (tax-equivalent basis) provides a measure of productivity in the banking industry. This ratio is calculated to measure the cost of generating one dollar of revenue. That is, the ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. We calculate this ratio by dividing adjusted noninterest expense by the sum of net interest income on a tax equivalent basis.

Reconciliation of Non-GAAP Financial Measure - Tangible Common Equity to Tangible Assets and Tangible Book Value Per Share

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Tangible Common Equity		
Total stockholders' equity	$ 347,840	$ 332,918
Less: Goodwill	23,620	23,620
Less: Core deposit intangible assets, net	3,408	4,030
Tangible common equity	$ 320,812	$ 305,268
Tangible Assets		
Total assets	$ 3,501,412	$ 3,245,103
Less: Goodwill	23,620	23,620
Less: Core deposit intangible assets, net	3,408	4,030
Tangible assets	$ 3,474,384	$ 3,217,453
Total stockholders' equity to total assets	9.93 %	10.26 %
Tangible common equity to tangible assets	9.23	9.49
Ending number shares of common stock outstanding	27,457,306	27,457,306
Book value per share	$ 12.67	$ 12.12
Tangible book value per share	11.68	11.12

Tangible book value per share and tangible common equity to tangible assets are non-GAAP financial measures generally used by investors to evaluate capital adequacy. We calculate: (i) tangible common equity as total stockholders’ equity less goodwill and core deposit intangible assets; (ii) tangible assets as total assets less goodwill and core deposit intangible assets, (iii) tangible common equity to tangible assets as the ratio of tangible common equity (as described in clause (i)) to tangible assets (as described in clause (ii)). The most directly comparable financial measure calculated in accordance with GAAP is total stockholders’ equity to total assets.

Tangible book value per share is calculated as tangible common equity (as described in the previous paragraph) divided by shares of common stock outstanding. The most directly comparable financial measure calculated in accordance with GAAP is book value per share.

We believe that these non-GAAP financial measures are important information useful in comparing our capital adequacy with the capital adequacy of other banking organizations.

Reconciliation of Non-GAAP Financial Measure – Adjusted Return on Average Stockholders' Equity and Adjusted Return on Tangible Common Equity

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Average Tangible Common Equity				
Total stockholders' equity	$ 346,540	$ 338,613	$ 344,030	$ 342,861
Less: Goodwill	23,620	23,620	23,620	23,620
Less: Core deposit intangible assets, net	3,589	4,919	3,743	5,109
Average tangible common equity	$ 319,331	$ 310,074	$ 316,667	$ 314,132
Net income	$ 7,419	$ 14,605	$ 13,640	$ 33,341
C Corp equivalent net income (1)	N/A	11,126	N/A	25,162
Adjusted net income	8,218	14,308	16,597	28,667
Return on average stockholders' equity *	8.56 %	17.25 %	7.93 %	19.45 %
C Corp equivalent return on average stockholders' equity * (1)	N/A	13.14	N/A	14.68
Adjusted return on average stockholders' equity *	9.49	16.90	9.65	16.72
Return on average tangible common equity *	9.29 %	18.84 %	8.61 %	21.23 %
C Corp equivalent return on average tangible common equity * (1)	N/A	14.35	N/A	16.02
Adjusted return on average tangible common equity *	10.29	18.46	10.48	18.25

* Annualized measure.
(1) Reflects adjustment to our historical net income for each period to give effect to the C Corp equivalent provision for income tax for such period. No such adjustment is necessary for periods subsequent to 2019.
N/A Not applicable.

Adjusted return on average stockholders' equity is a non-GAAP financial measure that is calculated by dividing adjusted net income for a period by average stockholders' equity for the period. Adjusted return on average tangible common equity is a non-GAAP financial measure that is calculated by dividing adjusted net income for a period by average tangible common equity for the period. We believe that these non-GAAP financial measures are important information to be provided to investors because investors, our management, and banking regulators can use the tangible book value to assess our earnings without the effect of our goodwill and core deposit intangible assets and compare our earnings with the earnings of other banking organizations with significant amounts of goodwill and/or core deposit intangible assets.

Reconciliation of Non-GAAP Financial Measure - Core Deposits

	June 30, 2020	December 31, 2019
	(dollars in thousands)	
Core Deposits		
Total deposits	$ 3,015,113	$ 2,776,855
Less: time deposits of $250,000 or more	24,602	44,754
Less: brokered deposits	—	—
Core deposits	$ 2,990,511	$ 2,732,101
Core deposits to total deposits	99.18 %	98.39 %

Core deposits exclude time deposits of $250,000 or more and brokered deposits. We believe this non-GAAP financial measure provides investors with information regarding the stability of the Company's sources of funds.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are interest rate risk and credit risk. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due and is disclosed in detail above.

Interest Rate Risk

The most significant form of market risk is interest rate risk inherent in the normal course of lending and deposit-taking activities. Management believes that our ability to successfully respond to changes in interest rates will have a significant impact on our financial results. To that end, management actively monitors and manages our interest rate exposure.

The Asset/Liability Management Committee (ALCO), which is authorized by the Company's board of directors, monitors our interest rate sensitivity and makes decisions relating to that process. The ALCO's goal is to structure our asset/liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital in either a rising or declining interest rate environment. Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings because 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 our net interest income and economic value of equity, or EVE, using rate shock analysis. Net interest income simulations measure the short-term earnings exposure from changes in market rates of interest in a rigorous and explicit fashion. Our current financial position is combined with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. EVE measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time. A decrease in EVE due to a specified rate change indicates a decline in the long-term earnings capacity of the balance sheet assuming that the rate change remains in effect over the life of the current balance sheet.

The following table sets forth, as of June 30, 2020 and December 31, 2019, the estimated impact on our EVE and net interest income of immediate changes in interest rates at the specified levels.

	Estimated Increase (Decrease) in EVE		Increase (Decrease) in Estimated Net Interest Income			
			Year 1		Year 2	
Change in Interest Rates (basis points)	Amount	Percent	Amount	Percent	Amount	Percent
			(dollars in thousands)			
June 30, 2020						
+400	$ 109,923	31.5 %	$ 24,458	21.5 %	$ 40,441	39.0 %
+300	74,911	21.4	18,798	16.5	31,831	30.7
+200	30,562	8.7	12,570	11.1	22,139	21.4
+100	(12,684)	(3.6)	6,075	5.3	11,399	11.0
Flat	—	—	—	—	—	—
(100)	7,065	2.0	(1,865)	(1.6)	(3,236)	(3.1)
December 31, 2019						
+400	$ 200,797	37.8 %	$ 28,585	23.5 %	$ 35,711	30.0 %
+300	165,809	31.2	22,265	18.3	28,128	23.7
+200	122,859	23.1	15,413	12.6	19,788	16.6
+100	68,303	12.8	8,061	6.6	10,550	8.9
Flat	—	—	—	—	—	—
(100)	(106,615)	(20.1)	(12,878)	(10.6)	(17,568)	(14.8)

This data does not reflect any actions that we may undertake in response to changes in interest rates, such as changes in rates paid on certain deposit accounts based on local competitive factors or changes in earning assets mix, which could reduce the actual impact on EVE and net interest income, if any.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE and net interest income requires that we make certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The EVE and net interest income table presented above assumes that the composition of our interest-rate-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data does not reflect any actions that we may undertake in response to changes in interest rates, such as changes in rates paid on certain deposit accounts based on local competitive factors. The table also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the EVE and net interest income table provides an indication of our sensitivity to interest rate changes at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Credit Risk

Credit risk is the risk that borrowers or counterparties will be unable or unwilling to repay their obligations in accordance with the underlying contractual terms. We manage and control credit risk in the loan portfolio by adhering to well-defined underwriting criteria and account administration standards established by management. Our loan policy documents underwriting standards, approval levels, exposure limits and other limits or standards deemed necessary and prudent. Portfolio diversification at the borrower, industry, and product levels is actively managed to mitigate concentration risk. In addition, credit risk management also includes an independent loan review process that assesses compliance with loan policy, compliance with loan documentation standards, accuracy of the risk rating and overall credit quality of the loan portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2020, the end of the period covered by this report, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are sometimes party to legal actions that are routine and incidental to our business. Management, in consultation with legal counsel, does not expect the ultimate disposition of any or a combination of these matters to have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws, we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on March 27, 2020, except as described below.

The COVID-19 pandemic is adversely affecting us, our business, employees, customers, counterparties and third-party service providers, and the ultimate extent of the impacts on our business, financial position, results of operations, liquidity and prospects is uncertain.

Coronavirus disease 2019, known as COVID-19, which has been identified as a pandemic by the World Health Organization, is causing worldwide health concerns as well as significant economic disruption in the United States and globally. In March 2020, U.S. President Trump declared a public health and national emergency due to COVID-19, which resulted in mandatory stay-at-home orders in most U.S. states, including Illinois. The associated impacts have had, are currently having and may for some time continue to have a destabilizing and negative effect on U.S. and global financial and capital markets and have caused significant disruption in global, national and local economic and business activity.

Although the Banks have been deemed essential businesses and continue to currently operate and serve our customers, the ultimate extent of the impact of the pandemic on our business, cash flows, financial condition, liquidity, results of operations, customer confidence, profitability and growth prospects will depend on continuing and future developments related to the virus, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the pandemic, and governmental, regulatory and private sector actions and responses taken to contain or prevent further spread. Continued deterioration in general business and economic conditions, including extended closure of non-essential businesses, further increases in unemployment rates, or turbulence in U.S. or global financial markets could adversely affect our revenues and the values of our assets and liabilities, reduce the availability of funding, lead to a tightening of credit, and further increase stock price volatility. These and other potential impacts of the COVID-19 pandemic could therefore materially and adversely affect our business, revenue, operations, financial condition, liquidity, results of operations and prospects. If the response and efforts to contain COVID-19 prove to be unsuccessful, any such material adverse effects may be exacerbated.

Due in large part to actions taken by the Federal Reserve to lower interest rates in response to the severe financial market reaction to the COVID-19 outbreak, market interest rates have declined significantly. We expect that these reductions in interest rates, especially if prolonged, will adversely affect our net interest income, margins and profitability. Our assets and liabilities may be significantly impacted by changes in interest rates.

Our business is dependent upon the willingness and ability of our customers to conduct banking and other financial transactions. The spread of COVID-19 has and is likely to continue to disrupt the business, activities, and operations of our customers and, cause a decline in demand for our products and services, including loans and deposits, which may result in a significant decrease in business and could negatively impact our results of operations, our liquidity position, our growth strategy and our ability to make payments under our subordinated debenture obligations as they become due. Our financial results could also be impacted due to an inability of our customers to meet their loan commitments because of their losses associated with impacts of the virus, and could result in an increased risk of loan delinquencies, defaults, foreclosures, declining collateral values and a general inability of our borrowers to repay their loans. In addition, the financial and other information we receive from and about our customers that we rely on in extending or renewing credit and monitoring our loan portfolio may have changed significantly and no longer be accurate, which could affect our ability to timely and accurately manage our credit risk. Any or all of these factors could necessitate an increase in our allowance for loan losses, which would negatively impact our earnings and results of operations. Moreover, current and future governmental actions may temporarily require us to conduct business related to foreclosures, repossessions, payments, deferrals and other customer-related transactions differently, which may result in an increase in expenses and a decrease in net income.

Our workforce has been, and may continue to be, impacted by COVID-19. We are taking precautions to protect the safety and well-being of our employees and customers, including limiting requiring face coverings and appropriate social distancing, but no assurance can be given that our actions will be adequate or appropriate, nor can we predict the level of disruption which will occur to our employees' ability to provide customer support and service over an extended period of time. The continued spread of the virus and social distancing mandate could also negatively impact the availability of key personnel and employee productivity, as well as the business and operations of third-party service providers who perform critical services for us, which could adversely impact our ability to deliver products and services to our customers and continue to grow our business, which could negatively affect our reputation. Our business continuity plan and the efforts we have taken to adapt our work and business to the current environment has resulted in and will continue to require us to incur increased expenses.

In addition, changes to statutes, regulations, or regulatory policies or practices as a result of, or in response to COVID-19, could affect us in substantial and unpredictable ways. President Trump has signed into law three economic stimulus packages, including the $2 trillion Coronavirus Relief and Economic Security Act (the "CARES Act") on March 27, 2020, which, among other things, initiated the Paycheck Protection Program (the "PPP") under the Small Business Administration ("SBA"). We assisted our customers in participating in the PPP, which was designed to help small businesses maintain their workforce during the COVID-19 pandemic. We understand that these loans are fully guaranteed by the U.S. government and believe the majority of these loans will be forgiven. However, in the event of a loss resulting from a default on a PPP loan or a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated or serviced by us, which may or may not be related to an ambiguity in the laws, rules or guidance regarding the operation of the PPP, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already been paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Since the opening of the PPP, several larger banks have been subject to litigation regarding the process and procedures that such banks followed in accepting and processing applications for the PPP. We may be exposed to the risk of similar litigation, from both customers and non-customers that contacted the Banks regarding obtaining PPP loans with respect to the processes and procedures we used in processing applications for the PPP. If any such litigation is filed against us and is not resolved in a manner favorable to us, it may result in significant financial liability to us or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse impact on our reputation, business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Repurchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1 *	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350.
32.2 *	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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.

	HBT FINANCIAL, INC.
August 7, 2020	By: /s/ Matthew J. Doherty Matthew J. Doherty Chief Financial Officer *(on behalf of the registrant and as principal financial officer)*

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934
and Section 302 of the Sarbanes-Oxley Act of 2002

I, Fred L. Drake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HBT Financial, Inc.:

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

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

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

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

   b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

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

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

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

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

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

Date: August 7, 2020

/s/ Fred L. Drake
Fred L. Drake
Chairman and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934
and Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew J. Doherty, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HBT Financial, Inc.:

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

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

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

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

   b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

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

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

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

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

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

Date: August 7, 2020

/s/ Matthew J. Doherty
Matthew J. Doherty
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of HBT Financial, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Fred L. Drake
Fred L. Drake
Chairman and Chief Executive Officer
(Principal Executive Officer)
August 7, 2020

EXHIBIT 32.2

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of HBT Financial, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Matthew J. Doherty
Matthew J. Doherty
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
August 7, 2020