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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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 November 2, 2022, there were 28,752,626 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:

- the strength of the local, state, national and international economies (including effects of inflationary pressures and supply chain constraints);
- the economic impact of any future terrorist threats and attacks, widespread disease or pandemics (including the COVID-19 pandemic in the United States), acts of war or other threats thereof, or other adverse external events that could cause economic deterioration or instability in credit markets, and the response of the local, state and national governments to any such adverse external events;
- our asset quality and any loan charge-offs;
- the composition of our loan portfolio;
- environmental liability associated with our lending activities;
- the effects of changes in interest rates on our net interest income, net interest margin, our investments, our loan originations, and our modeling estimates relating to interest rate changes;
- changes in and uncertainty related to benchmark interest rates used to price our loans, including the elimination of the London Interbank Offered Rate (“LIBOR”);
- our access to sources of liquidity and capital to address our liquidity needs;
- our inability to receive dividends from the Bank, 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 (“U.S.”) generally or in the States of Illinois and Iowa in particular;
- the geographic concentration of our operations in the States of Illinois and Iowa;
- 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 the Bank’s reputation;
- 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 corporation;
- 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;
- our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002;

- damage to our reputation from any of the factors described above;
- our success at managing the risks involved in the foregoing items; 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, 2021, filed with the Securities and Exchange (“SEC”) Commission on March 11, 2022.

These risks and uncertainties 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
(dollars in thousands, except per share data)

	(Unaudited) September 30, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 22,169	$ 23,387
Interest-bearing deposits with banks	56,046	385,881
Cash and cash equivalents	78,215	409,268
Interest-bearing time deposits with banks	—	490
Debt securities available-for-sale, at fair value	853,740	942,168
Debt securities held-to-maturity (fair value of $481,692 in 2022 and $336,027 in 2021)	546,694	336,185
Equity securities with readily determinable fair value	2,996	3,443
Equity securities with no readily determinable fair value	1,977	1,927
Restricted stock, at cost	4,050	2,739
Loans held for sale	2,297	4,942
Loans, before allowance for loan losses	2,579,928	2,499,689
Allowance for loan losses	(25,060)	(23,936)
Loans, net of allowance for loan losses	2,554,868	2,475,753
Bank owned life insurance	7,515	7,393
Bank premises and equipment, net	50,854	52,483
Bank premises held for sale	281	1,452
Foreclosed assets	2,637	3,278
Goodwill	29,322	29,322
Core deposit intangible assets, net	1,210	1,943
Mortgage servicing rights, at fair value	10,440	7,994
Investments in unconsolidated subsidiaries	1,165	1,165
Accrued interest receivable	16,881	14,901
Other assets	48,182	17,408
Total assets	$ 4,213,324	$ 4,314,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,017,710	$ 1,087,659
Interest-bearing	2,625,733	2,650,526
Total deposits	3,643,443	3,738,185
Securities sold under agreements to repurchase	48,130	61,256
Federal Home Loan Bank advances	60,000	—
Subordinated notes	39,376	39,316
Junior subordinated debentures issued to capital trusts	37,763	37,714
Other liabilities	25,539	25,902
Total liabilities	3,854,251	3,902,373
COMMITMENTS AND CONTINGENCIES (Note 14)		
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; shares issued of 29,308,491 at 2022 and 29,276,547 at 2021; shares outstanding of 28,752,626 at 2022 and 28,986,061 at 2021	293	293
Surplus	222,436	220,891
Retained earnings	223,495	194,132
Accumulated other comprehensive income (loss)	(77,462)	1,471
Treasury stock at cost, 555,865 shares at 2022 and 290,486 at 2021	(9,689)	(4,906)
Total stockholders’ equity	359,073	411,881
Total liabilities and stockholders’ equity	$ 4,213,324	$ 4,314,254

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(dollars in thousands, except per share data)			
INTEREST AND DIVIDEND INCOME				
Loans, including fees:				
Taxable	$ 29,855	$ 25,604	$ 84,504	$ 76,016
Federally tax exempt	842	572	2,183	1,722
Securities:				
Taxable	6,635	4,632	16,947	12,323
Federally tax exempt	1,207	1,103	3,385	3,383
Interest-bearing deposits in bank	458	190	1,037	385
Other interest and dividend income	17	14	50	39
Total interest and dividend income	39,014	32,115	108,106	93,868
INTEREST EXPENSE				
Deposits	587	564	1,662	1,821
Securities sold under agreements to repurchase	9	8	26	23
Borrowings	85	1	87	2
Subordinated notes	470	470	1,409	1,409
Junior subordinated debentures issued to capital trusts	473	357	1,231	1,069
Total interest expense	1,624	1,400	4,415	4,324
Net interest income	37,390	30,715	103,691	89,544
PROVISION FOR LOAN LOSSES	386	(1,667)	(53)	(7,234)
Net interest income after provision for loan losses	37,004	32,382	103,744	96,778
NONINTEREST INCOME				
Card income	2,569	2,509	7,687	7,216
Wealth management fees	2,059	2,036	6,670	6,013
Service charges on deposit accounts	1,927	1,677	5,371	4,364
Mortgage servicing	697	699	2,016	2,095
Mortgage servicing rights fair value adjustment	351	40	2,446	1,425
Gains on sale of mortgage loans	354	1,257	1,267	4,919
Unrealized gains (losses) on equity securities	(107)	28	(447)	74
Gains (losses) on foreclosed assets	(225)	(14)	(192)	126
Gains (losses) on other assets	(31)	(672)	119	(719)
Income on bank owned life insurance	41	—	122	—
Other noninterest income	599	832	1,769	2,461
Total noninterest income	8,234	8,392	26,828	27,974
NONINTEREST EXPENSE				
Salaries	12,752	11,835	38,489	36,486
Employee benefits	1,771	1,455	6,199	4,549
Occupancy of bank premises	1,979	1,610	5,780	5,011
Furniture and equipment	668	657	1,843	1,883
Data processing	1,631	1,767	5,274	5,176
Marketing and customer relations	880	883	2,936	2,291
Amortization of intangible assets	243	252	733	799
FDIC insurance	302	279	888	763
Loan collection and servicing	336	400	771	1,098
Foreclosed assets	97	242	260	704
Other noninterest expense	3,339	2,787	8,824	8,105
Total noninterest expense	23,998	22,167	71,997	66,865
INCOME BEFORE INCOME TAX EXPENSE	21,240	18,607	58,575	57,887
INCOME TAX EXPENSE	5,613	4,892	15,259	15,210
NET INCOME	$ 15,627	$ 13,715	$ 43,316	$ 42,677
EARNINGS PER SHARE - BASIC	$ 0.54	$ 0.50	$ 1.50	$ 1.56
EARNINGS PER SHARE - DILUTED	$ 0.54	$ 0.50	$ 1.49	$ 1.56
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	28,787,662	27,340,926	28,887,757	27,377,809

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
NET INCOME	$ 15,627	$ 13,715	$ 43,316	$ 42,677
OTHER COMPREHENSIVE LOSS				
Unrealized losses on debt securities available-for-sale	(35,358)	(5,676)	(112,931)	(19,950)
Reclassification adjustment for amortization of net unrealized losses on debt securities transferred to held-to-maturity	504	195	1,234	426
Unrealized gains (losses) on derivative instruments	374	(8)	1,117	173
Reclassification adjustment for net settlements on derivative instruments	14	105	177	306
Total other comprehensive loss, before tax	(34,466)	(5,384)	(110,403)	(19,045)
Income tax benefit	(9,824)	(1,535)	(31,470)	(5,429)
Total other comprehensive loss	(24,642)	(3,849)	(78,933)	(13,616)
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (9,015)	$ 9,866	$ (35,617)	$ 29,061

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Common Stock				Accumulated Other Comprehensive Income (Loss)		
	Shares Outstanding	Amount	Surplus	Retained Earnings		Treasury Stock	Total Stockholders' Equity
			(dollars in thousands, except per share data)				
Balance, June 30, 2022	28,831,197	$ 293	$ 222,087	$ 212,506	$ (52,820)	$ (8,257)	$ 373,809
Net income	—	—	—	15,627	—	—	15,627
Other comprehensive loss	—	—	—	—	(24,642)	—	(24,642)
Stock-based compensation	—	—	349	—	—	—	349
Repurchase of common stock	(78,571)	—	—	—	—	(1,432)	(1,432)
Cash dividends and dividend equivalents ($0.16 per share)	—	—	—	(4,638)	—	—	(4,638)
Balance, September 30, 2022	28,752,626	$ 293	$ 222,436	$ 223,495	$ (77,462)	$ (9,689)	$ 359,073
Balance, June 30, 2021	27,355,053	$ 275	$ 191,185	$ 175,328	$ 8,386	$ (1,980)	$ 373,194
Net income	—	—	—	13,715	—	—	13,715
Other comprehensive loss	—	—	—	—	(3,849)	—	(3,849)
Stock-based compensation	—	—	228	—	—	—	228
Repurchase of common stock	(20,625)					(343)	(343)
Cash dividends and dividend equivalents ($0.15 per share)	—	—	—	(4,124)	—	—	(4,124)
Balance, September 30, 2021	27,334,428	$ 275	$ 191,413	$ 184,919	$ 4,537	$ (2,323)	$ 378,821

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Common Stock						
	Shares Outstanding	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
			(dollars in thousands, except per share data)				
Balance, December 31, 2021	28,986,061	$ 293	$ 220,891	$ 194,132	$ 1,471	$ (4,906)	$ 411,881
Net income	—	—	—	43,316	—	—	43,316
Other comprehensive loss	—	—	—	—	(78,933)	—	(78,933)
Stock-based compensation	—	—	1,602	—	—	—	1,602
Issuance of common stock upon vesting of restricted stock units, net of tax withholdings	31,944	—	(57)	—	—	—	(57)
Repurchase of common stock	(265,379)	—	—	—	—	(4,783)	(4,783)
Cash dividends and dividend equivalents ($0.48 per share)	—	—	—	(13,953)	—	—	(13,953)
Balance, September 30, 2022	28,752,626	$ 293	$ 222,436	$ 223,495	$ (77,462)	$ (9,689)	$ 359,073
Balance, December 31, 2020	27,457,306	$ 275	$ 190,875	$ 154,614	$ 18,153	$ —	$ 363,917
Net income	—	—	—	42,677	—	—	42,677
Other comprehensive loss	—	—	—	—	(13,616)	—	(13,616)
Stock-based compensation	—	—	538	—	—	—	538
Issuance of common stock upon vesting of restricted stock units	20,225	—	—	—	—	—	—
Repurchase of common stock	(143,103)	—	—	—	—	(2,323)	(2,323)
Cash dividends and dividend equivalents ($0.45 per share)	—	—	—	(12,372)	—	—	(12,372)
Balance, September 30, 2021	27,334,428	$ 275	$ 191,413	$ 184,919	$ 4,537	$ (2,323)	$ 378,821

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 43,316	$ 42,677
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,296	2,297
Provision for loan losses	(53)	(7,234)
Net amortization of debt securities	5,337	5,205
Deferred income tax (benefit) expense	(245)	2,409
Stock-based compensation	1,602	538
Net accretion of discount and deferred loan fees on loans	(4,320)	(9,529)
Net unrealized loss (gain) on equity securities	447	(74)
Net loss on disposals of bank premises and equipment	8	33
Net gain on sales of bank premises held for sale	(187)	—
Impairment losses on bank premises held for sale	61	652
Net gain on sales of foreclosed assets	(118)	(321)
Write-down of foreclosed assets	310	195
Amortization of intangibles	733	799
Increase in mortgage servicing rights	(2,446)	(1,425)
Amortization of discount and issuance costs on subordinated notes and debentures	109	109
Amortization of premium on interest-bearing time deposits with banks	5	—
Amortization of premium on time deposits	(164)	—
Mortgage loans originated for sale	(50,467)	(152,036)
Proceeds from sale of mortgage loans	54,379	163,086
Net gain on sale of mortgage loans	(1,267)	(4,919)
Increase in cash surrender value of bank owned life insurance	(122)	—
(Increase) decrease in accrued interest receivable	(1,980)	879
Decrease in other assets	289	1,639
Increase (decrease) in other liabilities	1,583	(18,284)
Net cash provided by operating activities	49,106	26,696
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of interest-bearing time deposits with banks	485	—
Proceeds from paydowns, maturities, and calls of debt securities	129,629	149,659
Purchase of securities	(368,794)	(398,387)
Net (increase) decrease in loans	(74,769)	104,376
Purchase of restricted stock	(1,311)	(241)
Purchases of bank premises and equipment	(683)	(773)
Proceeds from sales of bank premises and equipment	8	17
Proceeds from sales of bank premises held for sale	1,297	—
Proceeds from sales of foreclosed assets	476	1,583
Net cash used in investing activities	(313,662)	(143,766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(94,578)	289,022
Net (decrease) increase in repurchase agreements	(13,126)	2,221
Net increase in Federal Home Loan Bank advances	60,000	—
Taxes paid related to the vesting of restricted stock units	(57)	—
Repurchase of common stock	(4,783)	(2,323)
Cash dividends and dividend equivalents paid	(13,953)	(12,372)
Net cash (used in) provided by financing activities	(66,497)	276,548
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(331,053)	159,478
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	409,268	312,451
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 78,215	$ 471,929

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2022	2021
	(dollars in thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 4,851	$ 4,992
Cash paid for income taxes	$ 13,805	$ 17,295
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES		
Transfers of loans to foreclosed assets	$ 27	$ 4,856
Sales of foreclosed assets through loan origination	$ —	$ 252
Transfers of bank premises and equipment to bank premises held for sale	$ —	$ 1,345

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. ("HBT Financial" or the "Company") is headquartered in Bloomington, Illinois and is the holding company for Heartland Bank and Trust Company ("Heartland Bank" or the "Bank"). The Bank provides 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 and Eastern Iowa. Additionally, the Company is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory agencies.

The unaudited consolidated financial statements, including the notes thereto, have been prepared in accordance with accounting principles generally accepted in the United States ("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 SEC. 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 for the year ended December 31, 2021, filed with the SEC on March 11, 2022.

The unaudited consolidated financial statements include all 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 may remain an emerging growth company until the earliest to occur of: (1) the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2024, (2) the last day of the fiscal year in which the Company has $1.07 billion or more in annual revenues, (3) the date on which the Company is deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") or (4) the date on which the Company has, during the previous three year period, issued, publicly or privately, more than $1.0 billion in non-convertible debt securities. 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 GAAP. 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 fair value of assets acquired and liabilities assumed in business combinations.

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

Segment Reporting

The Company's operations consist of one reportable segment. The Company's chief operating decision maker evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance.

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 recognition or disclosure through the date the financial statements were issued.

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 has formed an implementation team to assess the impact that ASU 2016-13 will have on the Company's consolidated financial statements. For the majority of loans evaluated on a pooled basis, the Company anticipates using a discounted cash flow method which considers instrument level cash flows adjusted for, among other factors, prepayment speeds, probability of default, and loss given default. The Company also anticipates using regression analysis of historical internal and peer data to determine which variables are best suited to be economic variables utilized when modeling lifetime probability of default and loss given default.

The ultimate impact to the Company's financial condition and results of operations of ASU 2016-13, at both adoption and each subsequent reporting period, is highly dependent on credit quality, macroeconomic forecasts and conditions, the composition of our loan and securities portfolios, along with other management judgments.

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies measurement of goodwill and eliminates Step 2 from the goodwill impairment test. Under ASU 2017-04, 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.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform, if certain criteria are met. In January 2021, the FASB also issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope,* which refined the scope for certain optional expedients and exceptions for contract modifications and hedge accounting to apply to derivative contracts and certain hedging relationships affected by the discounting transition. Entities may apply the provisions as of the beginning of the reporting period when the election is made and are available until December 31, 2022. The Company is currently evaluating the effect that this standard will have on the consolidated results of operations and financial position.

NOTE 2 – ACQUISITIONS

Town and Country Financial Corporation

On August 23, 2022, HBT Financial and Town and Country Financial Corporation ("Town and Country"), the holding company for Town and Country Bank, jointly announced the signing of a merger agreement pursuant to which HBT Financial will acquire Town and Country and Town and Country Bank. The acquisition will further enhance HBT Financial's footprint in Central Illinois and expand HBT Financial's footprint into metro-east St. Louis.

Under the terms of the merger agreement, total consideration consists of approximately 3.4 million shares of HBT Financial's common stock and $38.0 million in cash. Town and Country shareholders may elect to receive either (i) 1.9010 shares of HBT Financial's common stock for each share of Town and Country, or (ii) $35.66 per share in cash, or (iii) a combination of cash and stock consideration, subject to adjustment and to the election and proration provisions in the merger agreement. Based upon the closing price of HBT Financial common stock of $18.76 on August 22, 2022, the implied per share purchase price is $35.66 with an aggregate transaction value of approximately $101.4 million. Upon closing of the transaction, shareholders of Town and Country are expected to hold approximately 10.5% of HBT Financial's outstanding common stock.

The transaction is expected to close in the first quarter of 2023, subject to customary closing conditions, approval of Town and Country's shareholders, and regulatory approvals.

During the three months ended September 30, 2022, HBT Financial incurred $0.5 million in pre-tax acquisition expenses related to the planned acquisition of Town and Country, comprised of legal and professional fees included in other noninterest expense in the consolidated statements of income.

NXT Bancorporation, Inc.

On October 1, 2021, HBT Financial acquired 100% of the issued and outstanding common stock of NXT Bancorporation, Inc. (“NXT”), the holding company for NXT Bank, pursuant to an Agreement and Plan of Merger dated June 7, 2021. Under the Agreement and Plan of Merger, NXT merged with and into HBT Financial, with HBT Financial as the surviving entity, on October 1, 2021. Additionally, NXT Bank was merged with and into Heartland Bank, with Heartland Bank as the surviving entity, in December 2021.

At the effective time of the merger, each share of NXT was converted into the right to receive 67.6783 shares of HBT Financial common stock, cash in lieu of fractional shares, and $400 in cash. There were 1,799,016 shares of HBT Financial common stock issued at the effective time of the acquisition with an aggregate market value of $29.3 million, based on the closing stock price of $16.27 on October 1, 2021. This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the date of acquisition. Goodwill of $5.7 million was recorded in the acquisition, which reflects expected synergies from combining the operations of HBT Financial and NXT, and is nondeductible for tax purposes.

The acquisition of NXT provided an opportunity to utilize Heartland Bank’s excess liquidity at the time of acquisition to replace NXT Bank’s higher-cost funding. Additionally, Heartland Bank’s broader range of products and services, as well as a greater ability to meet larger borrowing needs, has provided an opportunity to expand NXT Bank’s customer relationships.

During the three and nine months ended September 30, 2021, HBT Financial incurred $0.4 million and $0.5 million, respectively, in pre-tax acquisition expenses related to the acquisition of NXT, comprised primarily of professional fees and data processing expense. These expenses are reflected in noninterest expense on the consolidated statements of income. There were no acquisition expenses related to the acquisition of NXT during the three and nine months ended September 30, 2022.

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The fair value of the assets acquired and liabilities assumed from NXT on the acquisition date were as follows (dollars in thousands):

	Fair Value
Assets acquired:	
Cash and cash equivalents	$ 5,862
Interest-bearing time deposits with banks	739
Debt securities	18,295
Equity securities with readily determinable fair value	43
Restricted stock	796
Loans	194,576
Bank owned life insurance	7,352
Bank premises and equipment	3,667
Core deposit intangible assets	199
Mortgage servicing rights	370
Accrued interest receivable	886
Other assets	1,340
Total assets acquired	234,125
Liabilities assumed:	
Deposits	181,586
Securities sold under agreements to repurchase	4,080
FHLB advances	12,625
Other liabilities	1,633
Total liabilities assumed	199,924
Net assets acquired	$ 34,201
Consideration paid:	
Cash	$ 10,633
Common stock	29,270
Total consideration paid	$ 39,903
Goodwill	$ 5,702

The following table presents the acquired non-impaired loans as of the acquisition date (dollars in thousands):

Fair Value	$ 194,576
Gross contractual amounts receivable	196,104
Estimate of contractual cash flows not expected to be collected	1,045

There were no loans acquired with deteriorated credit quality from NXT.

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The following table provides the pro forma information for the results of operations for the three and nine months ended September 30, 2021, as if the acquisition had occurred on January 1, 2020. The pro forma results combine the historical results of NXT into HBT Financial's consolidated statements of income, including the impact of certain acquisition accounting adjustments, which include loan discount accretion, intangible assets amortization, deposit premium amortization, and borrowing premium amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2020. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, provision for loan losses, expense efficiencies or asset dispositions. The acquisition-related expenses that have been recognized are included in net income in the following table.

	Pro Forma	
(dollars in thousands, except per share data)	**Three Months Ended September 30, 2021**	**Nine Months Ended September 30, 2021**
Total revenues (net interest income and noninterest income)	$ 41,296	$ 124,460
Net income	14,093	44,285
Earnings per share - basic	0.48	1.52
Earnings per share - diluted	0.48	1.51

NOTE 3 – SECURITIES

Debt Securities

The amortized cost and fair values of debt securities, with gross unrealized gains and losses, are as follows:

September 30, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:		(dollars in thousands)		
U.S. Treasury	$ 169,895	$ —	$ (16,323)	$ 153,572
U.S. government agency	61,428	1	(4,406)	57,023
Municipal	279,711	4	(37,804)	241,911
Mortgage-backed:				
Agency residential	223,738	20	(18,851)	204,907
Agency commercial	154,677	1	(17,302)	137,376
Corporate	62,695	16	(3,760)	58,951
Total available-for-sale	952,144	42	(98,446)	853,740
Held-to-maturity:				
U.S. government agency	88,418	—	(10,342)	78,076
Municipal	42,844	50	(1,357)	41,537
Mortgage-backed:				
Agency residential	105,330	—	(6,491)	98,839
Agency commercial	310,102	—	(46,862)	263,240
Total held-to-maturity	546,694	50	(65,052)	481,692
Total debt securities	$ 1,498,838	$ 92	$ (163,498)	$ 1,335,432

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:		(dollars in thousands)		
U.S. Treasury	$ 109,002	$ 328	$ (354)	$ 108,976
U.S. government agency	129,269	1,303	(2,467)	128,105
Municipal	293,837	6,144	(2,904)	297,077
Mortgage-backed:				
Agency residential	178,236	2,149	(919)	179,466
Agency commercial	164,875	1,234	(2,048)	164,061
Corporate	63,141	1,638	(296)	64,483
Total available-for-sale	938,360	12,796	(8,988)	942,168
Held-to-maturity:				
U.S. government agency	12,349	42	(51)	12,340
Municipal	15,666	809	—	16,475
Mortgage-backed:				
Agency residential	20,555	196	(102)	20,649
Agency commercial	287,615	1,749	(2,801)	286,563
Total held-to-maturity	336,185	2,796	(2,954)	336,027
Total debt securities	$ 1,274,545	$ 15,592	$ (11,942)	$ 1,278,195

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On March 31, 2022, June 30, 2021, and March 31, 2021, the Company transferred certain debt securities from the available-for-sale category to the held-to-maturity category in order to better reflect the revised intentions of the Company due to possible market value volatility, resulting from a potential rise in interest rates. The following is a summary of the amortized cost and fair value of securities transferred to the held-to-maturity category:

	March 31, 2022		June 30, 2021		March 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)					
U.S. government agency	$ 78,841	$ 71,048	$ —	$ —	$ 7,593	$ 7,323
Mortgage-backed:						
Agency residential	8,175	7,651	—	—	8,776	8,536
Agency commercial	27,834	25,432	99,271	99,275	118,792	113,861
Total	$ 114,850	$ 104,131	$ 99,271	$ 99,275	$ 135,161	$ 129,720

The debt securities were transferred between categories at fair value, with the transfer date fair value becoming the new amortized cost for each security transferred. The unrealized gain (loss), net of tax, at the date of transfer remains a component of accumulated other comprehensive income, but will be amortized over the remaining life of the debt securities as an adjustment of yield in a manner consistent with amortization of any premium or discount. As a result, the amortization of an unrealized gain (loss) reported in accumulated other comprehensive income will offset or mitigate the effect on interest income of the amortization of the premium or discount for that held-to-maturity debt security.

As of September 30, 2022 and December 31, 2021, the Bank had debt securities with a carrying value of $413.4 million and $353.3 million, respectively, which were pledged to secure public 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 49% of the municipal portfolio consists of debt securities issued by municipalities located in Illinois as of September 30, 2022. Approximately 81% of such debt securities were general obligation issues as of September 30, 2022.

The amortized cost and fair value of debt securities by contractual maturity, as of September 30, 2022, 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	$ 12,575	$ 12,506	$ 2,492	$ 2,494
Due after 1 year through 5 years	235,438	220,181	25,934	24,801
Due after 5 years through 10 years	250,903	216,108	79,440	71,686
Due after 10 years	74,813	62,662	23,396	20,632
Mortgage-backed:				
Agency residential	223,738	204,907	105,330	98,839
Agency commercial	154,677	137,376	310,102	263,240
Total	$ 952,144	$ 853,740	$ 546,694	$ 481,692

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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 September 30, 2022 and December 31, 2021:

	Investments in a Continuous Unrealized Loss Position					
	Less than 12 Months		12 Months or More		Total	
September 30, 2022	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**
Available-for-sale:			(dollars in thousands)			
U.S. Treasury	$ (15,245)	$ 144,691	$ (1,078)	$ 8,881	$ (16,323)	$ 153,572
U.S. government agency	(3,831)	51,799	(575)	3,394	(4,406)	55,193
Municipal	(16,557)	157,183	(21,247)	82,613	(37,804)	239,796
Mortgage-backed:						
Agency residential	(15,072)	176,467	(3,779)	24,808	(18,851)	201,275
Agency commercial	(9,292)	89,378	(8,010)	45,474	(17,302)	134,852
Corporate	(2,527)	53,213	(1,233)	3,730	(3,760)	56,943
Total available-for-sale	(62,524)	672,731	(35,922)	168,900	(98,446)	841,631
Held-to-maturity:						
U.S. government agency	(2,316)	20,176	(8,026)	57,900	(10,342)	78,076
Municipal	(1,357)	35,066	—	—	(1,357)	35,066
Mortgage-backed:						
Agency residential	(6,320)	97,876	(171)	963	(6,491)	98,839
Agency commercial	(24,304)	150,113	(22,558)	113,127	(46,862)	263,240
Total held-to-maturity	(34,297)	303,231	(30,755)	171,990	(65,052)	475,221
Total debt securities	$ (96,821)	$ 975,962	$ (66,677)	$ 340,890	$ (163,498)	$ 1,316,852

	Investments in a Continuous Unrealized Loss Position					
	Less than 12 Months		12 Months or More		Total	
December 31, 2021	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**
Available-for-sale:			(dollars in thousands)			
U.S. Treasury	$ (354)	$ 68,410	$ —	$ —	$ (354)	$ 68,410
U.S. government agency	(2,183)	80,219	(284)	5,578	(2,467)	85,797
Municipal	(2,018)	89,424	(886)	17,327	(2,904)	106,751
Mortgage-backed:						
Agency residential	(851)	91,703	(68)	4,305	(919)	96,008
Agency commercial	(1,921)	113,111	(127)	6,443	(2,048)	119,554
Corporate	(7)	2,737	(289)	4,671	(296)	7,408
Total available-for-sale	(7,334)	445,604	(1,654)	38,324	(8,988)	483,928
Held-to-maturity:						
U.S. government agency	(51)	4,949	—	—	(51)	4,949
Mortgage-backed:						
Agency residential	(102)	14,932	—	—	(102)	14,932
Agency commercial	(2,673)	174,428	(128)	2,776	(2,801)	177,204
Total held-to-maturity	(2,826)	194,309	(128)	2,776	(2,954)	197,085
Total debt securities	$ (10,160)	$ 639,913	$ (1,782)	$ 41,100	$ (11,942)	$ 681,013

As of September 30, 2022, there were 183 debt securities in an unrealized loss position for a period of twelve months or more, and 641 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.

There were no sales of debt securities during the three and nine months ended September 30, 2022 and 2021.

Equity Securities

Equity securities with readily determinable fair values are measured at fair value with changes in fair value recognized in gains (losses) on securities on the consolidated statements of income.

The Company has elected to measure equity securities with no readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes for identical or similar securities of the same issuer.

The initial cost and carrying values of equity securities, with cumulative net unrealized gains and losses are as follows:

September 30, 2022	Readily Determinable Fair Value	No Readily Determinable Fair Value
	(dollars in thousands)	
Initial cost	$ 3,142	$ 2,142
Cumulative net unrealized losses	(146)	(165)
Carrying value	$ 2,996	$ 1,977

December 31, 2021	Readily Determinable Fair Value	No Readily Determinable Fair Value
	(dollars in thousands)	
Initial cost	$ 3,142	$ 2,092
Cumulative net unrealized gains (losses)	301	(165)
Carrying value	$ 3,443	$ 1,927

As of September 30, 2022 and December 31, 2021, the cumulative net unrealized losses on equity securities with no readily determinable fair value reflect downward adjustments based on observable price changes of an identical investment. There have been no impairments or upward adjustments based on observable price changes to equity securities with no readily determinable fair value.

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There were no sales of equity securities during the three and nine months ended September 30, 2022 and 2021. Unrealized gains (losses) on equity securities were as follows during the three and nine months ended September 30, 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Readily determinable fair value	$ (107)	$ 28	$ (447)	$ 74
No readily determinable fair value	—	—	—	—
Unrealized gains (losses) on equity securities	$ (107)	$ 28	$ (447)	$ 74

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major categories of loans are summarized as follows:

	September 30, 2022	December 31, 2021
	(dollars in thousands)	
Commercial and industrial	$ 240,671	$ 286,946
Agricultural and farmland	245,234	247,796
Commercial real estate - owner occupied	226,524	234,544
Commercial real estate - non-owner occupied	718,089	684,023
Multi-family	260,630	263,911
Construction and land development	364,290	298,048
One-to-four family residential	328,667	327,837
Municipal, consumer, and other	195,823	156,584
Loans, before allowance for loan losses	2,579,928	2,499,689
Allowance for loan losses	(25,060)	(23,936)
Loans, net of allowance for loan losses	$ 2,554,868	$ 2,475,753
Paycheck Protection Program (PPP) loans (included above)		
Commercial and industrial	$ 65	$ 28,404
Agricultural and farmland	—	913
Municipal, consumer, and other	—	171
Total PPP loans	$ 65	$ 29,488

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

Three Months Ended September 30, 2022	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, June 30, 2022	$ 2,981	$ 924	$ 1,224	$ 6,611	$ 1,375	$ 4,059	$ 1,696	$ 5,864	$ 24,734
Provision for loan losses	14	(83)	(65)	268	(52)	316	(78)	66	386
Charge-offs	(17)	—	—	—	—	—	(18)	(187)	(222)
Recoveries	6	—	1	3	—	1	60	91	162
Balance, September 30, 2022	$ 2,984	$ 841	$ 1,160	$ 6,882	$ 1,323	$ 4,376	$ 1,660	$ 5,834	$ 25,060

Three Months Ended September 30, 2021	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, June 30, 2021	$ 2,717	$ 781	$ 1,946	$ 9,825	$ 2,009	$ 3,924	$ 1,520	$ 3,785	$ 26,507
Provision for loan losses	162	(26)	(395)	(710)	(228)	413	(499)	(384)	(1,667)
Charge-offs	(135)	—	—	—	—	—	(48)	(95)	(278)
Recoveries	114	—	—	6	—	1	135	43	299
Balance, September 30, 2021	$ 2,858	$ 755	$ 1,551	$ 9,121	$ 1,781	$ 4,338	$ 1,108	$ 3,349	$ 24,861

Nine Months Ended September 30, 2022	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, 2021	$ 2,440	$ 845	$ 1,840	$ 8,145	$ 1,263	$ 4,914	$ 1,311	$ 3,178	$ 23,936
Provision for loan losses	(189)	(4)	(781)	(1,536)	60	(539)	93	2,843	(53)
Charge-offs	(22)	—	—	—	—	—	(67)	(426)	(515)
Recoveries	755	—	101	273	—	1	323	239	1,692
Balance, September 30, 2022	$ 2,984	$ 841	$ 1,160	$ 6,882	$ 1,323	$ 4,376	$ 1,660	$ 5,834	$ 25,060

Nine Months Ended September 30, 2021	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	Municipal, Consumer and Other	Total
Allowance for loan losses:	(dollars in thousands)								
Balance, December 31, 2020	$ 3,929	$ 793	$ 3,141	$ 11,251	$ 1,957	$ 4,232	$ 1,801	$ 4,734	$ 31,838
Provision for loan losses	(1,062)	(38)	(1,590)	(2,149)	(176)	(164)	(742)	(1,313)	(7,234)
Charge-offs	(430)	—	—	—	—	—	(161)	(284)	(875)
Recoveries	421	—	—	19	—	270	210	212	1,132
Balance, September 30, 2021	$ 2,858	$ 755	$ 1,551	$ 9,121	$ 1,781	$ 4,338	$ 1,108	$ 3,349	$ 24,861

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The following tables present the recorded investments in loans and the allowance for loan losses by category:

September 30, 2022	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	$ 237,839	$ 244,236	$ 210,461	$ 675,121	$ 260,060	$ 361,305	$ 315,209	$ 183,181	$ 2,487,412
Individually evaluated for impairment	2,702	385	11,607	31,553	—	2,007	8,427	12,622	69,303
Acquired with deteriorated credit quality	130	613	4,456	11,415	570	978	5,031	20	23,213
Total	$ 240,671	$ 245,234	$ 226,524	$ 718,089	$ 260,630	$ 364,290	$ 328,667	$ 195,823	$ 2,579,928
Allowance for loan losses:									
Collectively evaluated for impairment	$ 2,826	$ 841	$ 930	$ 4,416	$ 1,320	$ 4,374	$ 1,619	$ 2,342	$ 18,668
Individually evaluated for impairment	158	—	208	2,465	—	—	39	3,492	6,362
Acquired with deteriorated credit quality	—	—	22	1	3	2	2	—	30
Total	$ 2,984	$ 841	$ 1,160	$ 6,882	$ 1,323	$ 4,376	$ 1,660	$ 5,834	$ 25,060

December 31, 2021	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	$ 272,064	$ 247,021	$ 216,794	$ 641,555	$ 262,701	$ 293,548	$ 314,807	$ 143,510	$ 2,392,000
Individually evaluated for impairment	14,744	12	12,332	29,575	—	2,018	6,897	13,041	78,619
Acquired with deteriorated credit quality	138	763	5,418	12,893	1,210	2,482	6,133	33	29,070
Total	$ 286,946	$ 247,796	$ 234,544	$ 684,023	$ 263,911	$ 298,048	$ 327,837	$ 156,584	$ 2,499,689
Allowance for loan losses:									
Collectively evaluated for impairment	$ 2,253	$ 845	$ 1,480	$ 5,138	$ 1,259	$ 4,895	$ 1,099	$ 1,302	$ 18,271
Individually evaluated for impairment	187	—	327	2,999	—	—	210	1,875	5,598
Acquired with deteriorated credit quality	—	—	33	8	4	19	2	1	67
Total	$ 2,440	$ 845	$ 1,840	$ 8,145	$ 1,263	$ 4,914	$ 1,311	$ 3,178	$ 23,936

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The following tables present loans individually evaluated for impairment by category of loans:

September 30, 2022	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(dollars in thousands)		
With an allowance recorded:			
Commercial and industrial	$ 256	$ 256	$ 158
Agricultural and farmland	—	—	—
Commercial real estate - owner occupied	734	734	208
Commercial real estate - non-owner occupied	14,359	14,348	2,465
Multi-family	—	—	—
Construction and land development	—	—	—
One-to-four family residential	350	340	39
Municipal, consumer, and other	8,223	8,201	3,492
Total	$ 23,922	$ 23,879	$ 6,362
With no related allowance:			
Commercial and industrial	$ 2,460	$ 2,446	$ —
Agricultural and farmland	385	385	—
Commercial real estate - owner occupied	11,030	10,873	—
Commercial real estate - non-owner occupied	17,284	17,205	—
Multi-family	—	—	—
Construction and land development	2,107	2,007	—
One-to-four family residential	9,403	8,087	—
Municipal, consumer, and other	4,455	4,421	—
Total	$ 47,124	$ 45,424	$ —
Total loans individually evaluated for impairment:			
Commercial and industrial	$ 2,716	$ 2,702	$ 158
Agricultural and farmland	385	385	—
Commercial real estate - owner occupied	11,764	11,607	208
Commercial real estate - non-owner occupied	31,643	31,553	2,465
Multi-family	—	—	—
Construction and land development	2,107	2,007	—
One-to-four family residential	9,753	8,427	39
Municipal, consumer, and other	12,678	12,622	3,492
Total	$ 71,046	$ 69,303	$ 6,362

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December 31, 2021	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(dollars in thousands)		
With an allowance recorded:			
Commercial and industrial	$ 303	$ 303	$ 187
Agricultural and farmland	—	—	—
Commercial real estate - owner occupied	3,013	3,013	327
Commercial real estate - non-owner occupied	14,912	14,893	2,999
Multi-family	—	—	—
Construction and land development	—	—	—
One-to-four family residential	1,421	1,314	210
Municipal, consumer, and other	8,523	8,498	1,875
Total	$ 28,172	$ 28,021	$ 5,598
With no related allowance:			
Commercial and industrial	$ 14,452	$ 14,441	$ —
Agricultural and farmland	12	12	—
Commercial real estate - owner occupied	9,534	9,319	—
Commercial real estate - non-owner occupied	14,755	14,682	—
Multi-family	—	—	—
Construction and land development	2,112	2,018	—
One-to-four family residential	7,129	5,583	—
Municipal, consumer, and other	4,603	4,543	—
Total	$ 52,597	$ 50,598	$ —
Total loans individually evaluated for impairment:			
Commercial and industrial	$ 14,755	$ 14,744	$ 187
Agricultural and farmland	12	12	—
Commercial real estate - owner occupied	12,547	12,332	327
Commercial real estate - non-owner occupied	29,667	29,575	2,999
Multi-family	—	—	—
Construction and land development	2,112	2,018	—
One-to-four family residential	8,550	6,897	210
Municipal, consumer, and other	13,126	13,041	1,875
Total	$ 80,769	$ 78,619	$ 5,598

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The following tables present the average recorded investment and interest income recognized for loans individually evaluated for impairment by category of loans:

	Three Months Ended September 30,			
	2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:	(dollars in thousands)			
Commercial and industrial	$ 258	$ 5	$ 1,925	$ 26
Agricultural and farmland	—	—	—	—
Commercial real estate - owner occupied	739	11	3,192	45
Commercial real estate - non-owner occupied	14,441	185	15,136	194
Multi-family	—	—	—	—
Construction and land development	—	—	—	—
One-to-four family residential	349	2	1,827	18
Municipal, consumer, and other	8,254	66	8,641	40
Total	$ 24,041	$ 269	$ 30,721	$ 323
With no related allowance:				
Commercial and industrial	$ 3,894	$ 41	$ 7,137	$ 115
Agricultural and farmland	425	5	385	6
Commercial real estate - owner occupied	11,651	141	6,551	81
Commercial real estate - non-owner occupied	17,220	369	15,283	101
Multi-family	—	—	—	—
Construction and land development	2,010	57	2,439	1
One-to-four family residential	8,119	99	5,713	45
Municipal, consumer, and other	4,457	44	4,635	21
Total	$ 47,776	$ 756	$ 42,143	$ 370
Total loans individually evaluated for impairment:				
Commercial and industrial	$ 4,152	$ 46	$ 9,062	$ 141
Agricultural and farmland	425	5	385	6
Commercial real estate - owner occupied	12,390	152	9,743	126
Commercial real estate - non-owner occupied	31,661	554	30,419	295
Multi-family	—	—	—	—
Construction and land development	2,010	57	2,439	1
One-to-four family residential	8,468	101	7,540	63
Municipal, consumer, and other	12,711	110	13,276	61
Total	$ 71,817	$ 1,025	$ 72,864	$ 693

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	Nine Months Ended September 30,			
	2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:	(dollars in thousands)			
Commercial and industrial	$ 272	$ 13	$ 2,025	$ 84
Agricultural and farmland	—	—	110	4
Commercial real estate - owner occupied	1,297	55	3,060	132
Commercial real estate - non-owner occupied	14,631	556	17,001	599
Multi-family	—	—	—	—
Construction and land development	—	—	741	27
One-to-four family residential	513	11	2,209	64
Municipal, consumer, and other	8,368	151	8,722	119
Total	$ 25,081	$ 786	$ 33,868	$ 1,029
With no related allowance:				
Commercial and industrial	$ 12,793	$ 397	$ 5,222	$ 205
Agricultural and farmland	305	8	384	17
Commercial real estate - owner occupied	11,524	388	7,216	273
Commercial real estate - non-owner occupied	16,894	907	8,880	239
Multi-family	—	—	580	10
Construction and land development	2,012	105	2,060	27
One-to-four family residential	8,341	240	6,427	142
Municipal, consumer, and other	4,493	98	4,695	65
Total	$ 56,362	$ 2,143	$ 35,464	$ 978
Total loans individually evaluated for impairment:				
Commercial and industrial	$ 13,065	$ 410	$ 7,247	$ 289
Agricultural and farmland	305	8	494	21
Commercial real estate - owner occupied	12,821	443	10,276	405
Commercial real estate - non-owner occupied	31,525	1,463	25,881	838
Multi-family	—	—	580	10
Construction and land development	2,012	105	2,801	54
One-to-four family residential	8,854	251	8,636	206
Municipal, consumer, and other	12,861	249	13,417	184
Total	$ 81,443	$ 2,929	$ 69,332	$ 2,007

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The following tables present the recorded investment in loans by category based on current payment and accrual status:

September 30, 2022	Current	Accruing Interest 30 - 89 Days Past Due	Accruing Interest 90+ Days Past Due	Nonaccrual	Total Loans
	(dollars in thousands)				
Commercial and industrial	$ 240,391	$ 191	$ —	$ 89	$ 240,671
Agricultural and farmland	245,234	—	—	—	245,234
Commercial real estate - owner occupied	226,424	100	—	—	226,524
Commercial real estate - non-owner occupied	717,085	—	—	1,004	718,089
Multi-family	260,630	—	—	—	260,630
Construction and land development	362,367	1,429	—	494	364,290
One-to-four family residential	325,926	1,159	22	1,560	328,667
Municipal, consumer, and other	195,651	113	—	59	195,823
Total	$ 2,573,708	$ 2,992	$ 22	$ 3,206	$ 2,579,928

December 31, 2021	Current	Accruing Interest 30 - 89 Days Past Due	Accruing Interest 90+ Days Past Due	Nonaccrual	Total Loans
	(dollars in thousands)				
Commercial and industrial	$ 286,563	$ 9	$ —	$ 374	$ 286,946
Agricultural and farmland	247,772	24	—	—	247,796
Commercial real estate - owner occupied	234,441	103	—	—	234,544
Commercial real estate - non-owner occupied	683,029	823	—	171	684,023
Multi-family	263,911	—	—	—	263,911
Construction and land development	297,465	64	—	519	298,048
One-to-four family residential	325,780	383	32	1,642	327,837
Municipal, consumer, and other	156,297	214	16	57	156,584
Total	$ 2,495,258	$ 1,620	$ 48	$ 2,763	$ 2,499,689

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The following tables present total loans by category based on their assigned risk ratings determined by management:

September 30, 2022	Pass	Pass-Watch	Substandard	Doubtful	Total
	(dollars in thousands)				
Commercial and industrial	$ 229,239	$ 8,730	$ 2,702	$ —	$ 240,671
Agricultural and farmland	230,636	13,601	997	—	245,234
Commercial real estate - owner occupied	202,250	13,465	10,809	—	226,524
Commercial real estate - non-owner occupied	673,481	10,336	34,272	—	718,089
Multi-family	255,665	4,965	—	—	260,630
Construction and land development	361,954	329	2,007	—	364,290
One-to-four family residential	313,608	6,074	8,985	—	328,667
Municipal, consumer, and other	182,902	298	12,623	—	195,823
Total	$ 2,449,735	$ 57,798	$ 72,395	$ —	$ 2,579,928

December 31, 2021	Pass	Pass-Watch	Substandard	Doubtful	Total
	(dollars in thousands)				
Commercial and industrial	$ 267,088	$ 5,114	$ 14,744	$ —	$ 286,946
Agricultural and farmland	221,898	25,213	685	—	247,796
Commercial real estate - owner occupied	198,862	24,098	11,584	—	234,544
Commercial real estate - non-owner occupied	619,212	32,372	32,439	—	684,023
Multi-family	241,362	22,549	—	—	263,911
Construction and land development	268,556	27,474	2,018	—	298,048
One-to-four family residential	308,951	11,221	7,665	—	327,837
Municipal, consumer, and other	143,299	244	13,041	—	156,584
Total	$ 2,269,228	$ 148,285	$ 82,176	$ —	$ 2,499,689

There were no new troubled debt restructurings during the three and nine months ended September 30, 2022 or 2021.

Of the troubled debt restructurings entered into during the last 12 months, there were none which had subsequent payment defaults during the three and nine months ended September 30, 2022 or 2021. 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 September 30, 2022 and December 31, 2021, the Company had $3.1 million and $3.5 million 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 loans whose terms have been modified in troubled debt restructurings.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), along with a joint statement issued by banking regulatory agencies, provided that short-term loan payment modifications made prior to December 31, 2021 to borrowers experiencing financial hardship due to the COVID-19 pandemic generally do not need to be accounted for as a troubled debt restructuring. As of September 30, 2022, the Company had no loans that were granted a payment modification due to a COVID-19 related financial hardship which had not returned to regular payments. As of December 31, 2021, the Company had $0.2 million of loans that were granted a payment modification due to a COVID-19 related financial hardship and had not returned to regular payments. Substantially all modifications were in the form of a three-month interest-only period or a one-month payment deferral. Some borrowers received more than one loan payment modification.

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As of September 30, 2022 and December 31, 2021, the Company pledged loans totaling $824.9 million and $567.0 million, respectively, to the Federal Home Loan Bank of Chicago (“FHLB”) to secure available FHLB advance borrowing capacity.

Changes in the accretable yield for loans acquired with deteriorated credit quality were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Beginning balance	$ 537	$ 1,350	$ 413	$ 1,397
Reclassification from non-accretable difference	283	280	500	433
Accretion income	(58)	(86)	(151)	(286)
Ending balance	$ 762	$ 1,544	$ 762	$ 1,544

NOTE 5 – LOAN SERVICING

Mortgage loans serviced for others, which are not included in the accompanying consolidated balance sheets, amounted to $976.1 million and $1.04 billion as of September 30, 2022 and December 31, 2021, respectively. Activity in mortgage servicing rights is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Beginning balance	$ 10,089	$ 7,319	$ 7,994	$ 5,934
Capitalized servicing rights	144	241	451	994
Fair value adjustment:				
Attributable to payments and principal reductions	(362)	(451)	(1,048)	(1,408)
Attributable to changes in valuation inputs and assumptions	569	250	3,043	1,839
Total fair value adjustment	207	(201)	1,995	431
Ending balance	$ 10,440	$ 7,359	$ 10,440	$ 7,359

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NOTE 6 – FORECLOSED ASSETS

Foreclosed assets activity is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Beginning balance	$ 2,891	$ 7,757	$ 3,278	$ 4,168
Transfers from loans	—	—	27	4,856
Proceeds from sales	(29)	(354)	(476)	(1,583)
Sales through loan origination	—	(74)	—	(252)
Net gain on sales	20	108	118	321
Direct write-downs	(245)	(122)	(310)	(195)
Ending balance	$ 2,637	$ 7,315	$ 2,637	$ 7,315

Gains (losses) on foreclosed assets includes the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Direct write-downs	$ (245)	$ (122)	$ (310)	$ (195)
Net gain on sales	20	108	118	321
Gains (losses) on foreclosed assets	$ (225)	$ (14)	$ (192)	$ 126

There were no foreclosed one-to-four family residential real estate properties held as of September 30, 2022. The carrying value of foreclosed one-to-four family residential real estate properties held as of December 31, 2021 was $0.2 million. As of September 30, 2022, there were 4 one-to-four family residential real estate loans in the process of foreclosure totaling $0.4 million. As of December 31, 2021, there were 4 one-to-four family residential real estate loans in the process of foreclosure totaling $0.1 million.

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NOTE 7 – DEPOSITS

The Company's deposits are summarized below:

	September 30, 2022	December 31, 2021
	(dollars in thousands)	
Noninterest-bearing deposits	$ 1,017,710	$ 1,087,659
Interest-bearing deposits:		
Interest-bearing demand	1,131,284	1,105,949
Money market	584,202	583,198
Savings	641,139	633,171
Time	269,108	328,208
Total interest-bearing deposits	2,625,733	2,650,526
Total deposits	$ 3,643,443	$ 3,738,185

Money market deposits include $4.2 million of brokered deposits as of December 31, 2021. There were no brokered deposits as of September 30, 2022. Money market deposits also include $5.7 million and $6.9 million of reciprocal transaction deposits as of September 30, 2022 and December 31, 2021, respectively. Time deposits include $0.7 million and $0.9 million of reciprocal time deposits as of September 30, 2022, and December 31, 2021, respectively.

The aggregate amounts of time deposits in denominations of $250 thousand or more amounted to $25.8 million and $59.5 million as of September 30, 2022 and December 31, 2021, respectively. The aggregate amounts of time deposits in denominations of $100 thousand or more amounted to $89.9 million and $133.1 million as of September 30, 2022 and December 31, 2021, respectively.

The components of interest expense on deposits are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Interest-bearing demand	$ 144	$ 129	$ 430	$ 373
Money market	203	96	434	279
Savings	53	48	155	135
Time	187	291	643	1,034
Total interest expense on deposits	$ 587	$ 564	$ 1,662	$ 1,821

NOTE 8 – 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.

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, net of tax, is 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:

	September 30, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(dollars in thousands)			
Fair value recorded in other assets	$ 17,000	$ 614	$ —	$ —
Fair value recorded in other liabilities	—	—	17,000	(680)

As of September 30, 2022, the interest rate swap agreements designated as cash flow hedges had contractual maturities between 2024 and 2025. As of September 30, 2022, counterparties had cash pledged and held on deposit by the Company of $0.6 million. As of December 31, 2021, the Company had cash pledged and held on deposit at counterparties of $0.8 million.

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 (loss) to income	Amounts of gross gain (loss) reclassified from accumulated other comprehensive income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Designated as cash flow hedges:	(dollars in thousands)			
Junior subordinated debentures interest expense	$ (14)	$ (105)	$ (177)	$ (306)

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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 interest rate 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 work 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:

	September 30, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(dollars in thousands)			
Fair value recorded in other assets:				
Interest rate swaps with a commercial borrower counterparty	$ —	$ —	$ 112,041	$ 8,622
Interest rate swaps with a financial institution counterparty	109,468	7,431	3,880	75
Total fair value recorded in other assets	$ 109,468	$ 7,431	$ 115,921	$ 8,697
Fair value recorded in other liabilities:				
Interest rate swaps with a commercial borrower counterparty	$ 109,468	$ (7,431)	$ 3,880	$ (75)
Interest rate swaps with a financial institution counterparty	—	—	112,041	(8,622)
Total fair value recorded in other liabilities	$ 109,468	$ (7,431)	$ 115,921	$ (8,697)

As of September 30, 2022, the interest rate swap agreements not designated as hedging instruments had contractual maturities between 2022 and 2042. As of December 31, 2021, the carrying value of debt securities pledged and held in safekeeping at a financial institution counterparty was $7.5 million.

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Not designated as hedging instruments:	(dollars in thousands)			
Gross gains	$ 5,209	$ 1,843	$ 15,303	$ 12,281
Gross losses	(5,209)	(1,843)	(15,303)	(12,281)
Net gains (losses)	$ —	$ —	$ —	$ —

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NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the activity and accumulated balances for components of other comprehensive income (loss):

	Unrealized Gains (Losses) on Debt Securities			
	Available-for-Sale	Held-to-Maturity	Derivatives	Total
	(dollars in thousands)			
Three Months Ended September 30, 2022				
Balance, June 30, 2022	$ (42,061)	$ (10,656)	$ (103)	$ (52,820)
Other comprehensive income (loss) before reclassifications	(35,358)	—	374	(34,984)
Reclassifications	—	504	14	518
Other comprehensive income (loss), before tax	(35,358)	504	388	(34,466)
Income tax expense (benefit)	(10,079)	144	111	(9,824)
Other comprehensive income (loss), after tax	(25,279)	360	277	(24,642)
Balance, September 30, 2022	$ (67,340)	$ (10,296)	$ 174	$ (77,462)
Three Months Ended September 30, 2021				
Balance, June 30, 2021	$ 13,260	$ (3,840)	$ (1,034)	$ 8,386
Other comprehensive loss before reclassifications	(5,676)	—	(8)	(5,684)
Reclassifications	—	195	105	300
Other comprehensive income (loss), before tax	(5,676)	195	97	(5,384)
Income tax expense	(1,618)	56	27	(1,535)
Other comprehensive income (loss), after tax	(4,058)	139	70	(3,849)
Balance, September 30, 2021	$ 9,202	$ (3,701)	$ (964)	$ 4,537

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	Unrealized Gains (Losses) on Debt Securities			
	Available-for-Sale	Held-to-Maturity	Derivatives	Total
	(dollars in thousands)			
Nine Months Ended September 30, 2022				
Balance, December 31, 2021	$ 5,736	$ (3,514)	$ (751)	$ 1,471
Transfer from available-for-sale to held-to-maturity	7,664	(7,664)	—	—
Other comprehensive income (loss) before reclassifications	(112,931)	—	1,117	(111,814)
Reclassifications	—	1,234	177	1,411
Other comprehensive income (loss), before tax	(112,931)	1,234	1,294	(110,403)
Income tax expense (benefit)	(32,191)	352	369	(31,470)
Other comprehensive income (loss), after tax	(80,740)	882	925	(78,933)
Balance, September 30, 2022	$ (67,340)	$ (10,296)	$ 174	$ (77,462)
Nine Months Ended September 30, 2021				
Balance, December 31, 2020	$ 19,578	$ (118)	$ (1,307)	$ 18,153
Transfer from available-for-sale to held-to-maturity	3,887	(3,887)	—	—
Other comprehensive income (loss) before reclassifications	(19,950)	—	173	(19,777)
Reclassifications	—	426	306	732
Other comprehensive income (loss), before tax	(19,950)	426	479	(19,045)
Income tax expense (benefit)	(5,687)	122	136	(5,429)
Other comprehensive income (loss), after tax	(14,263)	304	343	(13,616)
Balance, September 30, 2021	$ 9,202	$ (3,701)	$ (964)	$ 4,537

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

Reclassifications 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.

Reclassifications 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 8 for additional information.

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NOTE 10 – EARNINGS PER SHARE

The Company has granted certain 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 from the Company's outstanding restricted stock units and performance restricted stock units.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Numerator:				
Net income	$ 15,627	$ 13,715	$ 43,316	$ 42,677
Earnings allocated to participating securities	(17)	(25)	(51)	(81)
Numerator for earnings per share - basic and diluted	$ 15,610	$ 13,690	$ 43,265	$ 42,596
Denominator:				
Weighted average common shares outstanding	28,787,662	27,340,926	28,887,757	27,377,809
Dilutive effect of outstanding restricted stock units	72,643	13,921	56,761	11,412
Weighted average common shares outstanding, including all dilutive potential shares	28,860,305	27,354,847	28,944,518	27,389,221
Earnings per share - Basic	$ 0.54	$ 0.50	$ 1.50	$ 1.56
Earnings per share - Diluted	$ 0.54	$ 0.50	$ 1.49	$ 1.56

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NOTE 11 – 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Restricted stock units	$ 230	$ 153	$ 1,072	$ 415
Performance restricted stock units	119	75	530	123
Total awards classified as equity	349	228	1,602	538
Stock appreciation rights	51	(87)	35	43
Total stock-based compensation expense	$ 400	$ 141	$ 1,637	$ 581

In February 2022, all outstanding restricted stock unit and performance restricted stock unit agreements were modified to address treatment upon retirement. In the event of retirement, and if the retirement eligibility requirements are met, then 100% of unvested restricted stock units and performance restricted stock units will continue to vest in accordance with the originally established vesting schedule. The retirement modification resulted in the acceleration of $0.6 million of expense, although total compensation costs related to the modified agreements remained the same.

Restricted Stock Units

A restricted stock unit grants a participant the right to receive one share of the Company's 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 service period for the entire award. Dividend equivalents on restricted stock units, which are either accrued until vested or paid at the same time as dividends on common stock, are classified as dividends charged to retained earnings.

During the nine months ended September 30, 2022 and 2021, the total grant date fair value of the restricted stock units granted was $0.9 million and $0.8 million, respectively, based on the grant date closing prices. The total intrinsic value of restricted stock that vested during the nine months ended September 30, 2022 and 2021 was $0.7 million and $0.3 million, respectively.

The following is a summary of restricted stock unit activity:

	Three Months Ended September 30,			
	2022		2021	
	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Beginning balance	120,631	$ 17.98	99,597	$ 17.37
Granted	—	—	—	—
Vested	—	—	—	—
Forfeited	(1,328)	18.35	—	—
Ending balance	119,303	$ 17.98	99,597	$ 17.37

	Nine Months Ended September 30,			
	2022		2021	
	Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Beginning balance	109,244	$ 17.27	71,000	$ 18.98
Granted	46,312	19.11	50,347	15.72
Vested	(34,925)	17.26	(20,225)	18.86
Forfeited	(1,328)	18.35	(1,525)	18.11
Ending balance	119,303	$ 17.98	99,597	$ 17.37

As of September 30, 2022, unrecognized compensation cost related to the non-vested restricted stock units was $1.1 million. This cost is expected to be recognized over the weighted average remaining service period of 1.7 years.

Performance Restricted Stock Units

A performance restricted stock unit is similar to a restricted stock unit, except that the number of shares of the Company's common stock awarded is based on a performance condition and the completion of the requisite service period. The number of shares of the Company's common stock that may be earned ranges from 0% to 150% of the number of performance restricted stock units granted. Performance restricted stock units are classified as equity. Compensation cost is based on the Company's stock price on the grant date and an assessment of the probable outcome of the performance condition. Compensation cost is recognized on a straight-line basis over the service period of the entire award. Changes in the performance condition probability assessment result in cumulative catch-up adjustments to the compensation cost recognized. Dividend equivalents on performance restricted stock units, which are accrued until vested, are classified as dividends charged to retained earnings.

During the nine months ended September 30, 2022 and 2021, the total fair value of the performance restricted stock units granted was $0.5 million and $0.4 million, respectively, based on the grant date closing prices and an assessment of the probable outcome of the performance condition on the grant date.

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

	Three Months Ended September 30,			
	2022		2021	
	Performance Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Restricted Stock Units	Weighted Average Grant Date Fair Value
Beginning balance	62,067	$ 17.02	28,697	$ 15.53
Granted	—	—	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Ending balance	62,067	$ 17.02	28,697	$ 15.53

	Nine months ended September 30,			
	2022		2021	
	Performance Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Restricted Stock Units	Weighted Average Grant Date Fair Value
Beginning balance	38,344	$ 15.72	—	$ —
Granted	23,723	19.14	28,697	15.53
Vested	—	—	—	—
Forfeited	—	—	—	—
Ending balance	62,067	$ 17.02	28,697	$ 15.53

As of September 30, 2022, unrecognized compensation cost related to non-vested performance restricted stock units was $0.5 million, based on the current assessment of the probable outcome of the performance conditions. This cost is expected to be recognized over the weighted average remaining service period of 1.7 years.

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 are classified as liabilities. The liability is based on an option-pricing model used to estimate the fair value of the stock appreciation rights. Compensation cost for non-vested stock appreciation rights is recognized on a straight line basis over the service period of the entire award. The non-vested stock appreciation rights vest in four equal annual installments beginning on the first anniversary of the grant date.

The following is a summary of stock appreciation rights activity:

	Three Months Ended September 30,			
	2022		2021	
	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value	Stock Appreciation Rights Outstanding	Weighted Average Grant Date Assigned Value
Beginning balance	91,800	$ 16.32	97,920	$ 16.32
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Forfeited	—	—	—	—
Ending balance	91,800	$ 16.32	97,920	$ 16.32

	Nine Months Ended September 30,			
	2022		2021	
	Stock Appreciation Rights	Weighted Average Grant Date Assigned Value	Stock Appreciation Rights	Weighted Average Grant Date Assigned Value
Beginning balance	97,920	$ 16.32	105,570	$ 16.32
Granted	—	—	—	—
Exercised	(6,120)	16.32	(6,120)	16.32
Expired	—	—	(1,530)	16.32
Forfeited	—	—	—	—
Ending balance	91,800	$ 16.32	97,920	$ 16.32

A further summary of stock appreciation rights as of September 30, 2022, is as follows:

	Stock Appreciation Rights		
Grant Date Assigned Values	Outstanding	Exercisable	Weighted Average Remaining Contractual Term
$ 16.32	91,800	85,680	6.5 years

As of September 30, 2022, unrecognized compensation cost related to non-vested stock appreciation rights was $33 thousand.

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As of September 30, 2022 and December 31, 2021, the liability recorded for outstanding stock appreciation rights was $0.5 million and $0.5 million, respectively. 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.

	September 30, 2022	December 31, 2021
Risk-free interest rate	3.97 %	1.40 %
Expected volatility	36.17 %	35.52 %
Expected life (in years)	6.9	7.7
Expected dividend yield	3.53 %	3.20 %

As of September 30, 2022, the liability recorded for previously exercised stock appreciation rights was $0.5 million, which will be paid in two remaining annual installments in 2023 and 2024. As of December 31, 2021, the liability recorded for previously exercised stock appreciation rights was $0.8 million.

NOTE 12 – REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank 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 consolidated financial statements of the Company and the Bank. Additionally, the ability of the Company to pay dividends to its stockholders is dependent upon the ability of the Bank to pay dividends to the Company.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of 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 regulators about components, risk weightings, and other factors. As allowed under the regulations, the Company and the Bank elected to exclude accumulated other comprehensive income, including unrealized gains and losses on debt securities, in the computation of regulatory capital. Prompt corrective action provisions are not applicable to bank holding companies.

Additionally, the Company and the Bank must maintain a "capital conservation buffer" to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. As of September 30, 2022 and December 31, 2021, the capital conservation buffer was 2.5% of risk-weighted assets.

As of September 30, 2022, the Company and the Bank each met all capital adequacy requirements to which they were subject.

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The actual and required capital amounts and ratios of the Company (on a consolidated basis) and the Bank are as follows:

September 30, 2022	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 507,277	16.34 %	$ 248,395	8.00 %	N/A	N/A
Heartland Bank and Trust Company	484,065	15.60	248,216	8.00	$ 310,271	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 442,841	14.26 %	$ 186,296	6.00 %	N/A	N/A
Heartland Bank and Trust Company	459,005	14.79	186,162	6.00	$ 248,216	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 406,243	13.08 %	$ 139,722	4.50 %	N/A	N/A
Heartland Bank and Trust Company	459,005	14.79	139,622	4.50	$ 201,676	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 442,841	10.44 %	$ 169,611	4.00 %	N/A	N/A
Heartland Bank and Trust Company	459,005	10.83	169,515	4.00	$ 211,894	5.00 %

December 31, 2021	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 479,320	16.88 %	$ 227,115	8.00 %	N/A	N/A
Heartland Bank and Trust Company	452,162	15.94	226,950	8.00	$ 283,688	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 416,068	14.66 %	$ 170,336	6.00 %	N/A	N/A
Heartland Bank and Trust Company	428,226	15.09	170,213	6.00	$ 226,950	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated HBT Financial, Inc.	$ 379,519	13.37 %	$ 127,752	4.50 %	N/A	N/A
Heartland Bank and Trust Company	428,226	15.09	127,659	4.50	$ 184,397	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated HBT Financial, Inc.	$ 416,068	9.84 %	$ 169,171	4.00 %	N/A	N/A
Heartland Bank and Trust Company	428,226	10.13	169,070	4.00	$ 211,337	5.00 %

NOTE 13 – 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 is summarized in Note 1 to the Company's annual consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 11, 2022. There were no transfers between levels during the three and nine months ended September 30, 2022 and 2021. 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.

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

September 30, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Debt securities available-for-sale:				
U.S. Treasury	$ 153,572	$ —	$ —	$ 153,572
U.S. government agency	—	57,023	—	57,023
Municipal	—	241,911	—	241,911
Mortgage-backed:				
Agency residential	—	204,907	—	204,907
Agency commercial	—	137,376	—	137,376
Corporate	—	58,951	—	58,951
Equity securities with readily determinable fair values	2,996	—	—	2,996
Mortgage servicing rights	—	—	10,440	10,440
Derivative financial assets	—	8,045	—	8,045
Derivative financial liabilities	—	7,431	—	7,431

December 31, 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Debt securities available-for-sale:				
U.S. Treasury	$ 108,976	$ —	$ —	$ 108,976
U.S. government agency	—	128,105	—	128,105
Municipal	—	297,077	—	297,077
Mortgage-backed:				
Agency residential	—	179,466	—	179,466
Agency commercial	—	164,061	—	164,061
Corporate	—	64,483	—	64,483
Equity securities with readily determinable fair values	3,443	—	—	3,443
Mortgage servicing rights	—	—	7,994	7,994
Derivative financial assets	—	8,697	—	8,697
Derivative financial liabilities	—	9,377	—	9,377

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, 2021 to September 30, 2022.

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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 (loss). 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 hedging instruments, the change in fair value is recorded through an adjustment to the consolidated statement of comprehensive income (loss). For derivative financial instruments not designated as 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):

September 30, 2022	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 10,440	Discounted cash flows	Constant pre-payment rates (CPR)	5.5% to 59.7% (8.2%)
			Discount rate	9.0% to 11.5% (9.3%)

December 31, 2021	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 7,994	Discounted cash flows	Constant pre-payment rates (CPR)	7.0% to 88.9% (11.7%)
			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:

September 30, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Loans held for sale	$ —	$ 2,297	$ —	$ 2,297
Collateral-dependent impaired loans	—	—	17,517	17,517
Bank premises held for sale	—	—	281	281
Foreclosed assets	—	—	2,637	2,637

December 31, 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
Loans held for sale	$ —	$ 4,942	$ —	$ 4,942
Collateral-dependent impaired loans	—	—	22,423	22,423
Bank premises held for sale	—	—	1,452	1,452
Foreclosed assets	—	—	3,278	3,278

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.

Collateral-Dependent Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for loans with respect to 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):

September 30, 2022	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 17,517	Appraisal of collateral	Appraisal adjustments	Not meaningful
Bank premises held for sale	281	Appraisal	Appraisal adjustments	7% (7%)
Foreclosed assets	2,637	Appraisal	Appraisal adjustments	7% (7%)

December 31, 2021	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 22,423	Appraisal of collateral	Appraisal adjustments	Not meaningful
Bank premises held for sale	1,452	Appraisal	Appraisal adjustments	7% (7%)
Foreclosed assets	3,278	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.

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 marketplace. 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 Notes

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

Junior 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	September 30, 2022 Carrying Amount	September 30, 2022 Estimated Fair Value	December 31, 2021 Carrying Amount	December 31, 2021 Estimated Fair Value
		(dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 78,215	$ 78,215	$ 409,268	$ 409,268
Debt securities held-to-maturity	Level 2	546,694	481,692	336,185	336,027
Restricted stock	Level 3	4,050	4,050	2,739	2,739
Loans, net	Level 3	2,554,868	2,548,050	2,475,753	2,494,686
Investments in unconsolidated subsidiaries	Level 3	1,165	1,165	1,165	1,165
Accrued interest receivable	Level 2	16,881	16,881	14,901	14,901
Financial liabilities:					
Time deposits	Level 3	269,108	260,220	328,208	327,779
Securities sold under agreements to repurchase	Level 2	48,130	48,130	61,256	61,256
Subordinated notes	Level 3	39,376	37,667	39,316	41,602
Junior subordinated debentures	Level 3	37,763	36,210	37,714	33,640
Accrued interest payable	Level 2	607	607	1,043	1,043

The Company estimated the fair value of lending related commitments as described in Note 14 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.

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NOTE 14 – COMMITMENTS AND CONTINGENCIES

Financial Instruments

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

Such commitments and conditional obligations were as follows:

	Contractual Amount	
	September 30, 2022	December 31, 2021
	(dollars in thousands)	
Commitments to extend credit	$ 667,788	$ 609,947
Standby letters of credit	16,918	12,960

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 Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Bank 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 Bank 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 Bank secures the standby letters of credit with the same collateral used to secure the related loan.

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

Legal Contingencies

In the normal course of business, the Company, or its subsidiaries, are involved in various legal proceedings. In the opinion of management, any liability resulting from pending proceedings would not be expected to have a material adverse effect on the Company's consolidated financial statements.

DeBaere, et al v. Heartland Bank and Trust Company

The Bank is a defendant in a purported class action lawsuit filed in June 2020, in the Circuit Court of Cook County, Illinois, DeBaere, et al v. Heartland Bank and Trust Company. The plaintiff, a customer of the Bank, alleges that the Bank breached its contract with the plaintiff by (1) charging multiple insufficient funds fees or overdraft fees on a single customer-initiated transaction, and (2) charging overdraft fees for transactions that were authorized on a positive account balance, but when settled, settled into a negative balance.

The Bank intends to vigorously defend the lawsuit. The Company does not believe a loss is probable at this time, as that term is used in assessing loss contingencies. Accordingly, consistent with the authoritative guidance in the evaluation of contingencies, an accrual related to this matter has not been recorded. However, an unfavorable outcome is reasonably possible, and the Company would not characterize the chance of any loss as “remote.” Given the early stage of this case, the Company cannot yet offer an opinion on the estimated range of any possible loss, in the event of an unfavorable opinion.

Miller, et al v. State Bank of Lincoln and Heartland Bank and Trust Company

The Bank is a defendant in a purported class action lawsuit filed in May 2020, in the Circuit Court of Logan County, Illinois, Miller, et al v. State Bank of Lincoln and the Bank. The plaintiff, a customer of State Bank of Lincoln, which previously merged with the Bank, alleges that the Bank breached its contract with the plaintiff by charging multiple insufficient funds fees or overdraft fees on a single customer-initiated transaction.

The Bank intends to vigorously defend the lawsuit. The Company does not believe a loss is probable at this time, as that term is used in assessing loss contingencies. Accordingly, consistent with the authoritative guidance in the evaluation of contingencies, an accrual related to this matter has not been recorded. However, an unfavorable outcome is reasonably possible, and the Company would not characterize the chance of any loss as “remote.” Given the early stage of this case, the Company cannot yet offer an opinion on the estimated range of any possible loss, in the event of an unfavorable opinion.

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 subsidiaries.

The following is management's discussion and analysis of the financial condition as of September 30, 2022 (unaudited), as compared with December 31, 2021, and the results of operations for the three and nine months ended September 30, 2022 and 2021 (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, 2021, filed with the SEC on March 11, 2022. Results of operations for the three and nine months ended September 30, 2022 and 2021 are not necessarily indicative of results to be attained for the year ended December 31, 2022 or for any other period.

OVERVIEW

HBT Financial, Inc., headquartered in Bloomington, Illinois, is the holding company for Heartland Bank and Trust Company, and has banking roots that can be traced back to 1920. We provide a comprehensive suite of business, commercial, wealth management, and retail banking products and services to businesses, families, and local governments throughout Central and Northeastern Illinois and Eastern Iowa. As of September 30, 2022, the Company had total assets of $4.2 billion, loans held for investment of $2.6 billion, and total deposits of $3.6 billion.

Market Area

We currently operate 58 full-service branches. We hold a leading deposit share in many of our Central Illinois markets, 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 our loan and deposit balances by geographic region.

	September 30, 2022	December 31, 2021
Total loans	(dollars in thousands)	
Illinois by metropolitan and micropolitan statistical areas		
Bloomington-Normal	$ 495,896	$ 527,161
Champaign-Urbana	217,792	191,646
Chicago	1,272,588	1,196,605
Lincoln	79,564	87,153
Ottawa-Peru	90,418	101,117
Peoria	124,094	123,143
Total Illinois	2,280,352	2,226,825
Iowa	299,576	272,864
Total loans	$ 2,579,928	$ 2,499,689
Total deposits		
Illinois by metropolitan and micropolitan statistical areas		
Bloomington-Normal	$ 851,612	$ 887,587
Champaign-Urbana	218,068	203,899
Chicago	1,257,235	1,237,486
Lincoln	187,056	203,098
Ottawa-Peru	383,932	407,156
Peoria	606,430	610,155
Total Illinois	3,504,333	3,549,381
Iowa	139,110	188,804
Total deposits	$ 3,643,443	$ 3,738,185

Pending Town and Country Acquisition

On August 23, 2022, HBT Financial and Town and Country Financial Corporation ("Town and Country"), the holding company for Town and Country Bank, jointly announced the signing of a merger agreement pursuant to which HBT Financial will acquire Town and Country and Town and Country Bank. The acquisition will further enhance HBT Financial's footprint in Central Illinois and expand HBT Financial's footprint into metro-east St. Louis. The acquisition is expected to close in the first quarter of 2023, subject to Town and Country shareholder approval, regulatory approvals, and other customary closing conditions. During the three months ended September 30, 2022, HBT Financial incurred $0.5 million in pre-tax acquisition expenses related to the planned acquisition of Town and Country, comprised of legal and professional fees included in other noninterest expense in the consolidated statements of income.

NXT Bancorporation, Inc. Acquisition

On October 1, 2021, HBT Financial completed its acquisition of NXT Bancorporation, Inc. ("NXT"), the holding company for NXT Bank. The acquisition expanded HBT Financial's footprint into Eastern Iowa with four locations that began operating as branches of Heartland Bank following the merger and system conversion of NXT Bank into Heartland Bank in December 2021. After considering business combination accounting adjustments, NXT added total assets of $234.1 million, total loans of $194.6 million, and total deposits of $181.6 million.

Cash consideration of $10.6 million and stock consideration of approximately 1.8 million shares of HBT Financial common stock resulted in aggregate consideration of $39.9 million. Goodwill of $5.7 million was recorded in the acquisition.

The acquisition of NXT provides an opportunity to utilize HBT Financial's existing excess liquidity to replace NXT's higher cost funding. Additionally, our broader range of products and services and greater ability to meet larger borrowing needs provides an opportunity to expand NXT customer relationships.

We did not incur expenses related to the acquisition of NXT during the three and nine months ended September 30, 2022. We incurred the following pre-tax acquisition expenses related to the acquisition of NXT during the three and nine months ended September 30, 2021:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
	(dollars in thousands)	
Furniture and equipment	$ 1	$ 1
Data processing	150	157
Marketing and customer relations	4	4
Legal fees and other noninterest expense	225	375
Total NXT acquisition-related expenses	$ 380	$ 537

Branch Rationalization Plan

In April 2021, the Company made plans to close or consolidate six branches. One branch was consolidated during the second quarter of 2021, and the remaining five branches were closed during the third quarter of 2021. The Company estimated annual pre-tax cost savings, net of associated revenue impacts, related to the branch rationalization plan to be approximately $1.1 million.

The Company incurred the following pre-tax branch closure expenses during the three and nine months ended September 30, 2021:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
	(dollars in thousands)	
NONINTEREST INCOME		
Gains (losses) on other assets	$ (648)	$ (682)
NONINTEREST EXPENSE		
Salaries	(5)	53
Marketing and customer relations	1	6
Legal fees and other noninterest expense	—	7
Total noninterest expense	(4)	66
Total branch closure costs	$ 644	$ 748

Paycheck Protection Program Loans

During 2021 and 2020, we funded a total of $290.1 million of Paycheck Protection Program (“PPP”) loans. The vast majority of those loans have received full forgiveness, and outstanding PPP loans totaled $0.1 million as of September 30, 2022.

Income recognition for the fees collected at origination, net of associated origination costs, is deferred and recognized over the loan term on a level yield basis. Recognition of net deferred origination fees is accelerated upon loan forgiveness or repayment prior to contractual maturity. Net deferred origination fees on PPP loans recognized as taxable loan interest income totaled $0.1 million and $3.0 million during the three months ended September 30, 2022 and 2021, respectively, and $1.5 million and $7.6 million during the nine months ended September 30, 2022 and 2021, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Conditions

The Company's business and financial performance are affected by economic conditions generally in the U.S. and more directly in the Illinois and Iowa 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 (including the effect of inflationary pressures and supply chain constraints), unemployment rates, real estate markets, and interest rates.

COVID-19 Pandemic

Although the Company has had continuous business operations since the beginning of the COVID-19 pandemic, the pandemic has caused significant economic disruption throughout the U.S. and the communities that we serve. While the economic outlook has generally improved relative to 2020 and 2021, there remains uncertainty surrounding the longer lasting impact on specific industries and potential surges in COVID-19 infections with new virus variants. As a result, the businesses we serve may be adversely impacted, and the ability of our customers to fulfill their contractual obligations to us may deteriorate.

Interest Rates

Net interest income is our primary source of revenue. Net interest income is equal to 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 ("FRB") 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 FRB'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 FRB's actions. Our net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. Generally, we expect increases in market interest rates will increase our net interest income and net interest margin in future periods, while decreases in market interest rates may decrease our net interest income and net interest margin in future periods.

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 and credit review processes are strengths that allow 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.

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, FinTechs 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 which may affect our financial results in the future.

Digital Banking

Throughout the banking industry, in-person branch traffic is expected to continue to decline as more customers turn to digital banking for routine banking transactions. The COVID-19 pandemic has accelerated this transition, and in-person branch traffic is not expected to return to pre-pandemic levels. We plan to continue investing in our digital banking platforms, while maintaining an appropriately sized branch network. An inability to meet evolving customer expectations, with the appropriate level of security, for both digital and in-person banking may adversely affect our financial results in the future.

Regulatory Environment and 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 Bank Secrecy Act 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

JOBS Act Accounting Election

We qualify as an “emerging growth company” under the JOBS Act. The JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies. The Company may remain an emerging growth company until the earliest to occur of: (1) the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2024, (2) the last day of the fiscal year in which the Company has $1.07 billion or more in annual revenues, (3) the date on which the Company is deemed to be a “large accelerated filer” under the Exchange Act or (4) the date on which the Company has, during the previous three year period, issued, publicly or privately, more than $1.0 billion in non-convertible debt securities. 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.

RESULTS OF OPERATIONS

Overview of Recent Financial Results

The following table presents selected financial results and measures:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(dollars in thousands, except per share amounts)			
Consolidated Statement of Income Information				
Total interest and dividend income	$ 39,014	$ 32,115	$ 108,106	$ 93,868
Total interest expense	1,624	1,400	4,415	4,324
Net interest income	37,390	30,715	103,691	89,544
Provision for loan losses	386	(1,667)	(53)	(7,234)
Net interest income after provision for loan losses	37,004	32,382	103,744	96,778
Total noninterest income	8,234	8,392	26,828	27,974
Total noninterest expense	23,998	22,167	71,997	66,865
Income before income tax expense	21,240	18,607	58,575	57,887
Income tax expense	5,613	4,892	15,259	15,210
Net income	$ 15,627	$ 13,715	$ 43,316	$ 42,677
Adjusted net income (1)	$ 15,856	14,479	$ 41,919	$ 42,680
Net interest income (tax-equivalent basis) (1) (2)	$ 38,064	$ 31,223	$ 105,492	$ 91,058
Share and Per Share Information				
Earnings per share - Diluted	$ 0.54	$ 0.50	$ 1.49	$ 1.56
Adjusted earnings per share - Diluted (1)	0.55	0.53	1.45	1.56
Weighted average shares of common stock outstanding	28,787,662	27,340,926	28,887,757	27,377,809
Summary Ratios				
Net interest margin *	3.65 %	3.18 %	3.36 %	3.19 %
Net interest margin (tax-equivalent basis) * (1) (2)	3.72	3.23	3.41	3.24
Yield on loans *	4.91	4.86	4.66	4.69
Yield on interest-earning assets *	3.81	3.33	3.50	3.34
Cost of interest-bearing liabilities *	0.23	0.22	0.21	0.23
Cost of total deposits *	0.06	0.07	0.06	0.07
Efficiency ratio	52.07 %	56.04 %	54.60 %	56.22 %
Efficiency ratio (tax-equivalent basis) (1) (2)	51.31	55.32	53.86	55.50
Return on average assets *	1.47 %	1.37 %	1.35 %	1.47 %
Return on average stockholders' equity *	16.27	14.29	14.91	15.42
Return on average tangible common equity * (1)	17.70	15.32	16.20	16.59
Adjusted return on average assets * (1)	1.49 %	1.45 %	1.31 %	1.47 %
Adjusted return on average stockholders' equity * (1)	16.51	15.08	14.43	15.43
Adjusted return on average tangible common equity * (1)	17.96	16.18	15.67	16.59

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

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

For the three months ended September 30, 2022, net income was $15.6 million, increasing by $1.9 million, or 13.9%, when compared to net income for the three months ended September 30, 2021. Notable changes include the following:

- A $6.7 million increase in net interest income, primarily attributable to higher average balances of interest-earning assets following the NXT acquisition in the fourth quarter of 2021, a more favorable asset mix, and higher yields on interest-earning assets which more than offset a $2.9 million decrease in PPP loan fees recognized as loan interest income;
- A provision for loan losses of $0.4 million was recognized during the three months ended September 30, 2022, compared to a negative provision for loan losses of $1.7 million during the three months ended September 30, 2021;
- A $1.8 million increase in noninterest expense, primarily reflecting a higher base level of noninterest expense following the NXT acquisition; and
- A $0.9 million decrease in gains on sale of mortgage loans, primarily attributable to a lower level of mortgage refinancing activity due to increases in interest rates.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

For the nine months ended September 30, 2022, net income was $43.3 million, increasing by $0.6 million, or 1.5%, when compared to net income for the nine months ended September 30, 2021. Notable changes include the following:

- A $14.1 million increase in net interest income, primarily attributable to higher average balances of interest-earning assets following the NXT acquisition in the fourth quarter of 2021, a more favorable asset mix, and higher yields on interest-earning assets which more than offset a $6.1 million decrease in PPP loan fees recognized as loan interest income;
- A negative provision for loan losses of $0.1 million was recognized during the nine months ended September 30, 2022, compared to a negative provision for loan losses of $7.2 million during the nine months ended September 30, 2021;
- A $3.7 million decrease in gains on sale of mortgage loans, primarily attributable to a lower level of mortgage refinancing activity due to increases in interest rates; and
- A $5.1 million increase in noninterest expense, primarily reflecting a higher base level of noninterest expense following the NXT acquisition.

Net Interest Income

Net interest income equals the excess of interest income on interest earning assets (including discount accretion on acquired loans plus certain loan fees) 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 set forth average balances, average yields and costs, and certain other information for the three and nine months ended September 30, 2022 and 2021. 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					
	September 30, 2022			September 30, 2021		
	Average Balance	Interest	Yield/Cost *	Average Balance	Interest	Yield/Cost *
	(dollars in thousands)					
ASSETS						
Loans	$ 2,481,920	$ 30,697	4.91 %	$ 2,135,476	$ 26,176	4.86 %
Securities	1,470,092	7,842	2.12	1,180,513	5,735	1.93
Deposits with banks	105,030	458	1.73	513,158	190	0.15
Other	2,936	17	2.25	2,739	14	2.00
Total interest-earning assets	4,059,978	$ 39,014	3.81 %	3,831,886	$ 32,115	3.33 %
Allowance for loan losses	(24,717)			(26,470)		
Noninterest-earning assets	173,461			159,635		
Total assets	$ 4,208,722			$ 3,965,051		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest-bearing deposits:						
Interest-bearing demand	$ 1,137,072	$ 144	0.05 %	$ 1,020,216	$ 129	0.05 %
Money market	577,388	203	0.14	510,183	96	0.07
Savings	649,752	53	0.03	608,436	48	0.03
Time	271,870	187	0.27	275,224	291	0.42
Total interest-bearing deposits	2,636,082	587	0.09	2,414,059	564	0.09
Securities sold under agreements to repurchase	50,427	9	0.07	49,923	8	0.06
Borrowings	11,967	85	2.80	326	1	0.46
Subordinated notes	39,365	470	4.73	39,285	470	4.74
Junior subordinated debentures issued to capital trusts	37,755	473	4.97	37,688	357	3.76
Total interest-bearing liabilities	2,775,596	$ 1,624	0.23 %	2,541,281	$ 1,400	0.22 %
Noninterest-bearing deposits	1,031,407			1,016,384		
Noninterest-bearing liabilities	20,736			26,523		
Total liabilities	3,827,739			3,584,188		
Stockholders' Equity	380,983			380,863		
Total liabilities and stockholders' equity	$ 4,208,722			$ 3,965,051		
Net interest income/Net interest margin (1)		$ 37,390	3.65 %		$ 30,715	3.18 %
Tax-equivalent adjustment (2)		674	0.07		508	0.05
Net interest income (tax-equivalent basis)/ Net interest margin (tax-equivalent basis) (2) (3)		$ 38,064	3.72 %		$ 31,223	3.23 %
Net interest rate spread (4)			3.58 %			3.11 %
Net interest-earning assets (5)	$ 1,284,382			$ 1,290,605		
Ratio of interest-earning assets to interest-bearing liabilities	1.46			1.51		
Cost of total deposits			0.06 %			0.07 %

* Annualized measure.
(1) Net interest margin represents net interest income divided by average total interest-earning assets.
(2) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.
(3) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most closely comparable GAAP measures.
(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.

	Nine Months Ended					
	September 30, 2022			September 30, 2021		
	Average Balance	Interest	Yield/Cost *	Average Balance	Interest	Yield/Cost *
	(dollars in thousands)					
ASSETS						
Loans	$ 2,485,501	$ 86,687	4.66 %	$ 2,217,463	$ 77,738	4.69 %
Securities	1,405,245	20,332	1.93	1,102,808	15,706	1.90
Deposits with banks	237,646	1,037	0.58	432,971	385	0.12
Other	2,829	50	2.36	2,655	39	1.95
Total interest-earning assets	4,131,221	$ 108,106	3.50 %	3,755,897	$ 93,868	3.34 %
Allowance for loan losses	(24,467)			(29,069)		
Noninterest-earning assets	172,243			157,287		
Total assets	$ 4,278,997			$ 3,884,115		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities						
Interest-bearing deposits:						
Interest-bearing demand	$ 1,146,635	$ 430	0.05 %	$ 1,012,557	$ 373	0.05 %
Money market	585,815	434	0.10	498,441	279	0.07
Savings	653,659	155	0.03	584,226	135	0.03
Time	289,000	643	0.30	286,685	1,034	0.48
Total interest-bearing deposits	2,675,109	1,662	0.08	2,381,909	1,821	0.10
Securities sold under agreements to repurchase	51,503	26	0.07	47,827	23	0.06
Borrowings	4,344	87	2.67	421	2	0.43
Subordinated notes	39,345	1,409	4.79	39,265	1,409	4.80
Junior subordinated debentures issued to capital trusts	37,738	1,231	4.36	37,671	1,069	3.79
Total interest-bearing liabilities	2,808,039	$ 4,415	0.21 %	2,507,093	$ 4,324	0.23 %
Noninterest-bearing deposits	1,060,566			976,884		
Noninterest-bearing liabilities	21,883			30,205		
Total liabilities	3,890,488			3,514,182		
Stockholders' Equity	388,509			369,933		
Total liabilities and stockholders' equity	$ 4,278,997			3,884,115		
Net interest income/Net interest margin (1)		$ 103,691	3.36 %		$ 89,544	3.19 %
Tax-equivalent adjustment (2)		1,801	0.05		1,514	0.05
Net interest income (tax-equivalent basis)/ Net interest margin (tax-equivalent basis) (2) (3)		$ 105,492	3.41 %		$ 91,058	3.24 %
Net interest rate spread (4)			3.29 %			3.11 %
Net interest-earning assets (5)	$ 1,323,182			$ 1,248,804		
Ratio of interest-earning assets to interest-bearing liabilities	1.47			1.50		
Cost of total deposits			0.06 %			0.07 %

* Annualized measure.
(1) Net interest margin represents net interest income divided by average total interest-earning assets.
(2) On a tax-equivalent basis assuming a federal income tax rate of 21% and a state income tax rate of 9.5%.
(3) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most closely comparable GAAP measures.
(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 table sets forth the components of loan interest income, which includes contractual interest on loans, loan fees, and accretion of acquired loan discounts.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Interest	Yield Contribution *	Interest	Yield Contribution *	Interest	Yield Contribution *	Interest	Yield Contribution *
	(dollars in thousands)							
Contractual interest	$ 29,308	4.69 %	$ 22,324	4.14 %	$ 81,195	4.36 %	$ 67,096	4.04 %
Loan fees (excluding PPP loans)	1,030	0.16	631	0.12	3,309	0.18	2,609	0.16
PPP loan fees	106	0.02	3,017	0.56	1,487	0.08	7,604	0.46
Accretion of acquired loan discounts	253	0.04	204	0.04	696	0.04	429	0.03
Total loan interest income	$ 30,697	4.91 %	$ 26,176	4.86 %	$ 86,687	4.66 %	$ 77,738	4.69 %

* Annualized measure.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	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	$ 29,308	2.86 %	$ 22,324	2.31 %	$ 81,195	2.63 %	$ 67,096	2.39 %
Contractual interest on securities	9,570	0.94	7,387	0.77	25,669	0.83	20,911	0.75
Contractual interest on deposits with banks	458	0.05	190	0.02	1,037	0.03	385	0.01
Loan fees (excluding PPP loans)	1,030	0.10	631	0.07	3,309	0.11	2,609	0.09
PPP loan fees	106	0.01	3,017	0.31	1,487	0.05	7,604	0.27
Accretion of acquired loan discounts	253	0.02	204	0.02	696	0.02	429	0.02
Securities amortization, net	(1,728)	(0.17)	(1,652)	(0.17)	(5,337)	(0.17)	(5,205)	(0.19)
Other	17	—	14	—	50	—	39	—
Total interest income	39,014	3.81	32,115	3.33	108,106	3.50	93,868	3.34
Interest expense:								
Contractual interest on deposits	624	0.06	561	0.06	1,817	0.06	1,812	0.06
Contractual interest on other interest-bearing liabilities	985	0.10	694	0.08	2,467	0.08	2,088	0.07
Other	15	—	145	0.01	131	—	424	0.02
Total interest expense	1,624	0.16	1,400	0.15	4,415	0.14	4,324	0.15
Net interest income	37,390	3.65	30,715	3.18	103,691	3.36	89,544	3.19
Tax equivalent adjustment (1)	674	0.07	508	0.05	1,801	0.05	1,514	0.05
Net interest income (tax equivalent) (1) (2)	$ 38,064	3.72 %	$ 31,223	3.23 %	$ 105,492	3.41 %	$ 91,058	3.24 %

* 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 closely 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 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 September 30, 2022 vs. Three Months Ended September 30, 2021			Nine Months Ended September 30, 2022 vs. Nine Months Ended September 30, 2021		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)					
Interest-earning assets:						
Loans	$ 4,283	$ 238	$ 4,521	$ 9,350	$ (401)	$ 8,949
Securities	1,506	601	2,107	4,372	254	4,626
Deposits with banks	(262)	530	268	(244)	896	652
Other	1	2	3	3	8	11
Total interest-earning assets	5,528	1,371	6,899	13,481	757	14,238
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	15	—	15	50	7	57
Money market	14	93	107	55	100	155
Savings	3	2	5	17	3	20
Time	(4)	(100)	(104)	8	(399)	(391)
Total interest-bearing deposits	28	(5)	23	130	(289)	(159)
Securities sold under agreements to repurchase	—	1	1	2	1	3
Borrowings	73	11	84	55	30	85
Subordinated notes	1	(1)	—	3	(3)	—
Junior subordinated debentures issued to capital trusts	1	115	116	2	160	162
Total interest-bearing liabilities	103	121	224	192	(101)	91
Change in net interest income	$ 5,425	$ 1,250	$ 6,675	$ 13,289	$ 858	$ 14,147

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

Net interest income for the three months ended September 30, 2022, was $37.4 million, increasing $6.7 million, or 21.7%, from the three months ended September 30, 2021. The increase is primarily attributable to higher average balances of interest-earnings assets following the NXT acquisition and a more favorable asset mix. These balance changes, as well as higher yields on interest-earning assets driven by recent increases in benchmark interest rates, more than offset a $2.9 million decrease in PPP loan fees recognized as loan interest income.

Net interest margin increased to 3.65% for the three months ended September 30, 2022 compared to 3.18% for the three months ended September 30, 2021. The increase was primarily attributable to a more favorable mix of interest-earnings assets as well as higher yields on interest-earning assets. Additionally, the contribution of PPP loan fees to net interest margin decreased to 1 basis point during the three months ended September 30, 2022 from 31 basis points during the three months ended September 30, 2021. This decrease was more than offset by an increase in contractual interest on loans, driven by recent increases in benchmark interest rates.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

Net interest income for the nine months ended September 30, 2022, was $103.7 million, increasing $14.1 million, or 15.8%, from the nine months ended September 30, 2021. The increase is primarily attributable to higher average balances of interest-earning assets following the NXT acquisition and a more favorable asset mix. These balances changes more than offset a $6.1 million decrease in PPP loan fees recognized as loan interest income.

Net interest margin increased to 3.36% for the nine months ended September 30, 2022 compared to 3.19% for the nine months ended September 30, 2021. The contribution of PPP loans to net interest margin decreased to 5 basis points during the nine months ended September 30, 2022 from 27 basis points during the nine months ended September 30, 2021. This decrease was more than offset by an increase in contractual interest on loans, driven by recent increases in benchmark interest rates.

The quarterly net interest margins were as follows:

	2022	2021
Three months ended:		
March 31	3.08 %	3.25 %
June 30	3.34	3.14
September 30	3.65	3.18
December 31	—	3.17

In March 2020, the Federal Open Markets Committee ("FOMC"), in response to the economic downturn caused by the COVID-19 pandemic, lowered the target range for the federal funds rate to 0% to 0.25% and announced the FRB would substantially increase its Treasury and agency mortgage-backed securities holdings. This resulted in a historically low interest rate environment which lasted through the rest of 2020 and into 2021, putting downward pressure on our net interest margin.

In 2021, the FOMC began to taper the pace of its security purchases, and, in March 2022, the FOMC raised the target range for the federal funds rate. Since March 2022, the FOMC has raised the target range for the federal funds rate several times, setting the target range for the federal funds rate to 3.75% to 4.00% at the November 2022 meeting, and indicated that the FRB will continue reducing its security holdings. Additionally, the FOMC indicated that it will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments in determining the pace of future increases in the target range.

As a result of these developments, market interest rates have risen which has led to improvements in our net interest margin. In general, we believe that increases in market interest rates will lead to improved net interest margins while decreases in market interest rates will result in lower net interest margins. Additionally, these recent increases in market interest rates have increased competition for deposits. As a result, we expect deposit costs to increase during the rest of 2022 and deposits balances may decrease and be replaced by higher cost funding sources, such as FHLB advances, brokered deposits, or other wholesale funding. Although funding costs are expected to increase during the remainder of 2022, such increased funding costs should be more than offset by continued increases in interest-earning asset yields resulting from the higher market interest rates.

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 as 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 accounting for net charge-offs (recoveries).

Credit losses in our loan portfolio are highly dependent on the economic conditions in the communities that we serve. The general deterioration in economic conditions initially caused by the COVID-19 pandemic adversely affected the communities that we serve beginning in 2020. As a result, our allowance for loan losses initially increased at the onset of the COVID-19 pandemic, remained elevated during the remainder of 2020, and then gradually returned to near pre-pandemic levels during 2021 as economic conditions improved in our market areas. Potential deterioration of economic conditions, whether due to the COVID-19 pandemic or other factors, may lead to higher credit losses and adversely impact our financial condition and results of operations.

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

The Company recorded a provision for loan losses of $0.4 million during the three months ended September 30, 2022, compared to a negative provision for loan losses of $1.7 million during the three months ended September 30, 2021. The provision during the three months ended September 30, 2022 was primarily due to a $128.1 million increase in loans, resulting in a $1.1 million increase in general reserves. Mostly offsetting this increase was a $0.7 million decrease in specific reserves on loans individually evaluated for impairment.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

The Company recorded a negative provision for loan losses of $0.1 million during the nine months ended September 30, 2022, compared to a negative provision for loan losses of $7.2 million during the nine months ended September 30, 2021. During the nine months ended September 30, 2022, net recoveries of $1.2 million were mostly offset by a $1.1 million increase in required reserves, which included a $0.8 million increase in specific reserves on loans individually evaluated for impairment.

Noninterest Income

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	$ Change	2022	2021	$ Change
	(dollars in thousands)					
Card income	$ 2,569	$ 2,509	$ 60	$ 7,687	$ 7,216	$ 471
Wealth management fees	2,059	2,036	23	6,670	6,013	657
Service charges on deposit accounts	1,927	1,677	250	5,371	4,364	1,007
Mortgage servicing	697	699	(2)	2,016	2,095	(79)
Mortgage servicing rights fair value adjustment	351	40	311	2,446	1,425	1,021
Gains on sale of mortgage loans	354	1,257	(903)	1,267	4,919	(3,652)
Unrealized gains (losses) on equity securities	(107)	28	(135)	(447)	74	(521)
Gains (losses) on foreclosed assets	(225)	(14)	(211)	(192)	126	(318)
Gains (losses) on other assets	(31)	(672)	641	119	(719)	838
Income on bank owned life insurance	41	—	41	122	—	122
Other noninterest income	599	832	(233)	1,769	2,461	(692)
Total noninterest income	$ 8,234	$ 8,392	$ (158)	$ 26,828	$ 27,974	$ (1,146)

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

Total noninterest income for the three months ended September 30, 2022, was $8.2 million, a decrease of $0.2 million, or 1.9%, from the three months ended September 30, 2021. Notable changes in noninterest income include the following:

- A $0.9 million decrease in gains on sale of mortgage loans, primarily attributable to a lower level of mortgage refinancing activity due to recent interest rate increases;
- A $0.6 million improvement in gains (losses) on other assets, as the 2021 results include impairment losses of $0.6 million related to branches closed during the third quarter of 2021, pursuant to our branch rationalization plan;
- A $0.3 million increase in the mortgage servicing rights fair value adjustment, primarily resulting from slower mortgage prepayment speed assumptions; and
- A $0.3 million increase in service charges on deposit accounts.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

Total noninterest income for the nine months ended September 30, 2022, was $26.8 million, a decrease of $1.1 million, or 4.1%, from the nine months ended September 30, 2021. Notable changes in noninterest income include the following:

- A $3.7 million decrease in gains on sale of mortgage loans, primarily attributable to a lower level of mortgage refinancing activity, due to recent interest rate increases;
- A $1.0 million increase in the mortgage servicing rights fair value adjustment, primarily resulting from slower mortgage prepayment speed assumptions;
- A $1.0 million increase in service charges on deposit accounts;
- A $0.8 million improvement in gains (losses) on other assets, as the 2021 results include impairment losses of $0.7 million related to branches closed during the third quarter of 2021, pursuant to our branch rationalization plan;
- A $0.7 million increase in wealth management fees, reflecting a $0.4 million increase in farm management fees, primarily due to a $0.3 million increase in farm real estate brokerage fees;
- A $0.7 million decrease in other noninterest income, primarily resulting from a $0.4 million decrease in fees collected on loans due to a lower level of mortgage refinancing activity; and
- A $0.5 million increase in card income primarily due to increased debit and credit card transaction volume.

Noninterest Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	$ Change	2022	2021	$ Change
	(dollars in thousands)					
Salaries	$ 12,752	$ 11,835	$ 917	$ 38,489	$ 36,486	$ 2,003
Employee benefits	1,771	1,455	316	6,199	4,549	1,650
Occupancy of bank premises	1,979	1,610	369	5,780	5,011	769
Furniture and equipment	668	657	11	1,843	1,883	(40)
Data processing	1,631	1,767	(136)	5,274	5,176	98
Marketing and customer relations	880	883	(3)	2,936	2,291	645
Amortization of intangible assets	243	252	(9)	733	799	(66)
FDIC insurance	302	279	23	888	763	125
Loan collection and servicing	336	400	(64)	771	1,098	(327)
Foreclosed assets	97	242	(145)	260	704	(444)
Other noninterest expense	3,339	2,787	552	8,824	8,105	719
Total noninterest expense	$ 23,998	$ 22,167	$ 1,831	$ 71,997	$ 66,865	$ 5,132

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

Total noninterest expense for the three months ended September 30, 2022, was $24.0 million, an increase of $1.8 million, or 8.3%, from the three months ended September 30, 2021. Notable changes in noninterest expense include the following:

- Following the NXT acquisition on October 1, 2021, there was a higher base level of noninterest expense, primarily related to personnel costs and branch operations; and
- A $0.6 million increase in other noninterest expense, in part due to legal and professional fees related to the acquisition of Town and Country.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

Total noninterest expense for the nine months ended September 30, 2022, was $72.0 million, an increase of $5.1 million, or 7.7%, from the nine months ended September 30, 2021. Notable changes in noninterest expense include the following:

- Following the NXT acquisition on October 1, 2021, there was a higher base level of noninterest expense, primarily related to personnel costs and branch operations;
- The $1.7 million increase in employee benefits expenses also included accelerated recognition of $0.6 million of stock compensation expense during February 2022 as a result of a modification to all outstanding restricted stock unit and performance restricted stock unit agreements to address treatment upon retirement. Total compensation costs related to the modified agreements remains the same, and stock compensation expense in periods subsequent to the modification are reduced as a result. The net impact of the modification was a $0.5 million increase in stock compensation expense during the nine months ended September 30, 2022;
- A $0.6 million increase in marketing expense, primarily due to variations in timing of marketing campaigns as well as a slightly higher marketing budget relative to 2021; and
- A $0.4 million decrease in foreclosed asset expense, primarily due to fewer foreclosed properties held in 2022 relative to 2021.

Income Taxes

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

During the three months ended September 30, 2022 and 2021, we recorded income tax expense of $5.6 million and $4.9 million, respectively, with the effective tax rates remaining nearly unchanged at 26.4% and 26.3%, respectively.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

We recorded income tax expense of $15.3 million, or a 26.1% effective tax rate, during the nine months ended September 30, 2022, compared to $15.2 million, or a 26.3% effective tax rate, during the nine months ended September 30, 2021. The slight decrease in effective tax rate was primarily due to lower overall state income taxes.

FINANCIAL CONDITION

Consolidated Balance Sheet Information	September 30, 2022	December 31, 2021	$ Change	% Change
	(dollars in thousands, except per share data)			
Cash and cash equivalents	$ 78,215	$ 409,268	$ (331,053)	(80.9)%
Debt securities available-for-sale, at fair value	853,740	942,168	(88,428)	(9.4)
Debt securities held-to-maturity	546,694	336,185	210,509	62.6
Loans held for sale	2,297	4,942	(2,645)	(53.5)
Loans, before allowance for loan losses	2,579,928	2,499,689	80,239	3.2
Less: allowance for loan losses	25,060	23,936	1,124	4.7
Loans, net of allowance for loan losses	2,554,868	2,475,753	79,115	3.2
Goodwill	29,322	29,322	—	—
Core deposit intangible assets, net	1,210	1,943	(733)	(37.7)
Other assets	146,978	114,673	32,305	28.2
Total assets	$ 4,213,324	$ 4,314,254	$ (100,930)	(2.3)%
Total deposits	$ 3,643,443	$ 3,738,185	$ (94,742)	(2.5)%
Securities sold under agreements to repurchase	48,130	61,256	(13,126)	(21.4)
Borrowings	60,000	—	60,000	NM
Subordinated notes	39,376	39,316	60	0.2
Junior subordinated debentures	37,763	37,714	49	0.1
Other liabilities	25,539	25,902	(363)	(1.4)
Total liabilities	3,854,251	3,902,373	(48,122)	(1.2)
Total stockholders' equity	359,073	411,881	(52,808)	(12.8)
Total liabilities and stockholders' equity	$ 4,213,324	$ 4,314,254	$ (100,930)	(2.3)%
Tangible assets (1)	$ 4,182,792	$ 4,282,989	$ (100,197)	(2.3)%
Tangible common equity (1)	328,541	380,616	(52,075)	(13.7)
Core deposits (1)	$ 3,617,614	$ 3,674,435	$ (56,821)	(1.5)%
Share and Per Share Information				
Book value per share	$ 12.49	$ 14.21		
Tangible book value per share (1)	11.43	13.13		
Shares of common stock outstanding	28,752,626	28,986,061		
Balance Sheet Ratios				
Loan to deposit ratio	70.81 %	66.87 %		
Core deposits to total deposits (1)	99.29	98.29		
Stockholders' equity to total assets	8.52	9.55		
Tangible common equity to tangible assets (1)	7.85	8.89		

(1) See "Non-GAAP Financial Information" for reconciliation of non-GAAP measure to their most closely comparable GAAP measures.
NM Not meaningful

Total assets were $4.21 billion at September 30, 2022, a decrease of $100.9 million, or 2.3%, from December 31, 2021. Notable changes in our consolidated balance sheet include the following:

- Excess liquidity, including excess cash held at December 31, 2021, was reinvested into debt securities, which increased by $122.1 million, and loans held for investment which increased $80.2 million;
- Loans increased by $80.2 million with growth in most of our geographic markets, which was partially offset by a $29.4 million decrease due to forgiveness of PPP loans;
- Total deposits decreased by $94.7 million, primarily due to lower balances maintained in retail and business accounts;
- Increases in market interest rates since December 31, 2021 drove a decrease in fair value of debt securities resulting in $112.9 million of unrealized losses in the available-for-sale portfolio and substantially contributing to a total decrease of $78.9 million in accumulated other comprehensive income (loss); and
- Borrowings, consisting of short-term FHLB advances, increased $60.0 million and were utilized to fund short-term liquidity needs.

Loan Portfolio

The following table sets forth the composition of the loan portfolio, excluding loans held-for-sale, by type of loan.

	September 30, 2022		December 31, 2021	
	Balance	Percent	Balance	Percent
	(dollars in thousands)			
Commercial and industrial	$ 240,671	9.4 %	$ 286,946	11.5 %
Agricultural and farmland	245,234	9.5	247,796	9.9
Commercial real estate - owner occupied	226,524	8.8	234,544	9.4
Commercial real estate - non-owner occupied	718,089	27.8	684,023	27.4
Multi-family	260,630	10.1	263,911	10.5
Construction and land development	364,290	14.1	298,048	11.9
One-to-four family residential	328,667	12.7	327,837	13.1
Municipal, consumer, and other	195,823	7.6	156,584	6.3
Loans, before allowance for loan losses	2,579,928	100.0 %	2,499,689	100.0 %
Allowance for loan losses	(25,060)		(23,936)	
Loans, net of allowance for loan losses	$ 2,554,868		$ 2,475,753	
PPP loans (included above)				
Commercial and industrial	$ 65	— %	$ 28,404	1.1 %
Agricultural and farmland	—	—	913	0.1
Municipal, consumer, and other	—	—	171	—
Total PPP loans	$ 65	— %	$ 29,488	1.2 %

Loans, before allowance for loan losses were $2.58 billion at September 30, 2022, an increase of $80.2 million, or 3.2%, from December 31, 2021, with growth in most of our geographic markets that was partially offset by a $29.4 million decrease due to forgiveness of PPP loans. Additionally, we saw a slower pace of prepayments, beginning in the third quarter of 2022, as a result of recent increases in interest rates.

Loan Portfolio Maturities

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

September 30, 2022	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 15 Years	After 15 Years	Total
	(dollars in thousands)				
Commercial and industrial	$ 148,942	$ 74,439	$ 17,290	$ —	$ 240,671
Agricultural and farmland	102,255	94,534	45,160	3,285	245,234
Commercial real estate - owner occupied	15,409	142,469	65,635	3,011	226,524
Commercial real estate - non-owner occupied	80,362	433,608	203,610	509	718,089
Multi-family	22,742	169,870	68,018	—	260,630
Construction and land development	179,018	169,457	15,585	230	364,290
One-to-four family residential	77,530	110,074	79,327	61,736	328,667
Municipal, consumer, and other	85,266	18,681	70,953	20,923	195,823
Total	$ 711,524	$ 1,213,132	$ 565,578	$ 89,694	$ 2,579,928

The following table summarizes loans maturing after one year, segregated into variable and fixed interest rates.

	Variable Interest Rates				
September 30, 2022	Repricing 1 Year or Less	Repricing After 1 Year	Total Variable Interest Rates	Predetermined (Fixed) Interest Rates	Total
	(dollars in thousands)				
Commercial and industrial	$ 11,999	$ 19	$ 12,018	$ 79,711	$ 91,729
Agricultural and farmland	7,602	5,917	13,519	129,460	142,979
Commercial real estate - owner occupied	33,033	18,964	51,997	159,118	211,115
Commercial real estate - non-owner occupied	69,743	14,891	84,634	553,093	637,727
Multi-family	25,774	431	26,205	211,683	237,888
Construction and land development	86,059	58	86,117	99,155	185,272
One-to-four family residential	63,235	23,618	86,853	164,284	251,137
Municipal, consumer, and other	31,375	11,845	43,220	67,337	110,557
Total	$ 328,820	$ 75,743	$ 404,563	$ 1,463,841	$ 1,868,404

Nonperforming Assets

Nonperforming loans consist of all loans 90 days or more past due 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 on which management can no longer estimate future cash flows.

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

	September 30, 2022	December 31, 2021
	(dollars in thousands)	
NONPERFORMING ASSETS		
Nonaccrual	$ 3,206	$ 2,763
Past due 90 days or more, still accruing [1]	—	16
Total nonperforming loans	3,206	2,779
Foreclosed assets	2,637	3,278
Total nonperforming assets	$ 5,843	$ 6,057
Allowance for loan losses	$ 25,060	$ 23,936
Loans, before allowance for loan losses	2,579,928	2,499,689
CREDIT QUALITY RATIOS		
Allowance for loan losses to loans, before allowance for loan losses	0.97 %	0.96 %
Allowance for loan losses to nonaccrual loans	781.66	866.30
Allowance for loan losses to nonperforming loans	781.66	861.32
Nonaccrual loans to loans, before allowance for loan losses	0.12	0.11
Nonperforming loans to loans, before allowance for loan losses	0.12	0.11
Nonperforming assets to total assets	0.14	0.14
Nonperforming assets to loans, before allowance for loan losses, and foreclosed assets	0.23	0.24

(1) Excludes loans acquired with deteriorated credit quality that are past due 90 or more days totaling $22 thousand and $32 thousand as of September 30, 2022, and December 31, 2021, respectively.

Total nonperforming assets were $5.8 million at September 30, 2022, decreasing slightly since December 31, 2021. Our level of nonperforming assets has remained low in recent years, representing only 0.14% of total assets at both September 30, 2022 and December 31, 2021. We believe our continuous credit monitoring and collection efforts have resulted in lower levels of nonperforming assets, while also recognizing that favorable economic conditions prior to the COVID-19 pandemic and substantial federal economic stimulus during the pandemic have also contributed to these lower levels.

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.

	September 30, 2022			December 31, 2021		
	Accruing	Nonaccrual	Total	Accruing	Nonaccrual	Total
			(dollars in thousands)			
Commercial and industrial	$ 111	$ —	$ 111	$ 203	$ —	$ 203
Commercial real estate - owner occupied	1,532	—	1,532	1,671	—	1,671
Commercial real estate - non-owner occupied	1,225	—	1,225	1,278	—	1,278
One-to-four family residential	191	—	191	360	—	360
Total troubled debt restructurings	$ 3,059	$ —	$ 3,059	$ 3,512	$ —	$ 3,512

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.

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 or criticized 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 September 30, 2022 and December 31, 2021, our risk classifications of loans were as follows:

	September 30, 2022	December 31, 2021
	(dollars in thousands)	
Pass	$ 2,449,735	$ 2,269,228
Pass-watch	57,798	148,285
Substandard	72,395	82,176
Doubtful	—	—
Total	$ 2,579,928	$ 2,499,689

Pass-watch loans decreased $90.5 million, or 61.0%, and substandard loans decreased $9.8 million, or 11.9%, from December 31, 2021 to September 30, 2022. This overall improvement was primarily driven by better economic conditions, relative to 2021, which resulted in both risk rating upgrades and paydowns.

Net Charge-offs and Recoveries

The following table summarizes net charge-offs (recoveries) to average loans, before allowance for loan losses, by loan category.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Net charge-offs (recoveries)				
Commercial and industrial	$ 11	$ 21	$ (733)	$ 9
Agricultural and farmland	—	—	—	—
Commercial real estate - owner occupied	(1)	—	(101)	—
Commercial real estate - non-owner occupied	(3)	(6)	(273)	(19)
Multi-family	—	—	—	—
Construction and land development	(1)	(1)	(1)	(270)
One-to-four family residential	(42)	(87)	(256)	(49)
Municipal, consumer, and other	96	52	187	72
Total	$ 60	$ (21)	$ (1,177)	$ (257)
Average loans, before allowance for loan losses				
Commercial and industrial	$ 233,046	$ 289,372	$ 271,136	$ 363,497
Agricultural and farmland	235,273	236,444	232,762	226,096
Commercial real estate - owner occupied	212,997	192,419	220,463	200,857
Commercial real estate - non-owner occupied	675,086	554,279	687,024	548,752
Multi-family	265,690	212,980	254,836	221,986
Construction and land development	348,958	214,159	329,781	213,761
One-to-four family residential	327,272	302,214	328,199	309,095
Municipal, consumer, and other	183,598	133,609	161,300	133,419
Total	$ 2,481,920	$ 2,135,476	$ 2,485,501	$ 2,217,463
Net charge-offs (recoveries) to average loans, before allowance for loan losses *				
Commercial and industrial	0.02 %	0.03 %	(0.36)%	— %
Agricultural and farmland	—	—	—	—
Commercial real estate - owner occupied	—	—	(0.06)	—
Commercial real estate - non-owner occupied	—	—	(0.05)	—
Multi-family	—	—	—	—
Construction and land development	—	—	—	(0.17)
One-to-four family residential	(0.05)	(0.11)	(0.10)	(0.02)
Municipal, consumer, and other	0.21	0.15	0.16	0.07
Total	0.01 %	— %	(0.06)%	(0.02)%

* Annualized measure.

The net charge-offs (recoveries) to average total loans before allowance for loan losses ratio has remained low for several years. We believe our continuous credit monitoring and collection efforts have resulted in lower levels of loan losses, while also recognizing that favorable economic conditions prior to the COVID-19 pandemic and substantial federal economic stimulus during the pandemic have also contributed to reduced loan losses.

Securities

The Company's investment policy emphasizes safety of the principal, liquidity needs, expected returns, cash flow targets and consistency with our interest rate risk management strategy. The composition and maturities of the debt securities portfolio as of September 30, 2022, are summarized in the following table. 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.

	September 30, 2022					
	Available-for-Sale		Held-to-Maturity		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(dollars in thousands)					
Due in 1 year or less						
U.S. government agency	$ 2,005	0.15 %	$ —	— %	$ 2,005	0.15 %
Municipal	5,575	2.74	2,492	3.56	8,067	2.99
Mortgage-backed:						
Agency residential	134	2.09	—	—	134	2.09
Agency commercial	2,994	2.24	—	—	2,994	2.24
Corporate	4,995	2.58	—	—	4,995	2.58
Total	$ 15,703	2.26 %	$ 2,492	3.56 %	$ 18,195	2.44 %
Due after 1 year through 5 years						
U.S. Treasury	$ 119,734	1.33 %	$ —	— %	$ 119,734	1.33 %
U.S. government agency	40,920	2.55	10,000	2.18	50,920	2.48
Municipal	57,900	2.09	15,934	3.24	73,834	2.34
Mortgage-backed:						
Agency residential	13,673	2.32	8,389	1.62	22,062	2.06
Agency commercial	36,833	2.25	11,563	3.07	48,396	2.45
Corporate	16,884	4.29	—	—	16,884	4.29
Total	$ 285,944	2.00 %	$ 45,886	2.67 %	$ 331,830	2.09 %
Due after 5 years through 10 years						
U.S. Treasury	$ 50,161	1.49 %	$ —	— %	$ 50,161	1.49 %
U.S. government agency	18,503	2.24	59,640	2.46	78,143	2.41
Municipal	143,423	1.74	19,800	3.35	163,223	1.94
Mortgage-backed:						
Agency residential	78,677	2.10	3,964	3.51	82,641	2.17
Agency commercial	73,171	1.62	234,337	1.75	307,508	1.72
Corporate	38,816	4.00	—	—	38,816	4.00
Total	$ 402,751	2.00 %	$ 317,741	2.00 %	$ 720,492	2.00 %
Due after 10 years						
U.S. government agency	$ —	— %	$ 18,778	2.71 %	$ 18,778	2.71 %
Municipal	72,813	1.88	4,618	3.56	77,431	1.98
Mortgage-backed:						
Agency residential	131,254	2.42	92,977	3.61	224,231	2.92
Agency commercial	41,679	2.01	64,202	1.94	105,881	1.97
Corporate	2,000	4.50	—	—	2,000	4.50
Total	$ 247,746	2.21 %	$ 180,575	2.92 %	$ 428,321	2.51 %
Total						
U.S. Treasury	$ 169,895	1.38 %	$ —	— %	$ 169,895	1.38 %
U.S. government agency	61,428	2.38	88,418	2.48	149,846	2.44
Municipal	279,711	1.87	42,844	3.34	322,555	2.07
Mortgage-backed:						
Agency residential	223,738	2.30	105,330	3.45	329,068	2.67
Agency commercial	154,677	1.89	310,102	1.84	464,779	1.85
Corporate	62,695	3.98	—	—	62,695	3.98
Total	$ 952,144	2.06 %	$ 546,694	2.37 %	$ 1,498,838	2.17 %

SOURCES OF FUNDS

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 Bank continues to add and improve digital banking services to solidify deposit relationships.

The following table sets forth the distribution of average deposits, by account type:

	Three Months Ended September 30,						Percent Change in Average Balance
	2022			2021			
	Average Balance	Percent of Total Deposits	Weighted Average Cost *	Average Balance	Percent of Total Deposits	Weighted Average Cost *	
	(dollars in thousands)						
Noninterest-bearing	$ 1,031,407	28.1 %	— %	$ 1,016,384	29.6 %	— %	1.5 %
Interest-bearing demand	1,137,072	31.0	0.05	1,020,216	29.8	0.05	11.5
Money market	577,388	15.8	0.14	510,183	14.9	0.07	13.2
Savings	649,752	17.7	0.03	608,436	17.7	0.03	6.8
Total non-maturity deposits	3,395,619	92.6	0.05	3,155,219	92.0	0.03	7.6
Time	271,870	7.4	0.27	275,224	8.0	0.42	(1.2)
Total deposits	$ 3,667,489	100.0 %	0.06 %	$ 3,430,443	100.0 %	0.07 %	6.9 %

	Nine Months Ended September 30,						Percent Change in Average Balance
	2022			2021			
	Average Balance	Percent of Total Deposits	Weighted Average Cost *	Average Balance	Percent of Total Deposits	Weighted Average Cost *	
	(dollars in thousands)						
Noninterest-bearing	$ 1,060,566	28.4 %	— %	$ 976,884	29.1 %	— %	8.6 %
Interest-bearing demand	1,146,635	30.7	0.05	1,012,557	30.2	0.05	13.2
Money market	585,815	15.7	0.10	498,441	14.8	0.07	17.5
Savings	653,659	17.5	0.03	584,226	17.4	0.03	11.9
Total non-maturity deposits	3,446,675	92.3	0.04	3,072,108	91.5	0.03	12.2
Time	289,000	7.7	0.30	286,685	8.5	0.48	0.8
Total deposits	$ 3,735,675	100.0 %	0.06 %	$ 3,358,793	100.0 %	0.07 %	11.2 %

* Annualized measure.

Comparison of the Three Months Ended September 30, 2022 to the Three Months Ended September 30, 2021

The average balances of non-maturity deposits increased 7.6% from the three months ended September 30, 2021 to the three months ended September 30, 2022, with the increase primarily attributable to the NXT acquisition which added $139.4 million of non-maturity deposits on October 1, 2021. Time deposits decreased slightly due to continued run-off of higher cost time deposits which were mostly offset by the addition of $42.1 million of time deposits acquired from NXT.

Recent increases in market interest rates have increased competition for deposits. As a result, we expect deposit costs to increase during the rest of 2022 and deposits balances may decrease. Additionally, outgoing deposits may be replaced by higher cost funding sources, such as FHLB advances, brokered deposits, or other wholesale funding.

Comparison of the Nine Months Ended September 30, 2022 to the Nine Months Ended September 30, 2021

The average balances of non-maturity deposits increased 12.2% from the nine months ended September 30, 2021 to the nine months ended September 30, 2022, with the increase primarily attributable to higher balances maintained by deposit customers following the receipt of federal economic stimulus, in the form of PPP loan proceeds by commercial customers and direct payments received by retail customers, although this trend began to reverse in the second quarter of 2022. Additionally, the NXT acquisition added $139.4 million of non-maturity deposits on October 1, 2021. Time deposits increased slightly due to the addition of $42.1 million of time deposits acquired from NXT which were mostly offset by the continued run-off of higher cost time deposits.

The following table sets forth time deposits by remaining maturity as of September 30, 2022:

	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	$ 38,274	$ 34,853	$ 51,659	$ 54,376	$ 179,162
Amounts of $100,000 or more but less than $250,000	13,524	11,564	19,639	19,390	64,117
Amounts of $250,000 or more	9,190	4,766	7,175	4,698	25,829
Total time deposits	$ 60,988	$ 51,183	$ 78,473	$ 78,464	$ 269,108

As of September 30, 2022 and December 31, 2021, the Bank's uninsured deposits, including related accrued interest, were estimated to be $772.0 million and $845.7 million, respectively.

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 Bank manages 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 Bank continuously monitors its 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 Bank manages its liquidity position to meet our daily cash flow needs, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives. The Bank also monitors liquidity requirements in light of interest rate trends, changes in the economy, the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits, and regulatory capital requirements.

As part of the Bank's liquidity management strategy, the Bank is also focused on minimizing costs of liquidity and attempts 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 Bank does 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 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. Funds available through federal funds purchased and FHLB borrowings are used primarily to meet daily liquidity needs. The total remaining credit available to the Bank from the FHLB at September 30, 2022 was $330.6 million.

As of September 30, 2022, management believed the current liquidity and available sources of liquidity are adequate to meet all of the reasonably foreseeable short-term and intermediate-term demands of the Bank. As of September 30, 2022, the Bank had no material commitments for capital expenditures.

Holding Company Liquidity

The Holding Company, or HBT Financial, Inc. on an unconsolidated basis, is a corporation separate and apart from the Bank and, therefore, it must provide for its own liquidity. As of September 30, 2022, the Holding Company had cash and cash equivalents of $22.7 million.

The Holding Company's main source of funding is dividends declared and paid to it by the Bank. Due to state banking laws, the Bank may not declare dividends in any calendar year in an amount that would exceed accumulated retained earnings, 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 the Bank to the Holding Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Management believes that these limitations will not impact the Holding Company's ability to meet its ongoing short-term cash obligations. During the three and nine months ended September 30, 2022, the Bank paid $6.0 million and $18.0 million in dividends to the Holding Company, respectively. During the three and nine months ended September 30, 2021, the Bank did not pay a dividend to the Holding Company.

The liquidity needs of the Holding Company on an unconsolidated basis consist primarily of operating expenses, interest payments on the subordinated notes and junior subordinated debentures, and shareholder distributions in the form of dividends and stock repurchases. During the three months ended September 30, 2022 and 2021, holding company operating expenses consisted of interest expense of $0.9 million and $0.8 million, respectively, and other operating expenses of $1.4 million and $1.3 million, respectively. During the nine months ended September 30, 2022 and 2021, holding company operating expenses consisted of interest expense of $2.6 million and $2.5 million, respectively, and other operating expenses of $4.0 million and $2.6 million, respectively.

Additionally, the Holding Company paid $4.6 million and $4.1 million of dividends to stockholders during the three months ended September 30, 2022 and 2021, respectively, and paid $14.0 million and $12.4 million of dividends to stockholders during the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, management was not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material impact on the Holding Company's liquidity.

As of September 30, 2022, management believed the current liquidity and available sources of liquidity are adequate to meet all of the reasonably foreseeable short-term and intermediate-term demands of the Holding Company. As of September 30, 2022, the Holding 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 Bank 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 Bank.

In addition to meeting minimum capital requirements, the Company and the Bank must also maintain a "capital conservation buffer" to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. As of September 30, 2022 and December 31, 2021, the capital conservation buffer requirement was 2.5% of risk-weighted assets.

As of September 30, 2022 and December 31, 2021, the Company and the Bank met all capital adequacy requirements to which they were subject. As of those dates, the Bank was "well capitalized" under the regulatory prompt corrective action provisions.

The following table sets forth actual capital ratios of the Company and the Bank as of the dates indicated, as well as 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.

	September 30, 2022	December 31, 2021	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.	16.34 %	16.88 %	10.50 %	N/A
Heartland Bank and Trust Company	15.60	15.94	10.50	10.00 %
Tier 1 Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	14.26 %	14.66 %	8.50 %	N/A
Heartland Bank and Trust Company	14.79	15.09	8.50	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)				
Consolidated HBT Financial, Inc.	13.08 %	13.37 %	7.00 %	N/A
Heartland Bank and Trust Company	14.79	15.09	7.00	6.50 %
Tier 1 Capital (to Average Assets)				
Consolidated HBT Financial, Inc.	10.44 %	9.84 %	4.00	N/A
Heartland Bank and Trust Company	10.83	10.13	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.
N/A Not applicable.

As of September 30, 2022, 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 capital resources.

Cash Dividends

During 2021, the Company paid quarterly cash dividends of $0.15 per share. On January 25, 2022, the Company announced an increase of $0.01 and paid a $0.16 per share dividend during the first, second, and third quarters of 2022.

Stock Repurchase Program

Under the Company's stock repurchase program, the Company repurchased 78,571 shares of its common stock at a weighted average price of $18.22 during the three months ended September 30, 2022. The stock repurchase program has been paused until completion of the vote of Town and Country's shareholders on the merger. Repurchases were conducted in compliance with Rule 10b-18 and in compliance with Regulation M under the Exchange Act. The Company's Board of Directors authorized the repurchase of up to $15.0 million of its common stock under its stock repurchase program in effect until January 1, 2023. As of September 30, 2022, the Company had $10.2 million remaining under the current stock repurchase authorization.

OFF-BALANCE SHEET ARRANGEMENTS

As a financial services provider, the Bank routinely is 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, commitments to sell loans, and interest rate swaps. 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 Bank. Although commitments to extend credit are considered while evaluating our allowance for loan losses, as of September 30, 2022 and December 31, 2021, there were no reserves for unfunded commitments. For additional information, see “Note 14 – Commitments and Contingencies” to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

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. The following accounting estimate could be deemed critical:

Allowance for Loan losses

The allowance for loan losses (“allowance”) is an estimate of loan losses inherent in the Company’s loan portfolio. The allowance represents amounts that have been established to recognize incurred credit losses in the loan portfolio that are both probable and reasonably estimable at the date of the consolidated financial statements. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance. Loan losses are charged off against the allowance when the Company determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of two primary components, general reserves and specific reserves related to impaired loans. General reserves cover non-impaired loans, or loans collectively evaluated for impairment, and are based on historical losses adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 16-quarter period. Qualitative factor adjustments primarily consider current economic metrics, such as national and regional unemployment rates, and current credit quality metrics of each portfolio segment, such as past due and risk rating percentages, relative to historical levels. These qualitative factor adjustments are inherently subjective.

Specific reserves cover impaired loans, or loans individually evaluated for impairment, and are primarily measured based on the fair value of collateral. Adjustments to the fair value of collateral are made for anticipated selling costs. A specific reserve may be zero if the fair value of collateral on the measurement date is greater than the carrying balance of the impaired loan. Additionally, the present value of expected future cash flows discounted at the original contractual interest rate may also be used, when practical.

While the Company uses the best information available to make evaluations, future adjustments to the allowance for loan losses may become necessary if conditions change substantially from the conditions used in previous evaluations. Determinations as to the risk classification of loans and the amount of the allowance for loan losses are subject to review by regulatory agencies, which can require that the Company establish additional loss allowances.

NON-GAAP FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q contains certain financial information determined by methods other than those in accordance with GAAP. 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 closely comparable GAAP financial measures below.

Non-GAAP Financial Measure	Definition	How the Measure Provides Useful Information to Investors
Adjusted Net Income	● Net income, with the following adjustments: - excludes acquisition expenses, - excludes branch closure expenses, - excludes charges related to termination of certain employee benefit plans, - excludes net earnings (losses) from closed or sold operations, - excludes realized gains (losses) on sales of closed branch premises, - excludes realized gains (losses) on sales of securities, - excludes mortgage servicing rights fair value adjustment, and - the income tax effect of these pre-tax adjustments.	● Enhances comparisons to prior periods and, accordingly, facilitates the development of future projections and earnings growth prospects. ● We also sometimes refer to ratios that include Adjusted Net Income, such as: - Adjusted Return on Average Assets, which is Adjusted Net Income divided by average assets. - Adjusted Return on Average Equity, which is Adjusted Net Income divided by average equity. - Adjusted Earnings Per Share - Basic, which is Adjusted Net Income allocated to common shares divided by weighted average common shares outstanding. - Adjusted Earnings Per Share – Diluted, which is Adjusted Net Income allocated to common shares divided by weighted average common shares outstanding, including all dilutive potential shares.
Net Interest Income (Tax Equivalent Basis)	● Net interest income adjusted for the tax-favored status of tax-exempt loans and securities. (1)	● We believe the tax equivalent basis is the preferred industry measurement of net interest income. ● Enhances comparability of net interest income arising from taxable and tax-exempt sources. ● We also sometimes refer to Net Interest Margin (Tax Equivalent Basis), which is Net Interest Income (Tax Equivalent Basis) divided by average interest-earning assets.
Efficiency Ratio (Tax Equivalent Basis)	● Noninterest expense less amortization of intangible assets divided by the sum of net interest income (tax equivalent basis) and noninterest income. (1)	● Provides a measure of productivity in the banking industry. ● 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.

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

Non-GAAP Financial Measure	Definition	How the Measure Provides Useful Information to Investors
Tangible Common Equity to Tangible Assets	● Tangible Common Equity is total stockholders' equity less goodwill and other intangible assets. ● Tangible Assets is total assets less goodwill and other intangible assets.	● Generally used by investors, our management, and banking regulators to evaluate capital adequacy. ● Facilitates comparison of our earnings with the earnings of other banking organization with significant amounts of goodwill or intangible assets. ● We also sometimes refer to ratios that include Tangible Common Equity, such as: - Tangible Book Value Per Share, which is Tangible Common Equity divided by shares of common stock outstanding. - Return on Average Tangible Common Equity, which is net income divided by average Tangible Common Equity. - Adjusted Return on Average Tangible Common Equity, which is Adjusted Net Income divided by average Tangible Common Equity.
Core Deposits	● Total deposits, excluding: - Time deposits of $250,000 or more, and - Brokered deposits	● Provides investors with information regarding the stability of the Company's sources of funds. ● We also sometimes refer to the ratio of Core Deposits to total deposits.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Net income	$ 15,627	$ 13,715	$ 43,316	$ 42,677
Adjustments:				
Acquisition expenses	(462)	(380)	(462)	(537)
Branch closure expenses	—	(644)	—	(748)
Gains (losses) on sales of closed branch premises	(38)	—	141	—
Mortgage servicing rights fair value adjustment	351	40	2,446	1,425
Total adjustments	(149)	(984)	2,125	140
Tax effect of adjustments	(80)	220	(728)	(143)
Less adjustments after tax effect	(229)	(764)	1,397	(3)
Adjusted net income	$ 15,856	$ 14,479	$ 41,919	$ 42,680
Average assets	$ 4,208,722	$ 3,965,051	$ 4,278,997	$ 3,884,115
Return on average assets *	1.47 %	1.37 %	1.35 %	1.47 %
Adjusted return on average assets *	1.49	1.45	1.31	1.47

* Annualized measure.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands, except per share amounts)			
Numerator:				
Net income	$ 15,627	$ 13,715	$ 43,316	$ 42,677
Earnings allocated to participating securities (1)	(17)	(25)	(51)	(81)
Numerator for earnings per share - basic and diluted	$ 15,610	$ 13,690	$ 43,265	$ 42,596
Adjusted net income	$ 15,856	$ 14,479	$ 41,919	$ 42,680
Earnings allocated to participating securities (1)	(17)	(27)	(49)	(81)
Numerator for adjusted earnings per share - basic and diluted	$ 15,839	$ 14,452	$ 41,870	$ 42,599
Denominator:				
Weighted average common shares outstanding	28,787,662	27,340,926	28,887,757	27,377,809
Dilutive effect of outstanding restricted stock units	72,643	13,921	56,761	11,412
Weighted average common shares outstanding, including all dilutive potential shares	28,860,305	27,354,847	28,944,518	27,389,221
Earnings per share - Basic	$ 0.54	$ 0.50	$ 1.50	$ 1.56
Earnings per share - Diluted	$ 0.54	$ 0.50	$ 1.49	$ 1.56
Adjusted earnings per share - Basic	$ 0.55	$ 0.53	$ 1.45	$ 1.56
Adjusted earnings per share - Diluted	$ 0.55	$ 0.53	$ 1.45	$ 1.56

(1) The Company has granted certain 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.

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(dollars in thousands)			
Net interest income (tax equivalent basis)				
Net interest income	$ 37,390	$ 30,715	$ 103,691	$ 89,544
Tax-equivalent adjustment (1)	674	508	1,801	1,514
Net interest income (tax equivalent basis) (1)	$ 38,064	$ 31,223	$ 105,492	$ 91,058
Net interest margin (tax equivalent basis)				
Net interest margin *	3.65 %	3.18 %	3.36 %	3.19 %
Tax-equivalent adjustment * (1)	0.07	0.05	0.05	0.05
Net interest margin (tax equivalent basis) * (1)	3.72 %	3.23 %	3.41 %	3.24 %
Average interest-earning assets	$ 4,059,978	$ 3,831,886	$ 4,131,221	$ 3,755,897

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

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(dollars in thousands)			
Efficiency ratio (tax equivalent basis)				
Total noninterest expense	$ 23,998	$ 22,167	$ 71,997	$ 66,865
Less: amortization of intangible assets	243	252	733	799
Adjusted noninterest expense	$ 23,755	$ 21,915	$ 71,264	$ 66,066
Net interest income	$ 37,390	$ 30,715	$ 103,691	$ 89,544
Total noninterest income	8,234	8,392	26,828	27,974
Operating revenue	45,624	39,107	130,519	117,518
Tax-equivalent adjustment (1)	674	508	1,801	1,514
Operating revenue (tax-equivalent basis) (1)	$ 46,298	$ 39,615	$ 132,320	$ 119,032
Efficiency ratio	52.07 %	56.04 %	54.60 %	56.22 %
Efficiency ratio (tax equivalent basis) (1)	51.31	55.32	53.86	55.50

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

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

	September 30, 2022	December 31, 2021
	(dollars in thousands, except per share data)	
Tangible Common Equity		
Total stockholders' equity	$ 359,073	$ 411,881
Less: Goodwill	29,322	29,322
Less: Core deposit intangible assets, net	1,210	1,943
Tangible common equity	$ 328,541	$ 380,616
Tangible Assets		
Total assets	$ 4,213,324	$ 4,314,254
Less: Goodwill	29,322	29,322
Less: Core deposit intangible assets, net	1,210	1,943
Tangible assets	$ 4,182,792	$ 4,282,989
Total stockholders' equity to total assets	8.52 %	9.55 %
Tangible common equity to tangible assets	7.85	8.89
Shares of common stock outstanding	28,752,626	28,986,061
Book value per share	$ 12.49	$ 14.21
Tangible book value per share	11.43	13.13

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Average Tangible Common Equity				
Total stockholders' equity	$ 380,983	$ 380,863	$ 388,509	$ 369,933
Less: Goodwill	29,322	23,620	29,322	23,620
Less: Core deposit intangible assets, net	1,356	2,152	1,597	2,414
Average tangible common equity	$ 350,305	$ 355,091	$ 357,590	$ 343,899
Net income	$ 15,627	$ 13,715	$ 43,316	$ 42,677
Adjusted net income	15,856	14,479	41,919	42,680
Return on average stockholders' equity *	16.27 %	14.29 %	14.91 %	15.42 %
Return on average tangible common equity *	17.70	15.32	16.20	16.59
Adjusted return on average stockholders' equity *	16.51 %	15.08 %	14.43 %	15.43 %
Adjusted return on average tangible common equity *	17.96	16.18	15.67	16.59

* Annualized measure.

Reconciliation of Non-GAAP Financial Measure - Core Deposits

	September 30, 2022	December 31, 2021
	(dollars in thousands)	
Core Deposits		
Total deposits	$ 3,643,443	$ 3,738,185
Less: time deposits of $250,000 or more	25,829	59,512
Less: brokered deposits	—	4,238
Core deposits	$ 3,617,614	$ 3,674,435
Core deposits to total deposits	99.29 %	98.29 %

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

Our most significant form of market risk is interest rate risk inherent in the normal course of lending and deposit-taking activities. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. 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 Company's 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 ("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 the estimated impact on our EVE and net interest income of immediate and parallel 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)			
September 30, 2022						
+400	$ 100,521	12.7 %	$ 18,090	10.8 %	$ 30,453	16.9 %
+300	92,248	11.7	14,152	8.4	24,407	13.5
+200	73,526	9.3	9,817	5.9	17,334	9.6
+100	44,161	5.6	5,115	3.0	9,293	5.1
-100	(70,856)	(9.0)	(8,801)	(5.2)	(13,809)	(7.6)
-200	(168,345)	(21.3)	(20,005)	(11.9)	(31,410)	(17.4)
December 31, 2021						
+400	$ 92,106	19.7 %	$ 23,230	18.7 %	$ 38,485	31.7 %
+300	76,708	16.4	17,938	14.5	30,487	25.1
+200	51,627	11.1	12,154	9.8	21,339	17.6
+100	12,453	2.7	5,818	4.7	11,062	9.1
-100	34,852	7.5	(4,098)	(3.3)	(7,746)	(6.4)

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, which could change the actual impact on EVE and net interest income. 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 September 30, 2022, 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 September 30, 2022, 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, financial condition, 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 for the year ended December 31, 2021, filed with the SEC on March 11, 2022.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

On December 14, 2021, the Company’s board of directors approved a stock repurchase program that authorizes the Company to repurchase up to $15 million of its common stock. The stock repurchase program will be in effect until January 1, 2023 with the timing of purchases and number of shares repurchased dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements, and market conditions. The Company is not obligated to purchase any shares under the stock repurchase program, and the stock repurchase program may be suspended or discontinued at any time without notice. The stock repurchase program has been paused until completion of the vote of Town and Country’s shareholders on the merger.

The following table sets forth information about the Company’s purchases of its common stock during the third quarter of 2022, all of which were conducted in compliance with Rule 10b-18 and Regulation M under the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in thousands)
July 1 - 31, 2022	24,828	$ 17.71	24,828	$ 11,209
August 1 - 31, 2022	39,842	18.63	39,842	10,467
September 1 - 30, 2022	13,901	17.96	13,901	10,217
Total	78,571	$ 18.22	78,571	$ 10,217

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1 *	Agreement and Plan of Merger between HBT Financial, Inc., HB-T&C Merger, Inc. and Town and Country Financial Corporation dated August 23, 2022 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 23, 2022).
10.1 §	Employment Agreement, effective October 1, 2022, by and among HBT Financial, Inc., Heartland Bank and Trust Company and Peter Chapman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 18, 2022).
10.2 §	Transition Agreement by and among HBT Financial, Inc., Heartland Bank and Trust Company and Matthew J. Doherty, dated as of August 17, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 18, 2022).
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	iXBRL Instance Document.
101.SCH	iXBRL Taxonomy Extension Schema Document.
101.CAL	iXBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	iXBRL Taxonomy Extension Label Linkbase Document.
101.PRE	iXBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	iXBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibits 101).

* Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule will be furnished to the SEC upon request; provided, however, that the parties may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any document so furnished.

** 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, except to the extent the Company specifically incorporates it by reference.

§ A management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 601 of Regulation S-K.

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.

November 8, 2022

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 8, 2022

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 8, 2022

/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 September 30, 2022 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)
November 8, 2022

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 September 30, 2022 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)
November 8, 2022